
MEMORANDUM

To: Mayor McConnell and Members of the Assembly
Mark Gorman, Municipal Administrator

From: Jay Sweeney Finance Director

Date: February 19, 2014

Subject: Long Range Budgeting

Issue:

Administration is seeking Assembly guidance as to whether or not to proceed with development of an ordinance to implement long range budgeting.

Background:

Over the past 6 months, the Municipal Administrator and myself have engaged in several discussions with Assembly member Reif in regards to the concept of long range budgeting.

In the discussions, we talked about the recent General Fund annual budget surpluses and how they were not really true surpluses, as they were only achieved by deferring critical infrastructure maintenance and repair. Such surpluses were reported in the media and led to public perception that the financial condition of the Municipality was better than it really was.

We also discussed how the Municipality did not have a long range plan for forecasting estimated future amounts of deferred infrastructure maintenance, future General Fund working capital, and future operating costs, as the annual budget, as specified by the Charter, is for one year only. We felt that this short range focus was short-sighted, as it did not provide for transparent identification of the true cost of prudently operating the Municipality.

As an example, deferred maintenance costs of maintaining municipal roads, parking lots, parks, and general governmental buildings such as City Hall are estimated to be in excess of five million dollars and are rising by millions of dollars each year. Thus, reporting a budget surplus of a million dollars is misleading, as it does not take into account these rising deferred maintenance costs.

As a result of the discussions, I agreed to prepare a proposed model of a 10 year long range budget which would reflect growing deferred maintenance costs, project operating costs, annual budget surpluses and/or deficits, and forecast what the General

fund Balance would be each year. The idea was to show that if the General Fund balance was rising each year due to moderate budget surpluses, but deferred maintenance costs were rapidly growing, then the ability to sustain the current level of municipal services was unsustainable. This, in turn, would spark further discussions between the Assembly and Administration as to how to respond.

After completion of the model, Assembly Members Hackett and Swanson also examined the model and/or discussed the philosophy with me and agreed that the concept should be brought forward to the full Assembly for discussion.

Discussion

Given the background above, Administration seeks Assembly discussion and, possibly, further direction on this issue.

I have advised that, as the current requirements for preparation of the annual Municipal budget or contained in the Charter, requirements for long range budgeting should also be codified in either the Sitka General Code or the Charter. Otherwise, long range budgeting could be discontinued in the future.

I envision that, if adopted, a long range budget be a companion document to both the annual budget and future strategic plans for general government. My vision is that, as the long range budget would be for ten years, it would encompass the period from one year beyond the budget year to 11 years beyond the budget year. For example, if we were preparing the FY16 budget, the long range budget would forecast FY17 – FY26. In future years, another year would be added to the end of the 10-year period and the starting year of the previous long range budget would become the base line annual budget for the next year. Using the example above, for FY17, the FY17 portion of the long range budget (prepared in conjunction with the FY16 budget) would become the base line FY17 budget, and FY27 would be added to the end of the long range budget, so that the long range budget was for the period FY18 – FY27. The process would then be repeated each year.

As preparation of a 10 year long range budget would be a large undertaking, especially in conjunction with the preparation of the FY15 annual budget, so staff recommends that the initial long range budget, if so directed by the Assembly, be produced in conjunction with the FY16 budget, a year hence.

Finally, I have included the conceptual model I prepared and discussed, on separate occasions, with Assembly Members Reif, Hackett and Swanson as an attachment.

Recommendation

The Assembly direct staff to either (1) prepare an ordinance to place a provision for long range budgeting in the Sitka General code, or (2) prepare a ballot proposition for an upcoming election to amend the Charter to add a provision for long range budgeting.

**CITY AND BOROUGH OF SITKA
10 YEAR EXTENDED FINANCIAL PROJECTION
SUMMARY PROJECTION**

FUND: 100 - GENERAL FUND

REVENUE PROJECTIONS:

REVENUE	GROWTH FACTOR	2014 PROJECTION	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Sales Tax	2.03%	9,168,000	9,353,640	9,543,084	9,736,411	9,933,702	10,135,044	10,340,520	10,550,216	10,764,221	10,982,626	11,205,524
Property Tax	0.93%	6,159,000	6,216,400	6,274,291	6,332,675	6,391,555	6,450,936	6,510,820	6,571,209	6,632,107	6,693,518	6,755,446
Total Revenue:		<u>15,327,000</u>	<u>15,570,040</u>	<u>15,817,375</u>	<u>16,069,086</u>	<u>16,325,257</u>	<u>16,585,980</u>	<u>16,851,340</u>	<u>17,121,425</u>	<u>17,396,328</u>	<u>17,676,144</u>	<u>17,960,970</u>

EXPENSE PROJECTIONS:	INFLATION RATE	2014 PROJECTION	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Personnel Expenses:	4.63%	1,238,520	1,292,550	1,349,677	1,410,114	1,474,091	1,541,855	1,613,670	1,689,823	1,770,621	1,856,395	1,947,503
Travel	3.51%	31,000	32,085	33,209	34,373	35,578	36,826	38,119	39,458	40,846	42,283	43,772
Insurance	3.00%	3,200	3,296	3,394	3,496	3,600	3,708	3,820	3,934	4,052	4,174	4,300
Vehicle Charges	4.00%	213,100	221,624	230,488	239,708	249,296	259,268	269,638	280,424	291,640	303,306	315,438
All Other Operating Expenses:	2.00%	114,480	116,770	119,106	121,488	123,918	126,396	128,924	131,502	134,132	136,814	139,550
	4.35%	<u>1,600,300</u>	<u>1,666,325</u>	<u>1,735,874</u>	<u>1,809,179</u>	<u>1,886,483</u>	<u>1,968,053</u>	<u>2,054,171</u>	<u>2,145,141</u>	<u>2,241,291</u>	<u>2,342,972</u>	<u>2,450,563</u>
SURPLUS/SHORTFALL:	1.23%	<u>13,726,700</u>	<u>13,903,715</u>	<u>14,081,501</u>	<u>14,259,907</u>	<u>14,438,774</u>	<u>14,617,927</u>	<u>14,797,169</u>	<u>14,976,284</u>	<u>15,155,037</u>	<u>15,333,172</u>	<u>15,510,407</u>

DEFERRED MAINTJENANCE

Roads	0.1	10,000,000	11,000,000	12,100,000	13,310,000	14,641,000	16,105,100	17,715,610	19,487,171	21,435,888	23,579,477	25,937,425
Sidewalks	0.02	1,000,000	1,020,000	1,122,000	1,234,200	1,357,620	1,493,382	1,642,720	1,806,992	1,987,691	2,186,460	2,405,106
Parking Lots	0.02	500,000	510,000	561,000	617,100	678,810	746,691	821,360	903,496	993,846	1,093,231	1,202,554
Parks	0.01	50,000	50,500	55,550	61,105	67,216	73,938	81,332	89,465	98,412	108,253	119,078
Buildings:	0.01	1,000,000	1,010,000	1,111,000	1,222,100	1,344,310	1,478,741	1,626,615	1,789,277	1,968,205	2,165,026	2,381,529
		<u>12,550,000</u>	<u>13,590,500</u>	<u>14,949,550</u>	<u>16,444,505</u>	<u>18,088,956</u>	<u>19,897,852</u>	<u>21,887,637</u>	<u>24,076,401</u>	<u>26,484,042</u>	<u>29,132,447</u>	<u>32,045,692</u>

DESIGNATED GENERAL FUND BALANCE 7,600,000

UNDESIGNATED GENERAL FUND BALANCE 3,000,000

**CITY AND BOROUGH OF SITKA
10 YEAR EXTENDED FINANCIAL PROJECTION**

FUND: 100 - GENERAL FUND
DIVISION: 300 - REVENUE
DEPARTMENT: 301 - PROPERTY TAX

REVENUE PROJECTION ASSUMPTIONS:

REVENUE GROWTH RATES:

A: 1.00%
B: 2.00%

EXPENSE	GROWTH FACTOR	2014 PROJECTION	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Property Tax	1.00%	6,288,000	6,350,880	6,414,389	6,478,533	6,543,318	6,608,751	6,674,839	6,741,587	6,809,003	6,877,093	6,945,864
Auto Tax	1.00%	88,000	88,880	89,769	90,667	91,574	92,490	93,415	94,349	95,292	96,245	97,207
Boat Tax	1.00%	117,000	118,170	119,352	120,546	121,751	122,969	124,199	125,441	126,695	127,962	129,242
Senior Citizen Exemptions	2.00%	(419,000)	(427,380)	(435,928)	(444,647)	(453,540)	(462,611)	(471,863)	(481,300)	(490,926)	(500,745)	(510,760)
Other Property Tax	1.00%	85,000	85,850	86,709	87,576	88,452	89,337	90,230	91,132	92,043	92,963	93,893
Total Revenue:		<u>6,159,000</u>	<u>6,216,400</u>	<u>6,274,291</u>	<u>6,332,675</u>	<u>6,391,555</u>	<u>6,450,936</u>	<u>6,510,820</u>	<u>6,571,209</u>	<u>6,632,107</u>	<u>6,693,518</u>	<u>6,755,446</u>
Composite Revenue Growth Rate:												0.93%

**CITY AND BOROUGH OF SITKA
10 YEAR EXTENDED FINANCIAL PROJECTION**

**FUND: 100 - GENERAL FUND
DIVISION: 300 - REVENUE
DEPARTMENT: 302 - SALES TAX**

REVENUE PROJECTION ASSUMPTIONS:

REVENUE GROWTH RATES:

A: 2.00%
B: 4.00%

EXPENSE	GROWTH FACTOR	2014 PROJECTION	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
1st Quarter Sales Tax	2.00%	1,599,000	1,630,980	1,663,600	1,696,872	1,730,809	1,765,425	1,800,734	1,836,749	1,873,484	1,910,954	1,949,173
2nd Quarter Sales Tax	2.00%	2,692,000	2,745,840	2,800,757	2,856,772	2,913,907	2,972,185	3,031,629	3,092,262	3,154,107	3,217,189	3,281,533
3rd Quarter Sales Tax	2.00%	3,029,000	3,089,580	3,151,372	3,214,399	3,278,687	3,344,261	3,411,146	3,479,369	3,548,956	3,619,935	3,692,334
4th Quarter Sales Tax	2.00%	1,648,000	1,680,960	1,714,579	1,748,871	1,783,848	1,819,525	1,855,916	1,893,034	1,930,895	1,969,513	2,008,903
Fish Box Tax	4.00%	114,000	118,560	123,302	128,234	133,363	138,698	144,246	150,016	156,017	162,258	168,748
Other Sales Tax Revenue	2.00%	86,000	87,720	89,474	91,263	93,088	94,950	96,849	98,786	100,762	102,777	104,833
Total Revenue:		<u>9,168,000</u>	<u>9,353,640</u>	<u>9,543,084</u>	<u>9,736,411</u>	<u>9,933,702</u>	<u>10,135,044</u>	<u>10,340,520</u>	<u>10,550,216</u>	<u>10,764,221</u>	<u>10,982,626</u>	<u>11,205,524</u>

Composite Revenue Growth Rate: 2.03%

**CITY AND BOROUGH OF SITKA
10 YEAR EXTENDED FINANCIAL PROJECTION**

**FUND: 100 - GENERAL FUND
DIVISION: 520 - PUBLIC SAFETY
DEPARTMENT: 022 - FIRE**

COST PROJECTION ASSUMPTIONS:

WAGE INFLATION: 2.50% *Note: No increase in 2015*
BENEFIT INFLATION: 7.00%
COST INFLATION:
 A: 2.00%
 B: 3.00%
 C: 4.00%

<u>EXPENSE</u>	<u>INFLATION FACTOR</u>	<u>2014 PROJECTION</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Wages:	2.50%	694,830	712,201	730,006	748,256	766,962	786,136	805,789	825,934	846,582	867,747	889,441
Benefits:	7.00%	<u>414,590</u>	<u>443,611</u>	<u>474,664</u>	<u>507,890</u>	<u>543,442</u>	<u>581,483</u>	<u>622,187</u>	<u>665,740</u>	<u>712,342</u>	<u>762,206</u>	<u>815,560</u>
Total Personnel Expenses:		1,109,420	1,155,812	1,204,670	1,256,146	1,310,404	1,367,619	1,427,976	1,491,674	1,558,924	1,629,953	1,705,001
Travel	4.00%	15,500	16,120	16,765	17,436	18,133	18,858	19,612	20,396	21,212	22,060	22,942
Insurance	3.00%	1,600	1,648	1,697	1,748	1,800	1,854	1,910	1,967	2,026	2,087	2,150
Vehicle Charges	4.00%	106,550	110,812	115,244	119,854	124,648	129,634	134,819	140,212	145,820	151,653	157,719
All Other Operating E	2.00%	<u>57,240</u>	<u>58,385</u>	<u>59,553</u>	<u>60,744</u>	<u>61,959</u>	<u>63,198</u>	<u>64,462</u>	<u>65,751</u>	<u>67,066</u>	<u>68,407</u>	<u>69,775</u>
Total Non Personnel Expenses:		<u>180,890</u>	<u>186,965</u>	<u>193,259</u>	<u>199,782</u>	<u>206,540</u>	<u>213,544</u>	<u>220,803</u>	<u>228,326</u>	<u>236,124</u>	<u>244,207</u>	<u>252,586</u>
Total Expenses:		<u>1,290,310</u>	<u>1,342,777</u>	<u>1,397,929</u>	<u>1,455,928</u>	<u>1,516,944</u>	<u>1,581,163</u>	<u>1,648,779</u>	<u>1,720,000</u>	<u>1,795,048</u>	<u>1,874,160</u>	<u>1,957,587</u>

CITY AND BOROUGH OF SITKA
10 YEAR EXTENDED FINANCIAL PROJECTION

FUND: 100 - GENERAL FUND
DIVISION: 620 - PUBLIC SAFETY
DEPARTMENT: 023 - AMBULANCE

COST PROJECTION ASSUMPTIONS:

WAGE INFLATION: 2.50% *Note: No increase in 2015*
BENEFIT INFLATION: 10.00%
COST INFLATION:
A: 2.00%
B: 3.00%
C: 4.00%

<u>EXPENSE</u>	<u>INFLATION FACTOR</u>	<u>2014 PROJECTION</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Wages:	2.50%	70,300	72,058	73,859	75,705	77,598	79,538	81,526	83,564	85,653	87,794	89,989
Benefits:	10.00%	<u>58,800</u>	<u>64,680</u>	<u>71,148</u>	<u>78,263</u>	<u>86,089</u>	<u>94,698</u>	<u>104,168</u>	<u>114,585</u>	<u>126,044</u>	<u>138,648</u>	<u>152,513</u>
Total Personnel Expenses:		129,100	136,738	145,007	153,968	163,687	174,236	185,694	198,149	211,697	226,442	242,502
Travel	3.00%	15,500	15,965	16,444	16,937	17,445	17,968	18,507	19,062	19,634	20,223	20,830
Insurance	3.00%	1,600	1,648	1,697	1,748	1,800	1,854	1,910	1,967	2,026	2,087	2,150
Vehicle Charges	4.00%	106,550	110,812	115,244	119,854	124,648	129,634	134,819	140,212	145,820	151,653	157,719
All Other Operating Expenses:	2.00%	<u>57,240</u>	<u>58,385</u>	<u>59,553</u>	<u>60,744</u>	<u>61,959</u>	<u>63,198</u>	<u>64,462</u>	<u>65,751</u>	<u>67,066</u>	<u>68,407</u>	<u>69,775</u>
Total Non Personnel Expenses:		<u>180,890</u>	<u>186,810</u>	<u>192,938</u>	<u>199,283</u>	<u>205,852</u>	<u>212,654</u>	<u>219,698</u>	<u>226,992</u>	<u>234,546</u>	<u>242,370</u>	<u>250,474</u>
Total Expenses:		<u>309,990</u>	<u>323,548</u>	<u>337,945</u>	<u>353,251</u>	<u>369,539</u>	<u>386,890</u>	<u>405,392</u>	<u>425,141</u>	<u>446,243</u>	<u>468,812</u>	<u>492,976</u>