

# City of Seward

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## 2018/2019 Biennial Budget Kick-off Meeting



# Upcoming budget issues





# Budget issues - Operating

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- ❑ Property tax increase 3.12 mills to 3.84 mills for road bond
- ❑ Reduced revenue Air Force Rec Camp lease \$20K
- ❑ Fire hydrant billing correction \$50K
- ❑ Fire plan to replace breathing apparatus
- ❑ City Clerk – Sister City 50 year anniversary funding
- ❑ Police dispatch contract reduced \$12,500 to \$36,000 in past two years
- ❑ Jail contract reduced \$320K since 2015, to \$350K; recommend 2 years for State to stabilize funding or consider closing jail
- ❑ Jail inmate meals reduced due to SB91
- ❑ Campground revenues up; pay utility site expansion
- ❑ Funding for Seward Community Foundation to eliminate City contributions
- ❑ Radio conversion AMLR to Firstnet in future



# Budget issues - Operating

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- ❑ Electric meter exchange project
- ❑ Electric line clearing continues
- ❑ Electric rate options
- ❑ Phase out manual meter reading
- ❑ Electric proposed tariff to address seasonal on/off w higher on/off fees
- ❑ Electric ASLC special contract renewal
- ❑ Harbor Icicle lease credit discussion
- ❑ Sewer proposed tariff to address seasonal on/off w higher on/off fees
- ❑ SMIC lease revenues up
- ❑ SMIC crane
- ❑ Automatic tariff adjustments 2.1% in 2018 and 1.6% in 2019

# Budget issues - Operating

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- ❑ **Water Fund** unable to fund MRRF due to new debt for Third Ave. Water Line loan.
- ❑ **Sewer Fund** new debt for both sewer lagoons
- ❑ **Staffing issues:**
  - restore overtime/standby
  - 2.1% cola 2018; 0% 2019
  - police dept \$5 hourly increase in 2017
  - no new positions
  - parks & rec savings filling lower-paid admin assistant instead of program supervisor

# Budget issues - Operating

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## Healthcare Funding strategy:

### ■ CHC

- Goal to reduce City support \$100K/yr. beginning 2017, using reserve strategy
- In 2018 request two-tier approach (\$300K operating with \$200K reserves)
- In 2019 request two-tier approach (\$200K operating with \$300K reserves)
- Reserves to be set aside for facility expansion, providing funding available
- Pursuing behavioral health grant funding

### ■ PSMC

- Plan for Bond reserves and Expansion reserves
- Growing operational shortfalls due to SMH census; currently +\$4M
- Considering converting one Long-Term Care home to Assisted Living
- PSMC capital budget request

# Budget issues – Capital

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- ❑ City Hall boiler system and roof repairs
- ❑ City Hall Annex boiler issues
- ❑ Community Center flooding mitigation/repairs
- ❑ Complete additional utility sites on campgrounds
- ❑ Harbor – S. Harbor launch ramp replacement
- ❑ Waterfront campground restroom

# Budget issues – Capital

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- ❑ Police & Fire radio migration in coming years
- ❑ Fire apparatus storage facility
- ❑ Relocation of City Shop and P&R warehouse
- ❑ Water - Lowell Canyon water tanks; one refurb and one demo
- ❑ SMIC – crane, N. Dock, new float project
- ❑ Consider selling Little League ballfield property and relocate field



# Budget issues – Capital

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- Streets – road grader
- Patrol vehicle
- Parking small truck and toolkat
- Lease new TYC van
- Parks  $\frac{3}{4}$  ton plow truck
- Electric bucket truck and excavator
- Harbor replace  $\frac{3}{4}$  ton plow truck and  $\frac{1}{2}$  ton truck



# Budget issues – New Debt

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- Road bonds \$210K/yr.
- Sewer sludge removal \$490K loan - \$26K/yr.
- Sewer sludge removal \$1.08M loan – \$70K/yr.
- Harbor USACE breakwater \$1.201M loan - \$71K/yr.
- SMIC \$1.029M loan 330-Ton lift - \$147K/yr. reduced to \$98K/yr.
- Harbor Float project (unlikely need to repay) \$1.72M - \$172K/yr.
- Water Tank constructed w/ no new debt;
- Third Ave. water line \$150K/yr.



# Pending Electric capital projects

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- ❑ Jesse Lee UG (\$30K) –critical risk
- ❑ Sectionalized pole replacement (\$1.7M) –critical risk
- ❑ Old Mill #3 (\$120K) – high risk
- ❑ Gateway (Upper) (\$90K) – high risk
- ❑ Gateway (Lower) (\$80K) – high risk
- ❑ Woodland Hills (\$120K) – high risk
- ❑ Downtown Alley (2<sup>nd</sup> and 3<sup>rd</sup>) (\$1.0M) – high risk
- ❑ Downtown Alley (3<sup>rd</sup> and 4<sup>th</sup>) (\$2.0M) – high risk
- ❑ Downtown Alley (4<sup>th</sup> and 5<sup>th</sup>) (\$2.0M) – high risk
- ❑ Substation security upgrades (\$130K) – high risk
- ❑ Southwest boat launch ramp (\$33K) – high risk
- ❑ Automated meter reading



# Pending Electric capital projects

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- ❑ Purchase 9 mega-watts of Bradley Lake Power (\$1.1M)
- ❑ Update sectionalizing study and purchase oil circuit reclosure (\$132K)
- ❑ Install 25kV underground across Snow River (\$450K)
- ❑ Convert T-Line to 115 kV (\$12 million)
- ❑ Extend 12.5 kV distribution line on Nash Road (\$165K)

# Budget Goals



# Budget Goals

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- ❑ Maintain current service levels
- ❑ Produce a balanced budget
- ❑ General Fund reserves within policy band
- ❑ Continue addressing deferred maintenance (i.e. boardwalk, warehouse, erosion)
- ❑ Strategy for SMH future bond payments
- ❑ Self-sufficient in anticipation of declining federal/state funding
- ❑ Protect long-term financial health of City
- ❑ Strengthen health of enterprise funds and meet critical and high-risk capital needs
- ❑ SMIC economic development, utility expansion

# Budget Goals

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- ❑ Address enterprise fund winter customer vacancy
- ❑ Consider higher monthly flat-rate in utilities, lower consumption charges
- ❑ Develop plan for long-term sustainability of infrastructure
- ❑ Funding source for General Fund infrastructure (i.e. roads, building repairs, erosion, ADA sidewalks, warehouse), as allowed thru compliance with fund balance policy

# Budget Assumptions





# Budget-building Assumptions

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- ❑ Anticipate revenue levels for sales tax, camping, bed tax consistent with 2016/2017 actual levels
- ❑ Conservative revenue assumptions given lack of safety net
- ❑ Assume State continues to pay >22% PERS costs
- ❑ Assume no State revenue sharing
- ❑ Assume 2.1% cola for 2018; 0% for 2019

# Council Comments and Direction

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# Appendix

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- Budget Policies (30 pages)
- Recent capital accomplishments

# Budget Policies



# GF Fund Balance Policy:

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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 proposed)

# GF Fund Balance Policy:

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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.

(no change. Proposed budget will ensure fund balance is within policy band.)

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

(no change)



# Status of Fund Balance Policy

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- Policy requires 3-6 months expenditures and transfers-out in reserves
- Policy level: \$3.2M to \$6.4M
- Current balance: ~\$4.8M (4.6 months)

# One-time Revenue Policy:

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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 6 months' of expenditures and transfers-out, one-time revenues will be allocated annually to the Capital Acquisition Fund.

(no change proposed)



# Status of One-Time Revenues

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- The General Fund transferred reserves to the Capital Acquisition Fund totaling \$1,321,335 in 2014; first major injection (other than revenue sharing) in more than ten years, due to reserve levels
- Propose to transfer one-time Revenue Sharing, if any, to CAF in 2018/2019.



# Revenue Stabilization Account Policy:

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The City has established a revenue stabilization account 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 balance in this account should be equal to ten percent of the General Fund's annual revenues. This level of reserve is based on the City's increasing dependence on the visitor industry for the generation of sales taxes, bed taxes, and camping fees, as well as on State funding to fund general government services.

(no change proposed)



# Status of Revenue Stabilization Account

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- This account is currently not funded
- 10% of annual revenue is goal = \$1.1 Million; admin may recommend creation of this account in 2017

# Debt Service Fund:

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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 *Seward Mountain Haven Enterprise Fund* accounts for debt related to the issuance of revenue bonds for the long-term care facility and is secured by patient revenues and proceeds from a 1% sales tax.

(no change proposed)



# Status of SMH Fund

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- ❑ Funded by transfers to City from LTC facility used solely to pay bond debt
- ❑ Initial years anticipated surplus but census is a challenge
- ❑ PSMC/City developing strategy to ensure bond reserves in out-years when reimbursements don't cover bond payments
- ❑ Annual debt payments approx. \$1.47 million, down \$500K/yr. due to bond refunding in 2016
- ❑ Outstanding bond balance 12/2017 = \$17.9 Million; saved \$8.2M lifetime cash flow from bond refunding

# Status of Hospital Enterprise Fund

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- Utilizes 1% sales tax = \$1 Million / yr. for bonds, capital repairs, capital needs, CHC/PSMC operations
- Cash Balance 12/31/16 = \$651K
- SGH PERS Debt Balance 12/31/16 = \$752K
- Revenues pledged for SMH debt payments
- Balance in Health Facilities Expansion Fund at 12/31/16 = \$155,889

# Hospital Capital Funding Policy:

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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.

(Administration proposed a change in 2016/2017 to prioritize bond repayment reserve, capital repairs/replacement, facility expansion, and CHC/PSMC operating)

# Hospital PERS Payment Policy:

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The City paid PERS to avoid high-cost loan (borrowing from the Motor Pool ~~and Electric MRRF~~) and in years when there are sufficient reserves in this fund, they may be used to repay a portion of those loans.

(no change proposed)

(Status: This Fund paid off amount owed to Electric MRRF in 2016;  
balance owed 12/31/16 = \$752K to Motor Pool)





## SMH Debt Service Reserve Policy:

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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 ~ ~~\$1.97~~ \$1.47 million). 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.

(no change proposed) Status: annual debt service reduced due to refunding bonds in 2016, to \$1.47 million.



# Accrued Annual Leave Funding Policy:

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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 proposed)



# Capital Acquisition Fund Policy:

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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.

(no change proposed)

Status: Pending request to transfer \$300K in 2016 surplus to CAF in 2017



# Limit on Allocation of Surplus:

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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 proposed)



## Sales of General Fixed Assets:

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

(no change proposed)

# Recurring Fund Source for Capital:

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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 proposed)

(Status: the City has not identified a source of funds to fund capital. State Revenue Sharing has been allocated solely for capital purposes for the past five years.)



## Motor Pool Appropriation Control Policy:

Motor Pool reserves should 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.

(no change proposed)

### Status:

Cash balance 12/31/16 = \$1.4 million

Debt balance = \$0

Asset historic cost = \$7.0 million

Loans receivable = \$1.5 million

Upcoming need = road grader, patrol cars, TYC van, harbor, parks plow trucks; other equip from enterprise funds



## Loans from Motor Pool to other Funds:

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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.

(no change proposed)

Status: Loan repayments are current. Loans receivable \$1.5 million from SGH PERS (\$752K); 330-Ton Lift (\$784K).





# Equipment Replacement Schedule:

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The City has established a Fleet Replacement Policy to be approved by the City Council which allows 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.

(no change proposed)

Status - Fleet Replacement Policy will be updated in off-budget year.

# Capital Acquisition Fund Appropriation Control Policy:

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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 proposed)



# Annual Rate Review Policy

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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 annual rate adjustments should be made biennially to the City Council.

(no change proposed)



## Status of annual rate reviews

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- ❑ City has been reviewing rates biennially prior to budget process with annual rate changes included in budget
- ❑ Reviews are now standard process
- ❑ CPI increase added to tariffs was critical
- ❑ Progress made in addressing critical and high-risk capital needs; i.e.
  - Electric generator project, Camelot repairs, transformer maintenance
  - Harbor float replacement, fish cleaning station
  - Water storage tank
  - Sewage lagoon dredging and repairs
- ❑ Limited Electric rate review completed in 2014, minor updating in 2017

# Enterprise Fund Depreciation Reserve Funds

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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 proposed)

# Depreciation Funding Policy:

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- 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.

(no change proposed)

# Status of Depreciation Funding



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## Status:

- Harbor MRRF = Estimated \$0 cash vs assets of \$58 million  
Annual contribution s/b min. \$1.8K per policy
- Electric MRRF = \$5.5M cash vs assets of \$67 million \*  
Annual contribution s/b min. \$1.4M per policy
- Water MRRF = \$1.1K cash vs assets of \$14.7 million \*  
Annual contribution s/b min. \$200K per policy
- Sewer MRRF = \$742K cash vs assets of \$15.2 million \*  
Annual contribution s/b min. \$367K per policy

\* 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, contd

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'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 proposed)





## Depreciation Funding Policy, contd

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*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 proposed)

# Tax Cap Policy:

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

(no change proposed)

# Recent capital accomplishments

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- ❑ Hydro energy test well
- ❑ City Hall carpet replacement
- ❑ ADA sidewalk improvements
- ❑ \$6M road replacement project
- ❑ Snow River flood mitigation electric pole revetment
- ❑ Electric line underground at Lagoon
- ❑ Water storage tank construction (critical)
- ❑ SMIC breakwater construction



## Recent Electric capital accomplishments

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- ❑ Camelot UG (\$100K) - critical
- ❑ Transformer renovation - critical
- ❑ Meter relay and view screen - critical
- ❑ SMIC UG (approx. 1/3 done) (\$105K) - critical
- ❑ Inventory software – high-risk
- ❑ Fort Raymond Power Plant/Generator Integration – critical (\$5.9M)
- ❑ Fort Raymond controls upgrade (\$450K) – moderate risk



## Recent Electric capital accomplishments

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- Switch at Nash Road – moderate risk
- Lawing/Victor Creek pole replacement – moderate risk
- Questa Woods work (approx. 1/2 done) – moderate risk
- AVTEC UG (\$15K) – moderate risk
- Lagoon (\$450K) – moved utilities underground
- Snow River emergency watershed protection - – critical risk (\$1.48 million)