



# City and Borough of Sitka

100 Lincoln Street Sitka, Alaska 99835

*Coast Guard City, USA*

March 3, 2017

## **Mayor, Assembly Members, and Fellow Citizens of the City and Borough of Sitka**

Dear Mayor and Assembly Members,

In accordance with the provisions of Article XI, Section 11.02 of the Home Rule Charter of the City and Borough of Sitka, the Fiscal Year 2018 Consolidated Operating Budget of the City and Borough of Sitka and Sitka Community Hospital are hereby presented for your approval.

We are pleased to submit a FY2018 budget to you that continues to provide for all essential government services, although we will implement reductions in the scope and/or frequency of service. In October 2016, Sitkans decisively voted down a ballot initiative to increase property taxes. Without this property tax increase CBS' ability to maintain service levels has been impacted.

Traditional revenue streams flowing from both the Federal Government and the State Legislature continue to decline. As a result, Sitka, as are most other Alaska communities, is wrestling with the difficult challenge of how to balance the level of services offered to its citizens with the local ability and desire to pay for them. Not enough revenue is available to pay for all services traditionally offered; accordingly, service reductions will need to occur. Choosing which services to curtail is a challenge. All reductions meet some level of community resistance. Staff look for every possible way to continue services through innovate ideas, reorganization, and out-sourcing. In the end, though, we will concentrate on maintaining essential and critical services, such as emergency response, public safety and critical infrastructure.

Going forward into FY2018, the Municipality has reduced its operating budget by an additional \$762,968, including the elimination of one full-time police officer position, which follows on the elimination of four and one half full-time positions from the Municipal work force in FY2017. In addition, temporary employees in the Public Works Department involved in capital project construction management will be eliminated in FY2018. All discretionary costs, such as training, supplies, and contracted services have been reduced. Travel and training has been reduced by over \$35,000, a 13.5% decrease. The FY2018 budget no longer funds a lobbyist, for a \$40,000 savings.

The budget includes no increase in the property tax millage rate or the sales tax rates. The budget does include an anticipated \$800,000 of new sales tax revenue stemming from an increase in the taxable transaction limit from \$3,000 to \$12,000.

Providing for today ... preparing for tomorrow

Our budget does propose service fee increases in our harbors, electric, water and wastewater utilities. We have adopted a policy of considering annual user fee increases that are in line with long range fiscal plans. Our fiscal plans span a decade, at a minimum, and model the necessary increases in user fees required to finance needed infrastructure renovation while maintaining minimum levels of liquidity and financial stability. If such increases are unachievable due to the state of the local economy, we will propose annual user fee increases consistent with the annual rate of inflation.

In order to meet minimum financial covenants without subsidization, we are proposing an electric fee increase in late FY2017. The fee increase will be approximately 15% for the average user and should provide necessary revenue to meet financial covenants without subsidization. To mitigate the impact of this large fee increase on the least affluent Sitkans, the Assembly also has set aside \$1,000,000 to assist needy Sitkans with their utility bills. How much of this will be allocated for this purpose and the implementation mechanism have yet to be determined. Other fee increases that are contained in the FY2018 budget are a 3% fee increases in water, a 4.5% fee increase in wastewater, a 2.07% fee increase in solid waste and a 6% increase in harbor moorage rates.

The FY2018 budget contains no significant expenditure other than programmatic spending increases due to collective bargaining agreements. Federal revenue sources, upon which the Municipality has relied on in the past, continue to be uncertain. At the time of this writing, there is no renewal of the Secure Rural Schools Act by the Federal Government for Federal fiscal year 2018. We are budgeting \$566,200 in payments in lieu of taxes (PILT) from the Federal Government. While we consider the likelihood of receiving this support, it is not guaranteed.

State of Alaska revenue sources will continue to be pressured in FY2018. While there has not been any new legislation passed in the current Legislative session affecting State revenue streams, many potential sources of State revenue, or expenditures made to the State, are being considered. These include reductions in revenue sharing, income tax, shared fisheries business taxes, reimbursements for general obligation school debt and an increase in the contribution rates for public employee retirement systems.

The financial pressures faced by the Sitka School District (SSD) are severe and will have a direct impact on the Municipality. Much as with the Municipality, SSD has expenditure increases which are linked to collective bargaining agreements. With over 70% of the total expenditures of the SSD being in the form of wages and benefits, these expenditure pressures, coupled with decreasing revenue streams, will cause the district to adopt an unbalanced, deficit budget for FY2018, transferring significant funds from enterprise funds. Such budgetary solutions are clearly not sustainable.

Municipal roads remain a critical infrastructure issue. We will, once again, not be able to afford all street repairs which are scheduled and necessary for FY2018. Furthermore, the amount of funding to be dedicated towards road repair will be substantially less than the amount dedicated in FY2017. Sitka is heading down a path wherein, eventually, only roads with sidewalks and gutters will be paved; all others will be returned to gravel. While such a direction will allow the

Municipality to forego the capital costs of repaving roads, the maintenance costs for grading and dust control on gravel roads is substantially higher in the short run. Further, as witnessed by numerous failures this past year, much of under street water and sewer infrastructure is very poor condition.

Municipal employee wages will increase in accordance with collective bargaining agreements, and, non-represented employees will receive a 1.5% wage increase. We do, however, anticipate a substantial increase in health insurance premiums which may necessitate some changes in the overall portion of health insurance costs shared by employees.

In summary, our municipal budget continues to adequately provide for basic and special services to our residents and visitors. Public safety needs are provided for, as well as public works and the provision of basic utilities and the operation of public harbors. We will continue to provide for the other governmental services that our citizens desire, including our municipal library and Centennial building. While some service levels will be reduced, no major municipal service areas are planned to be eliminated.

### **Capital Improvement Program**

The 2018-2020 Capital Improvement Program has been developed to address the pressing infrastructure and service needs of our community. Maximum effort has been made to identify Federal and State sources of revenue in order to finance these projects. Individual capital improvement projects have already been described in detail in many of the previous discussions of individual departments/funds. Detailed information concerning the Capital Improvements Program is contained within a separate section of this Consolidated Operating Budget.

This year we have again constructed a separate budget for each individual capital improvement project. These budgets clearly show the amount, and source, of all of the working capital to be expended in each project including grant revenue, loan proceeds, transfers from the General Fund or Proprietary Funds, or expenditures of reserve working capital in each fund (from previous years grant advances or transfers from other funds).

The 2018-2020 Capital Improvement Program is shown in its entirety at the Capital Improvements Tab, and, individual projects for each fund are shown in the respective capital sections for that fund.

### **Future Outlook**

The key challenge facing the CBS continues to be the alignment of governmental services provided by the Municipality to its citizens with sustainable revenue streams to not only pay for such services, but also, to provide for the repair, maintenance and eventual replacement of the infrastructure associated with such services.

The current level of municipal services (CBS, Hospital, Sitka School District), are not sustainable. Insufficient funding exists on an ongoing basis to repair and maintain aging infrastructure, especially roads. Traditional sources of revenue from Federal and State of Alaska sources are drying up while programmatic expenses, such as wages and benefits, continue to increase.

Citizens have been vocal about the combination of declining service levels coupled with the increasing cost of living in Sitka. A growing number of our citizens are feeling economically stressed, but this does not obviate the requirement to maintain our core services.

Critical issues identified in prior outlooks continue to represent our challenges. We must obtain an alignment of CBS services and citizen expectations which is then supported by sustainable budgets.

We remain optimistic about our Sitka. We are a can do community that takes on adversity with vigor. Cruise ship tourism continues to rebound, commercial fishing remains a strong and vibrant, and health care and Coast Guard activities also continue to contribute to a diversified economy.

### Summary

Our municipal government continues to provide a comprehensive array of services to its citizens through the collective efforts of dedicated, and talented municipally employees. The financial condition of the Municipality remains in good shape, with a solid level of combined reserve working capital. We will strive to continue to provide the best possible service to our citizens and to carefully manage the resources they give us to do the job.

Respectfully Submitted,



Mark Gorman  
Municipal Administrator



John P. (Jay) Sweeney III  
Chief Financial and Administrative Officer

**CITY AND BOROUGH OF SITKA**

**ORDINANCE NO. 2017-16**

**AN ORDINANCE OF THE CITY AND BOROUGH OF SITKA  
ADOPTING BUDGETS FOR THE FISCAL YEAR JULY 1, 2017  
THROUGH JUNE 30, 2018**

**BE IT ENACTED** by the Assembly of the City and Borough of Sitka, Alaska as follows:

- 1. CLASSIFICATION.** This ordinance is not of a permanent nature and is not intended to be a part of the Sitka General Code of the City and Borough of Sitka, Alaska.
- 2. SEVERABILITY.** If any portion of this ordinance or any application thereof to any person or circumstance is held invalid, the remainder of this ordinance and application thereof to any person and circumstances shall not be affected thereby.
- 3. PURPOSE.** The purpose of this ordinance is to set forth budgetary requirements for the operation of the various divisions, departments and organizations of the City and Borough of Sitka for Fiscal Year 2018.
- 4. ENACTMENT. NOW THEREFORE, BE IT ENACTED** by the Assembly of the City and Borough of Sitka, Alaska that the following expenditure budgets for the fiscal period beginning July 1, 2017 and ending June 30, 2018 are hereby adopted as follows:

<u>FUND</u>	<u>REVENUE</u>	<u>EXPENDITURE BUDGET</u>		
<b><u>GENERAL FUNDS</u></b>	REVENUE	OPERATIONS	CAPITAL/ TRANSFER	TOTAL
General Fund	\$ 26,417,956	\$ 25,394,234	\$ 1,369,500	\$ 26,763,734
<b><u>ENTERPRISE FUNDS</u></b>				
Electric Fund	\$ 17,821,264	\$ 17,670,066	\$ 3,300,000	\$ 20,970,066
Water Fund	\$ 2,444,080	\$ 2,090,029	\$ 245,000	\$ 2,335,029
Wastewater Fund	\$ 3,385,800	\$ 2,952,972	\$ 736,000	\$ 3,688,972
Solid Waste Fund	\$ 3,816,970	\$ 3,622,066	\$ 500,000	\$ 4,122,066
Harbor Fund	\$ 3,546,617	\$ 2,702,420	\$ 1,050,000	\$ 3,752,420
Airport Terminal Fund	\$ 724,203	\$ 370,004	\$ -0-	\$ 370,004
Marine Service Center Fund	\$ 279,878	\$ 148,718	\$ -0-	\$ 148,718
Gary Paxton Industrial Park	\$ 272,124	\$ 263,412	\$ -0-	\$ 263,412

<u>INTERNAL SERVICE FUNDS</u>	REVENUE	OPERATIONS	CAPITAL/ TRANSFER	TOTAL
Management Information Systems Fund	\$ 1,170,501	\$ 1,092,286	\$ -0-	\$ 1,092,286
Central Garage Fund	\$ 1,904,838	\$ 861,819	\$ 422,000	\$ 1,283,819
Building Maintenance Fund	\$ 715,455	\$ 926,051	\$ 60,000	\$ 986,051
<b><u>SPECIAL REVENUE FUNDS</u></b>				
Pet Adoption Fund	\$ 1,000	\$ 1,000	\$ -0-	\$ 1,000
SEACAD Fund	\$ 5,000	\$ 5,000	\$ -0-	\$ 5,000
Sitka Forfeiture Fund	\$ 2,000	\$ 2,000	\$ -0-	\$ 2,000
Justice Assistance Grant	\$ 52,000	\$ 52,000	\$ -0-	\$ 52,000
State Forfeiture Fund	\$ 2,000	\$ 2,000	\$ -0-	\$ 2,000
Homeland Security Grant	\$ 335,000	\$ 335,000	\$ -0-	\$ 335,000
Library Building Fund	\$ 1,700	\$ -0-	\$ -0-	\$ -0-
Southeast Alaska Economic Development Fund	\$ 37,500	\$ 37,500	\$ -0-	\$ 37,500
GPIP Contingency Fund	\$ 18,000	\$ 18,000	\$ -0-	\$ 18,000
Tobacco Excise Tax Fund	\$ 886,500	\$ 886,500	\$ -0-	\$ 886,500
Student Activities Travel Fund	\$ 2,500	\$ 2,500	\$ -0-	\$ 2,500
Fisheries Enhancement Fund	\$ 46,655	\$ 46,459	\$ -0-	\$ 46,459
Commercial Passenger Vessel Excise Tax Fund	\$ 273,100	\$ 266,200	\$ -0-	\$ 266,200
Visitor Enhancement Fund	\$ 484,000	\$ 508,912	\$ -0-	\$ 508,912
Revolving Fund	\$ 28,200	\$ 28,700	\$ -0-	\$ 28,700
Guarantee Fund	\$ 6,200	\$ 6,200	\$ -0-	\$ 6,200
Cemetery Fund	\$ 2,185	\$ 2,185	\$ -0-	\$ 2,185
Rowe Trust Fund	\$ 4,400	\$ 4,400	\$ -0-	\$ 4,400
Library Endowment Fund	\$ 6,000	\$ -0-	\$ -0-	\$ -0-
Bulk Water Fund	\$ 21,500	\$ 56,300	\$ -0-	\$ 56,300
Seasonal Sales Tax/School Bond Debt Service Fund	\$ 3,135,792	\$ 3,862,584	\$ -0-	\$ 3,862,584
<b><u>PERMANENT FUND</u></b>				
Permanent Fund	\$ 652,329	\$ 1,375,900	\$ -0-	\$ 1,375,900

<u>CAPITAL PROJECT FUNDS</u>	REVENUE	OPERATIONS	CAPITAL /TRANSFER	TOTAL
General Capital Project Fund	\$ 1,300,000	\$ -0-	\$ 1,300,000	\$ 1,300,000
GF Contingent on State/Federal Funding	\$ 3,900,000	\$ -0-	\$ 3,900,000	\$ 3,900,000
Electric Capital Project Fund	\$ 3,300,000	\$ -0-	\$ 3,300,000	\$ 3,300,000
Water Capital Project Fund	\$ 245,000	\$ -0-	\$ 245,000	\$ 245,000
Water Contingent on State/Federal Funding	\$ 19,337,722	\$ -0-	\$ 19,337,722	\$ 19,337,722
Wastewater Capital Project Fund	\$ 691,000	\$ -0-	\$ 691,000	\$ 691,000
Wastewater Contingent on State/Federal Funding	\$ 10,044,761	\$ -0-	\$ 10,044,761	\$ 10,044,761
Solid Waste Capital Project Fund	\$ 500,000	\$ -0-	\$ 500,000	\$ 500,000
Harbor Capital Project Fund	\$ 1,050,000	\$ -0-	\$ 1,050,000	\$ 1,050,000
Harbor Contingent on State/Federal Funding	\$ 17,300,000	\$ -0-	\$ 17,300,000	\$ 17,300,000
Airport Contingent on State/Federal Funding	\$ 4,000,000	\$ -0-	\$ 4,000,000	\$ 4,000,000
MSC Contingent on State/Federal Funding	\$ 8,440,000	\$ -0-	\$ 8,440,000	\$ 8,440,000
<u>COMPONENT UNIT</u>				
Sitka Community Hospital	\$ 27,858,431	\$ 27,205,075	\$ 935,552	\$ 28,140,627

**EXPLANATION**

Details of individual budgets are contained in Enclosure 1. Support to the Sitka School District has been included in the General Fund Expenditures. Budgeted amounts for all funds include revenue, operating expenditures and new capital outlays.

**5. EFFECTIVE DATE.** This ordinance shall become effective on July 1, 2017.

**PASSED, APPROVED, AND ADOPTED** by the Assembly of the City and Borough of Sitka, Alaska this 13th day of June, 2017.



Matthew Hunter, Mayor

ATTEST:



Melissa Henshaw, CMC  
Acting Municipal Clerk

1<sup>st</sup> reading 5/23/17

2<sup>nd</sup> reading 6/13/17