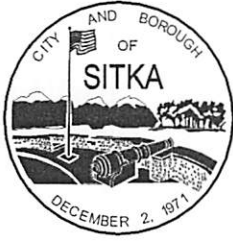


POSSIBLE MOTION

I MOVE TO approve Ordinance 2017-30 on
second and final reading.



City and Borough of Sitka

100 Lincoln Street • Sitka, Alaska 99835

MEMORANDUM

To: Mayor Hunter and Assembly Members
Phillip Messina, Interim Municipal Administrator

From: Jay Sweeney, Chief Finance and Administrative Officer

Cc: Stan Eliason, Harbormaster
Ron Duvall, IT Director

Date: August 15, 2017

Subject: FY 2017 Budget Execution and Supplemental Budget adjustment

Background

In FY 2017, the Solid Waste Fund, Harbor Fund, and MIS Fund each exceeded their appropriations. The reasons for appropriations being exceeded had to do with structural changes in contracts. Per the Home Rule Charter, the Assembly is to be notified, and, Administration is requesting that the Assembly pass a supplemental budget ordinance.

Fiscal Note

1. The Solid Waste Fund exceeded its overall FY 2017 operating appropriation by \$769,543. The reason for the excess was higher-than-anticipated contractual costs related to the new solid waste contract. Of note is that while the expense appropriation was exceeded, operating revenues for the Solid Waste Fund also exceeded what was budgeted by \$282,230. Factoring out depreciation (which is not budgeted), the ultimate result is a deficit of inflows over outflows of \$313,516 for FY 2017.
2. The Harbor Fund exceeded its overall FY 2017 appropriation by \$142,283. The reason for the excess was a shift in in the cost of the disposal of Municipal solid waste from being borne by citizens to being directly paid for by the Municipality. As the largest producer of Municipal solid waste, the Harbor Fund had far larger than anticipated solid waste costs.
3. The MIS Fund exceeded its overall FY 2017 appropriation by \$17,661. The reason for the excess was a shift in in the cost of Internet services from individual buildings and Departments to the MIS Fund in conjunction with the implementation of a new contract which combined separate charges (previously borne by Departments) into one amount now borne

directly by the MIS department.

4. Section 11.13 of the Home Rule Charter directs the Administrator to provide the Assembly with budget execution information. Expenditure of funds in excess of appropriations must be approved by the Assembly.

Analysis

1. In each of the cases in which appropriations were exceeded, the underlying cause was a contract for essential services, the costs of which Administration had little or no ability to control. The contracts were new business agreements for which staff did not have detailed cost history to utilize in developing appropriation recommendations to the Assembly.
2. In addition, in each of the three funds, the possibility and extent of exceeding appropriations only became certain and estimable at the very end of the fiscal year.
3. In regards to the Harbor Fund, the reason for exceeding its appropriation was directly related to a shift in collection costs for solid waste from citizens to the Municipality. Prior to the negotiation and approval of the recent solid waste contract, the costs of collection and disposal of Municipal solid waste were built into the rates paid by citizens and businesses, and, the Municipality was not charged directly for its solid waste disposal. When the solid waste contract was renegotiated last year, its terms provided for the direct billing of solid waste charges to the Municipality. This was done for two reasons: (1) it was more fair and equitable than requiring citizens to pay for these charges, and, it helped to reduce the size of the solid waste fee increase.
4. For Administration to have taken immediate action to halt expenditures in June would have had severe health and public welfare implications, as the Municipality would have needed to cease solid waste pickup and disposal. This would have been unsafe, unwise, and impracticable.

Recommendation

Administration recommends that the Assembly approve a supplemental budget ordinance which adjusts the total appropriations for the Solid Waste, Harbor, and MIS Funds to equal the final FY 2017 excess of outlays over appropriations.