

POSSIBLE MOTION

I move to approve a transfer of \$1,650,000 from the General Fund balance to the Public Infrastructure Sinking Fund and a transfer of \$600,000 to the Permanent Fund.

4.45.020 Determination of the required balance of the public infrastructure sinking fund.

Within ninety days after the start of each fiscal year, the administrator shall prepare an analysis of the general fund balance with an accompanying recommendation as to an amount of the general fund balance available for potential transfer to the public infrastructure sinking fund. This analysis shall first take into account any portions of the general fund restricted by Chapter 4.44A before recommending any further amounts for potential transfer to the public infrastructure sinking fund.

Memo

Thru: Mark Gorman, Municipal Administrator

To: City and Borough of Sitka Assembly

From: Jay Sweeney, Chief Financial and Administrative Officer

Date: September 12, 2014

Re: Transfer of General Fund Balance to Public Infrastructure Sinking Fund

On October 9, 2012, the Assembly approved Ordinance 12-30 on third and final reading. The ordinance established a new Chapter 4.45 of the Sitka General Code which in turn, created a Public Infrastructure Sinking Fund.

Section 4.45.020 of the SGC requires that the Administrator, within 90 days after the start of each fiscal year, prepare an analysis of the General Fund balance with accompanying recommendation as to how much is potentially available for transfer to the Public Infrastructure Sinking Fund.

Assumptions

The analysis and associated recommendation are tied to key underlying assumptions as to what exactly composes fund balances, and, what is appropriate for transfer.

An undesignated General Fund balance encompasses the excess of assets over liabilities. This excess of assets may not necessarily be cash. For example, receivables, prepayments and inventories are assets that are not cash. Considering this, we have made key assumption that Administration would only consider the cash portion of the undesignated General Fund balance as being available for transfer.

In addition, a sizeable portion of the undesignated General Fund balance not available in cash, sales taxes collected but not yet remitted, are already planned to fund FY2015 General Fund operations. Accounting rules require that these uncollected sales taxes be accounted for as an asset, but they are not available in cash and are collected by the CBS during July and August.

Maintaining Buying Power of The Permanent Fund

In fiscal year 2015, staff projects that more money will be withdrawn from the Permanent Fund than will be earned in the combination of dividends, interest, and increases in the market value of the Fund's investments.

As of June 30, 2014, the market value of the Permanent Fund was \$22,601,595. The Permanent Fund increased by \$2,533,847 in FY14, even after \$1,110,000 was transferred to the General Fund. This would account for an 18% return for the Fund in FY14. This return was as a result of a very favorable investment climate that is unlikely to repeat itself again in the future.

While FY14 investment performance was outstanding, it has been clear to staff that the annual transfer from the Permanent Fund to the General Fund, as mandated by the Sitka Home Rule Charter, is too high and has caused the buying power of the Permanent Fund to decline over the last 15 years.

Were the buying power of the Permanent Fund to have kept constant since 1999, the Permanent Fund should have a value in the range of \$31,400,000 today, as compared to its value of \$22,601,595. While it would be difficult to keep the Permanent Fund's buying power from ever declining (due to fluctuations in financial markets), it is clear that, when measured over a 15-year period, the annual take-out has been too high, at 6%.

Staff has two recommendations in response to this unsustainably high level of Charter-mandated withdrawals from the Permanent Fund. They are as follows:

(1). Request the Investment Advisory Committee provide a recommendation to the Administrator, for subsequent presentation to the Assembly, as to revised language for the Charter which would provide more flexibility for managing the amount of the annual transfer from the Permanent Fund, in order to more closely keep the buying power of the Permanent Fund constant.

(2). Transfer back the anticipated decline in the Permanent Fund in FY15 equivalent to the difference between the formulaic 6% average withdrawal and the anticipated return on the investments in the fund, for a total transfer of \$600,000.

Ability To Respond To Unforeseen Issues

Finally, staff does not believe it prudent to transfer every last dollar of otherwise undesignated cash out of the General Fund. While undesignated and available, cash assets in the General Fund are available to meet unforeseen contingency requirements, either in the current fiscal year or in future fiscal years. Furthermore, any cash transferred out of the General Fund reduces investment earnings on the cash; for every \$1 million transferred out, the revenue side of future budgets is reduced by \$22,000.

Recommendations

As the analysis shows, Administration's recommendation of an amount to transfer to the Public Infrastructure Sinking Fund is \$1,650,000.

In addition, it is Administration's recommendation to transfer \$600,000 to the Permanent Fund.

City and Borough of Sitka
Administrator's Recommendation of Assets Available For Transfer
to the Public Infrastructure Sinking Fund

FY14 Annual Operating Outlays Less Transfers	Divided By Four
\$ 22,338,043	\$ 5,584,511

Assets available for transfer to the public infrastructure sinking fund are computed as follows:

All assets	\$ 17,423,474
Less sales taxes collected but not yet remitted:	\$ (2,271,073)
Less advances and amounts due from other funds and component units	\$ (352,072)
Less total Liabilities	\$ (2,355,271)
Less nonspendable and committed fund balances	\$ (1,589,571)
Less reserve for encumbrances	\$ (181,406)
Less 90 days operating expenses designated for liquidity (from above)	\$ (5,584,511)
Less designated catastrophic emergency response	\$ (2,000,000)
Less FY13 Budget Carryovers (approved ORO 2014-28)	\$ (64,500)
Less Working Capital Designated For Library expansion	\$ (357,114)
Less Transfer To Permanent Fund	\$ (600,000)
Potential Assets Available For Transfer (Includes FY14 Surplus):	\$ 2,067,956

Administrator Recommended Transfer: \$ 1,650,000

FY13 Annual Outlays Less Transfers	Divided By Four
\$ 22,995,273	\$ 5,748,818

Assets available for transfer to the public infrastructure sinking fund are computed as follows:

All assets	\$ 16,852,590
Less sales taxes collected but not yet remitted:	\$ (2,048,126)
Less advances and amounts due from other funds and component units	\$ (491,285)
Less total Liabilities	\$ (2,161,068)
Less nonspendable and committed fund balances	\$ (1,452,108)
Less reserve for encumbrances	\$ (1,382,713)
Less 90 days operating expenses designated for liquidity (from above)	\$ (5,748,818)
Less designated catastrophic emergency response	\$ (2,000,000)
Less FY14 budget deficit	\$ (674,643)
Less FY14 ASEA, PSEA pay increases	\$ (240,610)
	\$
Assets Available For Transfer:	\$ 653,219

Sitka Permanent Fund	
Value of Permanent Fund, 6/30/13	\$ 20,213,781
FY14 Inflation	
Inflated Value:	\$ 20,591,779
Market value of Permanent Fund, 6/30/13	\$ 22,601,595
Excess Value Gained, FY14	\$ 2,009,816