

CITY AND BOROUGH OF SITKA

A COAST GUARD CITY

May 1, 2026

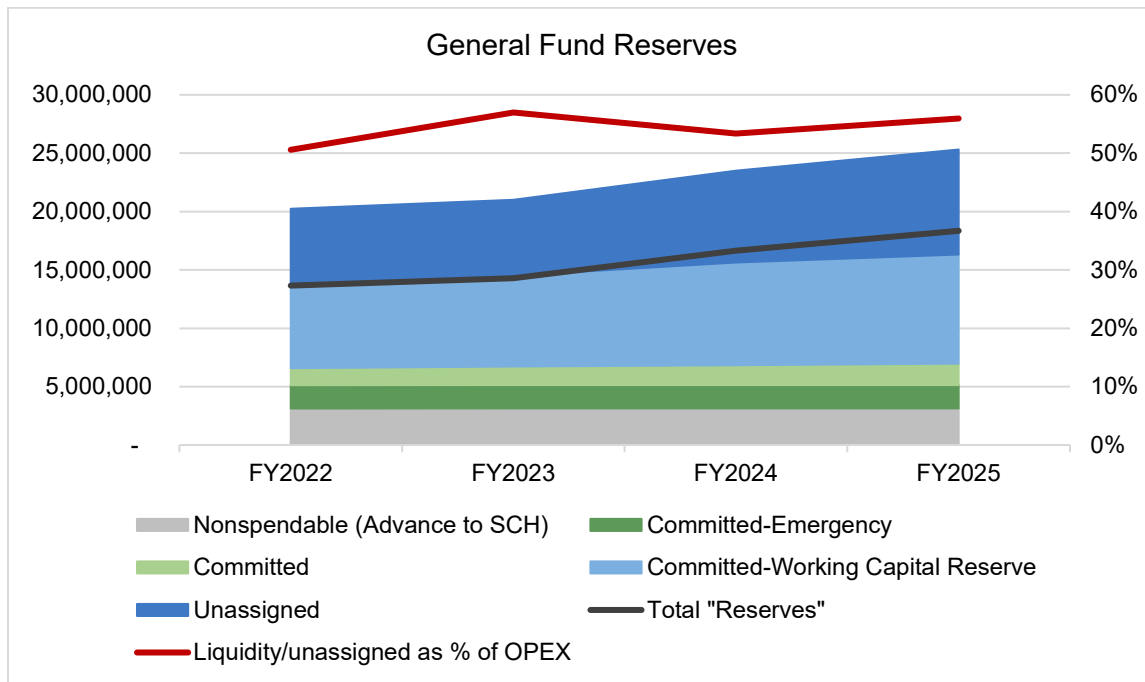
Mayor Eisenbeisz, Assembly Members, and Fellow Citizens of the City and Borough of Sitka,

In accordance with the provisions of Article XI, Section 11.05 of the Home Rule Charter of the City and Borough of Sitka, I am honored to present to you the Fiscal Year 2027 (FY2027) Consolidated Operating Budget and Capital Improvement Program of the City and Borough of Sitka.

Current Financial Status

FY2026 is closing in a financially stable position, but notably tighter than recent years. The gap between what the City brings in and what it costs to operate has continued to narrow, and a larger share of available resources is committed to specific capital and operating purposes.

Within the General Fund, overall reserve levels have remained relatively consistent over time, but the composition of those reserves has shifted. A larger portion of reserves is now allocated for specific uses, reducing the amount available for general flexibility.



Revenue performance has been generally solid, sales tax has held up, investment income has contributed positively, and property tax continues to grow. But expenditure growth has kept pace with, or even exceeded, those gains. Personnel costs, driven by the compensation study and new collective bargaining agreements, represent the single largest factor. Health insurance costs, even after revising the initial estimate downward, remain a significant pressure. Meanwhile, the City's vehicle fleet and infrastructure are aging, and the cost of maintaining them continues to rise.

This dynamic plays out not just in the General Fund but across enterprise funds as well. Utility funds are managing the dual pressures of rising construction and labor costs alongside substantial capital investment needs. Several funds have been intentionally drawing down working capital to fund infrastructure, a planned and appropriate use of those reserves, but one that reduces the cushion available for future contingencies.

It is also important to note that FY2026 projections show a General Fund surplus. That outcome is largely driven by vacancy-related savings, particularly earlier in the fiscal year. As those vacancies have been reduced over time, a similar level of savings is not expected to carry forward into FY2027.

The overall picture is one of an organization that is managing its finances responsibly but operating with less margin than it had even a few years ago. That context shapes every decision reflected in this budget.

Fiscal Year 2027 Budget Overview

The FY2027 budget has been developed in an environment shaped by economic uncertainty and increasing cost pressures. Sitka continues to benefit from a strong tourism economy, but remains heavily reliant on sales tax, which is inherently variable and sensitive to economic conditions. Through a series of deliberate adjustments, including a revised health insurance assumption, strategic workforce decisions, and updated capital funding, the budget has been brought into balance. The Assembly directed the allocation of remaining resources to fund field sand for Parks and Recreation, leaving the General Fund in a fully balanced position for FY2027. While this outcome reflects the hard work of staff and the Assembly's careful deliberation, it is important to note that the result is specific to these circumstances and may not be sustained without continued discipline in future years.

At the same time, uncertainty surrounding federal and state funding persists, while operating and capital costs continue to rise. This budget prioritizes maintaining core services, supporting strategic initiatives, and preserving long-term financial sustainability.

Revenue and Economic Considerations

Sales tax is the foundation of the General Fund, our largest revenue source, and the one most directly tied to economic activity in Sitka. Collections have been steady, and FY2027 projections reflect continued stability rather than meaningful growth. The summer tourism season will once again be the critical variable. Visitor spending drives a disproportionate share of third-quarter sales tax, and any softening in cruise or independent travel activity translates quickly into revenue shortfalls. As noted in the risks section below, rising fuel costs add a new layer of uncertainty to that outlook.

Federal funding remains an important but increasingly uncertain element of the City's financial picture. A number of capital projects depend on federal grants, and the current policy environment has made it harder to plan around that support with confidence. The City will continue pursuing available funding aggressively, but is also building budgets and capital plans that are more resilient to the possibility that some anticipated federal dollars may not materialize on the expected timeline, or at all.

State revenue sharing, PERS relief, and other intergovernmental transfers continue to factor into the General Fund, though at levels that have not kept pace with cost growth. The City's broad service portfolio, spanning public safety, education support, utilities, harbors, and transportation infrastructure, means that shifts in state and federal priorities have an outsized impact here compared to communities with narrower service responsibilities.

Capital Investment and Infrastructure

Capital investment remains a central component of the FY2027 budget. Projects included in this budget reflect both ongoing commitments and long-term infrastructure needs. The FY2027 budget includes a \$3.95 million transfer from the Public Infrastructure Sinking Fund to support street repairs, facility improvements, and key

community assets. General Fund capital projects are supported through the Capital Projects Fund, with significant ongoing work including the Lake Street–Hirst–Monastery–Kinkead road and utility project. Across enterprise funds, major capital programs include the airport terminal expansion, the wastewater effluent disinfection system required for regulatory compliance, and continued utility infrastructure investment. These projects are supported through a combination of local funding, grants, and borrowing.

As new and expanded infrastructure and operations come into service, the City is beginning to see higher ongoing operating costs associated with these investments. These costs will require continued attention as they are fully implemented.

Enterprise and Utility Fund Overview

The FY2027 budget encompasses not just the General Fund but a broad portfolio of enterprise, internal service, and special revenue funds that collectively reflect the full scope of services the City provides. Several themes cut across nearly all of them: rising construction and materials costs, growing personnel expenses from the compensation study and new bargaining agreements, and capital investment needs that continue to outpace what current rates and revenues can comfortably support.

The Electric Fund remains in a relatively strong working capital position, though a significant portion of those balances is committed to open capital projects. A modest customer fee adjustment is included for FY2027, but the fund faces a longer-term challenge: current rate levels are not sufficient to advance all planned capital projects, and approximately \$700,000 in FY2027 work has been deferred as a result. Sustained investment in the electric system will require continued attention to rate adequacy in future budget cycles.

The Water Fund is beginning to draw down working capital that was intentionally built up over prior years. The primary driver is the Critical Secondary Water project, which adds approximately \$1 million in annual debt service beginning in FY2027. A 6% rate adjustment is included to partially offset this, but infrastructure needs will continue to put pressure on the fund over time. The Wastewater Fund faces similar dynamics: working capital reserves are being deployed for the Effluent Disinfection project, a regulatory requirement with a 2030 compliance deadline, and for the Lake-Hirst-Monastery-Kinkead utility improvements. A 2% rate adjustment is included for FY2027. The Solid Waste Fund has improved meaningfully following prior rate adjustments and stronger-than-expected volumes tied to local construction activity; a 2% adjustment is included this year.

The Harbor Fund is stable in the near term, but faces a more challenging long-term outlook. Harbor infrastructure needs are substantial, and the State of Alaska’s 50/50 grant program, which has historically been a key funding partner for harbor improvements, is not expected to contribute funding in the coming year. A 4% rate adjustment consistent with the 2024 Harbor Rate Study is included for FY2027. The Marine Service Center Fund continues to perform well operationally, with growing working capital, though the unresolved funding picture for the Marine Service Center (MSC) bulkhead wall, which is critical to the MSC building’s structural integrity, remains a concern that must be addressed.

The Airport Fund is in a transitional period during the terminal construction project. The departure of Delta Airlines has reduced operating revenues below earlier projections, creating an operating gap of approximately \$390,000 in FY2027. Staff are pursuing paid parking and additional lease revenues as longer-term solutions, and General Fund support may be needed if the gap persists after project completion. The fund’s bond coverage requirements must also be maintained throughout this period.

The Gary Paxton Industrial Park (GPIP) Fund, which encompasses the marine haul out facility, is facing long-term sustainability questions. Working capital was significantly reduced to fund the haul out project, and current haul out revenues do not generate sufficient returns to support long-term asset replacement. The existing fee structure was not designed with depreciation in mind, and policy decisions about future revenue sources will be needed to place the fund on a sustainable footing. Absent those changes, the General Fund may face increasing

pressure to provide support over time. The Port Director position has been frozen through FY2027 as a cost management measure.

Alignment with Sitka's Strategic Plan

The FY2027 budget is built around the priorities established in Sitka's Strategic Plan. Capital investments in streets, facilities, parks, and public safety infrastructure directly advance the Plan's goals around community resilience and quality of life. Funding education at the maximum allowable level reflects the community's commitment to Sitka's long-term future. Investments in utility systems and harbor infrastructure support economic development and the sustainability of the industries, fishing, tourism, and maritime commerce, that define Sitka's economy. The Assembly's deliberation throughout the budget process ensured that these priorities remained front and center even as difficult tradeoffs were made to reach a balanced result.

Cost Management Adjustments

Since the initial draft budget was presented in March, staff worked with the Assembly to identify adjustments that would bring the budget into balance. Two changes made a meaningful difference. First, updated information from the City's insurance broker allowed the health insurance cost assumption to be revised from a 15% increase to 8%, reducing the projected General Fund impact. Second, the Assembly concurred that a Police Sergeant position be held vacant for FY2027, providing additional savings while still maintaining the department's core capacity. Together with a revised PISF transfer and updated capital appropriations, these adjustments resulted in a balanced budget.

These adjustments are specific to FY2027 circumstances. The Police Sergeant vacancy, in particular, is a near-term measure and not a permanent reduction in staffing. Ongoing evaluation will be needed to ensure service levels are maintained as the budget picture evolves.

Expenditure Growth and Budget Priorities

Expenditure growth in FY2027 is driven primarily by the cost of continuing to do what the City already does, not by new programs or expanded services. Personnel costs are the dominant factor: wages have increased through the compensation study and new collective bargaining agreements, and health insurance premiums are rising even after the revised 8% estimate. These are not discretionary increases; they reflect the real cost of retaining a qualified workforce and maintaining a safe and functional organization.

Beyond personnel, operational costs across departments reflect years of deferred pressures finally being addressed, equipment replacement, facility maintenance, and contracted service costs that have all trended upward. The vehicle sinking fund contributions budgeted this year represent a deliberate commitment to funding future replacement needs rather than deferring them further. While that adds to current-year costs, it is the fiscally responsible path forward.

The FY2027 budget prioritizes:

- Maintaining core municipal services
- Supporting workforce stability and retention
- Funding education at the maximum level allowed by law
- Investing in infrastructure and asset maintenance
- Maintaining public safety and emergency response services

Most budget increases are driven by the cost of maintaining existing service levels rather than by the addition of new programs.

Potential Risks and Considerations

While the FY2027 budget reflects current conditions, several external factors may impact future financial performance.

Economic conditions remain uncertain, particularly given the community's reliance on visitor activity. Changes in tourism levels or consumer behavior could directly affect revenues.

Fuel price volatility presents a particularly significant and multidimensional risk for Sitka. As a community that relies heavily on transportation and imported materials, rising fuel costs directly increase municipal operating expenses across departments, from public works and fleet operations to utilities and contracted services. Beyond the City's own operations, fuel cost increases affect the visitor economy, potentially reducing sales tax revenues. Higher fuel costs raise the price of air and cruise travel, which may discourage some visitors from choosing Sitka as a destination, and can reduce discretionary spending among those who do visit. Given the community's significant reliance on visitor-related sales tax, sustained fuel price increases could put meaningful pressure on the revenue side of the budget in future years.

In addition, changes in federal and state funding levels may affect both the timing and scope of capital projects and programs.

Conclusion

Reaching a balanced General Fund budget in FY2027 required genuine effort and meaningful tradeoffs. It is the product of a collaborative process between staff and the Assembly, grounded in a shared understanding of the City's financial position and what it will take to remain sustainable over time. This budget does not resolve all of the pressures described in this letter; some of those will require further policy decisions in the coming years, but it does reflect a responsible and clear-eyed approach to the circumstances we face today.

I am grateful to the members of the Assembly for their thoughtful engagement throughout this process, and to the finance team and department directors whose work made this budget possible. Most of all, I am grateful to the residents of Sitka for the trust they place in this organization. We will continue to work to earn it.

Respectfully submitted,



John M. Leach

Municipal Administrator