

Sitka faces budget pressures that are unprecedented in this century. The community has not experienced financial challenges of this magnitude since the pulp mill shut down more than a generation ago. A “perfect storm” of falling contributions from the federal and state governments, stagnant local tax revenues and increasing municipal expenses due to the Blue Lake Dam project, deferred maintenance on other infrastructure, and the rising cost of public employee benefits have combined to create a gaping hole in the City’s budget. At the same time, most of Sitka’s residents and business owners face difficulties balancing their own budgets. Seniors, people with disabilities and families raising children on low incomes face severe financial hardships, and are often forced to choose between paying for housing, food, medication or utilities. All trends suggest that these financial stresses will persist, as oil prices remain low, the state shifts expenses to local governments and the cost of housing, electricity and health care continue to rise.

Despite these pressures, Sitkans want to maintain all of the elements that contribute to our high quality of life, from quality education and healthcare to public safety, recreational services and cultural facilities and programs. Unfortunately, the City simply does not have the revenue to pay for mandatory expenses and continue its current level of support for the services residents want. After a contentious budget process last year, the Assembly decided to form an ad hoc committee to take a deeper look at Sitka’s revenues and expenses and make recommendations on how to balance our community’s budget. The Citizens’ Task Force on City Services, Revenues and Fees was launched in the fall of 2015.

Seven members of the Task Force were appointed out of a pool of citizens that volunteered. Of the initial seven, two dropped out for personal reasons and were replaced. The final seven included Rob Allen, Dyan Bessette, Hugh Bevan, Cynthia Gibson, Alene Henning, Maxwell Rule and Lawrence SpottedBird. Allen was elected Chair, Rule and SpottedBird Vice-chairs. The tasks assigned to the Task Force by the Assembly included to:

- Recommend what core services the City must maintain.
- Determine what funding is required to maintain these core services, including costs for capital improvements.
- Recommend what revenue streams and fees are most equitable and sustainable in order to maintain these services into the future.
- Educate and engage citizens about the financial challenges and seek their ideas for solutions.

Task Force members spent several meetings and significant personal time learning about City revenues, expenses and services. Municipal staff did an incredible job of presenting information on the various department budgets, projects, and future plans. Committee members also shared their expectations, priorities, and values. An area of common agreement developed around responding to the needs and concerns of citizens with fixed and low incomes. There was a general desire on the part of committee members to make Sitka’s structure of taxes and fees more progressive and sustainable. In other words, the Committee agreed that its recommendations should make the City’s revenue more predictable, and ensure that the tax burden on residents is reasonably related to their ability to pay. These became guiding principles for Task Force members to apply in their deliberations as options were discussed.

Task Force members quickly realized that the municipal budget is extremely complicated, and the time available to study it and develop recommendations that would be useful and timely was short. Accordingly, members decided to focus most of their attention on the General Fund, with some analysis of School District, Community Hospital and Capital budgets. The Task Force avoided delving too deeply into the enterprise funds due to their complexity and limited time, but consideration of the Electric Fund was essential due to the financial impact of the Blue Lake Dam expansion project.

The General Fund pays for the following services:

- Assembly, Administration, City Clerk and Attorney
- Finance and Human Resources
- Police and Fire Departments
- Public Works Administration, Building Official and Engineering
- Street maintenance and Parks Department
- Centennial Hall, Sitka Public Library, and Visitors Bureau
- Financial support for Sitka School District, Sitka Community Hospital non-profit organizations.

One of the first exercises of the Task Force was to identify the “core services” paid for by the General Fund by department. Task Force members reviewed activities and services and voted to categorize them by importance as follows:

- **Core Infrastructure/Public Safety (CIPS)** – services that are essential to maintaining required infrastructure and public safety
- **Core Regulatory** – services that are required by federal or state law or local charter
- **Core Community Value** – services that have very strong support from residents.

Addendum X shows how the Task Force chose to categorize each service, including votes. The consensus of the Task Force is that Core Community Values (CCV) are important, but should be considered for reductions before cutting services identified as core infrastructure, public safety or regulatory. The Assembly can use this as a guide to rank services and budget expenses.

The Task Force reached a preliminary consensus on reducing the City’s contribution to the School District by \$200,000. Members believed that this would represent a meaningful share of overall budget cuts while having a relatively minor impact of the total District budget of more than of \$20 million. After receiving strong public comment in support of municipal investment in education, the Task Force revisited its recommendation, and set a cap on the City contribution not to fall below 92% of the permitted cap (as calculated by the city’s formula). The Task Force recommends that this cap be maintained for the next three years to provide the District with some certainty while allowing the actual City financial contribution to adjust to changes in the State funding formula.

The City dedicates 100 percent of its tobacco tax revenue to the Community Hospital. It also provides annual support of \$160,000 that is earmarked for the hospital's capital projects. The Task Force is not recommending any change to hospital support.

Addendum XX includes the complete list of motions approved by the Task Force as recommendations for the Assembly to pursue or investigate. Addendum XXXX is the complete set of the Task Force minutes, which includes more detail on the motions.

Task Force members reviewed the various sales tax ordinances on taxable items and exemptions and made recommendations for changes.

After reviewing the operation of the Assessment Department, the Task Force joins the Administration in recommending that the City invest the necessary funds to update assessing software and adjust all property to full value as soon as possible. Accurate and timely valuation of residential and commercial property will help ensure that property taxes are fully and fairly collected.

The Public Works Department provided an excellent presentation to the Task Force on the Capital Budget, including a prioritized list of projects, and scenarios illustrating how the City's infrastructure would be maintained at different levels of funding. The materials provided an easy way to see how projects and priorities could be moved around to achieve the most effective spending over a number of years at different funding levels. After listening to public comment, the Task Force voted to recommend a level of spending adequate to maintain paved roads, avoiding the need for conversion to gravel. Members recommend Public Works spending of \$3,000,000 per year, which represents a very significant increase of \$1,500,000, or 100 percent over this year's budget.

While many residents who took the time to attend Task Force meetings recommended cutting municipal expenses, pleas from citizens to maintain public services were also loud and numerous. During the review of the General Fund budget, Task Force members developed a consensus that the City could not maintain core infrastructure and public safety, meet its regulatory obligations and maintain its commitment to community values through budget cuts alone. The numbers simply do not add up. A combination of spending cuts and revenue increases is a mathematical necessity if the City is going to avoid catastrophic negative impacts on public safety, infrastructure, public education and quality of life.

Local sources of revenue are limited. Given the commitment the Task Force made to a sustainable and fair tax structure, it became apparent to members that an increase in the property tax rate would be an integral part of their ultimate recommendation. The property tax is a stable and predictable source of revenue, and Task Force members believe that it is more connected to the ability of residents and businesses to pay than the sales tax. Under the Sitka Charter, a popular vote required to increase the property tax from the current cap of six mills, i.e., six cents per thousand dollars of property valuation.

As the Task Force meetings progressed, the concept of a “Grand Bargain” with the citizens of Sitka evolved. Members concluded that to persuade the citizens to vote for a property tax increase, the City would need to reduce the size of local government, increase efficiency, protect core services and education, and ensure that residents with low and fixed incomes are not asked to contribute more than they can realistically afford. Thus, the Grand Bargain, which includes a combination of spending cuts, reduction in sales taxes, and an increase in property taxes to maintain the things that we believe—and residents told us—that we need to maintain our quality of life.

The details of the Grand Bargain that the Task Force is recommending to the Assembly are included in Addendum XXX. Members believe that it will take three years to fully implement the necessary changes to the mill rate and budget that we recommend. Elements of our Grand Bargain include:

- Eliminating the sales tax on groceries for all Sitkans. This will represent a tax cut for most households, but will be especially helpful to families raising children on low incomes, who spend a much higher percentage of their household budgets on food.
- Directing 100 % of the Fish Tax to the Harbor Fund, which will provide revenue for projects that benefit commercial fishermen, maritime businesses and recreational boaters. Currently, the General Fund retains 10 percent of the Fish Tax.
- Providing significant financial support for the Electric Fund to prevent unaffordable increases in electric rates. Rates will continue to rise, but at a reasonable pace with municipal support.
- Investing \$3 million from the General Fund in capital projects per year. This amount will keep our streets from further deterioration.
- Raising new revenues by selling City-owned undeveloped land. This action should also spur housing construction and job creation in Sitka.
- Raising new revenues by opening a new rock quarry. Our existing quarries are almost depleted. A new rock source must be found to support public and private development and construction projects in Sitka.
- Raising new revenue by asking the voters to approve an increase of 2 mills in the property tax rate.
- Reducing the City’s General Fund budget by \$1.7 million over the next three years.
- Reducing the City's contribution to schools by \$600,000 over the next three years, with a “circuit breaker” that would require smaller cuts to prevent school funding from dropping below 92 percent of the cap according to the state funding formula.

The Grand Bargain concept developed because increasing the property tax rate will require majority support from voters. Task Force members discussed options ranging from removing the cap entirely, raising the cap several mills and letting the Assembly set the mill rate yearly, to a set increase in the rate. The Task Force spent a lot of time looking at how to make the revenue tools more progressive and less dependent on our current sales tax, which is regressive, unpredictable, and bad for local businesses, as residents increasingly try to save money by purchasing more online.

The discussion thus had two components—increasing revenue for the General Fund, and trying to make sure that taxes and fees are fair and affordable for all residents. We believe that our recommendations achieve these objectives.

The Grand Bargain proposed by the Task Force has many elements that combine to create the financial resources that Sitka needs to maintain infrastructure, services and quality of life. Raising the property tax rate is an absolutely essential element of the plan. **Municipal leaders, taxpayers and voters need to understand that if a ballot initiative to increase the property tax is not conducted or fails to pass, major, unaffordable increases in the sales tax and electric rates, and much deeper cuts in core services will be required to balance the budget.** While there are alternative to raising the property tax, members of the Task Force believe that all of these options will be bad for Sitkans in general, and much worse for our most vulnerable residents with low and fixed incomes.

Given the high stakes and short time frame for making decisions about revenue and expenses and possibly holding a ballot initiative on the property tax in October, the Task Force recommends that the Assembly develop a public information strategy designed to educate residents about our budget and the options for balancing it. We believe that increasing the property tax rate is necessary and important for the health and continued livability of Sitka. Our high quality of life and feeling of community will require citizens coming together in support of the Grand Bargain.