



City and Borough of Sitka

100 Lincoln Street Sitka, Alaska 99835

Coast Guard City, USA

May 12, 2016

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 2016 Consolidated Operating Budget of the City and Borough of Sitka and Sitka Community Hospital are hereby presented for your approval.

Introduction

The FY2017 budget continues to provide for all essential government services, although some will be reduced in scope and/or frequency. The Municipality faces increased challenges in regards to escalating costs, aging infrastructure, and deferred maintenance, especially of our municipal road system. Providing the historic level of governmental services the residents of Sitka are used to receiving will become extremely difficult in FY2018 and beyond.

The fiscal challenges the Municipality faces are multiple, but they have one key shared characteristic – declining financial assistance at the Federal and State level, when combined with tepid growth in local tax receipts, is increasingly insufficient to meet the costs of government. Many governmental costs, such as debt service and collectively bargained labor, are either fixed or negotiated for systematic increase. Thus, as revenue streams decline and a portion of outlays is fixed, the pool of costs which are controllable declines, force difficult decisions to be made in regards to municipal services.

It is becoming increasingly clear that revenue streams and financial support, that we have relied on in the past from the Federal Government and State of Alaska, are rapidly drying up. We currently provide a vast array of services to our citizens, to some degree funded by Federal and State support. We will be unable to provide all of these services in the future. For FY2017, the Municipality has planned for the elimination of four and one half full-time positions from the work force, a 3% reduction. In addition, controllable costs have been reduced by an additional 2% through scale backs in the frequency and scope of municipal services such as snow plowing, storm drain maintenance, and janitorial services.

In FY2016, the Assembly appointed a Citizens' Taskforce to independently review the fiscal condition and future outlook for the Municipality. The Taskforce completed its review this spring, providing multiple recommendations to the Assembly with profound and far-reaching ramifications. These recommendations have been termed the "Grand Bargain", as the comprehensive package of recommendations include increase of property taxes, the elimination of sales taxes on groceries, a commitment to increase dedicated spending for maintenance and

repair of public infrastructure, and commitments to sustained reductions in spending in both the Municipality and the Sitka School District phased over three years. The reductions in the Municipal work force and controllable costs, planned for FY2017, are the direct result of decisions made by the Assembly to achieve the first round of phased spending cuts.

Downsizing our unsustainably large and complex government will be challenging and painful. Every service we offer has its own constituency. We must work with the community to arrive at the proper combination and level of services that benefit the greatest proportion of the population. To achieve a more lean and streamlined government, the Municipality will continue to seek efficiencies in all operations. For example, all vacancies will continue to be examined to determine if incremental efficiencies can be gained by external contracting, scaling back scopes of duties, and conversion of full time positions to part time or left unfilled. Inevitably, though, the quality, scope, and frequency of Municipal service will be diminished.

The FY2017 budget includes no new taxes. Acting on the recommendations of the Citizens' Taskforce, however, the community will most likely engage in a robust public discourse in FY2017 as to the potential of raising the local millage rate as well as considering other excise taxes.

Our budget does propose service fee increases in our harbors, electric, water, wastewater utilities. We have adopted a policy of considering annual user fee increases that are in line with master plans previously approved by the Assembly. If such increases are unachievable due to the state of the local economy, we will propose an annual user fee increase consistent with the annual rate of inflation.

In order to decrease the need for a large user fee increase in the Electric Fund, \$1,650,000 is transferred from the General Fund to the Electric Fund Rate Stabilization Fund to meet rate covenant requirements. This will result in the Municipality being able to keep the annual user electric fee increase to a modest 5%. Other fee increases that are contained in the FY2017 budget are 1% inflationary fee increases in water and wastewater, and, a 5.0% increase in harbor moorage rates.

The FY2017 budget contains no significant expenditure other than programmatic spending increases due to collective bargaining agreements and other similar arrangements. Federal revenue sources continue to be uncertain. At this time, there is no renewal of the Secure Rural Schools Act by the Federal Government for Federal FY2017. The Federal Payment in Lieu of Taxes (PILT) program was renewed for Federal FY2016 and will be received in the Municipality's FY2017. Its reauthorization for additional years is not guaranteed, however.

The financial pressures faced by the Sitka School District are severe and will have a direct impact on the Municipality. With over 70% of the total expenditures of the School District being in the form of wages and benefits, these pressures, coupled with revenue streams which are not increasing, will cause the District to adopt an unbalanced, deficit budget for FY2017, drawing significant funds from reserve working capital. Such budgetary solutions are clearly not sustainable.

A critical infrastructure issue is the condition of Municipal roads and streets. We will, once again, not be able to afford all street repairs which are scheduled and necessary for FY2017. The recommendations of the Citizens' Taskforce focus on increasing funding for these critical deferred repairs; however, obtaining the necessary funding will be largely dependent on obtaining new revenue streams. To fund proposed street repairs, we are planning for the transfer of the entire balance of the Public Infrastructure Sinking Fund to the General Fund again in FY2017.

Our three collective bargaining agreements are currently being negotiated. Our non-represented employees will receive a 1.5% cost of living increase in the FY2017 budget.

In summary, our Municipal budget, as in past years, continues to adequately provide for 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 including our Municipal library and Harrigan Centennial Hall. While some service levels will be reduced, no major municipal service areas are planned to be eliminated.

Capital Improvement Program

The 2016-2019 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.

The 2016-2019 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. 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).

Outlook

The key challenge facing the City and Borough of Sitka is to provide an appropriate level of service to our community and do so in a sustainable way. Our current course is unsustainable although significant progress has been achieved in the last few months in recognizing what needs to be done and what paths we will need to take to get there.

There is reason to be concerned, but there is equal opportunity for optimism. We believe by summer 2018, there will be 200,000 cruise ship visitors to Sitka, more than doubling the number in 2013. Commercial fishing remains strong and vibrant, and health care and government sectors also continue to contribute to a diversified economy. We remain hopeful that bulk water will also become a revenue generating commodity.

Our Municipal government continues to provide a comprehensive array of services to our community. The financial condition of the Municipality remains in good shape, with a solid level of combined reserve working capital. With these strong assets, combined with a dedicated workforce, we will 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
Administrator



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

CITY AND BOROUGH OF SITKA

ORDINANCE NO. 2016-20

**AN ORDINANCE OF THE CITY AND BOROUGH OF SITKA
ADOPTING BUDGETS FOR THE FISCAL YEAR JULY 1, 2016
THROUGH JUNE 30, 2017**

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 2017.
- 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, 2016 and ending June 30, 2017 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	\$ 28,288,850	\$ 26,788,850	\$ 1,500,000	\$ 28,288,850
<u>ENTERPRISE FUNDS</u>				
Electric Fund	\$ 18,086,900	\$ 17,268,250	\$ 3,475,000	\$ 20,743,250
Water Fund	\$ 3,590,030	\$ 2,126,252	\$ 75,000	\$ 2,201,252
Wastewater Fund	\$ 4,680,820	\$ 3,177,896	\$ 226,500	\$ 3,404,396
Solid Waste Fund	\$ 3,750,668	\$ 3,563,072	\$ -0-	\$ 3,563,072
Harbor Fund	\$ 3,759,500	\$ 2,267,774	\$ -0-	\$ 2,267,774
Airport Terminal Fund	\$ 486,000	\$ 463,288	\$ -0-	\$ 463,288
Marine Service Center Fund	\$ 265,484	\$ 158,197	\$ -0-	\$ 158,197
Gary Paxton Industrial Park	\$ 7,188,900	\$ 306,972	\$ -0-	\$ 306,972

<u>INTERNAL SERVICE FUNDS</u>	REVENUE	OPERATIONS	CAPITAL/ TRANSFER	TOTAL
Management Information Systems Fund	\$ 1,144,022	\$ 1,051,410	\$ -0-	\$ 1,051,410
Central Garage Fund	\$ 1,816,156	\$ 896,929	\$ 821,200	\$ 1,718,129
Building Maintenance Fund	\$ 772,400	\$ 689,961	\$ -0-	\$ 689,961
<u>SPECIAL REVENUE FUNDS</u>				
Pet Adoption Fund	\$ 960	\$ 2,000	\$ -0-	\$ 2,000
SEACAD Fund	\$ 5,000	\$ 5,000	\$ -0-	\$ 5,000
Sitka Forfeiture Fund	\$ 2,000	\$ 2,000	\$ -0-	\$ 2,000
NARCO Task Force Grant	\$ 130,000	\$ 130,000	\$ -0-	\$ 130,000
State Forfeiture Fund	\$ 2,000	\$ 2,000	\$ -0-	\$ 2,000
Homeland Security Grant	\$ 30,000	\$ 30,000	\$ -0-	\$ 30,000
Library Building Fund	\$ 1,700	\$ -0-	\$ -0-	\$ -0-
Southeast Alaska Economic Development Fund	\$ 37,500	\$ 37,500	\$ -0-	37,500
GPIP Contingency Fund	\$ 19,000	\$ 19,000	\$ -0-	\$ 19,000
Tobacco Excise Tax Fund	\$ 681,500	\$ 680,000	\$ -0-	\$ 680,000
Fisheries Enhancement Fund	\$ 40,000	\$ 40,000	\$ -0-	\$ 40,000
Commercial Passenger Vessel Excise Tax Fund	\$ 236,900	\$ 81,800	\$ -0-	\$ 81,800
Visitor Enhancement Fund	\$ 433,905	\$ 371,368	\$ -0-	\$ 371,368
Revolving Fund	\$ 38,200	\$ 28,700	\$ -0-	\$ 28,700
Guarantee Fund	\$ 6,200	\$ 6,200	\$ -0-	\$ 6,200
Cemetery Fund	\$ 2,000	\$ 2,800	\$ -0-	\$ 2,800
Rowe Trust Fund	\$ 4,000	\$ 4,000	\$ -0-	\$ 4,000
Library Endowment Fund	\$ 6,500	\$ -0-	\$ -0-	\$ -0-
Bulk Water Fund	\$ 25,000	\$ -0-	\$ -0-	\$ -0-
Seasonal Sales Tax/School Bond Debt Service Fund	\$ 4,551,032	\$ 4,765,998	\$ -0-	\$ 4,765,998
<u>PERMANENT FUND</u>				
Permanent Fund	\$ 576,000	\$ 1,346,888	\$ -0-	\$ 1,346,888


<u>CAPITAL PROJECT FUNDS</u>	REVENUE	OPERATIONS	CAPITAL /TRANSFER	TOTAL
General Capital Project Fund	\$ 1,500,000	\$ -0-	\$ 2,808,666	\$ 2,808,666
GF Contingent on State/Federal Funding	\$ 2,368,060	\$ -0-	\$ 2,368,060	\$ 2,368,060
Electric Capital Project Fund	\$ 3,475,000	\$ -0-	\$ 3,475,000	\$ 3,475,000
Electric Contingent on State/Federal Funding	\$ 2,669,000	\$ -0-	\$ 2,669,000	\$ 2,669,000
Water Capital Project Fund	\$ 75,000	\$ -0-	\$ 75,000	\$ 75,000
Water Contingent on State/Federal Funding	\$ 6,462,322	\$ -0-	\$ 6,462,322	\$ 6,462,322
Wastewater Capital Project Fund	\$ 125,000	\$ -0-	\$ 125,000	\$ 125,000
Wastewater Contingent on State/Federal Funding	\$ 16,961,461	\$ -0-	\$ 16,961,461	\$ 16,961,461
Solid Waste Capital Project Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Harbor Capital Project Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Harbor Contingent on State/Federal Funding	\$ 1,850,000	\$ -0-	\$ 1,850,000	\$ 1,850,000
MSC Contingent on State/Federal Funding	\$ 8,440,000	\$ -0-	\$ 8,440,000	\$ 8,440,000
<u>COMPONENT UNIT</u>				
Sitka Community Hospital	\$ 25,573,363	\$ 25,153,387	\$ 419,976	\$ 25,573,363

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, 2016.

PASSED, APPROVED, AND ADOPTED by the Assembly of the City and Borough of Sitka, Alaska this 14th day of June, 2016.



Mim McConnell, Mayor

ATTEST:



Sara Peterson, CMC
Municipal Clerk

1st reading 5/31/16
2nd reading 6/14/16