



# City and Borough of Sitka

100 Lincoln Street • Sitka, Alaska 99835

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## MEMORANDUM

**To:** Mayor Paxton and Assembly Members

**From:** Keith Brady, Municipal Administrator

**Date:** April 30, 2019

**Subject:** FY2020 Budget Special Meeting on May 2, 2019

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The final FY2020 budget special meeting is scheduled for May 2<sup>nd</sup> (unless an additional special meeting is scheduled). This meeting will focus on the remaining funds which have yet to be reviewed by the Assembly (Sitka's internal service, trust, agency, permanent, and non-major governmental funds (permanent fund, debt service fund, and special revenue funds). In addition, this meeting will also review the status of budget formulation actions to date, key outstanding items from previous meetings, and the timeline for budget approval by the Assembly.

### **Internal service and non-major governmental funds (permanent fund, debt service fund, and special revenue funds)**

Internal service funds are proprietary-type 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.

Trust and agency funds are fiduciary-type funds are utilized to account for assets held in a trustee or agency capacity for others. The Municipality has one trust fund, the Rowe Trust Fund, and one agency fund, the Sitka Cemetery Agency Fund. For both funds, the principal of the Fund is held in trust and investment earnings are either distributed (Sitka Cemetery Agency Fund) or available to be appropriated (Rowe Trust Fund).

The Permanent Fund is a governmental-type fund set up wherein the principal is non-spendable, but, the investment earnings are available for appropriation. By Charter mandate, 6% of the average market value of the Permanent Fund is annually transferred to the General Fund. Per Assembly decision, a portion of the annual transfer is transferred back in order to reduce the mandated distribution amount. In FY2020, per Assembly decision, 0.75% of the annual mandated transfer out will be transferred back in. The Assembly has also previously approved professional management of the Permanent Fund. Although the fee associated with professional management is viewed as an element of overall net yield, accounting principles require that such investment expenses be recorded as expenditures. Hence, an appropriation for such investment

fees is budgeted for the Permanent Fund. As per the Charter: “The purpose is to grow the principal of the permanent fund to provide an ever-increasing income stream to the Sitka general fund in perpetuity. The intent of the income stream is to reduce the tax burden on the citizens of Sitka.”

The School Bond Debt Service Fund is a governmental-type fund set up to account for the debt service on Sitka’s outstanding general obligation bonds. By public vote, 1% of the sales tax collected during the period April 1st – September 30<sup>th</sup> is transferred from the General Fund to the School Bond Debt Service Fund. The funds transferred are used to pay required debt service on general obligation bonds. In FY2020, we have not budgeted for any reimbursement of school bond debt payments from the State of Alaska (as proposed by Governor Dunleavy). As a result, debt service payments for all general obligation bonds will be accomplished by utilizing the 1% seasonal sales tax proceeds, a \$200,000 proposed transfer from the general fund, and \$1,124,893 from the debt service fund balance (previous years’ 1% sales tax surplus collections). The School Bond Debt Service Fund currently has a fund balance of approximately \$2.3 million; utilizing \$1,124,893 from the fund balance in FY20 will reduce the projected fund balance as of June 30, 2020 to approximately \$1.19 million.

Sitka has fifteen special revenue governmental-type funds. These special revenue funds are used to account for governmental revenues raised or collected for a specific purpose. Sitka’s special revenue funds include funds which are used to account for external revenue received for specific purposes (e.g., the Commercial Passenger Excise Tax Fund); to account for local tax proceeds dedicated to specific purposes (e.g., the Tobacco Tax Fund and the Visitor Enhancement Fund); and for other governmental revenues restricted to be used for specific purposes (e.g., the South Alaska Economic Development Fund).

The sale of the business operations of Sitka Community Hospital, which will close on June 30, 2019. On July 1, 2019, all of the remaining assets and liabilities of the prior Sitka Community Hospital enterprise fund will pass over to the City and Borough of Sitka, and, must be accounted for in a fund of the Municipality. As tobacco tax proceeds will continue to be collected and must, by law, be placed into a Sitka Community Hospital Dedicated Fund, staff is planning to record the remaining assets and liabilities of Sitka Community Hospital in the prior tobacco tax fund and rename the fund the “Sitka Community Hospital Dedicated Fund”. This will ensure that the Charter provisions regarding tobacco tax collections are complied with.

The Municipality will also incur FY20 expenses in winding down the remaining assets and liabilities of the prior Sitka Community Hospital; as a result, new appropriations will be required for FY2020. Appropriations will be needed to provide for contractual support to collect patient account receivables, pay remaining accounts payable, and prepare financial statements for outside audit. The FY2019 financial operations of Sitka Community Hospital must be audited, thus an appropriation will be needed to pay for audit fees. Finally, preparation and audit of the Medicare cost report must also be accomplished in FY2020, requiring an appropriation. These proposed appropriations will

be presented with budget for the Sitka Community Hospital Dedicated Fund.

Together, these fund categories contain twenty-five separate funds. As with all funds, any expenditure from these funds, even if authorized by other entities (i.e. grant funds) requires an appropriation.

### **Key Outstanding Items From Previous Meetings**

Key outstanding issues from previous budget meetings include the following:

1. General Fund
  - a. Reductions of proposed appropriations (expense reductions)?
  - b. Inclusion/exclusion of effects of proposed State legislation:
    - i. Fisheries landing tax receipts (raw fish tax)?
    - ii. Transfer to debt service fund for school bond debt?
    - iii. Inclusion/exclusion of community assistance?
  - c. Local support of education?
    - i. Increase to match SSD budget, keep current budgeted amount the same, or change amount to something different?
2. Enterprise Funds
  - a. Reductions of proposed appropriations (expense reductions)?
  - b. Proposed user fee increases?
  - c. Proposed capital expenditures?
  - d. Approval of new debt for proposed capital expenditures?

### **Time Line For Budget Approval and Other Required Actions**

By Charter provision, the Assembly must approve the next fiscal year's budget no later than 10 days prior to the end of the current fiscal year; otherwise, the budget submitted by the Administrator is automatically approved. June 20, 2019 falls on the Thursday prior to the 2nd regularly scheduled Assembly meeting in June. As a result, the 2<sup>nd</sup> regularly scheduled Assembly meeting in June can't be utilized to approve the budget – it falls too late.

Staff tries to schedule at least three Assembly meetings for the budget adoption ordinance to be considered. By doing so, if the Assembly amends the budget ordinance during first reading there is time for a third reading of the ordinance without scheduling an additional special meeting. Accordingly, staff has scheduled the first reading of the FY2020 budget adoption ordinance for the May 14<sup>th</sup> Assembly meeting. This will allow for the May 28<sup>th</sup> and June 11<sup>th</sup> meetings for consideration and adoption of the ordinance.

The Assembly must also approve the amount of local funding to be made available for educational purposes within 30 days after receipt of the school district budget and no later than May 30<sup>th</sup> at the latest. Accordingly, staff has scheduled an agenda item for the May 2<sup>nd</sup> Assembly meeting for the Assembly to determine the amount of local funding as the next scheduled meeting of May 14<sup>th</sup> will be the first reading of the budget.

Finally, the Assembly must also set the millage rate for the upcoming fiscal year prior to the end of the current fiscal year (even though it is set by Charter provision at 6 mills).

**Items pending finalization of the budget**

The items listed below will be provided with the final version of the budget that is distributed after the last special budget meeting:

- Proforma financial projections for general fund and enterprise funds
- Working capital summary
- Administrator's letter