



Lexington-Fayette Urban County Government
OFFICE OF THE MAYOR

Jim Gray
Mayor

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Mayor Gray proposes 'businessman's budget' for city

Councilmembers and Friends:

Today's the day to face facts.

Our city has serious financial problems.

Problems that are ...

- Hard. To. Fix.

Problems that are ...

- Painful. To. Fix.

Problems we were convinced a year ago would have disappeared by now because the economy would have recovered by now ... it hasn't.

A year ago, we were presented with a budget plan that relied on one-time revenue to balance the budget:

- The budget envisioned a multi-million dollar withdrawal from the Rainy Day fund and selling major assets at what amounts to fire sale prices.
- We started with a \$9 million hole in this year's budget. Finance and Administration Commissioner **Jane Driskell** and her team, Director of Revenue **Bill O'Mara** and Director of Budgeting **Ryan**

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Barrow have been whittling down that gap, and I appreciate the leadership they have provided on this year's budget and on the plan for next year I am presenting today.

The economic meltdown that hit three years ago is now affecting national, state and local governments more than ever because it is *still* affecting businesses around the world, and it is *still* affecting businesses right here at home:

- Lexington has largely lived with the illusion that the recession wasn't really all that bad here. *You know, we may not be recession-proof, but we're recession resistant.*
- But good business men and women in our town knew better – they've already made the cuts that, ultimately, will strengthen their companies, and enable them to come out better on the other side.
- City hall cannot ignore it any longer.

Now ... I confess, I see the city's budget through the eyes of a businessman:

- Like the businesses that have made tough decisions to make cuts with an eye on long-term health, we need a budget that positions our city to come out better and stronger on the other side.

The budget I am proposing today is a blueprint for transforming government. It strips away the rose-colored glasses and exposes our city's financial condition to the bright light of day, and deals with it responsibly.

- A few weeks ago the Council heard a presentation from University of Kentucky economist Ken Troske, who pointed out a very inconvenient truth: our city is losing jobs in the higher-paying professional, management and real estate sectors, as you can see here.
 - That presentation confirmed what many already knew. It was a wake-up call for our community.
 - It underscored what I feel is my own top priority as mayor -- using what I learned in almost 40 years in business to **CREATE. GOOD. JOBS.**
- For our citizens, it highlights the need to understand our financial and economic problems and what it's going to take to solve them.
- This budget is a first step toward that solution. It's the first step toward sustained, responsible management.

No surprise, this was a tough budget to put together.

- We had to make up a \$27 million shortfall ... 10 percent of our General Fund budget.
- We were determined to make cuts in a meaningful way, so the same thing doesn't happen year after year.
- This budget plan resizes government through fundamental change.

No surprise, it will be tough for Council to pass this budget.

- It includes hardships in the form of employee lay-offs and funding cuts for important programs.
- And, in making your decisions, councilmembers will have to make tough choices between cutting programs and expenses, and laying off more employees.
 - As Council wrestles with these difficult decisions, I want you to know that I want to hear your ideas.

Passage of this budget will require strong leadership and courage.

Implementation of this budget will require extraordinary management within government – it's essential to improve our management systems, which ensures the delivery of critical services.

Let's start talking about some specifics in the budget by first setting the economic stage:

- We came into office in January at a time:
 - When our country was deeply in debt and battling back from years of policies that benefited Wall Street. At the expense of Main Street.
 - Federal and state funding that cities had relied upon for years was rapidly drying up.
 - And, we took over after ***Three. Consecutive. Years. Of. Flat. Or. Declining. City. Revenue. The longest recessionary period in the history of merged government. And now, make that four years ... we are expecting flat revenue again next year.***

When faced with this decline, our leadership failed to accept this was more than just waiting for revenue and the economy to rebound ... but that government needed fundamental change.

- We made convenient cuts, like **reductions in operating funds.**
- Reductions in employee numbers were made through attrition, but the tough management decisions to really downsize government, or to outsource when appropriate, were not made.
- Government's subsidy of the true cost of employee health care was not addressed at all.
 - The city was over budget in its health care account \$9.9 million in 2010; this year we project a \$12 million loss and, without changes to employee insurance, we project we would be looking at \$14 million over budget in 2012.
 - Did any Councilmember know about these enormous cost overruns?? I didn't.

- Something else that's driven up our costs are union contracts. Our negotiations with unions just didn't adequately factor in the long-term financial health of the city.
 - But, I don't blame the unions for aggressively negotiating. That's their job! It's our job to be represented at the bargaining table effectively
- We also failed to persuade our unions and our state legislators that we just gotta adjust pension benefits for future police and fire employees.
 - *Just a little information on this ...* despite the investment of over \$100 million in recent years, the unfunded liability still adds up to more than 200 hundred million. The rate of growth is non sustainable.
 - We are including bonding in this budget for about \$30 million as we continue to whittle away at this massive liability. But without permanent changes in the benefits we offer future employees, we will never catch up.

Now I'm talking about public safety a lot today, and it may sound like I don't care enough about public safety. NO. I DO!

- We've got to fix our financial issues so we can continue and improve a great public safety system.

Let me tell you about someone who's here today who represents that great public safety system and spirit.

- **Jon Tucker.** I ran into him last Sunday morning. He joined our police department in 2006 at age 41 after working at Toyota.
- When I asked Jon how he was doing, whether he still liked the patrol job, even at age 46, he said: "I love it. Still can't believe I get a pay check for this job! It's like having a front row seat to the best show in America!"
- Jon's smiling comment makes us smile and reminds us that public service is part challenge, and part inspiration, with a good dose of humor in the mix. And no where is that more true than in public safety.

Now, what should we learn from the financial management of recent years?

Clearly, that we can't get out of the hole we're in if we keep on digging.

You know, I admit, I feel like I was hired to make a **FRESH START.**

- And to run government more responsibly, more like a business.
- To restore financial responsibility.

- To do that we must address the brutal facts of the current reality, distribute the pain proportionately, and rebuild our capacity as a city ... so we come out stronger on the other side of this *Great Recession* as a *Great American City*, with a quality of life that's a spark plug for economic prosperity, attracting and creating good jobs.
- This means we will have to dig in and tackle complex problems ... to gang up on them and overwhelm them with good management ... *and that won't happen overnight ... we've got a lot of problems.*

Unlike the budgets we have passed in recent years:

- This is a responsible, financially sound budget.
- It's transparent ... it addresses problems, it doesn't hide them. Citizens can take a look at the budget on line by the end of this speech. Just go to "lexingtonky.gov".
- It's a significant step toward becoming a Great American City.
- It includes no new taxes and only **one fee increase**.
 - There was pressure from across government to increase this or that fee ... they come in all shapes and sizes, and I guess we could dress one up, call it something else, and maybe sell it.
 - More taxes or fees would not fix our real financial problems ... it would only continue to kick the can down the road.
 - Raising taxes and growing government at the local level, while they are shrinking at the state and national level, won't work. It would severely compromise our competitive position.
 - The **one fee increase** I have included in this plan is just fair and responsible.
 - Today the city is reimbursed, often by insurance, when someone calls 9-1-1 AND is taken to the hospital.
 - But ... we're not charging or getting reimbursed if the ambulance treats the patient but doesn't take the patient to the hospital.
 - Now, clearly, there are big costs whenever an ambulance is dispatched, so the city should be reimbursed fairly.
 - Unlike last year's budget, the 2012 plan *does not* depend on one-time sources of revenue to meet recurring costs, like fire sales of parking garages or property or ... worst of all ... withdrawing funds from our already inadequate rainy day fund.
 - Rainy day funds from other cities, shown here as a percentage of each city's budget, show that we are far behind.
 - Our Rainy Day Fund, amounting to just over 5 percent of our budget, is inadequate and dangerous. It is not financially responsible. My budget plan proposes that we

protect the balance of our fund and we restore contributions to it. By ordinance these contributions should be about \$50,000 a month.

- The size of our Rainy Day Fund affects more than just our ability to handle an emergency. It can affect the rates we pay to borrow money.
- This budget takes an honest step toward living within our means by actually addressing the cost of government and restoring financial responsibility.
- **So ... running government like a business** is reflected throughout the budget.

First, in personnel

In my almost 40 years in business, the most difficult decision I ever had to make was layoffs ... *if it ever gets easy, we've got a real problem*

Our employees have my respect. They make an enormous contribution to our city.

Government is a service business and like any service business, most of the cost of General Fund government operations ... we estimate some 65 percent in this budget plan ... are in personnel. By law we don't have options, like mandated furloughs for Civil Service employees, that allow us to reduce personnel costs without layoffs.

When our cost of doing business isn't competitive ... when it's excessive ... it's just not in my DNA to look the other way and ignore it.

That is not financially responsible. It is unsound. That's a path to a city in decline, not recovery.

It's not what makes a Great American City.

Our citizens rightfully expect that we consider the larger whole, the well managed, efficient operation of our government ... the only responsible approach. It sometimes affects the individual, a citizen, an employee. That's regretfully the case today.

Today, we are proposing laying off 28 employees who work in four government divisions, Communications, Building Security, Parks, Social Services.

We had to examine:

Where we were over-staffed, when compared to other cities. Our Division of Government Communications, for example, is almost twice as large as the same office in Louisville.

And cost savings through out-sourcing and staff reductions. For example, we propose outsourcing Building Security.

If there are openings in government that might be appropriate for some of these employees, they will be considered. Salaries for the **Mayor's team** will be cut.

Commissioners and senior-level staff will furlough for two weeks.

And I will suspend my salary for 6 months.

- There's nothing self-righteous in this. I'm just taking a page from experience, like we all do.
- Thirty-one years ago, when our family business was flat on its back broke, my mother didn't take a salary.
- She said, “When the business is suffering, you gotta suffer with it.”
- Leadership ought to take the first hit.
- I propose using the value of my suspended salary for needed additional city-wide development funds, half to economic development initiatives and half to LexArts as to encourage its fundraising.

I am also proposing that we **eliminate 215 unfilled or vacant positions** throughout government, thereby ensuring that our workforce remains lean. We are leaving in place a handful of vacancies we view as essential.

- With these changes, city hall will have a workforce of 2,835 budgeted jobs, the lowest since 1999.
- While that sounds like a big change in city staffing, it won't be the last.
 - Consider: As a percentage, our staffing in Lexington city hall is still higher than Louisville's, which has one city employee for every 120 residents. Lexington has one employee for every 104 citizens.

While there are **no lay-offs in police or fire**, there will be no new hires. And I am asking their leadership and their unions to work together with us, through the collective bargaining process, to make a \$5.6 million cut in their collective budgets.

- We have already cut \$3.1 million from their budgets through no unscheduled overtime in fire, no position vacancies and no fire station brown-outs.

Through lay-offs, abolishment of unfilled positions and other savings, we have reduced annual General Fund personnel costs by \$11.8 million.

The cost of **employee health care** is also an area we must address:

- When I first learned last November about the enormity of these costs, I called for hiring a consultant to review the cost of employee health care and propose solutions. The consultants have been hard at work since March.
- Earlier in my remarks, I mentioned the numbers we're struggling with here: \$9.9 million in 2010; \$12 million over budget this year; and next year, without any changes to our plans, projections show \$14 million over budget.

- This is unsustainable.
- It is unfair to the community.
- According to the consultants, in terms of being generous, the city's health insurance plan falls into the top 1 percent of plans nationwide.
- We will propose a system that:
 - Is in line with plans offered by other cities and by Kentucky state government.
 - Offers more insurance options to employees
 - Offers savings in prescriptions and primary care.
 - Although the city will continue to pay a portion of health insurance costs for each employee, employees will be expected to shoulder more of the true cost of health care.
- Today isn't the time to go into the details of these insurance plans, which are still being developed.
 - But in this budget we estimate a savings of \$3.5 million to the General Fund as a beginning point ... a first step toward developing a responsible plan.
 - There will be plenty of opportunities over the next several months for Councilmembers and employees to ask questions and better understand these options.
 - I've been talking about running government like a business. That also means aggressively **seeking out efficiencies** ... *continuous* improvement.
- "If we keep doing what we've always done we'll keep getting what we've always got."
- Through an efficiency review I am committed to saving an additional \$250,000, as a start.

Just as we are making cuts within Government, we must reduce our funding to our **partner agencies** ... agencies throughout the community we depend upon to provide many essential services.

- Altogether, we have reduced spending with partner agencies by a total of \$385,000 ... a 10 percent cut.
- It has been hard to make these reductions, particularly to the agencies, like the Salvation Army or the Hope Center, that provide food or shelter or other essentials.
- As a believer in the power of the arts to enrich our lives and the fabric of our community, it was also difficult to cut funds the city normally provides to **LexArts**. LexArts funding has been cut 22 percent, but they've accepted my challenge. They will be able to cut that reduction to 11 percent by raising private funds to match it.
- The funds we set aside in our budget for economic development initiatives, which currently fund operations in Commerce Lexington, have also been cut by 10 percent.

- As we work our way out of this recession and establish ourselves as a Great American City, our work in economic development must fire on all cylinders to attract and develop the **good jobs** we need in our community.
- I have said there's room for improvement in our economic development efforts and results. But I respect and want to encourage our historic relationship with Commerce Lexington ... and build on it ... and strengthen it.
 - Before we proceed I want to weigh the recommendations of the Angelou report, which we received just last week.
 - And I want to thoroughly examine the work Commerce Lexington has done over the past three years with funding they have been provided by the city.

In another departure from previous budgets, outside of catch up funding for the **police / fire pension** at \$30 million, we're not borrowing additional money for the General Fund.

We have identified **\$2.9 million in bond funds**, borrowed in previous years, but never spent. I want to be clear: spending these funds **does not increase our debt**.

I have several proposals for a portion of these funds, including:

- Invest \$1 million in our **Purchase of Development Rights** land preservation program.
 - Even though it's half of earlier years' funding, this represents a solid effort.
 - I am committed to this important program, and believe we can continue the program and achieve our long-term goals to preserve the Bluegrass brand, while adjusting this year to recognize the enormous struggle our current financial condition is presenting.
- Invest **\$60,000 in parks** to ensure they are accessible to all citizens.
- Use \$850,000 to correct necessary **life-safety issues at the Kentucky Theatre, the Phoenix Building and Police** headquarters by improving elevators and fire protection.
- We have also set aside \$1 million in these funds so Council can identify its priorities for these very limited dollars.
 - We received a total of \$74 million in capital requests for all funds, and I'll be happy to share that list with you for your deliberations.
 - But you may want to look beyond these requests to projects in your district's neighborhoods.

Across government, we are proposing a variety of funding reductions to **programs and to administrative and personnel costs, including:**

- Closing all pools on Mondays, and permanently closing two pools, Constitution and Berry Hill
- Closing Meadowbrook Golf Course.
 - In the case of the pools and Meadowbrook, the attendance numbers for several years have not justified the cost of service.
 - Closing of these facilities has been recommended in previous budgets
- And, well ... there's more to the list ... in the budget document.

Like so many cities across the country, we are dealing with the wreckage of the worst recession in memory. Our issues have been compounded by a government that has avoided the tough choices for too long.

- In this plan, we've worked hard to find smart and honest ways to balance the budget and live within our means.
- There are lots of ways to balance a budget ... How. You. Do. It. Matters.
 - It's a reflection of our city, our values and our aspirations.
 - Of who we are, and who we want to be.
 - And of what we want to be ... what we're **determined** to be ... a Great American City.

With this budget, we are not positioning ourselves just to treat our wounds or tread water:

- We're doing what Great American Cities do:
 - We are relentlessly looking for efficiencies.
 - Insisting upon good management and continuous improvement.
 - Building on our strengths.
 - Providing the key services that make communities thrive.
 - Attracting and growing good jobs.
 - Living within our means.
 - We are building a city that is the envy of the nation ... Lexington, a Great American City!

Finally, I want you to know that, coincidentally, this is my 100th day in office ... I thought I'd close with a quick reminder of what those 100 days have been like:

Move to First floor.
 Snow.
 Jail and 9-1-1.
 Health Care costs!
 Snow.
 Pensions.
 No Money.
 Salt ... for Snow.
 Health Department.
 No money.
 Fire Department.
 No money.
 Civic Center / Rupp Arena.
 No money.
 Wildcats. Sweet 16. Basketball.
 Centrepointe.
 Budget.
 No snow. Sunshine!
 No money.
 No money.
 Whew!

But, you know, like all of you, I try my best ... despite the challenges ... to enjoy every minute of it.

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