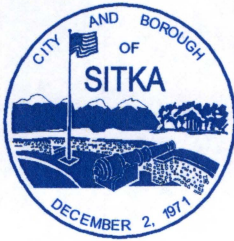


Discussion / Direction

of the Investment Committee recommendation to
formulate a Municipal Fiscal Policy.

After discussion, a possible motion if desired, is:

I MOVE TO instruct the Municipal Administrator work with staff to develop a concept and associated timeline for development of a Municipal Fiscal Policy along with required resources, and then report back to the Assembly.



City and Borough of Sitka

100 Lincoln Street • Sitka, Alaska 99835

MEMORANDUM

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

From: Jay Sweeney, Chief Finance and Administrative Officer

Date: January 3, 2019

Subject: Investment Committee Recommendation to Formulate a Municipal Fiscal Policy for Assembly Consideration and Adoption

Summary

At its meeting on December 17th, the Investment Committee (IC) voted unanimously to recommend to the Assembly that it direct staff to develop a municipal fiscal policy for Assembly consideration and possible adoption. Staff requests discussion and direction from the Assembly on how to proceed.

Background and Discussion

Need

Over the course of the last two years, the IC has been discussing the need for a broad set of fiscal policies (Fiscal Policy) for the Municipality. This discussion has been in response to (1) Assembly and community concern over the amount of debt being taken on by the community, and, over the frequency and sizes of user fee increases for utilities and harbor moorage, and (2) staff concerns for long range financial plans which project when major infrastructure improvements will take place and how they will be paid for.

Quite often in the recent past, the two concerns have been at odds with each other, leading to much friction within the community. Staff feels a responsibility to financially plan for the maintenance of current infrastructure according to best practices, and barring the receipt of any major grants, sees consistent phased-in user fee increases as necessary. Citizens and some Assembly members have voiced concern, however, that the size and frequency of user fee increases are having an adverse impact on the local economy and are making the city unaffordable for many.

History

Chief Finance and Administrative Officer Jay Sweeney first developed the concept of a Fiscal Plan in 2016, in response to observations and recommendations made by the Citizens' Task Force. Mr. Sweeney envisioned that a well-crafted set of fiscal policies governing financial topics such as debt levels, reserve working capital

requirements, and financial leverage (the proportion of debt to equity) could assist in guiding the Municipality in achieving the mutual goals of financing infrastructure while maintaining the fiscal health of the municipality.

Former Municipal Administrator Mark Gorman, in 2016, asked the IC to accept the task of conducting an analysis of the feasibility of a Fiscal Plan. The IC has analyzed and discussed the concept for the last two years, examining formal fiscal policies of other communities, soliciting advice from financial professionals, and reviewing a draft "strawman" Fiscal Policy developed by Mr. Sweeney. At its last meeting, the IC voted to recommend development of a Fiscal Policy to the Assembly.

Concept

The concept of a Fiscal Policy would be to implement a series of flexible financial standards and guidelines which, if followed, would achieve the goal of maintaining a level of municipal infrastructure the Municipality can afford while, at the same time, maintaining the fiscal health and affordable cost of living of the community.

Staff, Assembly members, and citizens have recognized that, barring significant financial support from the Federal government and the State of Alaska, the level of current and desired municipal infrastructure and services is fiscally unsustainable. Citizens may desire the infrastructure but are unable to bear the full cost of it. The concept of a sustainable level of infrastructure has been broadly discussed in the recent past, but making solid decisions to forego new infrastructure or abandon existing infrastructure (i.e., to live within our means) have proven very difficult.

The Fiscal Policy concept, if adopted, would provide a framework of policies to assist in making the difficult infrastructure decisions that have proven so elusive. In addition to the traditional discussions of needs and facility condition assessments used to make decisions, the Assembly would have additional fiscal-based standards to apply. Examples of such standards are overall bonded debt levels, required working capital levels, and financing capital mixes; in addition, how the three interrelate is also a critical control.

An illustrative example of standards that a Fiscal Policy might contain and how they interrelate could be as follows (**NOTE: Staff are not proposing these; they are illustrative only**):

- a. Overall bonded debt of the Community may not exceed some percentage of the total assessed value of the real property in the community. The total bonded debt as of June 30, 2018 was \$146,640,000.
- b. Total long-term debt of the Municipality, which includes State loans, may not exceed some larger percentage of the total assessed value of the real property in the community.

- c. The general fund and each enterprise fund would be required to maintain cash reserves equal to some number of days of operating expenses, and, cash emergency reserve equal to some percentage of fixed assets.
- d. Any capital improvement project may not have more than some set percentage of the total cost financed through debt issuance.
- e. User fees may not increase by more than a set percentage in any fiscal year.

Once a Fiscal Policy has been adopted, staff would then use it as a guide to plan by, developing a long range capital improvement plan that lives within the boundaries set by the Fiscal Plan while also maintaining a level of core municipal infrastructure.

At first, a fiscal policy would force very, very difficult infrastructure decisions to be made, as critical needs could not be financed without moving outside the boundaries set by the plan. This would lead to either exceptions being made by the Assembly, or most likely, decisions made to either delay or abandon needed improvements. Even if the Assembly authorized exceptions for critical needs or emergencies, the Fiscal Policy would still set the fiscal boundaries the Municipality would need to return to in the future.

In the long term, however, if the Fiscal Policy were adhered to, the Community would reach a level of sustainable infrastructure and services which met the citizen's expectations along with their ability to pay for them.

Concept Execution Plan

If the Assembly votes to give guidance to the Administrator to develop a Fiscal Policy, the Administrator will work with staff to develop a concept and associated timeline, required resources, and then report back to the Assembly.

The Administrator may elect to assign the responsibility in-house, request that it be assigned to one or more Assembly Subcommittees, the Investment Committee, or engage a consultant to develop it, or any combination of the three.

It is quite likely that the Municipality would seek the advice of one or more financial professionals in development of the Fiscal Policy, even if the policy is ultimately developed in-house.

It is envisioned that the time line for development of a fiscal policy would be similar to the development of the Comprehensive Plan, i.e. approximately a year. The plan would be developed in stages, with periodic review, public input, and conditional approval by the Assembly as opposed to one review and adoption of a finished product.

At the end of the process, the Assembly would be ultimately presented with finished plan and asked to adopt it in some binding manner.

Fiscal Note

It is quite likely that once needed resources to develop a plan have been determined, the Administrator will request supplemental appropriation from the Assembly. The amount needed is not known at this time.