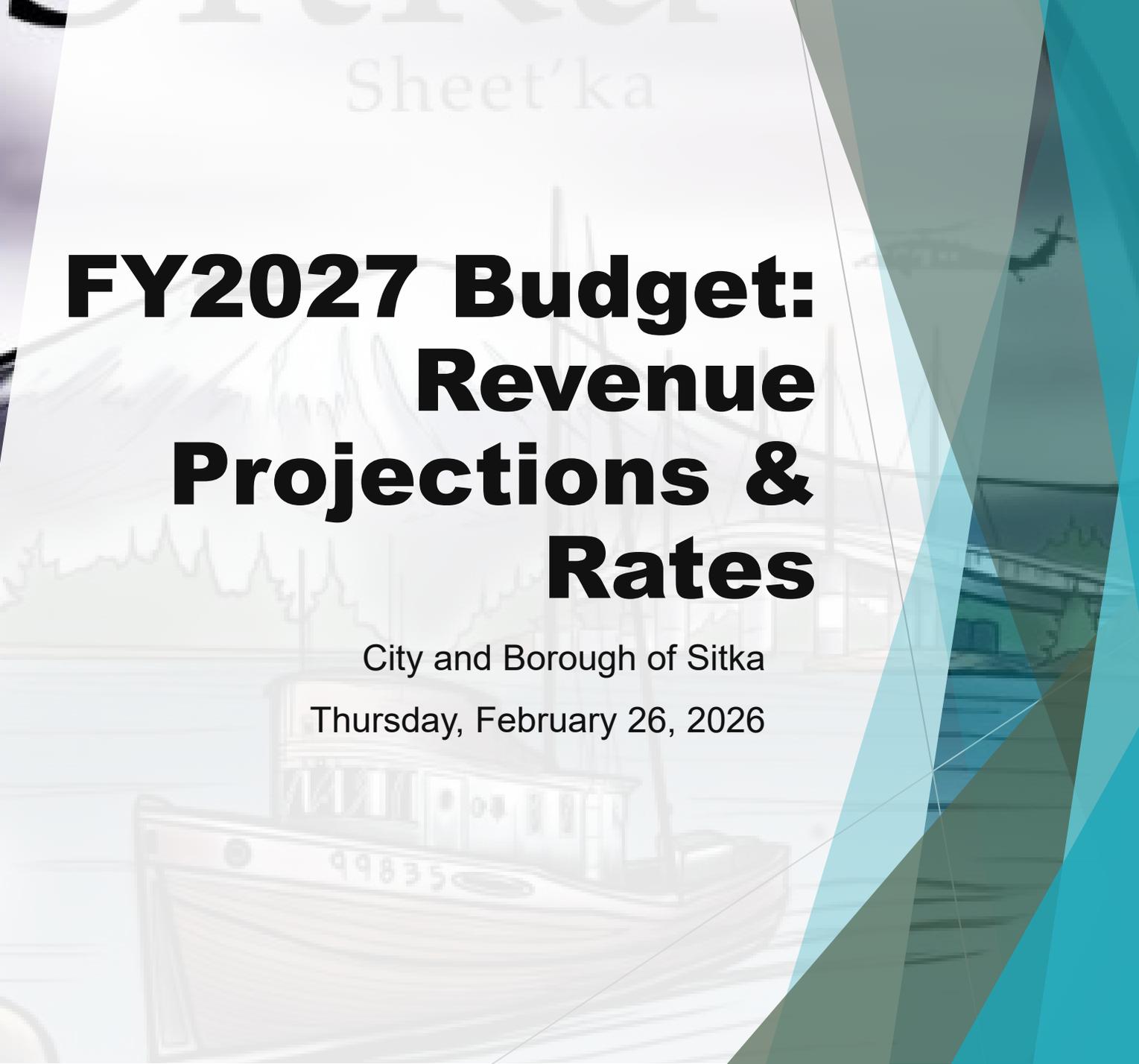
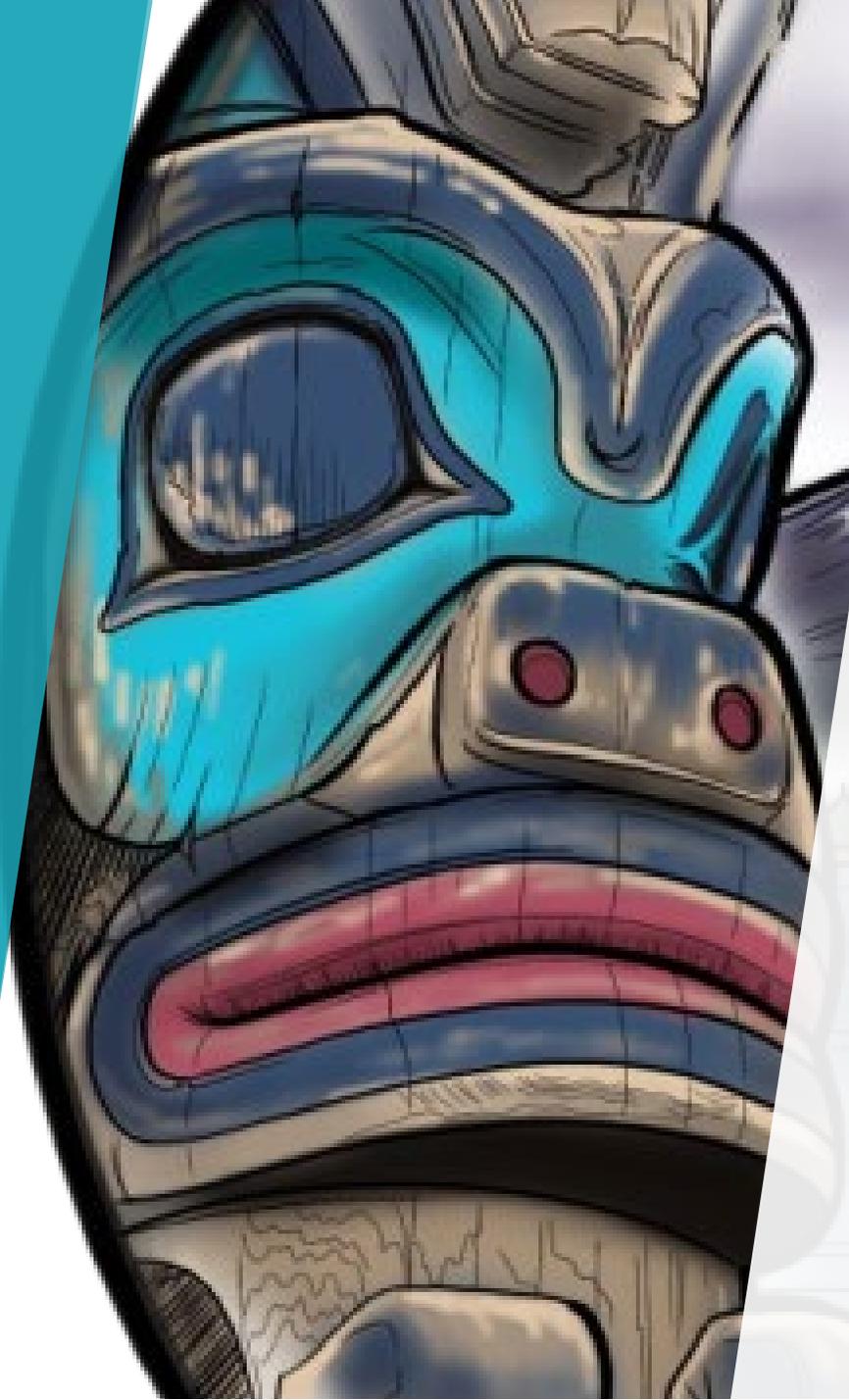


Sheet'ka

FY2027 Budget: Revenue Projections & Rates

City and Borough of Sitka

Thursday, February 26, 2026



Why are we here?

- ▶ Review the approach used to develop utility rate recommendations
- ▶ Discuss the key changes since last year and emerging challenges
- ▶ Outline the assumptions informing the FY2027 rate recommendations
- ▶ Receive Assembly direction on FY2027 rates



What is an Enterprise Fund?

- **A self-supporting public Service**
 - Operates on a cost-of-service model
 - Funded primarily by user fees
- **How is this different from the General Fund?**
 - General Fund services are primarily supported by taxes and serve the community as a whole
 - Enterprise fund costs are allocated to those who directly receive the service
- **Why use this structure?**
 - Promotes transparency in the cost of service
 - Aligns costs with usage
 - Provides a dedicated funding mechanism for infrastructure

Enterprise funds are legally and financially separate from the General Fund

Municipal Utility Operations In Sitka

- In Sitka the municipality directly owns and operates:
 - Electric generation and distribution
 - Drinking water and wastewater treatment
 - Solid waste disposal
 - Harbors and port infrastructure
 - Airport and seaplane base
 - Industrial park (with haul out)
- What this means
 - Operational, regulatory, and capital responsibilities are managed locally
 - Financial planning for these services occurs within the municipality

In many communities, some of these services are provided by private companies, separate utilities, or regional entities

Community Conditions Affecting Utility Costs

➤ **Small customer base**

- Infrastructure costs are shared across a limited number of ratepayers

➤ **Reliability expectations**

- Systems must be built and maintained to provide continuous service

➤ **Remote and coastal location**

- Transportation, weather exposure, and logistics increase system costs

➤ **Limited construction market**

- Fewer contractors available for specialized infrastructure work

What Drives Rates?

Rates reflect the cost of providing service over time

➤ **Operating costs**

- Inflation
- Labor market conditions

➤ **Debt obligations**

- Annual debt service
- Coverage and covenant requirements

➤ **Capital investment**

- Long-term capital improvement plans
- Construction cost trends

➤ **Regulatory requirements**

- Compliance mandates that drive operating and capital spending

Managing Rate Impacts

- **Outside funding**
 - Grants and subsidized loan programs*
- **Strategic capital planning**
 - Spread large infrastructure costs over useful life of assets
 - Reduce the risk of costly emergency replacements
- **Low-cost financing**
 - State loan programs and other below market options
- **Operational efficiency**
 - Process improvements and workforce stability
- **Billing & collections**
 - Accurate billing and consistent collections

**Grant funding often includes extensive administrative and compliance requirements*

Financial Health

➤ **Healthy Enterprise Fund:**

- Maintains sufficient working capital to support cash flow and contingencies
- Generates revenue adequate to meet operating costs
- Meets debt service and financial covenant requirements
- Supports ongoing capital replacement and system reliability
- Allows for stable, gradual rate adjustments over time



Electric Fund

Electric – Contextual Information

- **Sitka operates an isolated electric system**
 - No ability to purchase backup power from outside utilities
- **Costs are mostly fixed – revenue is variable**
 - Weather and lake levels affect generation and usage
 - Usage directly affects revenue
 - Expenses do not fluctuate proportionally
 - The fund can shift from surplus to deficit without operational change
- **Electric utility decisions require balancing three priorities**
 - Reliability: continuous service
 - Affordability: stable and predictable rates
 - Sustainability: long-term infrastructure investment

Electric – Recommended Rate Adjustment

- **Recommended Energy Rate Adjustment: No Change (0%)**
- **Customer Charge Adjustment (Final Year of 3-Year Plan)**
 - Plan presented during FY2025 budget process
 - FY2027 is third and final year
 - Typical residential impact: approximately \$8 per year

Electric – Why Adjust Customer Charges

The customer charge is a fixed monthly fee separate from energy usage

➤ **Provides revenue stability**

- Not affected by weather or seasonal usage fluctuations

➤ **Aligns rates with system cost structure**

- Many of the electric system costs are fixed
- All customers share in the cost of maintaining generation and distribution infrastructure

Electric – Customer Charge Schedule

Customer Charge	FY2024	FY2025	FY2026	FY2027
Residential Services	\$ 20.48	\$ 21.20	\$ 21.90	\$ 22.60
Monthly Increase		\$ 0.72	\$ 0.70	\$ 0.70
Annual cost of increase/household		\$ 8.64	\$ 8.40	\$ 8.40
Residential - Remote Island	\$ 20.48	\$ 27.60	\$ 34.70	\$ 41.80
Monthly Increase		\$ 7.12	\$ 7.10	\$ 7.10
Annual cost of increase/household		\$ 85.44	\$ 85.20	\$ 85.20
Boat Service	\$ 20.48	\$ 20.48	\$ 20.48	\$ 20.48
Small General Service	\$ 40.95	\$ 51.00	\$ 61.00	\$ 71.00
Monthly Increase		\$ 10.05	\$ 10.00	\$ 10.00
Annual cost of increase/household		\$ 120.60	\$ 120.00	\$ 120.00
Small General Service - Remote Island	\$ 40.95	\$ 71.00	\$ 101.00	\$ 131.00
Monthly Increase		\$ 30.05	\$ 30.00	\$ 30.00
Annual cost of increase/household		\$ 360.60	\$ 360.00	\$ 360.00
Large General Service	\$ 63.00	\$ 212.00	\$ 361.00	\$ 510.00
Monthly Increase		\$ 149.00	\$ 149.00	\$ 149.00
Annual cost of increase/household		\$ 1,788.00	\$ 1,788.00	\$ 1,788.00
Public Authority GS	\$ 47.25	\$ 85.00	\$ 123.00	\$ 161.00
Monthly Increase		\$ 37.75	\$ 38.00	\$ 38.00
Annual cost of increase/household		\$ 453.00	\$ 456.00	\$ 456.00
Interruptible Services	\$ 200.00	\$ 375.00	\$ 550.00	\$ 725.00
Monthly Increase		\$ 175.00	\$ 175.00	\$ 175.00
Annual cost of increase/household		\$ 2,100.00	\$ 2,100.00	\$ 2,100.00

Electric – Implications of Not Completing Phase-In

➤ Immediate Impacts

- The final year of the phase-in represents approximately 1% of total operating revenue
- If not implemented, projected FY2027 revenue would be modestly lower than under the current plan
- Working capital would grow more slowly

➤ Long-Term Considerations

- Fixed system costs would remain more reliant on usage-based revenue
- Over time, unchanged rates provide less cost recovery as operating expenses increase
- Future adjustment may need to be large to maintain long-term balance



Water Fund

Water – Contextual Information

➤ **Critical Secondary Water (CSW) Project**

- Provides redundancy for drinking water supply
- Allows continued compliant service during penstock outages
- Projects against service disruption and emergency treatment costs
- Stabilizes long-term operating requirements

➤ **Project Status & Funding**

- Expected completion in FY2026
- Total project cost ~ \$18 million
- Primarily financed through a 20-year low interest DEC loan

Water – CSW Financial Impact

➤ Beginning of Debt Service (FY2027)

- Annual loan payments ~ \$1 million
- Increases baseline revenue required before routine operations and maintenance
- Represents a structural increase in fixed costs

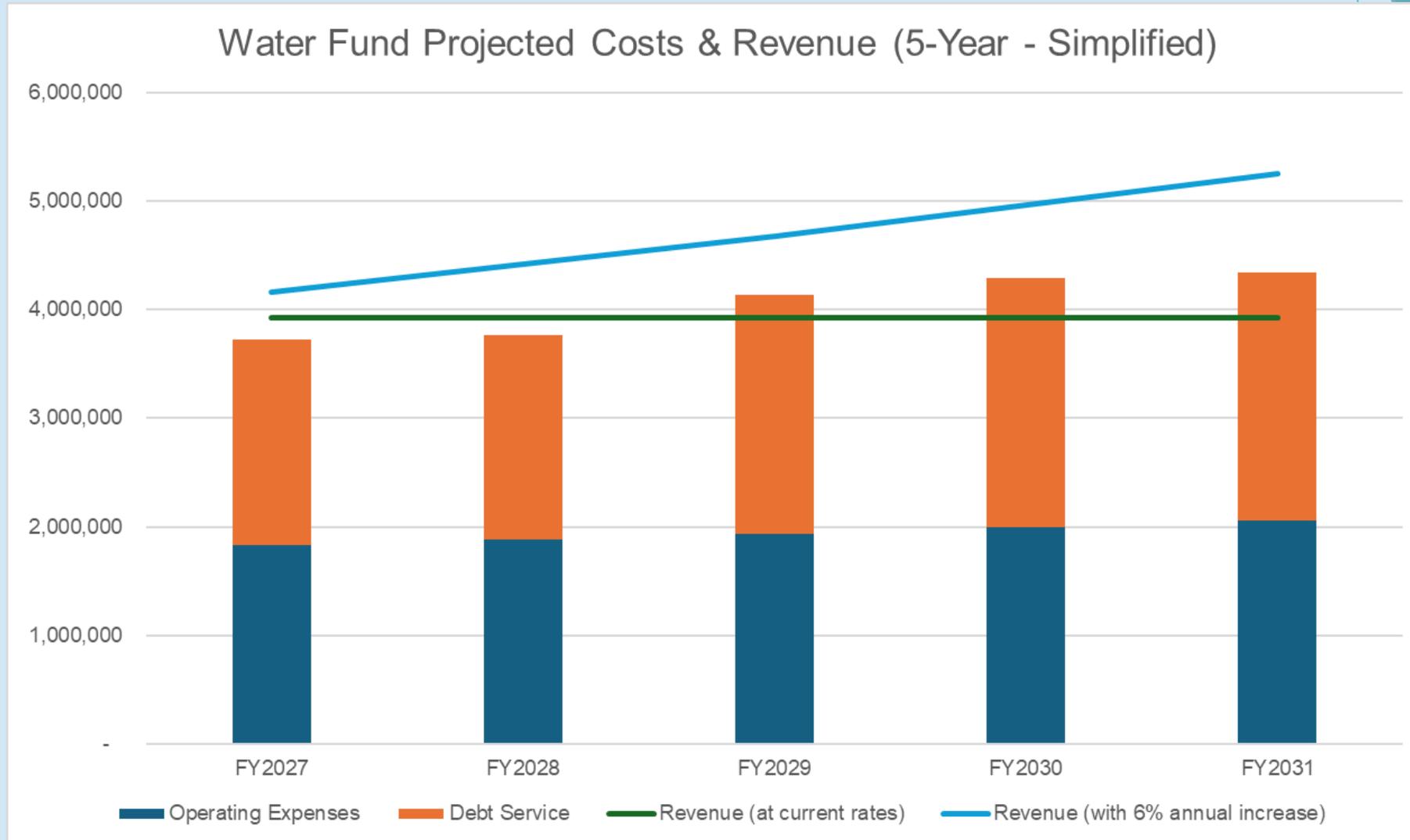
➤ Planning Considerations

- Debt service begins regardless of rate adjustments
- Revenue must cover fixed debt obligations before capital replacement
- Multi-year modeling used to evaluate long-term sustainability

Water – Recommended Rate Adjustment

- **Recommended Rate Adjustment: + 6%**
- **Typical Residential Impact (Unmetered)**
 - Monthly rate: \$66.91 (up from \$63.12)
 - ~\$4 per month
 - ~\$48 per year
- **Metered Customers**
 - Bills vary by usage and meter size
 - Average impacts are proportional to the same 6% increase

Water – Projected Costs & Revenue



Water - Implications of No Rate Increase

➤ Immediate Impacts

- Revenue growth would not keep pace with inflation
- Debt service would consume an even large share of revenue
- Reduced funding available for routine capital replacement

➤ Long-Term Impacts

- Increased reliance on borrowing
- Reduced working capital stability
- Higher future rate pressure to restore balance



Wastewater Fund

Wastewater – Contextual Information

➤ Regulatory Requirement

- EPA renewed Sitka's wastewater discharge permit went into effect in 2025 (along with other Southeast Communities)
- Updated permit requires additional effluent disinfection
- Required for compliance by November 2030
- Construction must begin by mid-2029

➤ Capital Impact

- Estimated total project cost ~\$13 million
- \$10 million Congressionally Directed Spending (CDS) award (pending formal agreement)
- Largest wastewater capital obligation in current planning horizon

➤ Ongoing Infrastructure Needs

- Continued replacement of aging infrastructure
- Coordination with road projects that include wastewater components
- Multi-fund projects may have staggered funding timing based on individual fund capacity

Wastewater – Effluent Disinfection Funding Structure

➤ Federal Award & Local Share

- \$10 million CDS award
- 20% required local match and funding gap (~ \$3 million)

➤ DEC Financing Coordination

- Project identified as high priority by DEC
- Working with DEC on potential loan financing
- Up to \$1 million in loan forgiveness may be available

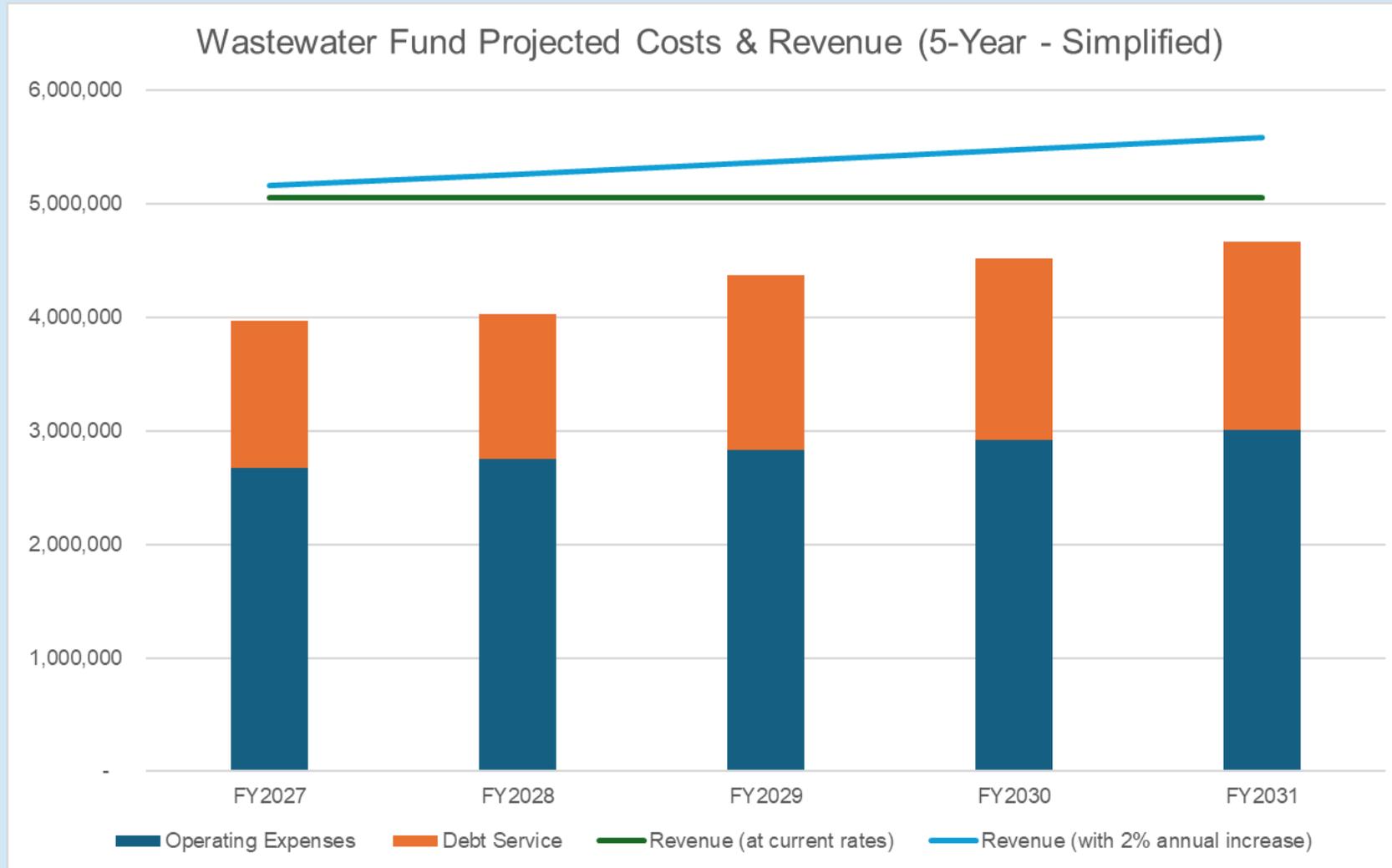
➤ Planning Considerations

- Federal fund generally cannot be used to match other federal awards
- Many DEC loans use federal funding and typically cannot qualify as match
- Unless state sourced financing is guaranteed, the match must be covered with working capital

Wastewater – Recommended Rate Adjustment

- **Recommended Rate Adjustment: + 2%**
- **Typical Residential Impact (Unmetered)**
 - Monthly rate: \$89.79 (up from \$88.03)
 - ~\$1.90 per month
 - ~\$23 per year
- **Metered Customers**
 - Bills vary by usage and meter size
 - Average impacts are proportional to the same 2% increase

Wastewater – Projected Costs & Revenue



Wastewater - Implications of No Rate Increase

➤ Immediate Impacts

- Slower accumulation of working capital for required match
- Reduced financial flexibility for near-term capital needs
- Flat rates would not keep pace with inflation, effectively reducing purchasing power

➤ Long-Term Impacts

- Greater reliance on borrowing
- Higher future debt service obligations
- Reduced capacity for capital replacement
- Increased pressure for larger future rate adjustments



Solid Waste Fund

Solid Waste – Contextual Information

➤ System Context

- Sitka ships all garbage and recycling off the island
- Contracted collection and disposal include CPI based adjustments
- Shipping and fuel costs influenced by market conditions
- Significant fixed costs must be supported year-round
- Disposal volumes fluctuate seasonally
- Community programs (Household Hazardous Waste and Spring Clean Up events)
create periodic cost impacts

Solid Waste – Financial Stability

➤ **Historical Financial Condition**

- Fund operated at a loss through ~ FY2020
- Revenues were insufficient to cover operating costs and debt service

➤ **Corrective Actions & Improvements**

- Rate adjustments improved cost alignment
- Updated utility service policy July 2021 improved compliance
- Improved monitoring of service levels and occupancy

Solid Waste – Recommended Rate Adjustment

- **Recommended Rate Adjustment: + 2%**
 - Applies to all solid waste rates
- **Typical Residential Impact (96 gallon/1x per week pickup)**
 - Monthly rate: \$80.72 (up from \$79.14)
 - ~\$2 per month
 - ~\$24 per year
- **Rolloff rate/structure under separate review**

Solid Waste – Implications of No Rate Increase

➤ Immediate Impacts

- CPI and market-driven costs continue to rise
- Operating margins would narrow
- Working capital growth would slow

➤ Long-Term Impacts

- Working capital would decline over time
- Greater risk of larger future rate adjustments

Solid Waste – Rolloff Containers

➤ Service Description

- Large metal containers (~ 10 x 300 gallon tubs)
- Intended for temporary/high volumed needs
- Limited supply

➤ Current Structure

- No specific rolloff rate established in code
- Rental and hauling paid directly to Alaska Waste
- Solid Waste Fund receives disposal revenue only

➤ Under Review

- Evaluate rate/structure to better align cost recovery
- Clarify eligibility and terms of use

Harbor Fund



Harbor – Contextual Information

➤ Aging Marine Infrastructure

- Major dock and float systems approaching or beyond replacement cycle
- Marine construction costs have increased significantly

➤ Scale of Long-Term Replacement Needs (Recent Estimates)

- Eliason Harbor ~ \$54 million
- Thomsen Harbor ~ \$22 million
- Sealing Cove ~ \$27 million

➤ Capital Plan Under Review

- Re-prioritization underway
- Near-term focus narrow limited to achievable projects

Harbor – Capital Planning & Near-Term Focus

➤ Funding Reality

- State of AK Harbor Facility Grant Program (up to 50/50 construction match)
- CBS responsible for design and remaining construction costs
- Competitive statewide funding pool
- Bonding requires voter approval and sufficient revenue to support debt service

➤ Near-Term Funding Priority: Crescent Harbor Phase II (Floats 5-7)

- Phase I completed in FY2019; floats 5-7 were not included
- Estimated cost of ~ \$10 million
- Potential Tier I status under State grant program
- Local funding anticipated from working capital and reallocation of Eliason Electric funding

Harbor – Recommended Rate Adjustment

➤ **Recommended Rate Adjustment: + 4%**

➤ **Typical Impact (Permanent Moorage)**

Vessel Size	Approx. Monthly Increase
32 ft	+\$7
42 ft	+\$9
58 ft	+\$12

➤ **Context**

- Consistent with 2024 Harbor Rate Study guidance (inflation +1.5%)
- Intended to maintain current financial position
- Does not fully fund long-term replacement needs

Harbor - Implications of No Rate Increase

➤ Immediate & Long Term Impacts

- Working capital would decline more rapidly
- Local match capacity for grant funded projects would be reduced
- Debt capacity for major projects would narrow
- Future rate adjustments would likely need to be larger to maintain working capital and borrowing capacity

Harbor – Future Planning

- **Updated long-term capital improvement plan in development**
- **Revised cost estimates and project priorities underway**
- **Near-Term Focus**
 - Extending the life of existing infrastructure through maintenance and targeted repairs
 - Advancing high priority projects as funding allows
 - Align project timing with realistic funding capacity

Combined Impact on Average Residential Customer

The illustration below summarizes the combined impact of the recommended FY2027 adjustments for electric, water, wastewater, and solid waste, compared to FY2026 for a typical single-family household

➤ Assumptions:

- Estimated residential electric consumption: 2,200 kWh winter/1,400 kWh summer
- One 96-gallon solid waste container with weekly service
- Sales tax included

Actual bills will vary based on usage and service level

	FY2026	Proposed FY2027	Change
Blended Average Monthly Bill	~\$573	~\$581	~\$8
Annual Total	~\$6,873	~\$6,972	~\$99