

City and Borough of Sitka

100 Lincoln Street Sitka, Alaska 99835

Coast Guard City, USA

June 29, 2015

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

Ladies and Gentlemen of the Assembly, we are pleased to submit a FY2016 budget to you that continues to provide for all essential government services. As we have seen and experienced through unfolding events during the last four months, we face significant and perhaps unparalleled challenges in aligning the overall level of governmental services in Sitka with the citizens' ability to pay for them. Escalating costs, aging infrastructure, and deferred maintenance, especially of our municipal road system, combined with rapidly disappearing revenue from traditional State and Federal sources, is rapidly leading the Municipality towards making very difficult decisions in regards to reducing Municipal services and raising taxes.

A major contributing factor in our overall fiscal challenges is education funding within the Sitka School District (SSD). The SSD experienced significant funding reductions from the State of Alaska which, combined with collectively bargained wage increases, caused the District to face a significant budget deficit. In order to avoid significant program and personnel cuts within the SSD, the City and Borough has increased its financial support of the SSD by \$1,000,000.

Exacerbating the local challenges we face is an unprecedented fiscal shortfall at the State level. Falling oil prices have contributed to a budget deficit at the State level in excess of \$3.5 billion. This shortfall will put many traditional funding sources for Municipal activities, such as legislative grants and school funding, in extreme jeopardy.

The issue of the delicate balance between the services our municipal government provides its citizens, and what services our citizens are willing to pay for, is perhaps the key fundamental question we must address. It is clear that revenue streams and financial support that we have relied on from the Federal government and State, are drying up. We currently provide a vast array of services to our citizens, some funded in part with Federal and State support. We will be unable to continue to provide all of these services in the future. It is imperative we engage in a community dialogue on what core services our citizens are willing to support.

In this fiscal year, we have engaged in several cost reducing measures within Municipal government in order to reduce spending. These include eliminating the issuance of government-supplied smart phones to employees and replacing it with a modest monthly cell phone stipend of \$25, saving over \$50,000 in annual communication costs; the permanent elimination of a Customer Service position within the Treasury and the reduction of daily customer service hours, resulting in annual savings of \$30,000; and, the elimination of two Municipal employees in the scrapyard and recycling center, contracting that service out to our solid waste collection contractor. At the start of the new fiscal year, we intend to enact additional expense reduction measures including reduction of employee travel and training, deferral of specific maintenance at the Fire Department, reduction of snow plowing services, contracting of reduced traffic enforcement to the private sector, reduction of Library operating hours, and reduction of employee benefits, all of which total over \$443,000.

Downsizing will be challenging. Ultimately, we must arrive at the proper combination of services, and service levels that benefit the greatest proportion of the population. We will examine every service offered to determine if the level of service can be reduced or eliminated.

We are submitting to you a budget which includes no new taxes but does, however, include the effects of some reductions in sales tax exemptions, and, an increase in the amount of the tobacco products tax. Our budget also includes service fee increases in our electric, water, and wastewater utilities. It is important to note that proposed user fee increases are in line with master plans previously approved by the Assembly or are required due to bonded indebtedness agreements. In order to moderate the impact of a large user fee increase in the Electric Fund necessary to maintain our rate covenant associated with our outstanding electric revenue bonds, \$2,500,000 that was transferred to the Electric Fund Rate Stabilization Fund in May, 2015 will be used, as necessary, to meet rate covenant requirements. We will consider possible increases in harbor moorage and solid waste disposal rates, per recommendation from the master plan.

The FY2016 budget contains no significant increases other than those associated with collective bargaining agreements. An Additional bonded debt to be considered this year is \$9,000,000 in harbor revenue bonds, intended to finance harbor infrastructure repairs and replacements.

Federal revenue sources, upon which the Municipality has relied in the past, continue to be uncertain. The Secure Rural Schools Act was renewed by the Federal Government for Federal FY2015 and FY2016. The Federal Payment in Lieu of Taxes (PILT) program was renewed for Federal FY2015 and will be received in the Municipality's FY2016. Reauthorization of these significant programs for additional years is not guaranteed, however.

The financial pressures faced by the Sitka School District (SSD) are severe and will have a direct impact on the Municipality. If the Municipality is faced with diverting additional revenue to the SSD, general government services will be directly impacted and service levels can no longer be guaranteed for FY2016. Much as with the Municipality, the SSD has expenditure increases which are linked to collective bargaining agreements. With over 70% of the total expenditures of the SSD being in wages and benefits, these expenditure pressures, coupled with decreasing revenue streams, will cause the SSD to adopt an unbalanced deficit budget for FY2016, drawing

significant funds from reserve working capital. Such budgetary options are not sustainable. A different funding mechanism which provides gradually increasing revenues in line with increasing costs needs to be sought.

A critical infrastructure issue is the condition of Municipal roads. We will, once again, not be able to afford all street repairs which are scheduled and necessary for FY2016. The major street repair project scheduled for FY2016 is the rebuilding of Edgcumbe Drive, budgeted at \$5,450,000. Additional street repairs in the amount of \$2,287,000 are planned for FY2016, yet this amount still represents about half the true amount required.

To fund proposed street repairs, we are planning to transfer the entire balance of the Public Infrastructure Sinking Fund to the General Fund in FY2016. If no budget surplus is achieved for the General Fund for FY2015, to provide for its replenishment, the Fund will be depleted.

Large infrastructure projects planned for completion in FY2016 include the rebuilding of Edgcumbe Drive, completion of the expanded Library, commencement of the Centennial Building renovation, replacement of the Eliason Harbor transient float, and completion of the U/V Water Disinfection Facility. Costs of these projects will be funded through a combination of State of Alaska grants and internal working capital.

Various collective bargaining agreements are providing for negotiated pay increases for our represented employees in FY2016. In regards to our non-represented employees, a 1.5% pay increase has been built into the FY2016 budget.

In summary, our Municipal budget, as in past years, continues to adequately provide for basic and special services. 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 Centennial Building. While some service levels may be reduced, no major Municipal service areas are planned to be eliminated.

Fund Structure of the City and Borough

The FY2016 Consolidated 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 Gary Paxton 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 of Sitka (CBS) that each Enterprise Fund and Internal Service Fund is a separate and distinct business element and should stand on its own financially. The CBS 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 FY2016, through a combination of operating revenues, expenditure reduction, and working capital balances. The Electric, Water, Wastewater, Airport Terminal Building, and Central Garage Funds project net assets to be increased during FY2016; all other funds are either balanced or project a cash flow deficit. In most cases in which a cash flow deficit is budgeted, it is a result of the expenditure of accumulated working capital on significant repairs, as opposed to a structural cash flow deficit from ongoing operations.

The overall financial condition of the CBS 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 CBS' combined investment portfolio is approximately \$84,877,000 million, including approximately \$22,800,000 in the Permanent Fund and unexpended bond issuance proceeds.

While the overall financial condition remains sufficient, our General Fund and six of our Enterprise Funds – Electric, Water, Waste Water, Solid Waste, Harbor, and Gary Paxton Industrial Park – have insufficient revenues and working capital to provide for the long-term maintenance and replacement of their physical plants. 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 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 FY2016 Consolidated Operating Budget

FY2016 Budget Process

In developing each operating budget, the Administrator, Chief Financial and Administrative Officer and other Department Heads used zero-based budgeting techniques to develop the CBS' 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 FY2016.

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 no increase from FY2015.

In completing the FY2016 budget, we were able to utilize the New World Systems .NET ERP system for much of the preparation work. All wages and benefits were budgeted for utilizing the position budgeting capabilities of the new software, and, many of the schedules in the FY2016 budget are directly produced from .NET.

For each fund, the following budget schedules are provided: Summary by Department, Summary by Expenditure Type, Detail by Department, and Detail by Expenditure Type. For each schedule, we have provided FY2012 actual results, FY2013 actual results, FY2014 actual results, FY2015 amended budget, and FY2016 proposed budget. To reduce the size of the budget and make it more readable, line item detail has been removed.

In maintaining continuity with previous years, the following sections of the budget are included again this fiscal year:

- a. A table of personnel allowances, which details both the municipality's required positions and those that are authorized;
- b. A summary of working capital;
- c. A summary of proposed travel and training;
- d. A summary of fixed asset acquisition, and as required by Charter;
- e. A complete Capital Improvements Program for the municipality.

Each fund's capital program is presented in a format that identifies which capital projects are in existence that have been authorized in the past and for which appropriations have been made in the past; which new capital projects are being proposed for FY2015 and the amount of the capital appropriation being sought; and, a breakout of the funding components (grant, loan, working capital) for every project.

Ten Year Long Range Budgeting

In conjunction with the FY2016 Consolidated Operating Budget, the municipality has engaged in ten year long range budgeting for the General Fund and each of the five major Enterprise Funds with municipality-wide user fees.

In the long range budgeting, we have developed models to forecast the combination of user fee increases and additional debt necessary to finance specific programs of capital expenditures while maintaining fund working capital at target levels. Significant work has been undertaken to identify and plan for capital expenditures over an extended period for all of our enterprise funds. The Ten Year Long Range Budget Projection will be distributed to the Assembly and made available to the public in a separate document.

Level of Service and Service Reductions

Across the board, we intend to supply the same services in FY2016 to our citizens as we have in the past. Accordingly, no service reductions have been planned.

Work Force Management, Composition, and Compensation

Total budgeted compensation for the CBS work force is \$19,253,897 (excluding Sitka Community Hospital), of which \$7,681,329 or 39.9% is borne by the various Enterprise and Internal Service Funds. The number of municipal employees for FY2016 is 155.81 FTE (Full Time Equivalentents) (excluding temporary employees and the Sitka Community Hospital).

In FY2016, a reorganization will see the Planning Department renamed the Planning and Community Development Department. In addition, in FY2016, a half-time Police Department Multi-Service Officer eliminated and the associated duties contracted to the private sector, and a half-time Centennial Building Attendant will be eliminated during remodeling of the Centennial Building.

Three unions represent approximately 2/3 of the work force. Collective bargaining agreements were reached in 2014 with each of the three unions representing various segments of the Municipality's represented work force. Negotiated wage increases are included in this year's budget for represented employees as per applicable collective bargaining agreements.

A wage increase of 1.5% is included in this year's budget for all non-represented employees, in conjunction with the non-represented employee compensation plan approved by the Assembly in 2015.

The package of benefits for municipal employees is remaining basically the same in FY2016. Of significant importance: health insurance costs were negotiated with no premium increase for FY2016. No change has been proposed to the portion of premium costs borne by employees and the municipality; they will remain the same as in FY2015, and, as specified by applicable collective bargaining agreements.

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 through September with the extra proceeds dedicated to school-related general obligation debt. An increase of the taxable transaction limit exemption from \$1,500 to \$3,000, which goes into effect on October 1, 2015, is expected to generate significant increased sales tax revenue.

The Assembly also approved an increase in the tax on tobacco products and the estimated additional proceeds expected to be collected are \$256,000. All additional tobacco products taxes will be dedicated to the Sitka Community Hospital, in accordance with the Home Rule Charter.

Municipal Revenue Sharing from the State of Alaska is anticipated to be approximately \$863,000 for the municipality in FY2016. No supplemental revenue sharing appropriations are expected in FY2016. 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 \$2,601,685. In accordance with the voter initiative passed in 2013, all school bond debt reimbursement revenue is now accounted for in the Seasonal Sales Tax/School Bond Debt Service Fund.

Within the General Fund, all interest revenue earned by the Revolving and Guarantee Funds in FY2015 will again be transferred to the General Fund. This will result in \$29,000 in additional revenue to the General Fund.

Municipal Debt

The CBS will have \$24,165,000 in General Obligation Bonds, \$123,110,000 in Electric Revenue Bonds, \$3,705,000 in Harbor Revenue Bonds, and \$7,675,525 in a long term note (Electric Fund) outstanding at the start of FY2016. 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

FY2016 will be \$13,573,104 of which \$2,519,127 will be reimbursed by the State of Alaska's Department of Education.

The CBS is considering entering into additional indebtedness in FY2016. This anticipated additional new debt will be approximately \$9,000,000 in harbor revenue bonds to finance the municipality's share of the Crescent Harbor Phase 1 and Eliason Harbor electrical upgrade projects. As mentioned previously, such bonding is linked to matching grant funds from the State of Alaska which were not obtained for FY2016; thus, continuing developments will control the actual issuance of this debt. It is the Municipality's intention to bond through the Alaska Municipal Bond Bank Authority, as it has done in the past. Applications for any bonding must ultimately be approved by the Assembly before submission and possible approval by the State of Alaska.

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

Individual Departmental Highlights

General Government

General governmental activities (those financed by the General Fund) in FY2016 will concentrate on maintaining the current level of municipal services to our citizens. The General Fund budget is balanced, with expenditures equal to revenue plus reserve working capital.

A significant challenge the Municipality as a whole faces is a substantial decline in funding to the Sitka School District, causing the SSD to project a \$2.7 million dollar deficit for FY2016. The resolution of the SSD's budget deficit will have a substantial impact on the Municipality's General Fund and general governmental operations.

No new taxes have been planned for. As previously mentioned, the amount of the tobacco products tax has been increased, and, some sales tax exemptions have been reduced. The financial challenges faced by the SSD and the Municipality may result in additional tax increases.

It is important to note that insufficient revenue streams exist to fund the current level of education and governmental service to the Municipality: either new revenue streams must be found, and/or significant cuts in personnel and services must be implemented.

Compounding the fiscal problems of the SSD and the Municipality is the loss of traditional funding sources from the Federal government and State of Alaska. State of Alaska supplemental education funding has not been included in the Legislative budget, resulting in the loss of an additional \$400,000 in traditional funding to the SSD.

Despite the difficulties of the SSD support, the financial condition of the General Fund is healthy, with surpluses increasing the Fund balance over the past few years. The total General Fund balance is forecasted to be approximately \$14,482,000 at the end of FY2015. Of this amount, approximately \$7,000,000 will be undesignated.

In 2013, the Assembly took steps to ensure the future health of the General Fund and Sitka's ability to respond to emergency financial needs. These steps included designating cash in the amount of three months of expenditures to be restricted for liquidity purposes, and, also designating cash in the amount of \$2,000,000 for emergency response. In December, 2014, \$1,000,000 of the emergency response fund balance was loaned to Sitka Community Hospital to help meet liquidity needs. This has increased the total amount loaned to the Sitka Community Hospital to \$1,500,000. Of the anticipated \$7,000,000 balance in undesignated fund balance at the end of FY2015, approximately 50%, or \$3,500,000, will be in cash; the remainder will be in other assets, predominately taxes collected but not yet remitted.

The municipal road system is rapidly deteriorating. In FY2015, a previously paved municipal road was returned to gravel, and the conversion of additional previously paved roads to gravel is being planned for FY2016. Unless a sustainable source of significant additional funding can be obtained, such as dedicated road maintenance fees, many of the secondary streets in Sitka without curbs and sidewalks may be returned to gravel.

Electric Department

The Blue Lake Dam Hydroelectric Project and Jarvis Street Solar Generator projects are now largely complete, both of which have been the major focus of the Electric Department over the past two years. Work remains to be accomplished on the Fish Valve Unit. The challenge of the Electric Department will now be to increase electricity consumption, as surplus capacity exists.

The total amount of revenue bonds issued for the Blue Lake Dam Hydroelectric Project and Jarvis Street Solar Generator projects was \$98,380,000 in four separate series. The total amount of outstanding revenue bonds for the Electric Fund as of June 30, 2015 will be

\$123,110,000 and total debt outstanding of \$130,785,525. Annual debt service in FY2016 for this debt will be \$8,527,394.

The financial condition and working capital of the Electric Fund is adequate, but the high debt load will continue to place pressure on rates unless electricity consumption can be increased. Bond covenants will require that cash flow from operations plus investment earnings equal \$9,891,650 in FY2016. Given current electricity consumption levels of 108,700,000 kWh, this amounts to required cash flow from operations of \$0.091 per kWh. As the debt service is fixed, however, increased consumption will lower this required cash flow; hence, increasing electricity consumption and load growth is a key focus.

Current electricity rates are insufficient to generate the required cash flow from operations to meet the Rate Covenant of 125% specified within the municipality's revenue bond ordinance. Thus a rate increase was implemented in the late spring of FY2015. In addition, \$2,500,000 was permanently transferred from Southeast Alaska Economic Development Fund to the Electric Fund Rate Stabilization Fund, and, withdrawals from the Rate Stabilization Fund will be made, as necessary, in order to achieve the required 125% Rate Covenant. It is anticipated that additional electric rate increases will be required.

Undesignated working capital is estimated to be approximately \$6,300,000 at the end of FY2015. The decline in working capital from FY2014 is attributable to the increased debt service and other ongoing capital improvements within the electrical system. Additional cash flow generated through Rate Covenant requirements will, however, rebuild this working capital balance.

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. Working capital created through the 125% Rate Covenant will be the source of funds to pay for these improvements. Significant capital improvements identified for the future for the Electric Fund include a Halibut Point Road electrical substation, new warehouse, and transformer upgrades at existing substations.

Water Department

The Water Department is currently undertaking a major capital improvement, a UV Disinfection facility located at the Gary Paxton Industrial Park. Dedication of the U/V Disinfection facility is expected in early FY2016 and the facility, expected to cost

approximately \$7,988,000 is being financed through a combination of State of Alaska grants, loans, and Water Fund working capital.

In prior years, the backup water supply for the CBS has been Indian River. Recently, 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 is determining the most cost effective method of providing a potable backup water supply. Alternatives being considered are wells and a filtration plant. The anticipated cost of an alternative water supply is approximately \$5,000,000. Preliminary engineering work has determined that water wells in the Starrigavan River Valley have the potential of meeting the backup water supply need; however, water main infrastructure from Starrigavan to the main part of Sitka is insufficient to handle the volume necessary to meet the whole town's needs. A permanent filtration facility on Indian River is also a possibility, but would be cost prohibitive without significant financial support from the State of Alaska.

The financial condition of the Water Fund remains weak but is improving. The rate increases approved by the Assembly in FY2012, FY2013, FY2014, and FY2015 have all helped to increase cash flow from operations, but unanticipated capital demands have consumed much of this additional working capital. Working capital has grown to approximately \$768,700; however, working capital commitments to various projects total \$617,700 of this total.

As working capital remains insufficient to meet future capital expenditure and infrastructure reinvestment needs, a 10% water user fee increase has been implemented, in line with the Municipality's Water System Cash Flow, Working Capital and Debt Model.

Significant water infrastructure projects planned for the near future include water main upgrades for Baranof, Monastery, and Jeff Davis Streets and completion of the U/V Disinfection Facility.

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 repairs and replacement of the waste water physical plant. An ever-present additional risk remains that 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. In accordance with the plan, rate increases were passed in both FY2014 and FY2015. An additional 4.9% rate increase has been passed and implemented for FY2016.

Significant wastewater infrastructure projects planned for the near future include sewer line upgrades for Baranof, Monastery, and Jeff Davis Streets, replacement of sewer lift stations at the landfill, channel and Crescent Harbor sites, and internal improvements to the Wastewater Treatment Plant.

Solid Waste Disposal

The Municipal solid waste system is now completely contracted to private enterprise. A significant event in the Solid Waste Fund that will occur in FY2016 is the award of a new 10-year solid waste collection and disposal contract.

The Solid Waste Advisory Committee (SWAC) has been apprised of the need to adjust solid waste user fees, as the Solid Waste Fund is gradually declining. In its meetings, the SWAC has examined various alternatives and new initiatives for solid waste collection and disposal. One initiative that the SWAC has determined to be potentially viable is curbside collection of commingled recyclables. It is anticipated that such curbside collection, however, will not be accomplished without an additional user fee. Hence, the SWAC has postponed deliberations on potential user fees until bids are received for the new waste collection and disposal contract.

Once new solid waste collection costs are determined with the award of the contract, it is anticipated that the SWAC will propose user fee increases to the Assembly for approval. These fees are expected to include some fee arrangement alternative for curbside collection. As solid waste user fees have not been increased in over 10 years, it is anticipated that the user fee increase may be significant.

Harbors

Our Municipal harbor system will see more major repairs and upgrades in FY2016. In FY2015, preliminary engineering and project planning was accomplished for the replacement of the Eliason Harbor transient float. The project is projected to cost \$5,650,000, with the State of Alaska funding approximately 48% of the project through a matching grant. The transient float replacement is being completed in conjunction with the Harbor Master Plan. Contract award and notice to proceed is expected to be given in August, 2016.

The next large harbor projects being prepared for preliminary engineering and design are the Crescent Harbor phase 1 replacement, Eliason Harbor electrical upgrade, Thompson Harbor upland access and parking, and the Seaplane Float. While these projects have been planned for the FY2016 timeframe, actual commencement is contingent on grant awards and timing.

In FY2016, we are contemplating the issuance of \$9,000,000 in harbor revenue bonds, in the spring of 2016. The proceeds will be used for the Municipality's share of the Crescent Harbor phase 1 replacement and Eliason Harbor electrical upgrade projects. As previously mentioned, an anticipated matching grant was not received for FY2016; thus, continuing developments whether or not the contemplated bonding is undertaken.

Working capital is healthy in the Harbor Fund and has been growing, but it is important to remember that the growth is intended to pay for major repairs and replacements such as the transient float in FY2016. Working capital is estimated to be approximately \$8,500,000 at the end of FY2015; however, \$3,935,000 of this balance is designated for capital projects, the most prominent being the Eliason Harbor transient float.

In line with recommendations made by the Municipality's Harbor Master Plan and the municipality's Harbor System Cash Flow, Working Capital and Debt Model, management intends to seek an annual moorage rate increase in FY2016. The Municipality will present its recommended moorage rate increase to the Port and Harbors Commission in the late fall of 2015, for adoption for the Assembly in early 2016. The amount of the increase is planned to be similar to that implemented in FY2015.

Airport Terminal Building

The financial condition of the Airport Terminal Building Fund and its cash flow from operations is adequate and stable. Undesignated working capital is estimated to be approximately \$970,000 at the end of FY2015.

A major development affecting the Rocky Gutierrez Airport Terminal has been the arrival of Delta Air Lines as an additional carrier with daily seasonal service to Sitka. The major infrastructure project planned for the Airport Terminal is a Baggage Area and TSA Security Area upgrade, which was appropriated in the FY2013 budget. The project will be funded through a combination of grants and Passenger Facility Charge (PFC) fees. The impact of the presence of Delta Air Lines in Sitka may impact and modify this planned infrastructure project.

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 \$1,714,000 at the end of FY2015. No major infrastructure projects are planned for FY2016.

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. The Assembly will need to determine whether it is in the best interest of the community to sell this facility.

Gary Paxton Industrial Park

The Gary Paxton Industrial Park (GPIP) is undergoing a major transition with significant land sales in FY2015 and plans for additional sales. In FY2015, a large tract in the center of the Park was sold to Silver Bay Seafoods, and, a second tract was sold to the Monarch Tannery. Additional proposals are being considered for the sale, or lease, of other properties, including the old APC administration building.

The GPIP has an existing legislative grant for the construction of a dock at the Park. In addition, citizens and the local commercial fishing fleet have advocated for a marine haul-out and repair facility at the Park. An additional proposal for construction of a marine industrial fabrication facility has been put forth as well. As these competing interests are integrated into a strategic plan, the Park will undergo yet additional transformations.

The financial condition of the Gary Paxton Industrial Park Fund improved due to the short-term stimulus provided by the Blue Lake Dam Hydroelectric Project, but working capital is starting to decline with the completion of the project. Working capital is estimated to be approximately \$766,000 at the end of FY2015, a decline of \$108,000 during FY2015.

With the pending sale of much of the Park, the nature of operations will significantly shift in the future. Lease revenue will decline and, once the dock has been constructed, management demands are anticipated to decline as well.

The dock is to be constructed through a \$7,500,000 State of Alaska grant. It is anticipated that construction of the dock will commence in FY2016.

Management Information Systems

The financial condition of the Management Information Systems Fund is adequate, but does not provide much of a reserve in the case of a major emergency. Working capital is estimated to be approximately \$325,000 at the end of FY2015, declining from FY2014.

Transition in the Information Technology Department and new IT initiatives are reasons for increased spending and the decline in working capital. A major implementation concluded in FY2015 has been the transition of the 20-year old billing system to a new platform consistent with the Municipality's .NET ERP.

Major new projects planned for FY2016 include a new document management system, network redesign, and data storage center. Together, these projects will constitute \$420,000 in technology upgrades.

Additional initiatives include expansion of the new utility billing system to incorporate electronic customer interface (ECI) technologies, affording citizens enhanced capabilities to manage their utility accounts through an internet web portal.

Central Garage

The financial condition of the Central Garage Fund continues to improve, due to increased sinking fund charges. Working capital is estimated to be approximately \$2,655,000 at the end of FY2015. This represents an increase of approximately \$400,000 during FY2015, helping to restore the necessary balance of the sinking fund.

In FY2016, seven vehicle acquisitions are planned, all of which are scheduled replacements of existing vehicles in the fleet. These include a new fire truck, a new bucket truck, two SUVs, two pickup trucks, and a power mower. Total expenditures on new vehicles in FY2016 are budgeted at \$626,927.

Building Maintenance

The financial condition of the Building Maintenance Fund is adequate. Working capital has stabilized at around \$2,000,000.

A major source of revenue for the Building Maintenance Fund is interest earned from the balance of the Southeast Alaska Economic Development Revolving Loan Fund, and as interest rates have declined and remained at historically low rates, this has placed pressure on the working capital of the Fund.

Management has implemented increased internal billing rates in order to maintain working capital at its present level. Management is also considering implementing additional building maintenance charges based on square footage.

Permanent Fund

The Municipality has hired Alaska Permanent Capital Management out of Anchorage, Alaska to manage the Permanent Fund. This will mark a significant departure from the traditional internal management of the investments in the Fund by the Finance Director.

In FY2016, we also intend to propose an amendment to the Charter reducing the formulaic transfer of funds from the Permanent Fund to the General Fund, which are mandated at a prescribed 6%. Our proposal will seek to reduce the amount of the annual transfer in order to provide for more growth of the corpus of the Permanent Fund in order to maintain its value relative to inflation.

Southeast Alaska Economic Development Fund

In FY2016, we changed the use of the Southeast Alaska Economic Development Fund, as prescribed by the Sitka General Code. The changes ended direct Municipal involvement in the granting of loans to small businesses. Now, if such loans are to be made, it would be through a private lending institution.

In addition, \$2,500,000 of the balance of the Fund was transferred to the Electric Fund, in order to moderate the effects of the steep rate hikes necessary to meet revenue bond covenants, as previously described.

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. 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 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.

Future Outlook

The key challenge facing the CBS is the alignment of city services provided by the CBS 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 new Planning and Community Development Department will initiate a comprehensive planning process in FY2016, with a key goal of aligning services with available revenue. It will be imperative that this be an inclusive process that engages the community in finding sustainable solutions.

Despite our challenges, we believe Sitka's outlook remains bright, and your management team is optimistic about what lies ahead. Cruise ship tourism continues to rebound, commercial fishing remains strong and vibrant, health care and Coast Guard activities also continue to contribute to a diversified economy, the education sector is strong and diverse, and there continues to be growth and innovation blossoming on the old Sheldon Jackson Campus.

The three major critical issues identified in last fiscal year's outlook, and in the outlook two years ago, continue to represent the critical challenges our community faces:

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

Despite the creation of a Public Infrastructure Sinking Fund two years ago, the Municipality has not been able to invest the required amount of funding into renovation and replacement, especially with our local streets and roads.

2. Continued Diversification of Our Local Economy

In order for our municipality to grow, we must continue to diversify our economy. We need to focus on attracting industries that provide family wage incomes and are consistent with our community values.

3. Scope and Complexity of Municipal Services

With a population of just over 9,000, CBS provides an array of public services comparable to that of a small city of 100,000. This is due to the isolated location of Sitka and the absence of private alternatives. To provide this array of services, the CBS, by necessity, is required to be comprehensive and complex. The Municipal Solutions consultants were very impressed with what is accomplished with such a lean workforce. In fact in several areas they recommended increases in staffing.

Summary

Our municipal government continues to provide comprehensive and high quality services to its citizens. 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 Finance and Administrative Officer

CITY AND BOROUGH OF SITKA

ORDINANCE NO. 2015-33

**AN ORDINANCE OF THE CITY AND BOROUGH OF SITKA
ADOPTING BUDGETS FOR THE FISCAL YEAR JULY 1, 2015
THROUGH JUNE 30, 2016**

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 2016.
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, 2015 and ending June 30, 2016 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	\$ 28,041,228	\$ 25,305,528	\$ 3,458,700	\$ 28,764,228
<u>ENTERPRISE FUNDS</u>				
Electric Fund	\$ 15,940,234	\$ 17,192,256	\$ 3,535,000	\$ 20,727,256
Water Fund	\$ 2,158,197	\$ 1,762,763	\$ 161,000	\$ 1,923,763
Wastewater Fund	\$ 4,244,250	\$ 2,989,255	\$ 715,500	\$ 3,704,755
Solid Waste Fund	\$ 3,035,500	\$ 3,398,443	\$ 95,000	\$ 3,493,443
Harbor Fund	\$ 12,307,600	\$ 2,279,564	\$ 9,275,000	\$ 11,554,564
Airport Terminal Fund	\$ 691,151	\$ 448,121	\$ 130,000	\$ 578,121
Marine Service Center Fund	\$ 267,184	\$ 134,779	\$ -0-	\$ 134,779
Gary Paxton Industrial Park	\$ 7,342,307	\$ 472,060	\$ -0-	\$ 472,060

<u>INTERNAL SERVICE FUNDS</u>	REVENUE	OPERATIONS	CAPITAL/ TRANSFER	TOTAL
Management Information Systems Fund	\$ 1,229,868	\$ 892,138	\$ 502,000	\$ 1,394,138
Central Garage Fund	\$ 1,374,692	\$ 984,579	\$ 626,927	\$ 1,611,506
Building Maintenance Fund	\$ 961,218	\$ 1,009,220	\$ -0-	\$ 1,009,220
<u>SPECIAL REVENUE FUNDS</u>				
SE Alaska Economic Development Fund	\$ 75,000	\$ 75,000	\$ -0-	\$ 75,000
Revolving Fund	\$ -0-	\$ 29,373	\$ -0-	\$ 29,373
Guarantee Fund	\$ -0-	\$ 6,200	\$ -0-	\$ 6,200
Rowe Trust Fund	\$ 4,950	\$ 4,950	\$ -0-	\$ 4,950
Library Endowment Fund	\$ 7,000	\$ 21,000	\$ -0-	\$ 21,000
Southeast Alaska Communities Against Drugs Fund	\$ 28,000	\$ 28,000	\$ -0-	\$ 28,000
City/Borough Forfeiture Fund	\$ 2,836	\$ 2,836	\$ -0-	2,836
Narco Task Force Grant	\$ 202,000	\$ 202,000	\$ -0-	\$ 202,000
State Forfeiture Fund	\$ 4,230	\$ 4,230	\$ -0-	\$ 4,230
Homeland Security Grant	\$ 18,000	\$ 18,000	\$ -0-	\$ 18,000
Library Building Fund	\$ 14,500	\$ 17,000	\$ -0-	\$ 17,000
GPIP Contingency Fund	\$ 16,700	\$ 16,700	\$ -0-	\$ 16,700
Tobacco Excise Tax Fund	\$ 425,500	\$ 424,000	\$ -0-	\$ 424,000
Fisheries Enhancement Fund	\$ 40,000	\$ 40,000	\$ -0-	\$ 40,000
Commercial Passenger Vessel Excise Tax Fund	\$ 193,200	\$ 638,000	\$ -0-	\$ 638,000
Cemetery Fund	\$ 4,000	\$ 2,800	\$ -0-	\$ 2,800
Visitor Enhancement Fund	\$ 388,000	\$ 335,000	\$ -0-	\$ 335,000
Seasonal Sales Tax/School Bond Debt Service Fund	\$ 1,091,700	\$ 3,707,017	\$ -0-	\$ 3,707,017
<u>PERMANENT FUND</u>				
Permanent Fund	\$ 400,000	\$ 660,000	\$ -0-	\$ 660,000

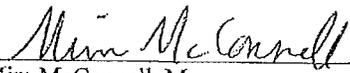
<u>CAPITAL PROJECT FUNDS</u>	REVENUE	OPERATIONS	CAPITAL /TRANSFER	TOTAL
General Capital Project Fund	\$ 2,287,000	\$ -0-	\$ 2,287,000	\$ 2,287,000
GF Contingent on State/Federal Funding	\$ 39,968,000	\$ -0-	\$ 39,968,000	\$39,968,000
Electric Capital Project Fund	\$ 3,535,000	\$ -0-	\$ 3,535,000	\$ 3,535,000
Water Capital Project Fund	\$ 161,000	\$ -0-	\$ 161,000	\$ 161,000
Water Contingent on State/Federal Funding	\$ 12,324,850	\$ -0-	\$ 12,324,850	\$12,324,850
Wastewater Capital Project Fund	\$ 709,000	\$ -0-	\$ 709,000	\$ 709,000
Wastewater Contingent on State/Federal Funding	\$ 18,136,450	\$ -0-	\$ 18,136,450	\$18,136,450
Solid Waste Capital Project Fund	\$ 95,000	\$ -0-	\$ 95,000	\$ 95,000
Harbor Capital Project Fund	\$ 175,000	\$ -0-	\$ 175,000	\$ 175,000
Harbor Contingent on State/Federal Funding	\$ 26,340,000	\$ -0-	\$ 26,340,000	\$26,340,000
Airport Terminal Fund	\$ 130,000	\$ -0-	\$ 130,000	\$ 130,000
Airport Contingent on State/Federal Funding	\$ 2,320,000	\$ -0-	\$ 2,320,000	\$ 2,320,000
GPIP Contingent on State/Federal Funding	\$ 3,000,000	\$ -0-	\$ 3,000,000	\$ 3,000,000
<u>COMPONENT UNIT</u>				
Sitka Community Hospital	\$ 24,118,705	\$ 23,586,585	\$ 247,570	\$ 23,834,155

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, 2015.

PASSED, APPROVED, AND ADOPTED by the Assembly of the City and Borough of Sitka, Alaska this 9th day of June, 2015.



Mim McConnell, Mayor

ATTEST:



Melissa Henshaw
Acting Municipal Clerk