



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: April 2, 2018

Subject: **FY2019 Budget Special Meeting On April 5, 2018**

Mayor Hunter and Assembly Members,

The fourth FY2019 budget special meeting is scheduled for April 5th and will focus on Sitka Community Hospital's budget as well as critical unresolved budgetary issues (local support of education, utility user fee increases, general governmental service reductions). 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.

Sitka Community Hospital

Sitka Community Hospital is a component unit of the City and Borough of Sitka. As such, its financial position and performance is separately reported in the government-wide financial statements found in the Municipality's Comprehensive Annual Financial report. As a component unit, Sitka Community Hospital accomplishes its own financial reporting (Section 11.13 (g) of the Charter). As a Department of the City and Borough of Sitka (SGC 2.08.010), however, the budget of Sitka Community Hospital is subject to the same approval and adoption requirements of the Charter as apply to other Departments.

As is the case with Municipal enterprise funds, Sitka Community Hospital (SCH) conducts its financial business on a full accrual basis. As such, it records expenses as opposed to expenditures. Again as with enterprise funds, in order to obtain consistency in terminology across all funds, the proposed financial operations of SCH for the next fiscal year have been characterized in terms of appropriations. SCH will be presenting proposed appropriations for the next year in three categories: operating outlays, capital expenditures, and debt service. The major differences between SCH's method of accounting and financial reporting and its proposed appropriations are (1) depreciation and amortization is not appropriated (it is not an outlay, and (2) debt principal is appropriated (it is not an expense, rather reduction of a liability).

Also, as with other municipal enterprise funds, capital appropriations do not lapse and are not required to be re-appropriated. Thus, the capital appropriations being requested by Sitka Community Hospital are new capital outlays. During the upcoming year, however, actual outlays may differ, to the extent that previous year's capital appropriations are expended and the proposed capital outlays are not completed by the end of FY2019.

As with other enterprise funds already reviewed, I would advise the Assembly to focus its attention in three areas: (1) what will the cash flow for SCH be if its budget is executed as proposed; (2) what will the resulting financial position (i.e., balance sheet) be if the budget is executed as proposed; and, (3) what will working capital be in comparison to future capital requirements. It would also be helpful to examine what the capital structure (debt compared to equity) of SCH is, both at the end of FY2018 as well as forecasted to the end of FY2019.

Local Support of Education

The Municipality is now in a critical two-week window wherein the need to determine local support for public education is becoming key. The issue is becoming key because the municipality and Sitka School District are not currently planning for the same amount of local support, and, deadlines are approaching.

At its work session on March 29, the Sitka School Board provided direction to SSD Administration (no vote was possible as it was a work session) to include an additional \$594,882 in local support from the Municipality in its budget. This \$594,892 is not currently in the Administrator's budget.

The SSD Superintendent is now commencing a 2-week period in which the SSD will prepare its budget for presentation to, and adoption by, the School Board on April 19th, and it is very likely that that budget will include the extra \$594,892 in support directed by the School Board. SSD Administration has also clarified that adoption of its proposed budget by the School Board, especially in regards to where funding from the Municipality is budgeted, will constitute the local support of the Municipality as set forth in AS 14.17.410 (funding as a percentage of the "cap").

Thus, unless specific action is taken by the Assembly, or the School Board, or both, within the next two weeks, there is an increasing likelihood that the Assembly will be presented with a formal budget from the School Board containing a different amount than is in the Administrator's budget. This will force the Assembly to either decide on a funding amount, or if no decision is made within 30 days, to give de facto approval to the increased \$594,892 in the School Board's budget as State statute will automatically approve the request.

In summary, it will be in the best interest of all parties for local funding of schools to be resolved in the next two weeks.

Enterprise Fund User Fee Increases

At its meeting on March 22, the Assembly was presented proposals for user fee increases for the Water, Wastewater, Solid Waste, and Harbor enterprise funds. As explained by the Administrator at that meeting, the revenue from the proposed fee increases has been budgeted for in FY2019. In addition, significant capital improvements have also been planned to be financed with the cash flows resulting from the user fee increases. Unless a motion is made to direct the Administrator to take actions other than planned presented in regards to user fee increases and capital expenditures, appropriations for the capital expenditures will be included in the adopting ordinance and resolution, and, ordinances will be introduced in the new fiscal year to adopt the fee increases.

Circle-Around

Finally, the Assembly may wish to revisit the General Fund budget or Enterprise Fund budgets previously presented. Significant unresolved issues remain in these funds.