

City and Borough of Sitka

Financial Review **September 30, 2017**

Results as of September 30, 2017 (All Funds)

City and Borough of Sitka
Financial Review
FY2018 General Fund Budget Execution
June 30, 2017

Original Planned Deficit Per Budget Ordinance:	(345,778)
Budget Adjustments	<u>(1,449,785)</u>
Budget Deficit As Of 6/30:	(1,795,563)
Revenues Thru 9/30 (38%)	9,914,446
Expenditures Thru 9/30 (29%)	8,115,053

Note: Budget adjustments in FY18 include Ordinances 2017-23 and the FY2018 transfer to the Public Infrastructure Sinking Fund of \$1,100,000

City and Borough of Sitka
Financial Review
FY2018 General Fund
Budget Adjustments

Ordinance 2017-23	252,974
Public Infrastructure Sinking Fund Transfer	1,100,000
Other Budget Adjustments	<u>96,811</u>
Total Net Budget Adjustments	<u>1,449,785</u>

City and Borough of Sitka
Financial Review
General Fund Balance
September 30, 2017 versus 2016

	9/30/2017	9/30/2016	Difference
Net Available Cash	3,742,581	4,295,731	(553,150)
Unassigned and Available Fund Balance	9,615,213	9,359,334	255,879
Total Fund Balance	18,858,211	19,092,847	(234,636)

Notes:

Net Available Cash equals cash plus investments less liabilities less all non-spendable, restricted, committed and assigned fund balances

Nonspendable Fund Balance as of 9/30 = \$76,836

Restricted Fund Balance as of 9/30 = \$0

Committed Fund Balance as of 9/30 = \$0

Assigned Fund Balance as of 9/30 = \$9,166,162

City and Borough of Sitka
Financial Review
Fund Net Income and Working Capital
FY2018 Results Through September 30, 2017

Fund	9/30/2017		9/30/2017		9/30/2017		9/30/2017	
	Accrual Basis	Net	Unspent	Working Capital	Unappropriated	Working Capital	Total	Working Capital
	Income / (Loss)		Appropriated For	CAPEX	Working Capital			
Electric Fund	(908,777)		12,852,778		(1,441,816)		11,410,962	
Water Fund	33,270		1,146,453		1,160,694		2,307,147	
Wastewater Fund	64,689		2,456,571		4,624,801		7,081,372	
Solid Waste Fund	(1,546)		498,636		(726,680)		(228,044)	
Harbor Fund	182,662		1,472,346		5,803,380		7,275,726	
Airport Terminal Fund	(438)		276,954		654,303		931,257	
Marine Service Center Fund	14,124		-		1,688,633		1,688,633	
SMC Industrial Park Fund	739,825		253,241		908,326		1,161,567	
MIS Fund	(42,212)		-		(170,072)		(170,072)	
Central Garage Fund	139,407		422,000		2,773,837		3,195,837	
Building Maintenance Fund	(42,447)		236,400		1,474,193		1,710,593	
CPET Fund	(75,073)		-		344,459		344,459	
Permanent Fund	(246,406)		-		23,702,842		23,702,842	

Financial Analysis and Overview

- Across all funds, the City and Borough of Sitka faces a significant challenge - securing necessary revenue streams to finance the cost of renovating and replacing aging physical infrastructure. With the State of Alaska in a recession and infrastructure funding from the State reduced to a minimum, the issue of aging infrastructure is becoming acute.
- In most funds, user fees, taxes, and other revenue streams are only covering the cost of operations and generating a small amount of cash flow to build working capital, insufficient to meet infrastructure needs despite significant recent rate hikes. As user fees and taxes were maintained at levels necessary to essentially cover operating costs for decades, the Municipality does not have working capital to pay for renovations outright. This, in turn, has caused the Municipality to borrow significantly to pay for the costs of needed renovations.

Financial Analysis and Overview (Continued)

- An example of the use of debt to pay for infrastructure renovations is well illustrated in the growth of State of Alaska Clean Water and Clean Drinking Water Program low-interest loans. The amount of debt borrowed under these programs has grown by \$11 million dollars in the past decade, to \$15.4 million, as a result of insufficient working capital on hand. Furthermore, the amount of future borrowings is forecast to continue to grow, as the cost of required renovations far exceeds the growth of working capital, even with user fee increases above the rate of inflation.
- Significant immediate infrastructure needs exist that are as a result of either deferred maintenance, regulatory change, of risk mitigation. Three key needs are as follows:

Financial Analysis and Overview (Continued)

- Secondary Water Source. To ensure economic viability, the Municipality requires a secondary water source. The reason is the combination of (1) the need to empty and inspect the Blue Lake pen stock per Federal Energy Regulatory Commission (FERC) guidelines, and, (2) the inability to draw drinking water from Indian River without filtration, due to a change in surface water treatment rules. Without a secondary potable water source, Sitka would be required to place the entire Municipality on a multi-day boil water notice were the water supply to shift to Indian River. This, in turn, would have a severe impact on all businesses, fish processing plants, schools, and hospitals unless the Municipality were to again lease expensive mobile filtration units, as took place during the construction of Blue Lake Dam. The cost of a secondary water source is estimated to be approximately \$18 million dollars.

Financial Analysis and Overview (Continued)

- Wastewater Treatment Plant Building Exterior and HVAC. The exterior shell of the wastewater treatment plant is reaching the end of its useful life, due to rot, insect damage, and age. In addition, the internal HVAC system is reaching the end of its useful life and is no longer functioning properly, putting the health and safety of workers in the plant at risk. The wastewater treatment plant was put in service in around 1985 for a cost of \$13.2 million, mostly financed by the State of Alaska. The facility is now over 30 years old. An inflation-adjusted cost of the same facility today would be \$28.5 million; the Wastewater Fund has total working capital of \$7.1 million, insufficient to pay for renovation costs.
- Electric Distribution System Redundancy. The electricity distribution system – composed of transmission lines, substations, and switchgear, is both (1) approaching 30 plus years in age, and (2) has multiple single points of failure, due to lack of redundancy. An aggressive capital improvement plan by the Electric Department to address challenges with the electricity distribution system is underway, but is hampered by lack of capital. All available working capital, as well as future working capital forecast to be generated, has been committed and earmarked to critical projects.

Financial Analysis and Overview (Continued)

- Thus, while short-term financial results are positive, they must be tempered by the major deferred maintenance and infrastructure needs facing the Municipality out over the next decade. The inability, or unwillingness, to make the financial sacrifices necessary, in addition to those already made in the recent past, to address these needs could mean unplanned disruptions of service to citizens with resultant impact on the local economy.

Financial Statements

- You will find attached financial statements for the various significant funds of the City and Borough of Sitka. Information is presented through September 30, 2017.
- Financial reporting is shown in the custom reporting format designed by the Finance Department, which combines significant elements of the income statement, balance sheet, and cash flow statement into one single page report. Traditional financial statements are produced monthly and are distributed to the Administrator and appropriate Department Heads.

Comments on Net Losses and Working Capital

- Net losses signify that depreciation expense (the decline in value of infrastructure) exceeds revenue and may signify that infrastructure replacement may eventually need to be funded by bonding and higher user fees.
- Negative undesignated working capital signifies that we have more approved spending for infrastructure than we have fund balance to pay for.
- Net Income/and loss includes grant revenue.
- Long-term infrastructure plans have been developed for all major enterprise funds; these plans seek to identify long-term infrastructure needs and determine the correct level of user fees necessary to finance the plan. A long-term capital improvement plan has been developed for the General Fund; however, due to lack of dedicated revenue streams, funding has not been identified to finance the plan.

Definitions of Key Terms

Working Capital - This is essentially what a Fund has to spend. It is defined as current assets less current liabilities, including the current portion of long term debt. Working capital already appropriated for capital expenditures but unspent is called appropriated but unspent working capital; the remainder is unappropriated working capital. The calculation of General Fund working capital also excludes designated amounts for liquidity and emergency response.

Depreciation Expense - This is an estimation of the decline in value of a long lived asset, which is an expense. When a long lived asset is purchased, cash is paid but expense is not recorded; instead, expense is recorded gradually, over the life of the asset, to match its use against revenues earned in the same period. Most importantly, Depreciation Expense **IS NOT** the accumulation of cash to replace an asset; that is called a sinking fund and is part of Working Capital.

Fund Balance – This is the net assets of a fund. It is equal to total assets less liabilities. It is important to note that a Fund Balance is usually only partially in cash; the remainder may be made up of long lived assets, receivables, and other assets. Fund balances for governmental-type funds are classified in one of 5 classifications: non-spendable, restricted, committed, assigned, and unassigned and available. Fund balances for enterprise and internal service funds are classified as either restricted or unrestricted.

Definitions of Key Terms

Net Available Cash – This is equal to cash and investments, less liabilities and restricted or designated fund balances. This is similar to “cash on the barrelhead”.

EBI/EBID – These are accounting terms which measure earnings before certain expenses. EBI is Earnings Before Interest and measures earnings before interest expense. EBID is Earnings Before Interest and Depreciation, and is a rough measure of cash flow from operations.

Enterprise Fund – A fund which is run, and accounted for, similar to a private business. In such a fund, profit is measured and operations are accounted for on a full accrual basis.

Internal Service Fund - A fund which provides services to other funds. Such funds usually have no external source of revenue. Similar to an enterprise fund, profit is measured and operations are accounted for on a full accrual basis.