



LOUISVILLE METRO COUNCIL
OFFICE OF PRESIDENT JIM KING

January 25, 2012

Mayor Greg Fischer
Metro Hall
527 W. Jefferson Street, 4th Floor
Louisville, Kentucky 40202

Mayor Fischer:

The Metro Council shares the concerns you raised last week about balancing our fiscal year 2012 budget and preparing for an even more challenging budget in fiscal year 2013. To meet our responsibility as the body that authorizes spending we feel a sense of urgency to address any current or potential deficits and want to open a dialogue with you and your staff. This letter is intended to do that.

I have informed your Chief Financial Officer that the Council will be taking the necessary action to reduce certain capital spending and to reinstate other capital projects placed on restricted status by OMB. In that context, on Monday you asked that we wait two weeks before taking any formal action to amend the capital budget. We are willing to grant that request but during this two week period we ask that you take no further action to commit to any capital projects, including the 6th Street Pedestrian Bridge (the bridge) for the Ali Center. While our members can justify the cost of the bridge as an eventuality, many of us question the prudence of moving forward with an \$850,000 non-essential project in such lean times. The bond funds to be spent on the bridge could instead be used to complete many other smaller and more pressing projects such as those the Council designated in the 2012 budget. With that understanding, although we will file an ordinance this week to clarify our priorities on capital spending, we will take no official action to enact it for two weeks.

Over the last 10 days, I have met with Budget Chair Marianne Butler, and Budget Vice Chair Kelly Downard and other members of the Council to develop options for budget reductions, revenue increases and greater government efficiencies. From those meetings, we have compiled the following ideas for reducing the cost of government and increasing non-tax revenues.

We believe, if implemented, these suggestions could yield between \$10 and \$20 million annually. The council has not voted on any of these proposed concepts and although I believe we have a consensus, we do not have unanimous support for all of them. Naturally, we expect you to give them their due consideration but we also understand you will have your own approach to achieve a balanced budget and we look forward to your thoughts.

Lisa Franklin Gray, *Assistant to the President* • lisa.franklingray@louisvilleky.gov

601 W. Jefferson Street • (502) 574-1110 • Louisville, KY 40202 • jim.king@louisvilleky.gov



Operating Budget Savings and Revenue Proposals

- ✓ • **Cancel/Amend GLI Contract**--Given the recent employment of several top management positions in the new Department of Economic Growth and Innovation and other Directors of Globalization, Sustainability, Innovation and Efficiency, we believe it is time to begin the transition away from GLI as an economic development contractor. GLI is our Metro Chamber of Commerce and we believe it should continue to be a partner to Metro in that capacity. In fact, had we known in December that we were facing a significant budget deficit for the last 6 months of this fiscal year, we might not have approved the last 6 months of the current contract.
- **Water Company Common Stock Dividend**—We believe the Water Company has a value of between \$500 million and \$800 million while the typical cash dividend paid to the City is about \$17 million. This equates to a cash return on its value of approximately 2% to 3% for the City, a relatively low return given the 10% rate of return allowed by the PSC. The Water Company does achieve a 10% return on adjusted equity but retains most of those earnings for future growth/capital expenditures and to build its equity accounts. The dividend paid is a function of a formula imbedded in the bond indenture on the Water Company's bonded debt. Several years ago, after a bond defeasance, the formula was changed to eliminate the cap-ex portion of the formula but the new formula did not increase the cash dividends. Many of us believe the Water Company could provide an additional \$3 to \$5 million annual cash return to the City. Further, we are in an environment of historically low interest rates. Accordingly, we recommend you engage experts in this field to determine if and when the Water Company should refund its current bonded debt at lower cost and how the Company could increase the cash it dividends to the City annually. We believe this could also have the beneficial effect of ultimately reducing rates by reducing the net income required to achieve the goal of a 10% annual return.
- ✓ • **Sale of Water Company Subordinated Debt/Preferred Equities**—While we believe the continued ownership of the Water Company is in our City's best interest, we also believe it is in the City's best interest in this economy to utilize the Water Company as a current liquidity resource. And although we shouldn't sell its common stock, it may be possible to raise cash through the sale of a subordinated debenture or a second class of stock such as a Callable/Redeemable Preferred Stock. We are routinely told the need for capital under our bond indentures is the reason we limit dividends on net income annually. The sale of \$20 million in Debentures (subordinated to its bonded debt) or a Callable/Redeemable Preferred Stock could raise needed capital to provide a vehicle for the transfer of a special dividend to Metro. A special dividend could help meet our need for operating income while the recession is winding down. Of course, no action should be taken to sell a preferred stock if it affects the tax free status of the Company and legal counsel must be consulted on the viability of this proposal.
- **Downtown Development Corp/Bats Lease**—As you know the DDC receives approximately \$840,000 a year from the Bats under a lease between the city and the Bats for Slugger Field. This funding mechanism was never approved by the Council and it has the effect of appropriating these funds to DDC without a vote of the Council. We understand the prior administration approved this arrangement and we believe you should revisit it. We would recommend the lease income be paid to the city and that we reduce the funding to DDC by \$500,000. This would result in \$340,000 being paid to DDC for its operating costs.

- ✓ • **Social Services External Agencies/Council NDF/CIF**—In public statements you have alluded to potential cuts in Social Service External Agencies from general fund dollars and frankly we understand the need to focus on core services of city government, especially in light of mandatory furloughs and reduction of services in the Urban Service District. The Council feels strongly that Community Ministry funding based on poverty statistics should remain a mission of Metro Government and be funded consistently with prior years. However, the Council stands ready to provide support for other external agency social service needs through our Council's NDF/CIF process.
- ✓ • **QCCT Profit Sharing**—UL Hospital has averaged a \$25 million profit over the last 5 years before its \$11 million annual affiliation payment to the UL Med School. Imbedded in that profitability and the affiliation payment is our \$7 million annual payment for indigent care. Metro gets no accounting for indigent care but we do believe the hospital provides much more than \$7 million per year in indigent care. The issue for us is whether or not this is a core service of Metro government because the hospital is controlled by state government. Further, given the city's annual \$6.5 million payment to the Arena Authority for the Yum Center, which clearly provides a significant benefit to UL, it seems it is only fair to establish a profit sharing arrangement with UL Hospital, similar to the Arena agreement, which provides a global look at the benefits derived from payments by Metro.
- **Overtime Elimination**—The council has been questioning the overtime issue for several years and yesterday you issued your report on possible solutions. We are very pleased you are focused on that problem and we look forward to working with you on this problem. Certainly, filling vacancies more rapidly is a large part of the answer and we trust you will make every effort to employ more people where it will improve working conditions and achieve savings on overtime. We understand safety considerations may necessitate overtime but absent that, we encourage your departments to plan for 40 hour weeks.
- ✓ • **Amnesty Program**—Approximately 6 years ago the Louisville Revenue Commission undertook a successful tax amnesty program that collected roughly \$5 million dollars in previously unreported taxes. We encourage you to consider this option again.
- **Uncollected Penalties/Fines**—We believe greater efforts to collect unpaid penalties and fines imposed by IPL or other departments would yield significant revenue for Metro. The possible employment of a professional collector similar to that used by PARC may be appropriate.
- **Uncollected Metro and other Loans**—We believe greater efforts to collect past due loans made by Metro should be undertaken. Our experience has been less than positive in obtaining lists of outstanding loans and aged receivables. We question whether these loans are booked properly and being collected aggressively. We recommend you consider outsourcing the collection efforts to a commercial collector so collectible loans are collected and uncollectible loans are written off and cleaned up.
- **Arena Performers Occupational Tax**—As a member of the Arena Authority Board I have asked them on several occasions to begin collecting our occupational taxes from performers using the arena for the production of income. These efforts have met resistance since the arena board fears the collection of our occupational taxes could have a deleterious effect on bookings. We disagree with this position on several levels. First, employment taxes are the law in Jefferson County and the people who take tickets and sell hot dogs pay them. Second, even if a performer were to make \$1 million, (e.g. The Eagles, Elton John) the tax would be just \$22,000 with much of it going to school

children and public transportation. We seriously doubt any performer would turn down a \$1 million profit to avoid paying a de minimus tax benefiting schools. I have already brought this to the attention of OMB and am awaiting a response. A simple form could be created to collect an estimate of the tax as tickets are sold with a settlement later when the performer tax return is filed. This is similar to the approach used for professional sports teams.

- **Arena Payments**—As you know, Metro has an annual minimum commitment of at least \$6.5 million to be paid toward the Yum Center debt, less any rebates received or calls for guarantee payments exceeding the minimum payment. In the last two fiscal years we have received rebates that have resulted in our net cost on these payments to just \$5.7 million. The Chairman recently informed me he does NOT anticipate the need to call on our guarantee for the next two fiscal years. For planning purposes, we believe you should anticipate continuing to pay the minimum payments through fiscal 2013 and 2014. Litigation is ending that has already cost the Arena Authority over \$3 million and if the State TIF continues to increase, or the base can be reset by agreement with the Governor, the numbers continue to be positive for the next several years. Keep in mind, should the Arena Authority call for our guarantee payment in two consecutive years, Metro has the right to seek a management operations study to improve the Arena's profitability.
- ✓ • **Merger of Fire/EMS**—Many of our members believe you should review the benefits of merging the Fire Department with EMS. Most cities follow this model and we believe the separation of these departments only adds to the overhead by increasing the number of management level people. We believe there are many synergies to be gained by sharing resources and equipment as is done by the City of Anchorage.
- **Police Command Staff**—Some of our members would like the new Police Chief, when named, to review and reduce where possible, the number of command staff. For example, of 1226 sworn officers, there are currently 153 Sergeants, 59 Lieutenants, 13 Majors, 2 Lieutenant Colonels, 2 Deputy Chiefs and a Chief. It is our understanding that each Major is assigned a Lieutenant as an administrative assistant. Also, when possible we believe civilians should be used for administrative roles to lower costs and put more police in the field. LMPD is an excellent police force and our officers are second to none. But LMPD also is our largest single budget item. Any opportunity we have to reduce overhead and place more officers on the street benefits the city in several ways. We also suggest you discuss the viability of 12 hour shifts with the FOP as means of eliminating an entire shift and reducing overtime. Naturally, we would only support this if it doesn't negatively affect officer safety.
- **Equipment Replacement Funds**—As you know we have an equipment replacement reserve fund that totals \$12,000,000. This fund has become nothing more than a conduit for paygo purchases of equipment and the reserve nature of the fund should be reviewed. It may be best to significantly reduce this fund in lean times. The Council is open to suggestions from your staff in that regard.
- ✓ • **PARC Funds**—PARC is managed and operated by a Board independent of the Metro Council. From time to time, the PARC Board has made decisions to expend millions on capital projects unrelated to the construction of parking garages. In light of Metro's guarantor obligation as lessee of last resort (closed system) our Council encourages you to review and possibly amend the structure of PARC leading to the transfer of funds from PARC to Metro when PARC has funds not needed to meet current debt obligations.

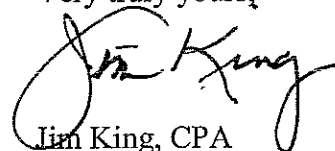
- **Space Utilization/Rental**—Metro leases numerous facilities for everything from office space to libraries. We believe those leases are not cost effective for Metro and encourage you to utilize property owned by Metro where possible. We have numerous examples where economies could be gained and would be happy to work with you on alternative financing and location options.
- **LDMD/PARC/DDC Synergies**—Our members believe we should review the function and cost of these 3 organizations to seek possible synergies in the area of management and personnel. Further, LDMD has taxing authority that should be reviewed in light of their \$200,000 tax imposed on the Yum Center.
- **Across the Board Cuts**—Our members believe we should avoid across the board where possible. Requiring all departments to provide such cuts has the effect of penalizing more efficient departments and rewarding those with excessive budgets. We understand you've requested a 5% and 10% spending reduction plan from each department and we hope you will review each plan based on the current efficiency and importance of each department. We urge you to avoid cutting services most needed by our citizens instead of cutting a layer of overhead in certain departments.
- **Zoo Revenues**—Although Zoo attendance is steady to rising, its revenue per capita for food, drink, souvenirs, etc. is falling. The food vendor is performing at a very low level and uninformed decisions have been made to give discounts to members that have proven to be costly. It is clear that more can be done to increase revenues from members by increasing fees while providing additional benefits at no cost to the zoo. Vendor contracts need to be re-bid with a different structure as soon as possible and member plans must be improved. Zoo management has controlled costs but revenues have not made budget. The solution for the Zoo is not cutting cost but increasing revenues.
- **Self Insurance Funds**—The Council encourages you to analyze the balances in our self insured funds possibly leading to a reduction in our annual insurance expense for payments to the fund. An independent task force of insurance professionals could be formed to review our annual costs and ways to mitigate our risks and costs. We can suggest insurance professionals to assist in this review.
- **Surplus Property**—A large tract of land on Millers Lane was purchased for approximately \$2 million several years ago, presumably for the centralization of our fleet services under Public Works. Subsequent to this purchase, MSD acquired the former Mid America Auto Auction property on Newburg Road and orchestrated a trade of this property to Metro making the Millers Lane property unnecessary. MSD did take a part of the Millers Lane property for a detention basin. Unfortunately, MSD did not acquire the entire Millers Lane property and we believe you should push for this purchase by MSD as they are a logical buyer with a likely future need for same.
- **Belle of Louisville Costs**—The Council agrees the Belle is iconic, and we also know tourist attractions like the Belle are critical to convention business. Local hotels sell room nights because of those conventions; and taxes are collected by those hotels and paid to the Louisville Convention and Visitors Bureau and not Metro. We encourage you to call on the LCVB to assist in the management and funding of the Belle.
- **Urban Service District Taxes/Services**—Since merger, there has been an ongoing debate about the amount of added tax revenue collected in the Urban Service District relative to the cost of the added services received by residents of the USD. Our council members, particularly those from the USD, believe it's unfair to balance our budget by reducing services in the USD that were promised at the time of the merger vote. Actually

knowing the cost of USD services relative to USD taxes will provide us with the information we need to make informed decisions on USD services.

- **Solid Waste Collection outside USD**—Since merger, there have been ongoing discussions about the provision of services by Metro outside of the USD. Some of our members suggest a revenue/cost analysis be performed to assess the financial viability of the expansion of our solid waste and recycling services in competition with private solid waste haulers. Given the fixed costs we incur to run SWMS it's possible an analysis of fully-loaded variable costs relative to the fees paid private haulers may yield a positive outcome for Metro and allow us to gradually expand our services outside the USD while creating jobs for Metro employees.
- **Right of Way Access Fees**—As you know, we do not impose a franchise fee on LGE consistent with the value of their use of our Rights of Way. We encourage you to revisit this situation with the PSC and or the state legislature to find a way to do this. Fees should also be collected from Insight and for the use of our Right of Ways by vendors.
- **Naming Rights for Metro Assets**—We have previously discussed the concept of selling naming rights for appropriate metro assets such as new libraries. However, the sale of such rights could apply to many other assets and we encourage you and your staff to look for opportunities to sell those rights with annual payments that will increase Metro revenue.
- **Increased Parking Meter Revenue**—While it may seem counterintuitive to increase parking revenues and at the same time be more user friendly, we may have an idea that does just that. During the rush hour commute, many downtown streets become no-parking zones in the curbside lane. While it makes sense on streets that connect to the interstates, stripping parking on many less-traveled streets adds to driver/parker/worker frustration, makes downtown less convenient, and reduces parking revenue. We urge you to have Public Works review this for possible changes to our current outdated system.
- **Idling Vehicles**—Last but not least, it is widely reported throughout the community that many Metro vehicles are seen idling when parked. This is of course is seldom necessary and has both a fiscal and environmental cost. We recommend a reminder to all employees to whom vehicles are entrusted that idling is not a “best practice” unless there is a safety consideration.

We trust the suggestions above may serve as a point of departure for discussions on ways to increase revenues and reduce costs. Again, we believe these ideas could yield anywhere from \$10 to \$20 million annually. We thank you for partnering with us on this important matter.

Very truly yours,



Jim King, CPA
President
Metro Council

JOK/jk

cc: Metro Council Members and Staff