



# City and Borough of Sitka

100 Lincoln Street • Sitka, Alaska 99835

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April 23, 2013 (2)

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

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 2014 Consolidate Operating Budget of the City and Borough of Sitka and Sitka Community Hospital are hereby presented for your approval.

### **Administrator's Personal Message (as presented at first budget meeting April 25)**

Ladies and Gentlemen of the Assembly, the FY2014 budget I am submitting to you for your approval continues to reflect the difficult fiscal environment we find ourselves in. In last year's budget letter, I offered that we were at a defining moment in the history of Sitka, facing extraordinary financial challenges unlike any seen in the past decades. During the course of the last year, the situation has not improved, and the timing of certain events is building to a confluence which has, and will continue to, increase our fiscal challenges.

This year, we will clearly be faced with difficult spending choices which can no longer be delayed or postponed. There are no more silver bullets to save us, and, there will be no more 11<sup>th</sup> hour reprieves. Quite simply and bluntly stated costs are increasing while our municipal revenues are basically flat.

I believe the time has arrived for us to enter into an extensive dialogue as to what should comprise the sustainable scope of services to be offered to our citizens. Those services then need to be funded by a sustainable revenue stream that contemplates and anticipates rising costs as well as the need to set money aside for the eventual replacement of infrastructure. If there is not the will of the citizenry to bear the cost of sustaining some elements of public services, we will have no choice but to scale back or eliminate those services. We must develop a long range plan that will allow us to live within our means as a community. Depending on grants, windfalls, and luck to sustain our services and infrastructure is not a fiscally prudent, not sustainable, way to manage our City and Borough.

As you will see upon review of the budget document, I am submitting to you a balanced budget which includes reduced Federal and State of Alaska revenue and no new taxes or service fee increases. This does not mean that proposals for service fee increases will not be forthcoming, however. Various master plans presented to you contain recommended service fee increases for FY14, and we will be presenting them at the start of the new fiscal year. It is not our policy,

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though, to plan for a service fee increase in our budgets until a thorough public discourse has taken place on the increase; anything else would be presumptuous.

The budget I am presenting contains some difficult expense increases. As we have discussed in previous meetings, the health insurance program for the Municipality was renewed with a 15% premium increase, achieved only after raising the employee deductible from \$500 to \$1,000. We are also currently undergoing collective bargaining negotiations with two of our three unions which will have impact on wages and benefits.

At the same time, Federal and State revenue sources are becoming even more uncertain and can no longer be counted on as a sustainable source for funding ongoing services. At the time of the writing of this letter, there is no renewal of the Secure Rural Schools Act and, in addition, unless the Federal Payment in Lieu of Taxes program is renewed, FY2014 will be the last year we receive PILT. There are no indications from the State of Alaska that Sitka will receive supplemental revenue sharing appropriations, such as we have seen in the past several years.

Furthermore, the general governmental services of our Municipality can't be considered in isolation. The Sitka School District is also facing difficult financial pressures. Federal sequestration has the Districts revenues already, and the District is also dealing with health insurance increases and collective bargaining negotiations.

As a result of the fiscal pressures I have described, I am presenting a budget which has been balanced by severely curtailing spending on infrastructure repairs. Key appropriations that should be made in FY2014 for repairs have been deferred. While it allows us to balance our budget in the shortfall, this is an irresponsible course of action for the long term. It serves to underscore my earlier request that an urgent dialogue take place as to what level of services the citizens are truly willing to pay for.

In addition to balancing the Municipal budget without the addition of any new taxes, our staff has taken initial steps to address under-funding of several of our sinking funds. In particular, staff analysis found the Central Garage Fund, which provides for vehicle replacements, to be severely underfunded. To remedy this underfunding, we have demonstrated fiscal discipline by increasing transfers into the sinking funds while, at the same time, recommending painful service cuts.

As I mentioned previously, our municipal infrastructure continues to rapidly age. We have completed Master Plans for most of our utilities that recommend continued investment in repairs and upgrades coupled with increased user fees. Accordingly, we will be recommending rate increases for water, wastewater treatment, and moorage this year as prescribed by the various Master Plans.

As you know, the largest infrastructure project in the history of the City and Borough of Sitka, the Blue Lake Hydroelectric Dam project, is now fully underway. Construction will continue until the fall of 2014, with impacts into our FY2015 budget. We successfully completed our second of three planned bond sales to finance the project in March of this year, with the third and

final bond sale planned for early fall of this year. The amount of the bond sale will be dependent on our success in obtaining additional funding for the project from the State of Alaska.

Another major infrastructure project to be commenced in FY2014 is the replacement of ANB Harbor. We successfully raised our matching share of the project cost through a bond sale in March of this year, which will be used along with a State of Alaska Department of Transportation grant to complete the project.

The other major infrastructure projects planned for FY2014 include renovation of the Centennial Building and its parking lots; resurfacing of the airport runway; construction of a new breakwater in the Western Channel, and resurfacing of our State Highways. These projects are funded from various sources, Federal, State and Local, and all are expected to provide a short term stimulus to our local economy.

It is my anticipation that municipal employee pay will need to be increased this year. As I have mentioned collective bargaining is underway with several unions. The result of that collective bargaining will serve as the basis for compensation increases.

Our Municipal budget, as in past year, continues to adequately provide for a multitude of basic and special services to the Citizens of Sitka. 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 may be reduced, no major municipal service areas have been eliminated in their entirety.

### **Fund Structure of the City and Borough**

The Fiscal Year 2014 Consolidate Operating Budget contains operating budgets for the Sitka General Fund and Permanent Fund; eight Enterprise Funds (Electric, Water, Waste Water, Solid Waste, Harbor, Airport Terminal, Marine Service Center, and Sawmill Cove Industrial Park); three Internal Service Funds (Management Information Systems, Central Garage and Building Maintenance); four Special Revenue Funds (SE Alaska Economic Development, Revolving LID Fund, Guarantee Fund, and Library Endowment); one Fiduciary Fund (Rowe Trust); all Capital Projects Funds; and the Sitka Community Hospital.

### **General Overview of the Financial Condition of the City and Borough**

It is the financial philosophy of the City and Borough that each Enterprise Fund and Internal Service Fund of the City and Borough is a separate and distinct business element and should stand on its own financially. The City and Borough believes, in addition, that the General Fund should finance the expenditures for general government services in line with projected revenues. In light of this philosophy, each operating budget has been balanced for FY14, through a combination of operating revenues, expenditure reduction, and working capital balances. The Electric, Water, Harbor, Airport Terminal Building, MIS, and Central Garage Funds project net

assets to be increased during FY14; all other funds are either balanced or project a cash flow deficit.

The overall financial condition of the City and Borough of Sitka is projected to remain satisfactory, with an adequate level of combined working capital (both restricted and unrestricted) for all of its funds. Cash flow and liquidity is also projected to remain satisfactory. The value of the City and Borough's combined investment portfolio is approximately \$87 million including approximately \$17.9 million in the Permanent Fund.

While the overall financial condition remains sufficient, our General Fund and six of our Enterprise Funds – Electric, Water, Waste Water, Solid Waste, Harbor, and Sawmill Cove Industrial Park – have insufficient revenues and working capital to provide for the long-term maintenance and replacement of their physical plants. The condition of some of these funds has improved slightly from FY13, due to user rate increases enacted in FY13, but their financial condition is still weak. Recent trends in the Alaska State Legislature which show an overall reduction in the likelihood of capital grants exacerbate this condition. As a result, needed repairs and infrastructure replacement will continue to require a combination of increased user rates and debt financing. Of greatest concern is the rapidly declining condition of our municipal road system and our inability to financially keep pace with the costs of repairs. Other significant concerns are the potential loss of State funding sources for water and wastewater infrastructure repairs coupled with insufficient working capital to finance such repairs internally.

## **An Overview of the Fiscal Year 2014 Consolidated Operating Budget**

### **Fiscal Year 2014 Budget Process**

In developing each operating budget, the City and Borough Administrator, Finance Director and other Department Heads used zero-based budgeting techniques to develop the City and Borough of Sitka's departmental budgets from the ground up. Funding levels from last year and subsequent years served as guidelines but were not used as a starting point for incremental funding. The strengths of this process are that each line item can be justified in terms of specific required expenditures and that each Department Head has been fully involved in planning the resource needs of their Department for FY14.

To balance planned expenditures with predicted revenues and to fund additional personnel costs, Department Heads were requested to present their budgets based on services requested by the local citizens and with a reduction of five percent of the previous year's expenditures. After the first round of proposed expenditures, the Administrator decremented certain line items before the presentation to the Assembly.

In order to provide a complete, readable, and understandable Consolidated Operating Budget, we have utilized the following:

- a. The same budget format has been developed for all funds, including Fiduciary Fund and Special Revenue Funds. The format includes all components of both revenues and expenditures identified by line number and, in addition, documents Fiscal Year 2012 actual amounts, Fiscal Year 2013 budgeted and projected amounts, and Fiscal Year 2014 budgeted amounts.
- b. A table of personnel allowances has been included which details both the Municipality's required positions and those that are authorized.
- c. A fund summary sheet has been developed for each Enterprise and Internal Service fund that clearly identifies which components of reserve working capital are earmarked for capital projects and which components are truly unrestricted.
- d. Proprietary Fund budgets have been constructed on a cash inflow or outlay basis. To more clearly show the financial condition and results of these funds on an accrual accounting basis, however we have not budgeted for non-cash, accrued, and amortized expenses and, in addition, have constructed pro forma financial statements to clearly show the financial effects of each projected budget.

You will find that each Fund's capital program is presented in a new format this year. We feel, as a management team, that the past presentations of capital program information were incomplete and did not impart sufficient information to readers and users of the budget. The new format now clearly identifies which capital projects are in existence which have been authorized in the past and for which appropriations have been made in the past; which new capital projects are being proposed for FY2014 and the amount of the capital appropriation being sought; and, a breakout of the funding components (grant, loan, working capital) for every project.

### **Level of Service and Service Reductions**

The FY14 budget was built on the expectation that the actual revenue plus working capital would be sufficient to cover the budgeted expenditures and should the actual revenues fall short, then we will be at the decision to curtail or suspend services or undertake a staff reduction. Across the board, we intend to supply the same services to our citizens as we have in the past.

### **Work Force Management, Composition, and Compensation**

Total budgeted compensation for the City and Borough's municipal work force is \$17,631,972 (excluding Sitka Community Hospital), of which \$7,109,732 or 40.32% is borne by the various Enterprise and Internal Service Funds. The number of municipal employees for FY13 is 156.044 FTE (Full Time Equivalents) (excluding temporary employees and the Sitka Community Hospital).

In FY2014, one and 1/4 additional full time equivalent (FTE) employees are being proposed: one additional position in the Electric Department to assist with the Blue Lake Dam Hydroelectric project and returning the Assistant Clerk position (formerly titled Admin. Services Coordinator) from ¾ time back to full time in order to offer some assistance to the Human Resources office and to assist with the Municipalities records management responsibilities.

Three unions represent approximately 2/3 of the work force. Collective bargaining was completed in the spring of this year with the International Brotherhood of Electrical Workers (IBEW) who represents some of the Electric Department's employees. This collective bargaining with the IBEW resulted in a 2.5% wage increase which is included in this fiscal year's budget. Collective bargaining negotiations with the other two unions are currently underway. Any wage increases for all other represented employees will be dependent on the outcome of collective bargaining; thus, no wage increase for other represented employees is included in this year's budget. If collective bargaining results in compensation increases, a supplemental budget ordinance will be presented to the Assembly for approval. A wage increase of 2.5% is included in this year's budget for all non-represented employees.

The package of benefits for municipal employees is remaining basically the same in FY13; however, the cost components for health insurance have changed from FY2013. The Health insurance costs were negotiated with an increase of 15% for FY14 compared to the rates for FY13. In addition, the employee deductible was raised from \$500 to \$1,000, which could cause some employees to bear as much as \$1,500 in additional deductible medical costs. The health insurance cost for IBEW employees and non-represented employees will be covered by both the municipality and employees at their current ratio of 10% for the employees and 90% for the municipality. Health insurance for all other represented employees is subject to collective bargaining. The Municipality will offer optional group term life insurance for all employees. The full cost of this additional optional insurance will be borne by the employees.

### **Taxes and Other Revenues**

A property tax levy of six mills, unchanged from last year, is being budgeted again this year; this is the current maximum allowed by the Home Rule Charter.

Sales taxes will again be levied at five percent, adjusted seasonally to six percent from April thru September with the extra proceeds dedicated to school-related general obligation debt. Sales taxes are anticipated to rise by 2.36% in comparison with fiscal year 2013 projections; this rise is due to the increase of the taxable sales tax limit to \$1,500 per transaction, and, to the removal of the sales tax exemption on alcohol and tobacco sales to senior citizens.

Municipal Revenue Sharing from the State of Alaska is anticipated to be approximately \$910,000 for the Municipality in FY14. No supplemental revenue sharing appropriations are expected in FY14. School bond debt reimbursement from the State of Alaska is again expected to be fully funded at 70% of total principal and interest payments, for a total reimbursement of \$892,000.

Within the General Fund, all interest revenue earned by the Revolving and Guarantee Funds in FY14 will again be transferred to the General Fund. This will result in \$29,000 in additional revenue to the General Fund.

### **Municipal Debt**

The City and Borough will have \$31,020,000 in General Obligation Bonds, \$81,330,000 in Electric Revenue Bonds, \$3,955,000 in Harbor Revenue Bonds, and \$8,260,115 in a long term note (Electric Fund) outstanding at the start of FY14. In addition, the following funds have low interest loans from the State of Alaska: the General Fund, The Water Fund, the Wastewater Treatment Fund, the Solid Waste Disposal Fund, and the Harbor Fund. Total anticipated debt service for fiscal year 2014 will be \$11,015,909 of which \$1,715,073 will be reimbursed by the State of Alaska's Department of Education.

The City and Borough anticipates entering into additional bonded indebtedness in fiscal year 2014. This anticipated additional new debt includes approximately \$40,500,000 in electric revenue bonds to complete the Blue Lake Dam Hydroelectric Project. If approved by the State of Alaska, the Water and Wastewater Funds may borrow from the State to finance capital infrastructure improvements. Applications for any such loans must ultimately be approved by the Assembly before submission and possible approval by the State of Alaska.

The City and Borough retains a sufficient level of general obligation bonding capacity in order to meet future needs.

### **Individual Departmental Highlights**

#### **1. General Government**

General governmental activities (those financed by the General Fund) in FY14 will concentrate on maintaining the current level of municipal services to our citizens. The General Fund budget is essentially balanced, with a minimal excess of revenues over expenditures.

We have balanced the General Fund budget, however, through painful fiscal discipline by reducing the scope of our general governmental capital improvement program. The course of

action was chosen as the most acceptable alternative, as opposed to reductions in force or service cope reductions. We must emphasize, though, that this course of action is not a sustainable choice as a long run strategy. Reduction of the capital program will lead to increasing levels of deferred maintenance which will create greater financial difficulties in the future.

No new taxes or tax increases have been planned for, and, we have not planned to utilize any of our General Fund balance to balance the budget.

## **2. Electric Department**

The Blue Lake Dam Hydroelectric Project has commenced, which is the major focus of the Electric Department in FY14. This project involves the addition of a third turbine at the Blue Lake Hydroelectric Generation Plant along with raising of the dam height to increase the amount of electricity generated by the facility. The total cost of the project is anticipated to be approximately \$142,000,000. \$49,500,000 of the cost will be funded by grants from the State of Alaska with the remainder to be financed through electric revenue bonds. \$21,000,000 was raised through the sale of electric revenue bonds in 2010 and another \$37,000,000 was raised through a second bond sale in March of this year. The remaining project funds are planned to be raised through a third and final revenue bond sale in October/November of 2013 (FY2014). The amount of the final bond sale will depend on whether any additional financial support for the project is obtained from the State of Alaska in the Governor's FY2014 budget.

In addition to the Blue Lake Dam Hydroelectric Project, the Electric Department has also commenced upgrading the stand-by diesel generation plant. This upgrade, which is critical to ensure adequate electricity to the City and Borough at all times, is estimated to cost approximately \$14,200,000. The cost of this project is being financed through some of the proceeds from the second electric revenue bond and a \$7,200,000 matching grant from the State of Alaska. The upgraded diesel plant is expected to be fully operational in the fall of 2013 (FY2014).

The financial condition and working capital of the Electric Fund is adequate but not robust. Two recently passed electric rate increases have provided an increased revenue flow in order to pay for the increased debt service of the second revenue bond, and, to meet financial rate covenants associated with the bond. The concern of management is that other elements of the transmission and distribution system continue to age and, therefore, a sustained level of additional capital spending will be required in the next decade to keep the system functioning smoothly.

## **Water Department**

The Water Department is actively planning for two major capital improvements, an alternative water supply and a UV Disinfection facility.

In prior years, the backup water supply for the City and Borough of Sitka has been Indian River. In the recent past however, the State of Alaska has revised surface drinking water rules which require filtration before use. This has resulted in the municipality's secondary water supply being essentially unusable. The Water Department has engaged in several analyses designed to identify the most cost effective method of providing a potable backup water supply. Alternatives being considered are wells and filtration. The anticipated cost of an alternative water supply is approximately \$5,000,000.

New drinking water laws have also required secondary treatment for the Municipality's drinking water supply. Accordingly, the City and Borough has commenced with construction of a UV Disinfection facility, to be located at the Sawmill Creek Industrial Park.

The financial condition of the Water Fund remains weak but is improving. The rate increases approved by the Assembly in FY2012 and FY2013 helped to increase cash flow from operations, but unanticipated capital demands have consumed all of this additional working capital. Overall working capital remains very low at approximately \$1,400,000; however, working capital commitments to various projects total \$1,947,000. As a result, the Water Fund continues to have negative undesignated working capital. As a result, we will be requesting that the Municipality continue with the planned water rate increases set forth in the Water Master Plan.

### **Waste Water Treatment**

Inflow and Infiltration (I & I) infrastructure improvements continue to be the focus of the Waste Water Treatment Department. Future I & I infrastructure improvements will be funded, whenever possible, with low interest rate loans from the State of Alaska. Several loans have been applied for, and approved, by the State of Alaska; however, any appropriations from the loan must be approved by the Assembly.

As with the Water Fund, the financial condition of the Waste Water Treatment Fund is weak but is improving. Our wastewater treatment infrastructure is expansive and costly, and the decline in value of this infrastructure is only partially being offset by positive cash flow. As a result, insufficient working capital is being accumulated to finance anticipated future repairs and replacement of the waste water physical plant. An ever-present additional risk remains that future laws may be passed requiring mandatory secondary treatment for

wastewater which would require a substantial investment on the part of the City and Borough.

In FY2013, we completed a Waste Water Master Plan to help guide waste water treatment rates in order to meet these future requirements. The Plan was presented to the Assembly and will serve as a guide for future wastewater rate increases. We will be proposing a fee increase in conjunction with the Plan in FY2014.

### **Solid Waste Disposal**

The financial condition of the Solid Waste Disposal Fund and its cash flow from operations are both adequate. Total working capital is estimated to be approximately \$1,579,000 at the end of fiscal year 2013, with undesignated working capital estimated to be approximately \$900,000.

In FY2014, a major project is being proposed which will consume all of this undesignated working capital. This project is a replacement of the scrap yard baler, which will allow the scrap yard to operate more efficiently.

Of additional concern has been a decline in recycling revenues. Such revenues are cyclical and fluctuate with commodity prices. If commodity prices remain low and the baler project consumes the bulk of undesignated working capital, some analysis of solid waste disposal rates for future years may be appropriate. As it stands now, though, no solid waste disposal user rate increase is being proposed for FY2014.

### **Harbors**

A community-wide discourse continues as to what the sustainable scope of the Municipal harbor system should be and what resources should be dedicated towards paying the costs associated with maintaining and ultimately replacing component portions of the system

A Harbor Master Plan was completed in fiscal year 2013 which indicated that a sustained series of moorage rate increases were necessary to provide for a well-maintained harbor system. The ongoing public discourse is reviewing portions of the plan, however, and it is possible some elements of the plan may change. Administration will be recommending a moorage increase in FY14 in accordance with the plan, but future rate increases beyond FY14 will be determined by the extent to which the current Harbor Master Plan is modified.

The replacement of the ANB Harbor, a major capital project previously approved by the Assembly, has commenced and will be completed in FY14. This project is estimated to cost \$8,500,000 of which the State of Alaska is expected to pay for half. The remaining funds to

complete the project were raised in March of this year through a harbor moorage revenue bond sale.

Beyond the ANB Harbor project, an additional \$850,000 of additional capital appropriations is being sought for various infrastructure repair projects. As a result of these additional repairs, undesignated working capital is projected to increase by approximately \$381,000 in FY14, barring any additional moorage increases.

### **Airport Terminal Building**

The financial condition of the Airport Terminal Building Fund and its cash flow from operations are both adequate. Undesignated working capital is estimated to be approximately \$399,000 at the end of fiscal year 2013. The major infrastructure project planned for the Airport Terminal is a \$275,000 Baggage Area and TSA Area upgrade, which was appropriated in the FY13 budget.

### **Marine Service Center**

The financial condition of the Marine Service Center Fund and its cash flow from operations are both good. Working capital is estimated to be approximately \$1,399,000 at the end of fiscal year 2013. No major infrastructure projects are planned for fiscal year 2014.

The major decision that will need to be made in the near term regarding this fund is whether or not it is in the best interest of the Municipality to maintain the facility. Within the next two years, original covenants limiting the sale of the facility will expire and private entities have already expressed an interest in its purchase.

### **Sawmill Cove Industrial Park**

The long term financial condition of the Sawmill Cove Industrial Park Fund remains weak. The Park has, however, experienced a temporary boost in revenues and activity due to the Blue Lake Dam Hydroelectric Project, and, due to the Sawmill Creek Road repaving project. Both projects have resulted in the Park being fully leased for the near term.

The long-term future of the Park still depends on successfully obtaining long-term tenants whose business activities will provide a steady dependable stream of rental revenue. The short-term effect of construction projects is now providing a window of time for recruiting such tenant(s). Unless such stable long-term tenants are located and recruited, the Fund will eventually exhaust its working capital. At such a time, ongoing financial support in the form of funds transfers from the General Fund will be required to keep the fund solvent.

## **Management Information Systems**

The financial condition of the Management Information Systems Fund is fair. Working capital is estimated to be approximately \$200,000 at the end of fiscal year 2013.

As approved by the Assembly, the Municipality has entered into a contract to upgrade and replace its aged accounting software with a new Enterprise Resource Planning (ERP) system. Planning has already commenced on system analysis and design, and, much of the required hardware has already been purchased. Implementation of the main core accounting portion of the ERP will occur in late summer of this year (FY2014) with utility billing being implemented next winter. At the time that core accounting functions are implemented, we will also implement the highly desired Business Analytics functionality that will allow management to combine cost data with activity data in higher level analyses.

## **Central Garage**

The financial condition of the Central Garage Fund is improving but remains problematic. Working capital is estimated to be approximately \$1,180,000 at the end of fiscal year 2013.

The Fund has historically been structured as a sinking fund, wherein sinking fund payments made by other funds combined with investment returns on the fund balance were supposed to be sufficient to finance all future vehicle replacements. Analysis has shown, however, that the Fund is underfunded as a result of having historically used too high of an estimated investment return in its funding calculations.

We worked to resolve this underfunding by making extra contributions to the Central Garage Fund in fiscal year 2013; this resulted in the growth of working capital in the fund by approximately \$400,000 in FY2013. Increased contributions still need to be made in FY14 and succeeding years in order to restore the fund balance to the proper level.

## **Building Maintenance**

The financial condition of the Building Maintenance Fund is healthy and sufficient to accomplish the intended purpose of the fund, which is routine and minor maintenance to public buildings. Working capital is estimated to be approximately \$2,477,000 at the end of fiscal year 2013.

It should be noted that the working capital in the fund is gradually declining, however, from \$2,793,000 at the end of FY12 to a projected \$2,303,000 at the end of FY14. This fund has

no external revenue source; it receives its revenues from jobbing activities to other funds, and, from the interest earned off of the Southeast Alaska Revolving Economic Development Fund (Steven's Fund). If jobbing rates are increased to stabilize this fund, operating budgets for other funds will be affected, decreasing their cash flows and working capital

This Fund was never intended, however, to provide for major repair, renovation, or replacement of Municipal buildings. No provision for financing such major replacements has been planned for by the Municipality and remains one of the biggest fiscal challenges we face as a community.

### **Capital Improvement Program**

The 2014-2017 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 2014-2017 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 City and Borough of Sitka, and its citizens, must decide on what level of sustainable governmental services they are willing to pay for. The decisions that our Assembly and management team make will have a tremendous impact on the future outlook for Sitka.

It is becoming very clear that 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. In addition, much of the public infrastructure that our citizens have come to expect and

enjoy is rapidly aging and deteriorating. There is simply not enough money available to continue providing Sitka School District requests and still provide all services at their historic levels to our citizens.

A comprehensive dialogue as to sustainable government is clearly needed at this juncture. Such a dialogue must result in a collaborative, consensus decision as to service levels and dedicated funding sources. Otherwise, the City and Borough will continue down an unsustainable path which will lead to untenable fiscal problems in the future.

There are several major critical issues which follow this outlook assessment and which require continued vigilance in the years ahead:

### **1. Long-Term Funding for Public Infrastructure Renovation and Replacement**

The Assembly wisely established a formal sinking fund for the major renovation and replacement of major items of public infrastructure such as streets, buildings, sidewalks, and parking lots. It is imperative that this fund be increased to the size wherein it can provide secure funding for planned infrastructure repairs and replacements.

### **2. Continued Diversification of Our Local Economy**

In order for our Municipality to grow, both figuratively, culturally, and economically, we must find ways to continue to diversify our local economy. We need to continue to do everything within our power to attract environmentally friendly industries that will provide permanent jobs with wages that will allow Sitkans to live and support a family.

### **3. Scope and Complexity of Municipal Services**

Even though Sitka is a town of only 9,084 residents, the City and Borough government provides an array of public services comparable to that of a small city of 100,000 residents in the continental 48 states. This is due to the isolated location of Sitka and the absence of private alternatives. To provide this array of services, the City and Borough government is one of the largest and most complex organizations in Sitka, second only, perhaps, to SEARHC.

We must be vigilant not to directly, or indirectly, increase the scope and expanse of municipal services which, in turn, make the governmental structure more complex. This includes critical analysis of the future impact of major decisions, especially in regards to how such decisions carry future price tags for ongoing operation, maintenance and replacement of infrastructure.

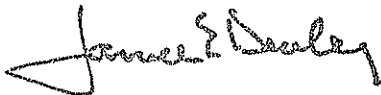
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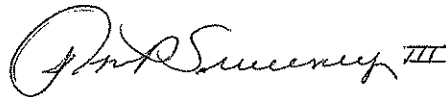
### Summary

Our Municipal government continues to provide an outstanding array of services to its citizens through the collective efforts of outstanding, 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,



Jim Dinley  
Administrator



John P. (Jay) Sweeney III  
Finance Director

## CITY AND BOROUGH OF SITKA

## ORDINANCE NO. 2013-27

**AN ORDINANCE OF THE CITY AND BOROUGH OF SITKA  
ADOPTING BUDGETS FOR THE FISCAL YEAR JULY 1, 2013  
THROUGH JUNE 30, 2014**

**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 2014.

**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, 2013 and ending June 30, 2014 are hereby adopted as follows:

<u>FUND</u>	<u>REVENUE</u>	<u>EXPENDITURE BUDGET</u>		
<u>GENERAL FUNDS</u>	REVENUE	OPERATIONS	CAPITAL/ TRANSFER	TOTAL
General Fund	\$ 24,947,023	\$ 23,541,641	\$ 2,080,025	\$ 25,621,666
<u>ENTERPRISE FUNDS</u>				
Electric Fund	\$ 138,577,000	\$ 54,761,332	\$ 82,850,000	\$ 137,611,332
Water Fund	\$ 1,586,000	\$ 1,485,350	\$ 65,000	\$ 1,550,350
Wastewater Fund	\$ 2,439,000	\$ 2,508,819	\$ 215,000	\$ 2,723,819
Solid Waste Fund	\$ 3,083,500	\$ 3,090,417	\$ 550,000	\$ 3,640,417
Harbor Fund	\$ 11,704,200	\$ 2,264,799	\$ 9,350,000	\$ 11,614,799
Airport Terminal Fund	\$ 628,269	\$ 359,658	\$ -0-	\$ 359,658
Marine Service Center Fund	\$ 258,684	\$ 167,027	\$ -0-	\$ 167,027
Sawmill Cove Industrial Complex	\$ 433,000	\$ 411,826	\$ -0-	\$ 411,826

<b><u>INTERNAL SERVICE FUNDS</u></b>	REVENUE	OPERATIONS	CAPITAL/ TRANSFER	TOTAL
Management Information Systems Fund	\$ 887,022	\$ 809,321	\$ 87,000	\$ 896,321
Central Garage Fund	\$ 1,915,257	\$ 935,769	\$ 225,000	\$ 1,160,769
Building Maintenance Fund	\$ 594,573	\$ 888,611	\$ -0-	\$ 888,611
<b><u>SPECIAL REVENUE FUNDS</u></b>				
SE Alaska Economic Development Fund	\$ 180,000	\$ 90,000	\$ -0-	\$ 90,000
Revolving Fund	\$ 23,000	\$ 23,000	\$ -0-	\$ 23,000
Guarantee Fund	\$ 6,000	\$ 6,000	\$ -0-	\$ 6,000
Rowe Trust Fund	\$ 8,000	\$ 3,000	\$ -0-	\$ 3,000
Library Endowment Fund	\$ 18,000	\$ 1,000	\$ -0-	\$ 1,000
Southeast Alaska Communities Against Drugs Fund	\$ 28,000	\$ 28,000	\$ -0-	\$ 28,000
City/Borough Forfeiture Fund	\$ 2,000	\$ -0-	\$ -0-	-0-
Narco Task Force Grant	\$ 235,000	\$ 235,000	\$ -0-	\$ 235,000
State Forfeiture Fund	\$ 4,000	\$ -0-	\$ -0-	\$ -0-
Homeland Security Grant	\$ 15,000	\$ 15,000	\$ -0-	\$ 15,000
Library Building Fund	\$ 1,000	\$ 1,000	\$ -0-	\$ 1,000
SCIP Contingency Fund	\$ 22,000	\$ 22,000	\$ -0-	\$ 22,000
Tobacco Excise Tax Fund	\$ 472,500	\$ 472,500	\$ -0-	\$ 472,500
Fisheries Enhancement Fund	\$ 35,000	\$ 35,000	\$ -0-	\$ 35,000
Commercial Passenger Vessel Excise Tax Fund	\$ 135,000	\$ 180,000	\$ -0-	\$ 180,000
Cemetery Fund	\$ 4,000	\$ 3,000	\$ -0-	\$ 3,000
Seasonal Sales Tax/School Bond Debt Service Fund	\$ 2,725,600	\$ 2,450,100	\$ -0-	\$ 2,450,100
<b><u>PERMANENT FUND</u></b>				
Permanent Fund	\$ 300,000	\$ 1,110,000	\$ -0-	\$ 1,110,000

<u>CAPITAL PROJECT FUNDS</u>	REVENUE	OPERATIONS	CAPITAL /TRANSFER	TOTAL
General Capital Project Fund	\$ 313,000	\$ -0-	\$ 313,000	\$ 313,000
Electric Capital Project Fund	\$ 40,840,000	\$ -0-	\$ 40,840,000	\$40,840,000
Water Capital Project Fund	\$ 65,000	\$ -0-	\$ 65,000	\$ 65,000
Wastewater Capital Project Fund	\$ 180,000	\$ -0-	\$ 180,000	\$ 180,000
Solid Waste Capital Project Fund	\$ 50,000	\$ -0-	\$ 50,000	\$ 50,000
Harbor Capital Project Fund	\$ 850,000	\$ -0-	\$ 850,000	\$ 850,000
Airport Terminal Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Marine Service Center	\$ -0-	\$ -0-	\$ -0-	\$ -0-
<u>COMPONENT UNIT</u>				
Sitka Community Hospital	\$24,708,410	\$ 22,838,537	\$ 1,869,873	\$24,708,410

**EXPLANATION**

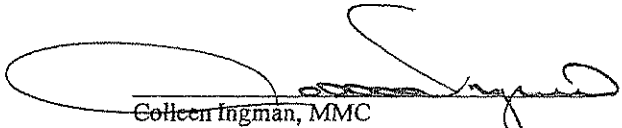
Details of individual budgets are contained in Enclosure 1. Support to the Sitka School District has been included in the General Fund Expenditures. Budgeted amounts for all funds include revenue, operating expenditures and new capital outlays.

5. **EFFECTIVE DATE.** This ordinance shall become effective on July 1, 2013.

PASSED, APPROVED, AND ADOPTED by the Assembly of the City and Borough of Sitka, Alaska this 11th day of June, 2013.

  
Mim McConnell, Mayor

ATTEST:

  
Colleen Ingman, MMC  
Municipal Clerk