




# CITY AND BOROUGH OF SITKA

A COAST GUARD CITY

## MEMORANDUM

**To:** Mayor Eisenbeisz and Assembly Members

**Thru:** John Leach, Municipal Administrator 

**From:** Melissa Haley, Finance Director

**Date:** March 28, 2025

**Subject:** FY2026 Budget, Capital Improvement Plan, and Rate Adjustments

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### **Background**

The Assembly's efforts over the past three months have led to this final draft of the of the FY2026 consolidated operating budget for the City and Borough of Sitka. The budget process began with a kickoff meeting for staff in October with guidance to include expenditures necessary to maintain the current level of service. Any new or expanded service required the submission of a resource proposal that was reviewed internally and then presented to the Assembly to determine whether the proposals should be included in the budget. All resource proposals presented align with the strategic plan and aim to help achieve the goals outlined in the plan. Upon receiving Assembly feedback on what new resources to include, the draft budget was presented in a series of meetings. During these meetings the Assembly made both cuts and additions to the budget resulting in the final version presented for approval.

### **Analysis**

**Revenue (General Fund):** Despite some concern about impacts to revenue due to an upcoming ballot measure to limit cruise passengers, guidance from the assembly was to maintain estimates for sales tax revenue (our most significant source of revenue) at a status quo level. Should the ballot measure pass, budget amendments will be needed.

**Expenditures (General Fund):** Aligned with strategic priorities, the FY2026 budget includes key investments to bolster organizational objectives. The General Fund FY2026 budget is 3% higher than the FY2025 budget, primary factors include continued inflation, staff recruitment and retention, and a focus on moving forward our strategic goals .

**Infrastructure (Governmental):** In addition to increased spending on operations, the FY2026 budget maintains a continuation of strong funding for infrastructure repair

projects. It is important to note that the availability of funding for these projects is largely due prior year position vacancies, so as staff retention improves there will be less funding available to invest in our infrastructure.

**Enterprise Funds and Rates:** Given the infrastructure-centric nature of enterprise funds and improving, but persistent inflationary pressures, rate increases have been recommended across all utilities and moorage services. These adjustments aim to preempt future spikes in rates and ensure the financial sustainability of essential services. Fortunately, efforts to focus on an asset management-based focus on mitigating risk and extending the life of assets has resulted in rate increases for some funds that are lower than originally anticipated. The rate increases in the omnibus ordinance are as follows:

- Electric-2%, year 2 increases to the customer fee.
- Water-6%
- Wastewater-6%
- Solid Waste-2% for collections/ 4% for transfer station and scrapyard drop-offs
- Moorage 4%

The Administrator's Letter, included at the front of the budget document, provides additional detail and analysis.

### **Fiscal Note**

The General Fund budget results in a surplus of \$233,307, which, should adjustments above that amount be needed, could become a deficit, which would mean that operations would be supported by our undesignated fund balance.

For the enterprise funds, while revenue (with the corresponding rate increases) less operating expense provide a positive cash flow, in some cases key investments in capital repairs require some funds to use up some of their unrestricted net position from prior years.

The only new debt proposed for FY2026 is to bring the DEC loan for the effluent disinfection project from \$7,000,000 to \$11,000,000 to fund the WWTP Effluent Disinfection System project.

### **Recommendation**

Approve Ordinances 2025-07 and 2025-08 that includes the FY2026 budget, capital improvement plan, approval of new debt, and rate increases for the Electric, Water, Wastewater, Solid Waste, and Harbor Funds.