

**Discussion / Direction / Decision of the FY2027
Municipal Budget with focus on the
Enterprise Funds.**
(Assembly action may be taken)



Process Background and Purpose

Each year, the City updates long-term financial models for the enterprise funds using prior fiscal year results and the most current capital improvement plans. Finance, administration, and department leadership review the projections together, focusing on working capital levels, debt obligations, and external requirements (such as bond covenants).

Enterprise utility finances are driven largely by infrastructure needs and long-term replacement cycles. Because of this, rates are evaluated over multiple years, rather than on a single year basis. Maintaining flat rates may be appropriate in some years, but doing so indefinitely would eventually require either larger future adjustments or the use of reserves needed to keep the utility financially stable.

The financial models supporting these recommendations are internal planning tools used to evaluate long-term trends and risk. They rely on assumptions about projecting timing, interest rates, and operating conditions that will change over time. For that reason, this packet emphasizes the resulting financial outlook and rate implications, rather than detailed model mechanics.

Due to time constraints during the meeting, not all background information can be presented verbally. This packet provides supporting context for each enterprise fund, so Assembly members and the public can understand how the recommendations were developed.

Financial Context (All Funds)

All utility funds are affected by broader economic conditions that influence both day-to-day operations and future projects.

In recent years, construction costs have increased at unprecedented levels, equipment has taken longer to obtain and borrowing costs have risen compared to past norms. Because utilities depend on major infrastructure, these factors mainly affect when projects can be completed and how much they ultimately cost.

Operating expenses are also affected by higher prices for materials, contracted services, and specialized labor. These changes do not occur evenly each year but tend to build gradually over time.

While the impacts differ by utility, these conditions are considered across all enterprise funds when evaluating rate stability and long-term financial stability.

In general, when rates remain unchanged, the purchasing power of those revenues declines over time as costs increase. Short periods without rate adjustments can be appropriate, but over longer periods the gap must be addressed through either gradual adjustments or the use of reserves.

The following are the recommended rate adjustments for FY2027, presented by fund.

Electric Fund

FY2027 Proposed Rate Adjustment (No Energy Rate Increase – Year 3 of Customer Charge Phase-In)

No energy rate increase is proposed for FY2027. Staff instead recommend completing the final year of the customer charge adjustment to improve revenue stability and help reduce the likelihood of larger future rate increases. The impact of this customer charge increase on the average residential customer is less than a dollar per month.

The electric rate structure includes both energy charges (based on usage) and a fixed monthly customer charge. The fixed charge helps recover costs required to keep service continuously available, such as generation capacity, distribution infrastructure, and metering, which remain largely the same even when electricity use rises or falls.

Beginning in FY2025, staff presented a multi-year approach to gradually better align fixed system costs with the customer charges. The Assembly approved the first two years through the annual budget process. The FY2027 proposal represents the final year of that phased adjustment.

Customer Charge 3-year Phase In (FY2025 – FY2027)

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

Customer Distribution

Customer Charge	Average Customer Count
Residential Services	3,827
Residential - Remote Island	48
Boat Service	762
Small General Service	708
Small General Service - Remote Island	3
Large General Service	28
Public Authority GS	187
Interruptible Services	7

Contextual Information

Sitka operates an isolated electric grid and can't purchase backup power from neighboring utilities. As a result, the City must maintain sufficient generation and infrastructure capacity to meet demand at all times.

The fund is also affected by factors outside of operational control. Weather influences how much electricity customers use, which directly affects revenue. At the same time, lake levels influence how electricity is generated. When water availability is lower, more expensive generation may be required, increasing costs even if operations have not changed.

Because expenses do not fluctuate at the same rate as revenue, the financial position of the Electric Fund can vary from year to year. Maintaining adequate working capital helps stabilize rates over time and supports reliable service.

Utility decision making therefore requires balancing 3 priorities:

- Reliability – maintaining continuous electric service
- Affordability – avoiding large or sudden rate changes
- Infrastructure sustainability – replacing assets before failure

Additional background information about how electricity is produced and priced in Sitka is available on the City's website:

<https://www.cityofsitka.com/departments/SitkaCommunityRenewableEnergyStrategy/EnergyEconomics>

Looking Ahead

Maintaining electric reliability requires rates to keep pace with the long-term cost of operating and replacing infrastructure. While no energy rate adjustment is proposed for FY2027, holding usage rates flat indefinitely would eventually require either larger future adjustments or the use of reserves to support ongoing operations.

The current proposal balances near term rate stability with gradual structural adjustments. Future rate reviews will continue to evaluate system costs, infrastructure needs, and financial stability.

Water Fund

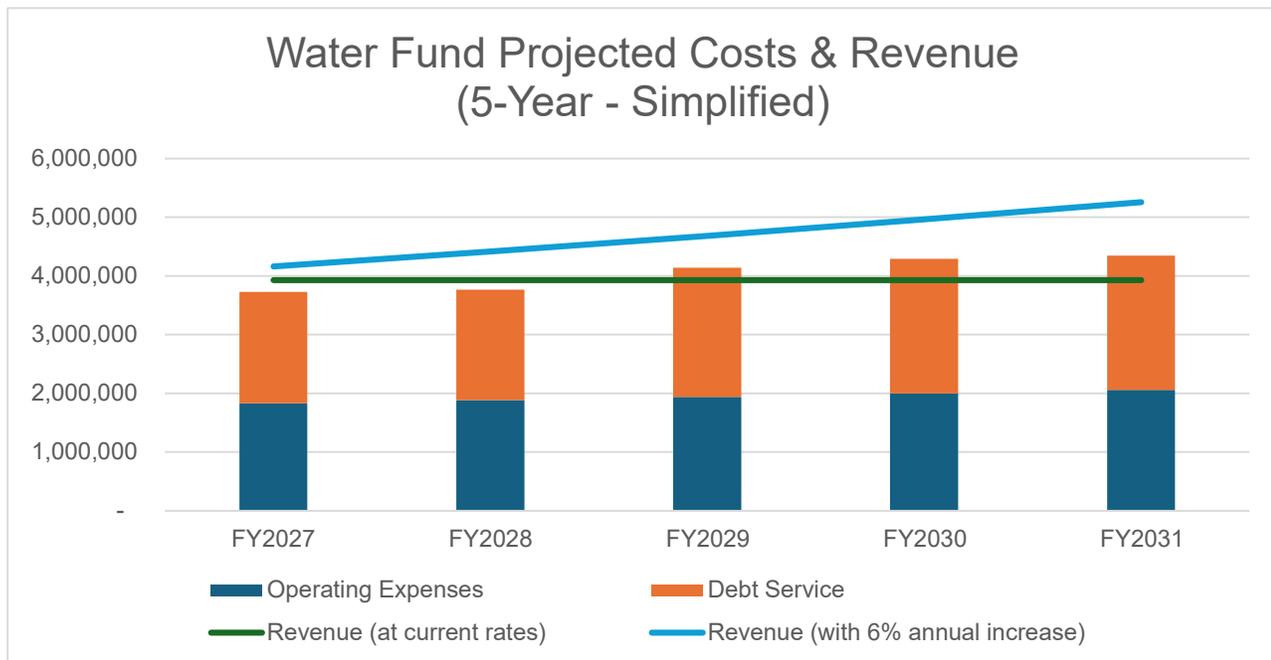
FY2027 Recommended Rate Adjustment (6%) and Upcoming Financial Pressures

To maintain financial stability and align revenues with expected costs, a 6% rate adjustment is proposed for all customer classes. For a typical unmetered residential customer, this represents an increase of approximately \$4 per month.

The Water Fund is entering a period of significantly higher fixed costs as debt service begins on the Critical Secondary Water (CSW) Project. Annual loan payments of approximately \$1 million will increase the baseline revenue required before routine operations, maintenance, and infrastructure replacement.

The chart below shows Water Fund's projected financial outlook under current rates compared to the proposed adjustment over the next five fiscal years. For planning purposes, the projection assumes similar annual adjustments in future years to illustrate long-term funding needs.

Under the proposed rates, the projected margins are intended to support capital replacement and prevent depletion of working capital, rather than accumulate excess surplus. Projected debt service also reflects anticipated financing for FY2028–FY2031 capital projects (see Anticipated Capital Needs/Funding Sources).



Background Information on Critical Secondary Water

Sitka's drinking water is supplied from Blue Lake through the hydroelectric penstock, which must periodically be taken out of service for inspection, maintenance, and emergencies.

The CSW project allows CBS to maintain compliant drinking water service during these outages. Without it, CBS would rely on temporary treatment measures at significant cost and risk, triggering stricter regulatory requirements that would permanently increase operating expenses.

The project does not expand service capacity. It provides redundancy necessary to reliably continue existing water service and avoid substantially higher long-term costs.

The project is expected to be completed in FY2026 and will likely use the full \$18,150,000 appropriation. Most of the funding is from a 20-year, low-interest loan through the State of Alaska Department of Environmental Conservation (DEC).

Anticipated Capital Needs/Funding Sources

In addition to the CSW Project, the Water Fund must continue replacing aging infrastructure and coordinating utility work with road projects. The table below summarizes anticipated capital needs over the next five fiscal years and expected funding sources.

These projects primarily replace existing assets, rather than expand service. Some costs can be funded with working capital, while others require borrowing. This ongoing replacement cycle contributes to the long-term structure of the utility and is reflected in rate planning.

Anticipated Capital Projects (5 Years)

Project Description	FY2027	FY2028	FY2029	FY2030	FY2031
Katlan Street Road and Utility (HPR to Lincoln)		250,000	250,000	250,000	250,000
Hirst & Monastery (LHMK Phase II Road & Utility)	2,500,000				
Maksoutoff Waterline Replacement (Road & Utility)	100,000				
Wortman Booster Station Replacement		900,000			
Lincoln Street (Jeff Davis to Lake) Road & Utility Project		750,000			
Lincoln Street Paving (Harbor Way to Harbor Drive)		500,000	420,000		
Kirkman Drive Water Main Replacement	400,000				
Wolff Drive Road and Utility Project		700,000			
Halibut Point Road (Roundabout to Davidoff) Road and Utility Project		3,000,000	5,000,000		
Total Project Costs	3,000,000	6,100,000	5,670,000	250,000	250,000

Anticipated Funding Sources

Funding Source	FY2027	FY2028	FY2029	FY2030	FY2031
Working Capital	3,000,000	1,100,000	2,170,000	250,000	250,000
Debt (DEC Loans)		5,000,000	3,500,000		

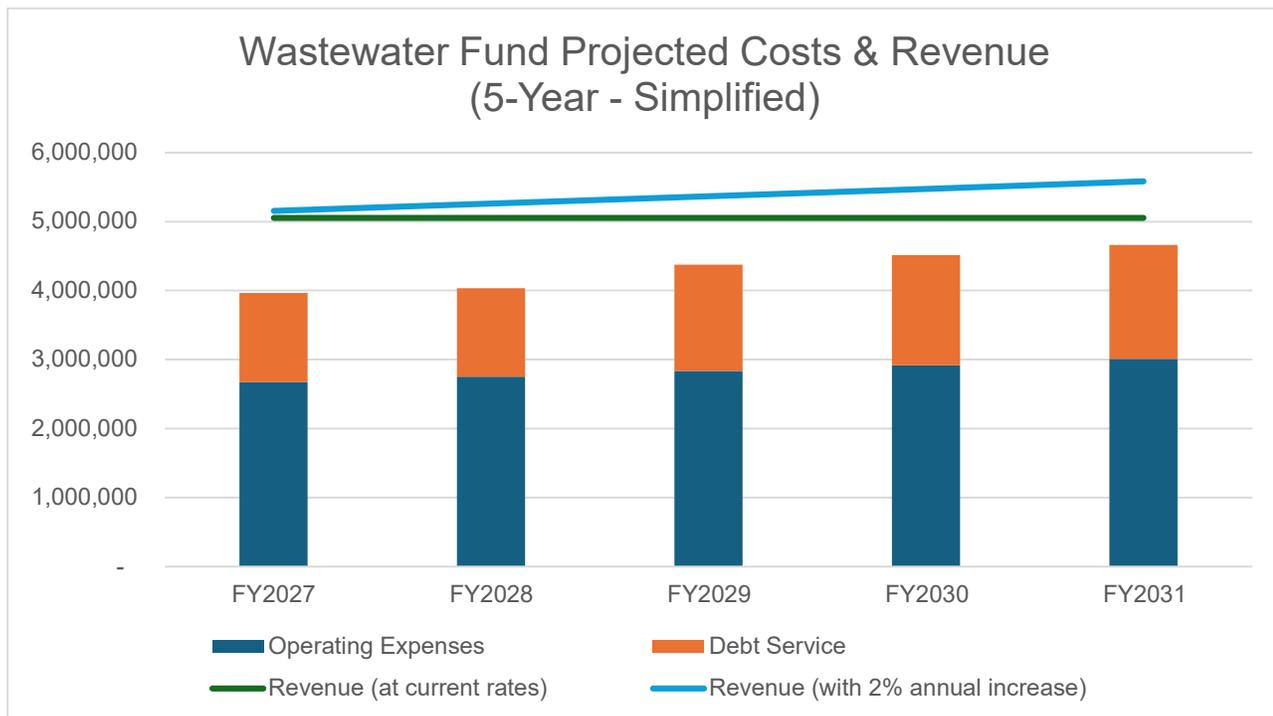
Wastewater Fund

FY2027 Recommended Rate Adjustment (2%)

To maintain financial stability and align revenues with expected costs, a 2% rate adjustment is proposed for all customer classes. For a typical unmetered residential customer, this represents an increase of approximately \$2 per month.

The chart below compares projections under current rates to this planning scenario. Based on current projections, this adjustment supports the fund’s near-term operating and capital obligations, including preparation for the required match for Effluent Disinfection. The five-year forecast reflects a planning scenario that assumes continuation of 2% annual adjustments. Future rate needs will depend on final project costs, financing terms, and updates to the long-term capital plan. Larger unfunded projects or significant cost increases beyond current assumptions would require additional financial planning and could necessitate larger rate adjustments.

Under this scenario, projected margin supports maintaining and replenishing working capital in advance of Effluent Disinfection and other infrastructure needs. Working capital is expected to be intentionally used for required match contributions and capital replacement, reducing future borrowing needs.



Funding for Effluent Disinfection Project

In January, CBS was notified that it will receive a \$10 million Congressionally Directed Spending (CDS) award for the Effluent Disinfection project.

This project is required to meet regulatory standards by November 2030, meaning construction would need to begin no later than mid-2029.

Recent cost estimates place the project at just over \$13 million. With a required 20% match and current cost estimates, CBS’s total contribution is expected to be just over \$3 million.

Federal funds generally can’t be used to meet match requirements for other federal awards. Many DEC loan programs use federal funding as their source, which typically means those loans can’t be counted toward the required match for this project.

There is a possibility that a fully state funded loan could be available, but that is not typical and is not assumed in current projections. Until funding agreements are finalized and match eligibility is confirmed, the Wastewater Fund needs to plan to cover the required match with working capital.

Anticipated Capital Needs/Funding Sources

Beyond Effluent Disinfection, the Wastewater Fund must continue replacing aging infrastructure and coordinating utility improvements with road projects. Road projects typically include water and wastewater components. Because each utility fund has its own financial capacity and financial priorities, project funding may not occur in the same fiscal year across all funds, which can result in timing differences for multi-fund projects.

Long-term planning has centered on Effluent Disinfection due to the financial risk of potentially needing to fund the full project cost locally. That scenario would require significant borrowing and materially increase future debt service. Receipt of the CDS award significantly improves overall feasibility and long-term rate stability.

The table below summarizes anticipated capital needs over the next five fiscal years and expected funding sources. These projects primarily replace existing assets rather than expand service. Some costs can be supported with working capital; others will require borrowing. This ongoing replacement cycle shapes the long-term financial structure of the utility and is reflected in rate planning.

Anticipated Capital Projects (5 Years)

Project Description	FY2027	FY2028	FY2029	FY2030	FY2031
Katlan Street Road and Utility (HPR to Lincoln) - Wastewater	-	250,000	250,000	250,000	250,000
Hirst & Monastery (LHMK Phase II Road & Utility Project) - Wastewater	2,500,000	-	-	-	-
Kirkman Drive Wastewater Replacement (Road & Utility)	200,000	-	-	-	-
WWTP Belt Filter Press Replacement	-	200,000	200,000	200,000	-
WWTP Effluent Disinfection System- Unfunded Mandate Phase II	13,049,000	-	-	-	-
WWTP Scum Collector Replacement (STCIP#26)	-	200,000	100,000	-	-
Lincoln Street (Jeff Davis to Lake) Road & Utility Project - Wastewater	-	-	-	-	-
Lincoln Street Paving (Harbor Way to Harbor Drive) - Wastewater	-	500,000	500,000	500,000	-
Wolff Drive Road and Utility Project - Wastewater	-	500,000	500,000	500,000	500,000
Total Project Costs	15,749,000	1,650,000	1,550,000	1,450,000	750,000

Anticipated Funding Sources

Funding Source	FY2027	FY2028	FY2029	FY2030	FY2031
Working Capital	5,749,000	1,650,000	550,000	450,000	750,000
Anticipated Federal Award	10,000,000				
Debt (DEC Loans)			1,000,000	1,000,000	

Solid Waste Fund

FY2027 Recommended Rate Adjustment (2% Increase – Rolloff Structure Under Review)

To maintain financial stability and align revenues with expected costs, a 2% rate adjustment is proposed for all solid waste rates. For a residential customer with a single 96 gallon container and once a week service, this would result in an increase of roughly \$2 per month.

Contracted collection and disposal costs are subject to CPI-based adjustments, which increase costs year to year. In addition, other operating expenses (including shipping and fuel) are heavily influenced by broader market conditions.

Administration is also evaluating a new rate or rate structure related to rolloff containers, which will be brought forward separately for discussion.

Seasonal Volume Variability

Solid waste volumes in Sitka fluctuate significantly throughout the year. Seasonal tourism, commercial activity, and local construction projects can materially increase disposal volume.

While higher seasonal volume can increase disposal related revenue, it does not reduce the fund's fixed costs, which must be supported year-round. As a result, the Solid Waste Fund must be structured to remain financially stable across both peak and off-season periods.

Financial Trends

Historically, the Solid Waste Fund operated at a loss and experienced long-term financial stress (until around FY2020). Since that time, corrective actions, including rate adjustments and improved cost alignment, have strengthened the fund's financial position.

The fund's overall condition has steadily improved in recent years. However, maintaining that stability requires continued alignment between revenues and system costs, particularly given the island-based disposal and seasonal variability.

The proposed 2% adjustment is intended to preserve the progress that has been made and avoid returning to imbalances experienced in prior years.

Operational and Policy Improvements

The Solid Waste Fund's financial recovery since FY2020 has been supported by a combination of rate adjustments, improved cost alignment, and strengthened administrative practices.

In July 2021, the Administrator implemented an updated utility service policy to clarify service requirements and improve consistency in application. Staff have also enhanced monitoring of service levels and occupancy to ensure alignment with City code.

These efforts have improved revenue consistency and contributed to the fund's overall stabilization in recent years.

Rolloff Containers – Work in Progress

Rolloff containers are large metal containers that can hold approximately the equivalent volume of ten 300-gallon tubs. There are a limited number of these containers available, and they are generally intended for temporary/high volume needs such as construction or major cleanouts.

CBS code does not currently establish a specific rate for rolloff service. Rental and hauling fees are paid directly to Alaska Waste and the Solid Waste Fund receives revenue only from disposal activity at the transfer station.

Because the code and rate structure are not specific to rolloff service, the way costs are recovered differs from other types of garbage service. As a result, rolloff usage does not always contribute to the fixed costs of operating the solid waste system in the same way as the other services.

Administration is evaluating potential rolloff rate options and structural adjustments to better align charges with system costs, ensure consistent contribution toward fixed expenses, and clarify eligibility and terms of use.

Harbor Fund

FY2027 Recommended Rate Adjustment (4%)

To maintain financial stability and align revenues with expected costs, a 4% rate adjustment is proposed for all moorage types. For context, a typical 42-foot vessel would see an increase of roughly \$9 per month.

This represents a minimum adjustment intended to maintain the Harbor Fund's financial position and does not fully fund long-term capital replacement needs.

The 2024 Harbor Rate Study recommended annual rate increases of at least inflation (measured by CPI-U) plus 1.5% to maintain the long-term viability of the harbor system. The proposed adjustment is generally consistent with the study's long-term guidance.

The Harbormaster presented the proposed 4% increase to the Ports and Harbors Commission at its most recent meeting; however, the Commission has not yet made a formal recommendation.

Funding Sources

The Harbor Fund is primarily supported by user fees, supplemented by occasional external funding and where necessary, debt for major infrastructure replacement.

The primary recurring external funding opportunity for harbor capital construction is the State of Alaska Municipal Harbor Facility Grant Program. This program provides funding on a 50/50 matching basis for construction costs only. CBS remains responsible for project design costs and for the remaining share of construction.

As a result, even when a grant is awarded, a substantial local funding commitment is still required before a project can proceed.

Grant funding is limited and highly competitive statewide. In FY2026, approximately \$1.6 million in total awards were distributed across Alaska, of which we received approximately \$240,000, while

Juneau received approximately \$1.4 million. Funding availability varies significantly from year to year, and CBS has not received a large harbor construction award in several years.

Cost Pressures and Capital Planning

Harbor infrastructure replacement costs are substantial. Recent estimates illustrate the scale of the harbor system's long-term needs:

- Crescent Harbor Phase II (Floats 5-7): approximately \$10 million
- Thomsen Harbor: approximately \$22 million
- Eliason Harbor: approximately \$54 million
- Sealing Cove: approximately \$27 million

To provide context for this scale, a \$20 million project financed over 20 years would require approximately \$1.6 million in annual debt payments (nearly double the Harbor Fund's current annual debt service). In practice, borrowing at this level would also require the Harbor Fund to demonstrate stable revenues and sufficient reserves to responsibly support the obligation, meaning the annual payment alone does not represent the full financial capacity needed.

The magnitude of these costs is typical of municipal harbor systems across Alaska. Full replacement of aging harbor infrastructure generally requires significant participation from the State of Alaska through grant programs. Local user rates alone cannot reasonably fund complete replacement while remaining affordable for users.

The Harbor system's long-term capital improvement plan is currently being reevaluated. Staff are developing an updated plan that incorporates more current cost estimates, project prioritization, and realistic construction timing.

In the near term, the strategy is to focus on high-priority achievable projects while continuing maintenance and repairs efforts to extend the useful life of existing infrastructure.

The most immediate priority is Crescent Harbor Phase II (Floats 5-7). This project has a preliminary estimated cost of approximately \$10 million. A State grant could potentially provide roughly \$3.5 million in construction funding, with the remaining amount requiring local funding. The local share is anticipated to come from undesignated working capital and an FY2027 re-appropriation of previously authorized Eliason Electrical Project funding.

Crescent Harbor Phase II

Crescent Harbor was originally built in two phases. Phase I was replaced in 2019 but Floats 5–7 were not included in that project and are now some of the oldest remaining infrastructure in the system.

Because Crescent Harbor was originally constructed in two phases by the State of Alaska, Phase II may qualify for Tier I consideration under the Municipal Harbor Facility Grant Program, which could improve its competitiveness for State funding.

The Eliason Harbor Electrical and Float Upgrade project was originally planned as a full electrical replacement. After further assessment, the scope was reduced to address only the most critical repairs needed for safety and reliability. This reduced project cost and allows a portion of

previously authorized funding to be redirected toward Crescent Harbor Phase II. The revised Eliason electrical work is expected to extend the system’s life to align with the remaining life of the harbor.

Role of Rates in the Funding Strategy

Although user rates cannot fully fund replacement of the harbor system, they remain a critical component of maintaining the Harbor Fund’s financial stability.

Rate revenue primarily supports routine operations, maintenance, and the accumulation of working capital. Adequate reserves allow the Harbor Fund to respond to emergencies, perform necessary repairs, and contribute required local match when grant opportunities arise. Without sufficient local funding capacity, CBS may be unable to proceed with grant-funded projects even when awards are available.

Combined Illustration of Impact on Average Residential Customer

The following illustration summarizes the combined impact of the recommended FY2027 rate adjustments for electric, water, wastewater, and solid waste, compared to FY2026 rates for an average, single family household.

This example assumes:

- Estimated electric consumption for residential, single-family household (2200 kWh winter/1400 kWh summer)
- One 96-gallon solid waste container with weekly service
- Six months at winter electric rates and six months at summer electric rates
- Sales tax

Actual bills will vary based on consumption/level of solid waste service.

	FY2026	Proposed FY2027	Change
Blended Average Monthly Bill	\$ 572.75	\$ 581.00	\$ 8.25
Annual Total	\$ 6,873	\$ 6,972	\$ 99