

# Memo

**Thru:** Mark Gorman, Municipal Administrator  
**To:** City and Borough of Sitka Assembly  
**From:** Jay Sweeney, Chief Finance and Administrative Officer  
**Date:** April 3, 2017  
**Re:** **FY2018 Budget Special Meeting On April 6, 2017**

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Mayor Hunter and Assembly Members,

The third FY2018 budget special meeting is scheduled for April 6<sup>th</sup> and will focus on Sitka's internal service, special revenue, debt service, special governmental, and permanent funds. In addition, the budgets of several enterprise funds were not reviewed in the 2<sup>nd</sup> budget special meeting and will need consideration as well. To prepare for this special meeting, I would like to highlight, from my perspective as Chief Finance and Administrative Officer, the key issues relating to these particular funds.

Internal service funds are funds created for the purpose of consolidating services provided internally to other funds, in order to achieve economies of scale and avoid duplication of functions. Sitka has three internal service funds – the Information technology Fund, the Central Garage Fund, and the Building Maintenance Fund. As internal service funds exist to provide consolidated internal services, their revenues, by and large, consist of charges levied to other funds for the internal services provided.

Special revenue funds account for tax revenues, grant revenues, or other funds are legally restricted (by Charter, the Sitka General Code, grant agreements, or Assembly Action) for a particular operating purpose. Sitka has sixteen separate special revenue funds.

Permanent (trust) funds are set up when funds are endowed wherein the principal in such funds is non-spendable, but, the investment earnings are available for appropriation. Sitka has three four permanent funds, the Permanent Fund being the largest and most prominent. Finally, Sitka has three additional governmental-type funds with special purposes: the Seasonal Sales Tax and School Bond Debt Service Fund, the Bulk water Fund, and the Public Infrastructure Sinking Fund.

Together, these fund categories contain twenty six separate funds. As with all funds, any expenditure from these funds, even if authorized by other entities (i.e. grant funds) requires an appropriation. Administration is presenting you with recommended appropriations totaling \$10,790,091 - \$6,333,547 in operating appropriations, \$482,000 in capital appropriations, and \$3,974,544 in debt service appropriations.

In reviewing the recommended appropriations for these twenty six funds, I would highlight the following points for review and examination:

- 1) What is the change in working capital that the proposed budget will produce? A significant decline in working capital (\$726,792) is forecast for the Seasonal Sales Tax and School Bond Debt Service Fund, as a result of an anticipated decrease in school bond debt reimbursements from the State of Alaska. As expenditures in this fund (school bond debt service), a subsidy will be required in future years from the General Fund in order to pay debt service for school bonds.
- 2) Does the Fund represent a potential source of working capital to meet general governmental needs? Several possible candidates exist, of which Assembly action could transfer fund assets to other funds.

In addition, review of several enterprise funds remains to be accomplished from the last special Assembly meeting.

Finally, it is recommended that the Assembly return for a review of the General Fund budget, as the forecasted deficit in the proposed FY18 General Fund budget has now risen to (\$756,579). Additional budgetary pressure related to school funding have the potential of increasing this deficit to over a million dollars. Administration has included a listing of possible actions the Assembly might consider in order to decrease this projected deficit.

**FY2018 Consolidated Operating Budget**  
**Comprehensive Schedule of Proposed Operating Appropriations, Capital**  
**Appropriations, User Fee Increases and Resulting Changes in Working Capital**  
**For City and Borough of Sitka Internal Service, Special Revenue, Debt Service, Special Governmental, and Permanent Funds**

<u>Fund</u>	<u>Operating Appropriations</u>	<u>New Working Capital Appropriations</u>	<u>Contingent Capital Appropriations</u>	<u>New Debt</u>	<u>Debt Service Outlays</u>	<u>Working Capital Changes</u>	<u>Projected Working Capital</u>
Information Technology	\$ 1,039,272	\$ -	\$ -	\$ -	\$ 51,960	\$ 78,276	\$ 172,626
Central Garage	792,819	422,000	-	-	60,000	620,019	3,882,802
Building Maintenance	921,200	60,000	-	-	-	(265,745)	1,653,238
Permanent Fund	1,375,900	-	-	-	-	-	22,562,196
Pet Adoption	1,000	-	-	-	-	-	46,403
SEACAD Forfeiture	5,000	-	-	-	-	-	-
Sitka Forfeiture	2,000	-	-	-	-	-	934
Justice Assistance Grant	52,000	-	-	-	-	-	1,000
State Forfeiture	2,000	-	-	-	-	-	7,941
Homeland Security Grant	335,000	-	-	-	-	-	-
Library Building Fund	-	-	-	-	-	-	17,516
SE Alaska Economic Development Fund	37,500	-	-	-	-	-	4,006,551
GPIP Contingency Fund	18,000	-	-	-	-	-	863,804
Tobacco Excise Tax Fund	886,500	-	-	-	-	-	6,271
Student Activities Fund	2,500	-	-	-	-	-	2,514
Fisheries Enhancement Fund	46,459	-	-	-	-	-	1,228
CPET Fund	266,000	-	-	-	-	-	495,494
Visitor Enhancement Fund	458,912	-	-	-	-	-	153,000
LID Revolving Fund	28,700	-	-	-	-	-	1,171,839
LID Guarantee Fund	6,200	-	-	-	-	-	283,818
Cemetery Fund	2,185	-	-	-	-	-	104,037
Rowe Trust Fund	4,400	-	-	-	-	-	211,768
Library Endowment Fund	-	-	-	-	-	-	248,525
Bulk Water Fund	50,000	-	-	-	-	-	888,953
Seasonal Sales Tax Fund	-	-	-	-	3,862,584	(726,792)	326,199
Public Infrastructure Sinking Fund	-	-	-	-	-	-	25,685
<b>Totals:</b>	<b>\$ 6,333,547.00</b>	<b>\$ 482,000.00</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,974,544.00</b>	<b>\$ (294,242.00)</b>	<b>\$37,134,342.00</b>

Note: Capital appropriations do not lapse until projects are completed or the original purpose no longer exists. Capital expenditures reflected in pro forma financial projections reflects unexpired prior year capital appropriations planned to be spent during current fiscal year. These expenditures of prior year appropriations affect total working capital.