



City and Borough of Sitka

100 Lincoln Street • Sitka, Alaska 99835

MEMORANDUM

To: Mayor Hunter and Assembly Members
Keith Brady, Municipal Administrator

From: Jay Sweeney, Chief Finance and Administrative Officer

Date: March 13, 2018

Subject: FY2019 Budget Special Meeting on March 15, 2018

Mayor Hunter and Assembly Members,

To prepare for the special meeting on the FY2019 budget for the General Fund on March 15th, I wanted to discuss the FY2019 budget approval timeline and plan for reviewing the budget; the process by which the Administrator and Assembly make changes to the FY2019 draft budget; and, to outline critical aspects of what is (1) already contained in the budget documents you have received and (2) highlight uncertainties in the budget due to external decisions pending but not yet made.

FY2019 Budget Approval Timeline and Review Plan

The FY2019 budget approval timeline and review plan consists of three phases: (1) the review (and potential revision) of the budget during four special Assembly meetings on March 15, March 22, March 29, and April 5; (2) the notification of the School Board of the total amount of money for all purposes to be made available for local education purposes, a process which occurs in April and May; and, (3) the formal approval of the budget and capital improvements program by ordinance and resolution, as required by the Charter.

- (1) **Budget Review Special Assembly Meetings.** Staff has planned for four budget review special Assembly meetings; each will focus on a different part of the FY2019 budget. Upcoming meetings and parts of the budget they will focus on are as follows:
- a. March 15 – General Fund
 - b. March 22 – Enterprise Funds and user fee increases
 - c. March 29 – Special revenue and trust funds
 - d. April 5 – Sitka Community Hospital

At each of the special meetings, Staff will present an agenda which will guide the Assembly as to the key issues that need review (wages, benefits, positions, user fee increases, transfers, capital improvements). Also, during the second, third, and fourth meetings, a “circle-back” agenda item will be scheduled to provide for reconsideration of any item previously considered. The goal will be to conclude each meeting in two hours.

- (2) **Notification of the School Board of local Funding.** The Assembly does not formally approve the budget for the Sitka School District; this is done by the School Board. By Alaska statute, however, the Assembly must take action (or defer from doing so) in regards to the total amount of money to be made available from local sources for school purposes.

AS 14.14.060 (c) requires the School Board to formally submit the school budget to the Assembly by May 1, for approval of the total amount of money to be made available from local sources for school purposes. Within 30 days after receipt of the School Budget the Assembly must determine the amount of money to be made available and provide the School Board with a statement of that sum. If the Assembly does not accomplish this, the amount requested in the school budget is automatically approved.

Thus, with the initial current request for funding from the School Board being almost \$600,000 different from the funding amount in the Administrator’s budget, the dynamics of determining the total amount of money to be made available from local sources for school purposes and so notifying the School Board will be critical this year. If the Assembly decides to provide a different amount of funding than requested by the School Board, it will require the School Board to go back and revise its budget. This is very difficult to accomplish late in the spring and may affect a budget already submitted by the School District to the State. Thus, it behooves all parties to work to agree on school funding prior to receipt of the school budget so that the required notification becomes a formality.

- (3) **Formal Approval of the Budget and Capital Improvements Plan.** The Charter requires that the budget be adopted by ordinance not later than 10 days before the end of the current fiscal year. The Charter also provides that the Assembly by resolution shall adopt a capital improvements program ordinance not later than 10 days before the end of the current fiscal year. In the past, the capital improvements program has been incorporated in the budget and passed by ordinance; to ensure that the specific requirements of the Charter are met, however, a capital improvement resolution will be introduced this year.

Staff’s plan for introduction of the FY2019 budget ordinance and capital improvements program resolution will be at the first regular Assembly meeting in May (May 8th). Introduction at this time will leave enough time for a third reading if

substantive changes are made to the budget ordinance.

It is important to note the Charter specifies that, if the Assembly fails to adopt a budget or capital improvements program by the deadline, the Administrator's budget and capital improvements program are automatically approved.

The Process For Making Changes to the Budget From This Point Forward

It is critical to remember that, at this point, the Administrator has presented his draft FY2019 budget to the Assembly as required by the Charter. From this point forward, changes to the budget will be either (1) corrections or refinements of assumptions by the Administrator, and (2) substantive changes made by passage of motions during the meetings. Thus, unless the Assembly passes a motion to change the budget (or passes a motion to direct the Administrator to change the budget), the budget will only be changed from this point forward to either correct an error, or, to refine budgeted numbers based on assumptions (a good example is the percentage increase in health insurance).

Unless the Assembly decides to hold additional special meetings and passes motions to change the budget, the composition of the budget as it stands after completion of the fourth special Assembly meeting on April 5th shall comprise the budget adoption ordinance and capital improvements program which is presented to the Assembly on May 22nd. Well over a month is potentially available for additional special Assembly meetings, if needed.

Prior to each special meeting, Finance will pass out replacement pages which will contain changes due to corrections/refinements, and, substantive changes voted on by the Assembly. Finance will also pass out a running balance summary of where the surplus/deficit in the General Fund is. In the past, some Assembly members have found it helpful to save all older pages that have been replaced (drawing a line through them) to track changes from one meeting to the next.

Critical Aspects of the FY2019 Budget Documents You Have Already Received

The FY2019 preliminary General Fund budget that has been distributed has a beginning bottom line deficit of (\$446,308). This deficit reflects significant decrements to the original budget that reduced the original deficit (\$1,316,223) by \$869,915. This was accomplished through an initial round of voluntary decrements, followed by a collaborative decrementing meeting of CBS department heads in which each department justified its budget and offered cuts. These cuts were ones that staff identified as items that could be made without resulting in an immediate decrease in services in the short-term. It is important to note that while staff anticipates that they may be able to sustain these cuts over the course of FY2019, maintaining the same level of services going forward may require that cuts be restored in the future.

These cuts are detailed in the attached decrement list, but to summarize:

Travel & training	\$ (33,200)
IT	\$ (55,000)
Library	\$ (97,990)
Capital projects	\$ (300,000)
Airpacks (fire)	\$ (280,000)
Legal-outside counsel	\$ (20,000)
Supplies, equipment and other smaller expenses	\$ (20,725)
CAMA	\$ (32,000)
Planning	\$ (31,000)
Total	\$ (869,915)

Proposed support for the Sitka School District (SSD) and Sitka Community Hospital (SCH) from the General Fund have been budgeted at the same rate as FY2018 (a total of \$6,728,292 for SSD and \$150,671 for SCH).

In addition, due to very recent (and preliminary) news from our insurance broker, we anticipate an increase in health insurance costs beyond what has been budgeted in the draft FY2019 budget. While information is still preliminary, we anticipate that health insurance premiums will rise up to 10%. As a result, the Administrator's budget has been revised to incorporate increased health insurance expenses (an increase of \$215,810 in the General Fund). This is an example of a change caused by refinement of a previous assumption brought about by a change imposed by an external entity. Once health insurance rates have been finalized, staff will analyze options (such as changing providers, increasing deductibles, or changing coverage) to reduce the impact of this increase. Of note, any changes would be not only for CBS, but also for SCH and SDD, as we negotiate our plan as a group.

The General Fund budget does include, or is constructed in the anticipation of receiving or not receiving the following important and significant items:

- The budget assumes a slight increase from FY2018 in overall FTE's for the general fund that consists of; .6 FTE's for the Centennial Building (reflective of revenue doubling with new building); 1.0 for the Fire Department to restore the Assistant Fire Chief position; .15 for the Sitka Public Library to adjust the hours of part-time employees; and, .5 in Engineering (reflective of increased need for CAD skills within the department).
- A cost of living increase for all Municipal employees. Non-represented Municipal employees are scheduled for a 1.5% pay increase and employees covered by collective bargaining agreements will receive pay increases achieved through previous collective bargaining negotiations.

- Capital expenditure appropriations for new Public Works capital projects of \$2,128,400. These are budgeted as Transfers to Other Funds (Capital Project Fund).
- The electric user fee support or subsidization has not been budgeted for the FY2019 budget, as the amount budgeted for FY2018 will not be spent during FY2018, these funds will be presented to the assembly for re-appropriation at the beginning of FY 2019.
- Sales tax revenue has been budgeted at a 2% increase from what was budgeted for FY 2018. While an anticipated increase in cruise ship visitors and a full year of the \$12,000 sales tax cap make this a conservative increase, we do not have enough data to raise the projected revenue at this point. Sales tax data received to date showed the 4th calendar quarter for FY2017 declining from FY2016, despite an increase in the taxable transaction limit.
- A small increase had been budgeted for net property tax receipts, due to ongoing updating of property values.
- There is no provision for funding from Secure Rural schools.
- Receipt of Payment In Lieu of Taxes (PILT) from the Federal Government has been budgeted.
- State of Alaska revenue sharing is projected at slightly below FY2018 levels.
- No change has been budgeted in the contribution rate for PERS or TERS.
- No further reduction in the school bond debt reimbursement rate from the State of Alaska that would necessitate subsidization of the school bond debt fund from the General Fund has been budgeted.

Aspects of the General Fund Budget Which Impact Other Funds

It is important to note and understand that elements of the General Fund budget are linked to other funds' budgets and, therefore, changes to the General Fund budget could impact other funds. Two critical areas in which the General Fund impacts other funds are management fees and transfers.

Management fees are charges each fund pays to the General Fund for the shared cost of management, legal, and administrative services. Such fees have traditionally been paid to the General Fund in some capacity for as far back as records exist (over 30 years). The justification for such fees is that other funds would be required to replicate the management, legal, and administrative services provided by general government, and, replication of such services

would be expensive and inefficient. In FY2019, staff is proposing to lower management fees by \$157,647; this is as a result of a collective decision not to allocate any cost for planning services to other funds.

Transfer expenses are budgeted for when either the General Fund needs to move revenue it has received to another fund as required by the Sitka General Code, or, the revenue needs to be transferred to the General Capital Projects Fund for general governmental capital projects. Two significant sources of revenue that are required to be transferred to other funds are (1) the 1% seasonal sales tax used to pay for school-related general obligation bonds in Fund 651, and (2) the transfer of fish box taxes to the Harbor Fund and the Fisheries Enhancement Fund. In the aggregate, transfers from the General Fund to move revenue to other funds total \$1,702,258. Transfers to the General Capital Projects Fund total \$2,105,000; the General Fund is also budgeting for the transfer of \$225,067 to the Central Garage Fund for sinking fund shortfalls for the replacement of a fire truck and ambulance, and \$28,400 for GIS implementation.

Uncertainties in the Budget due to External Decisions Not Yet Made

The following are uncertainties that result from decisions not yet having been made by external entities that have significant funding ramifications. They fall into three categories: Federal funding uncertainties, State funding uncertainties, and health insurance costs. In most cases, Administration has made some assumption or estimate based on available information as to the anticipated amount of revenue or expense which is built into the budget and described above.

- Federal Secure Rural Schools funding (not budgeted for);
- Federal Payment In Lieu of Taxes (PILT) funding (budgeted for);
- State Revenue Sharing (budgeted less than FY2018)
- State PERS/TERS rate (budgeted no change)
- State school bond debt reimbursement (budgeted no change in percentage of reimbursement)
- Health care premiums (a 10% increase budgeted)

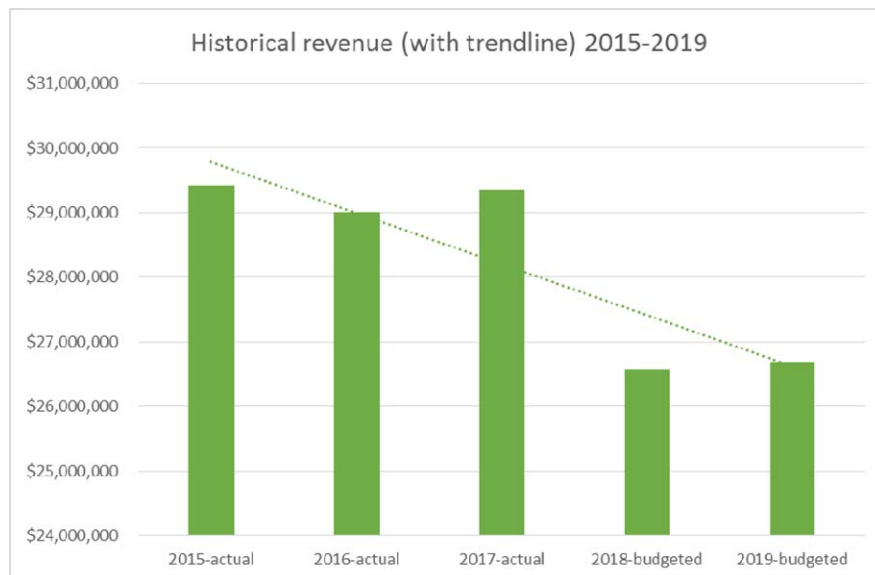
Uncertainties in the Budget due to Decisions on Funding for Sitka Community Hospital and Sitka School District

For FY2019 funding levels for both SDD and SCH are the same as in FY2018. Any changes to the level of funding budgeted has a significant impact on the deficit level of the General Fund.

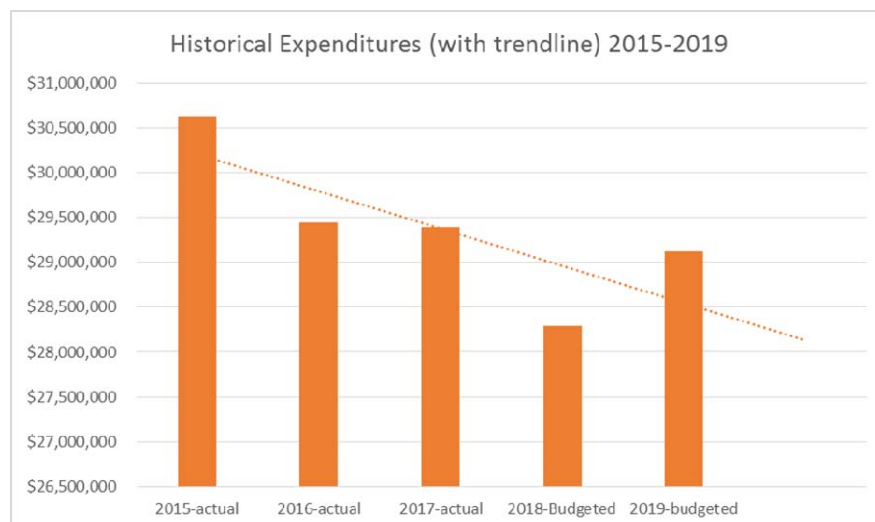
Summary

The budget presented represents fairly conservative revenue projections. The expense budget takes into account the maximum cuts that staff feel will allow the preservation of the current level of services-any further cuts will likely result in visible cuts in either services or performance.

As is the case across the state, both state and local funding have decreased, leading to an overall decrease in revenue in recent years.



As revenue has decreased, so have expenditures:



FY2019 General Fund Budgeted Revenues

