

City of Seward

2010/2011 Biennial Budget Policy Discussion & Council Direction





Council input previous budget session

- City Clerk
 - Consider 2-year business license
 - Reassess taxi licensing procedures
- Harbor
 - Audit passenger fee compliance
- Community Development
 - Penalize properties which decrease value of neighbors
 - Consider tax breaks for improving property



Council input previous budget session

- Consider reducing accrued annual leave levels
- Motor Pool
 - Assess motor pool funding level
 - Establish priority list for replacing vehicles/equip
- Consider giving a monetary incentive to departments that under-spend authorization
- Assess budget in terms of Comprehensive Plan
- Use some visitor revenue to enhance programs, facilities, services for those individuals



Council input previous budget session

- Include in budget
 - Improving customer service
 - Energy improvements
- Develop plan to repay electric fund
- Reassess fund balance policy

City Manager Budget Guidance



- ❑ Maintain current service levels
- ❑ Present Council with Balanced Budget
- ❑ No personnel reductions (current full and part time levels)
- ❑ Budget for a zero percent COLA increase for 2010
- ❑ Bring GF reserves into policy compliance within 3 years utilizing \$1.3M of \$1.6M Exxon settlement to COS
- ❑ Utilize \$300K of Exxon settlement to Seward Community Foundation toward non-profit funding endowment
- ❑ Develop (and budget) for deferred maintenance requirements
- ❑ Establish a priority list for replacing vehicles and equipment (and validate the level of motor pool funding)
- ❑ Identify source of revenue for capital budget (consider using \$266K State revenue sharing if not needed to balance the budget)

City Manager Budget Guidance (continued)



- ❑ Reduce dependence on grants for operations and infrastructure requirements
- ❑ Continue effort to assess entities receiving services but not paying
- ❑ Provide a comprehensive enterprise fund review to the Council for determining the status of the funds and the rate structure to meet current and future operations and infrastructure needs
- ❑ Stop depleting Electric Fund reserves for other needs
- ❑ Use the 2-year budget time savings to develop and fund capital maintenance and replacement schedules
- ❑ During year-2 of biennial budget, identify increased revenues to meet Council guidance & non-discretionary budget increases; Examine all revenue sources; Ensure changes are legally sufficient

City Manager Budget Assumptions



- ❑ Anticipate 8-10% decrease in sales tax, camping, bed tax revenue from 2008 actual levels
- ❑ Be conservative in revenue assumptions given lack of safety net
- ❑ Assume State continues to pay >22% PERS costs
- ❑ Assume State revenue sharing of \$229,606
- ❑ Budget 2% COLA for 2011 (implement only if CPI reaches this level or higher)
- ❑ Non-discretionary cost increases approx. 2%

Budget Policies



Policies with no recommended change

Budget Policies – no changes



- General Fund fund balance –
 - Policy requires 3-6 months expenditures and transfers-out in reserves
 - Policy level: \$2.8M to \$5.7M
 - Current balance: \$1.5M (1.6 month)
 - Need \$1.3M - \$4.2M additional reserves
 - Staff developing 3-year plan to bring into compliance
- Hospital PERS payment
- Accrued Annual Leave funding
- Hospital debt service reserve
- Limit on allocation of surplus
- Sales of general fixed assets
- Recurring funding source for capital
 - The City has not yet identified a source for funding capital

Budget Policies – no changes



- ❑ Capital Acquisition Fund appropriation control
- ❑ Annual Rate Review
 - City has lacked political will to adjust rates annually
 - Result: inadequate attention to rates needed to maintain infrastructure and assets
 - Last formal (third-party) rate review 1993, was not implemented due to adverse impact
 - Administration will propose CPI adjustment to rates in near future

Budget Policies – no changes



□ Enterprise Fund Depreciation Reserves

- Harbor = \$0 vs assets of \$27 million*
- Electric = \$838,105 vs assets of \$46.6 million*
- Water = \$4,019 vs assets of \$8.7 million*
- Sewer = \$163,938 vs assets of \$11.8 million*

* Asset values are at historic cost; significantly less value than what it would cost to replace assets, and exclude non-depreciable assets (e.g. land)

□ Tax Cap Policy

Budget Policies



Recommended Changes

One-time Revenue Policy:



- One-time revenues (such as grant administration fees, sales of fixed assets, legal settlements, etc.) should *not* be utilized to fund ongoing expenditures, but should be used to fund capital repairs and replacement. The use of one-time revenues to fund annual budgets promotes structural budget deficits in future years. **To the extent that the General Fund fund balance has reached 3 months' of expenditures and transfers-out, one-time revenues will be allocated annually to the Capital Acquisition Fund.**

Status of One-Time Revenues



The City has not transferred one-time revenues to the Capital Acquisition Fund in more than ten years, due to failure to meet General Fund 1-3 months' reserve levels

Revenue Stabilization Account Policy:



- The City has established a revenue stabilization account (**designated fund balance**) to maintain a prudent level of financial resources to protect against the need to reduce service levels or raise taxes or fees due to temporary revenue shortfalls or unpredicted one-time expenditures. **The target balance for this account should be five percent of General Fund annual revenues. This policy allows a more aggressive forecast of revenues, while providing a safety net against the failure to attain those revenues. This account can also be used, with Council approval, to fund emergency unbudgeted requirements.**

Status of Revenue Stabilization Account



This account is currently not funded

Level of reserves to be established by Council

Recommended policy change identifies 5% of annual revenue as a goal

Requires \$485,500 to fund equal to 5% of annual GF revenues

Debt Service Fund:



- Debt service funds are used to account for the accumulation of resources for the payment of capital repairs and replacement, general long-term principal and interest, and related debt costs. The City's hospital debt service fund consists primarily of proceeds from a 1% sales tax which are intended to cover hospital-related costs, including debt related to the hospital construction bonds. **A new Seward Mountain Haven Debt Service Fund will account for debt related to the issuance of revenue bonds for the long-term care facility.**

Seward Mountain Haven Debt Fund



To be funded through reimbursement revenues from LTC facility

Used solely to pay bond debt

Initial years anticipate surplus due to rebasing methodology

Crucial to retain surplus for out-years when reimbursement methodology does not pay for capital

Resolution 2009-84 on 9/14/09 agenda will establish this fund

Working with Providence to establish an MOA for transfer of funds

Hospital Capital Funding Policy:



- The City will transfer 5% of the previous full years' Fund Balance Reserved for debt service to the hospital to fund their annual capital budget. This transfer takes place only in years where the debt service reserve fund maintains a balance at least equal to the single years' highest debt service payments.

Policy used to require 5% be transferred

In practice, City transferred <5% when we had insufficient reserves, so this modifies policy to reflect that practice

Seward Mountain Haven Debt Service Reserve

Policy:



- The City will maintain a minimum level of fund balance reserved for long-term care facility debt service (equal to the highest years' principal and interest - \$1,973,360). Due to the frequent rebasing of reimbursement rates, as well as the potential for changes in the reimbursement methodology, the City finds it prudent to accumulate as much reserve in this account as possible. This will hedge against future declines in reimbursement, as well as mitigate timing differences between depreciation and debt lifecycles. The City will therefore not spend these reserves on anything other than debt repayment. (new policy recommendation)

Capital Acquisition Fund Policy:



- The City will designate 50% of the previous years' annual surplus (defined as the difference between revenues and transfers-in, and expenditures and transfers-out) into the Capital Acquisition Fund for the purpose of financing major capital maintenance and repairs (defined as items in excess of \$20,000), **in any year where the General Fund fund balance is within the band of established policy levels.** Since expenditures from this fund by definition exceed the **\$50,000** threshold, they require specific appropriation from the City Council before being spent.

(adds 'band limit' and changes threshold to be consistent with new purchasing limits)



Motor Pool Appropriation Control Policy:

- Motor Pool reserves **will** be preserved for the sole intended purpose of replacing City heavy equipment and vehicles, based on the established goals of minimizing fluctuations to annual operating budgets, and exercising fiscal prudence in saving for replacement of the City's fleet.

(replaces *should* with *will*)

Loans from Motor Pool to other Funds:



- Loans from Motor Pool to the other funds will be repaid with interest to the Motor Pool in order to safeguard the viability of the long-range **vehicle and** heavy equipment replacement plan.

Equipment Replacement Schedule:



- The City has established a Fleet Replacement Policy to be approved by the City Council, which will allow for the routine and timely replacement of City vehicles at a certain mileage interval per vehicle type, with the primary goals of maximizing safety and trade-in values.

(Fleet Replacement Policy established as part of Bird's enterprise fund rate review, and will come before Council during budget process)



Depreciation Funding Policy part 1:

- The policy of the City shall be to fund a minimum of **100%** of the annual rate of depreciation, recognizing that failure to establish adequate reserves for the replacement of plant and equipment shifts the financial burden of such major repairs and replacement, to future generations, creating an imbalance of inter-generational equity.

(changes from 50% to 100%, reflecting magnitude of fully-depreciated assets with almost no depreciation reserves)

Status of Depreciation Funding



Status:

- Harbor = \$0 in MRRF vs assets of \$27 million*; \$4 million end of useful life
- Electric = \$838,105 in MRRF vs assets of \$46.4 million*; \$8 million end of useful life
- Water = \$4,019 in MRRF vs assets of \$8.7 million*; \$3 million end of useful life
- Sewer = \$163,938 in MRRF vs assets of \$11.8 million*; \$750K end of useful life

(None of City's enterprise funds routinely commit funds for any repair/replacement of existing assets. Not sustainable way to operate enterprise activities.)

* Exclusive of land

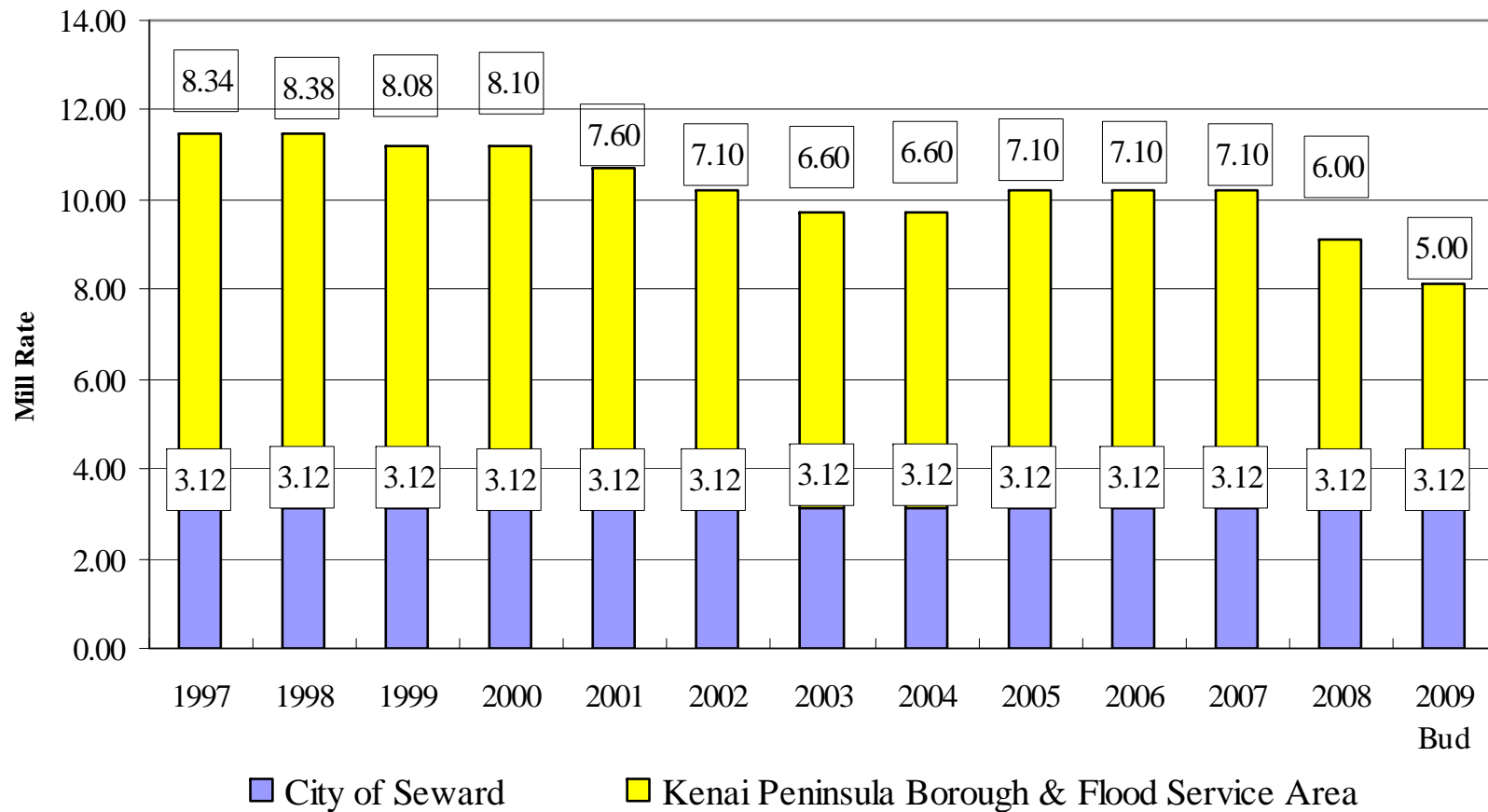
Revenue History – sales tax



- ❑ Sales tax implemented March, 1982 -1% for hospital operations; general government if any left over
- ❑ Rate increased from 1% to 3% June, 1986 to fund general government
- ❑ Oct 1998 advisory vote to increase from 3% to 4% was voted DOWN. Stated purpose of increase: to establish Capital Improvement Trust Fund.
- ❑ 2003 advisory vote to increase sales tax rate from 3% to 4% was approved by voters. Voter education clearly stated purpose was to address increased costs rather than capital.



Revenue History – property tax

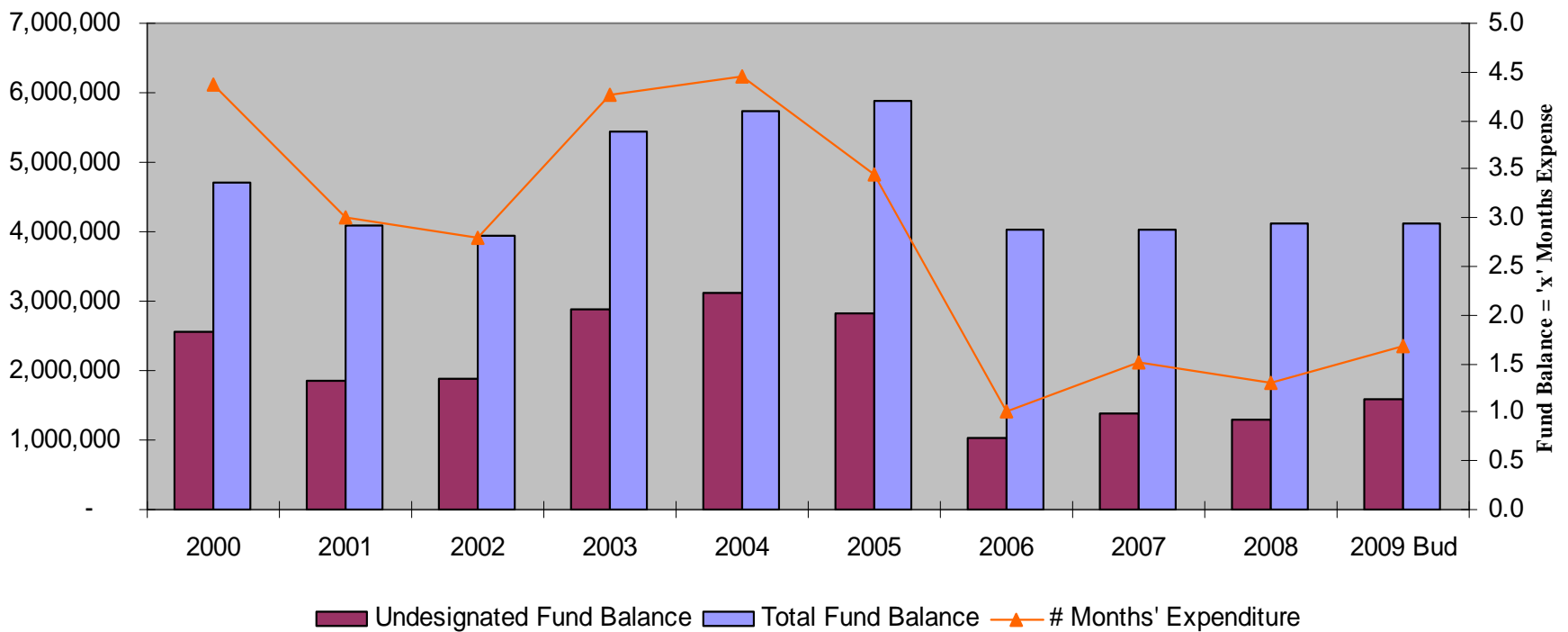


Why Reserves?



- ❑ City has no depreciation fund to cover replacement of \$26M General Fund assets
- ❑ General Fund must cover deficits in all other funds; SMIC annual deficit @ \$300K
- ❑ Economic uncertainty
- ❑ Used to leverage grant dollars (matching)
- ❑ Cover unforeseen needs/emergencies (flooding, avalanches)
- ❑ No capital fund to cover deferred maintenance (roads, buildings, equip) or new capital

General Fund fund balance history



Cash Balances in all funds



General Fund	\$	4,053,737
Available		1,226,429
Harbor Fund		(79,986)
Harbor Capital Projects		1,992,005
SMIC Fund		219,107
Parking Fund		464,762
Electric Fund		1,875,402
Electric Capital Projects		6,710,614
Water Fund		1,455,359
Water Capital Projects		119,956
Sewer Fund		414,629
Sewer Capital Projects		189,319
Motor Pool Fund		1,488,809
Capital Projects (grants)		3,753,936
Special Revenue Funds (grants)		(44,300)
Hospital Debt Service		755,655
Agency Fund		37,002
Compensated Absences		376,605
Total Cash Balance at 8/31/09	\$	23,782,611

Council Comments and Direction



Appendix: Budget Policies



The following slides reflect Budget Policies with no recommended change

GF Fund Balance Policy:



- The City should maintain a level of undesignated fund balance equal to at least 3-6 months' of expenditures and transfers-out, in order to cover unanticipated revenue shortfalls, and to provide an adequate level of reserves to cover unforeseen needs and emergencies, as well as to cover the potential shortfall of all other City funds.

(no change)

GF Fund Balance Policy:



- 1. When the level of undesignated fund balance is not within the desired range, a plan should be developed to bring fund balance within the desired range within three years.

(Status: staff preparing plan for Council action during budget process)

- 2. When the level of undesignated fund balance is below the desired range, withdrawals from undesignated fund balance should be limited to emergency purposes.

(Status: current year used \$30K for fire hall repairs)

Hospital PERS Payment Policy:



- The City made loan payments to PERS from this fund and then borrowed from the Motor Pool and Electric MRRF to repay this debt, and in years when there are sufficient reserves in this fund, they may be used to repay a portion of those loans.

(no change)



Accrued Annual Leave Funding Policy:

- The City created an internal service fund for the purpose of accumulating cash to pay for the accrued but unused portion of annual leave for governmental fund employees. This account is to be designated solely for the payment of accumulated leave.

(no change)



Hospital Debt Service Reserve Policy:

- The City will maintain a minimum level of fund balance reserved for hospital bond debt service (equal to the highest years' principal and interest – \$878,500) prior to utilizing reserves to repay PERS debt service or to fund the annual hospital capital budget from this fund. Given that the hospital bonds will be paid off in 2013, the necessity of this level of reserves is less critical over time.

(no change)

Limit on Allocation of Surplus:



- The allocation of surplus funds from the General Fund to the Capital Acquisition Fund should occur only when the General Fund undesignated fund balance exceeds 3 months' reserves.

(no change)

Sales of General Fixed Assets:



- Revenues from the sales of general fixed assets should be added to the Capital Acquisition Fund.

(no change)



Recurring Funding Source for Capital:

- The City should seek recurring funding sources to fund capital so that capital spending is not given last priority in competing for limited financial resources.

(no change)

(Status: the City has not identified a source of funds to fund capital)

Capital Acquisition Fund Appropriation Control Policy:



- Capital replacement funds are to be restricted and distributed only for major capital outlay expenses. Since capital expenses are defined as those in excess of \$20,000, all expenditures from these funds require approval by the City Council.

(no change)

Annual Rate Review Policy



- Rates should be reviewed annually to determine if they are adequate to cover annual operating and capital costs, plus the annual cost of depreciation. Recommendations for rate adjustments should be made annually to the City Council.

(no change)

Status of annual rate reviews



- ❑ City has lacked political will to adjust rates annually
- ❑ Result: inadequate attention to rates needed to maintain infrastructure and assets
- ❑ Last formal (third-party) rate review 1993, was not implemented due to adverse impact
- ❑ Administration will propose CPI adjustment to rates in near future



Enterprise Fund Depreciation Reserve Funds

- The City has established a major repair and replacement fund (MRRF) for each of its major enterprise funds (Small Boat Harbor, Electric, Water, and Wastewater).

(no change)

- Status:

- Harbor = \$0 vs assets of \$27 million*
- Electric = \$838,105 vs assets of \$46.6 million*
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* Asset values are at historic cost; significantly less value than what it would cost to replace assets, and exclude non-depreciable assets (e.g. land)

Depreciation Funding Policy, part 2



- Funding depreciation' is defined as either placing equivalent cash into the MRRF Fund, or spending on capital repairs valued greater than \$20,000, such that the total amount invested in major maintenance and repair is at least 100% of the annual depreciation. Investments in new infrastructure are not considered investments in capital for the purpose of depreciation funding, since they do not replace existing infrastructure.

(no change)

Depreciation Funding Policy, part 3



- Exception: Where Council determines that a specific enterprise fund asset will not be replaced at ratepayer or taxpayer cost, but will be replaced through grants, or not be replaced at all, it may be prudent not to fund depreciation on that item.

(no change)

Tax Cap Policy:



- Continue to support an increase in the Kenai Peninsula Borough sales tax cap above \$500.

(no change)