

## **RES 25-36 - Attachment A: Council Priorities for the 2026 Operating Budget**

### **INTRODUCTION**

Valdez City Council held its annual strategic planning retreat June 20-21<sup>st</sup>, 2025 to discuss organizational strengths, weaknesses, opportunities, and threats as well as a review and status update of previous priorities, and forward-looking top priorities. The top priorities of the City Council are as follows:

- Housing
  - Increase housing stock by Fall 2027, utilizing the housing needs survey
- Childcare
  - Complete an operating, active, licensed childcare facility by Fall 2026
- Maintenance
  - Annually appropriate funds toward deferred maintenance on critical infrastructure
- Expand: Outdoor Recreation, Tourism, Maritime & Community
  - Annually modernize aging infrastructure, while leveraging natural and transportation assets, to expand: Outdoor recreation, Tourism, Maritime & Community

Further, a public workshop was held by the City Council on August 5<sup>th</sup> to further develop this document which represents preliminary Council direction, summarized below, for development of the 2026 Operating and Capital Budget.

### **SUMMARY**

Management has presented the City Council with written Department Operations Reports for all staffed departments. The Council requested additional information from specific departments to consider before making final appropriations in the 2026 Budgets, all other staffed departments were instructed to abide by the parameters set forth in this document. Revenues that allow the City of Valdez to provide services to residents are primarily driven by Property Tax revenue, and the 2025 Budget and current fiscal year reflect the end of a multi-party agreement on TAPS valuation. As the City Council continues to evaluate its legal strategy around taxation of oil & gas property, guidance in this document may be subject to change especially as it relates to the 2026 Budget.

### **REVENUES**

**Property Tax** – Ad Valorem Tax, i.e. property tax, continues to be the City’s primary revenue source, comprising 90% of General Fund revenues based on a twenty-mill levy. The 2026 preliminary budget will be developed based on a continued twenty-mill levy using the most-recent TAPS and related infrastructure valuation as a revenue forecast and will include revenue projections pursuant to VMC 3.30.

**Permanent Fund** – For the 2026 budget, the City Council will appropriate for expenditure 1.5% from the permanent fund, as mandated by the charter's Section 6.7(a). Management will present steps to discontinue utilization of the appropriation and its corresponding expenditure in future budgets.

**Other Revenues** – All Other Revenues in the 2026 Budget will reflect historic levels of activity. This assumption will be presented in the General Fund, for items such as Parks and Recreation program participation, leases, and hotel occupancy tax unless otherwise necessitated by ordinance prior to

adoption of the 2026 Budget. Interest earnings on accumulated fund balances will reflect current market rates on allowable investment instruments.

**Special Revenue Funds** – The City operates four Special Revenue funds, Utility Fund for water and sewer charges, and Airport, Port, and Harbor funds, for facilities fees, leases, and fees related to commerce volume. Port and Harbor funds are tasked with targeting rates at a level at which revenues and expenses are budget neutral and do not require operational subsidies from the City’s General Fund with the exception of major maintenance related to existing infrastructure. Further Council direction related to Airport and Utility Fund can be found in the **Special Revenue Funds and Fee Subsidies** portion of this document.

## **EXPENSES**

**Personnel** – Full-Time Equivalent (FTE) is captured in “FTE Personnel”, an expense category containing the combined costs of salary, wages, and benefits for all approved positions. Management will continue the convention of budgeting for full employment, so as to reflect the full committed costs of all approved positions. Position vacancies during the budget year will result in actual expenses below budgeted amounts. Management is encouraged to use position vacancies as an opportunity to re-examine staffing levels for changing priorities and reallocation of overall staffing levels. Due entirely to this practice, as a budget category, FTE Personnel has an estimated citywide increase of 3.9%. However, where no staffing reallocation has taken place, the benchmark is 7.6% for departments with a status quo personnel picture.

The staffing reallocation notwithstanding, the following factors remain cost drivers:

**Cost of Living Adjustment (COLA)** – Salary and Wage rates will reflect a 2.3% Cost of Living Adjustment (COLA). This figure is based on Alaska/Anchorage official First-Half Consumer Price Index (CPI) figure and is supported by the City Council to be included in the 2026 Budget.

**Benefits** – The combination of substantial increases to reinsurance carrier markets and a small, self-funded healthcare pool comprise the primary drivers behind a conservative estimated increase of 13.2% to employee benefits costs for the upcoming budget year. Management will identify options to reduce volatility in benefits costs while not decreasing the quality of employee benefits.

**Other Expenses** – Management is also directed to present and quantify all expense categories, including FTE Personnel, versus inflationary growth over a 5-year time horizon and with year over year inflationary metrics. Council desires this objective to be on an individual department basis and serve as a foundation for Council’s consideration and analysis relative to their articulated program and service priorities. Departments under 5-year inflationary growth and year over year inflationary growth will most likely require little dialogue during 2026 Budget Workshops in October.

**Education** – Council reaffirms its commitment to funding Valdez Schools to the maximum permitted by statutory formula, and requests that Valdez City Schools give a budget overview presentation prior to the adoption of the school’s budget by the City in the second quarter of the upcoming fiscal year. Management will also present College and dual-credit funding requests as-received for Council

consideration. These three expenses reside in the City’s “Education” department within the General Fund, and will be scheduled for coordinated presentation and discussion during regular October budget workshops.

**Legal** – At the direction of the City Council, City Administration will present the Legal expenditures in the General Fund distinguishing between legal operating expenditures associated with normal City business and special projects as directed by the City Council.

**Community Service Organizations (CSOs)** – The City Council desires to keep overall Community Service Organization (CSO) funding consistent with established Council priorities and has provided guidance to staff on a few minor CSO application changes and expectations. Requirements for the 2026 CSO Program include:

- Continuance of the Biannual progress report for each CSO receiving funding
- Overall funding target is not more than 50% of the Valdez Program Budget for each organization
- Financial statements be presented side-by-side with prior fiscal year and current fiscal year
- CSO aggregate funding target NTE 2% of overall City operating budget

These parameters notwithstanding, CSO requests will be compiled by staff and forwarded to Council as-received. CSO applications will be discussed during a standalone workshop during the 2026 budget process, though approval during this workshop is not a final budget decision. Furthermore, any funding requests approved but not unanimously supported by the Council, or any in which further discussion is needed, will be revisited at a subsequent meeting prior to the adoption of the 2026 Budget.

#### **INTER-FUND TRANSFERS**

**Capital Projects (CIP) Funds** – The Long-Range Capital Plan and Capital (CIP) Budget will continue to be folded into the Operating Budget process reflecting the full commitment to Operating and Capital expenditures in the 2026 Adopted Budget. The CIP program will be funded by established convention, where prior year expenditures under-budget and revenues over-budget are appropriated and held in a CIP Planning Reserve in late first quarter of each fiscal year. Projects are then prioritized, and funds appropriated to specific projects by the City Council during Budget Workshops in October.

**Reserve Funds** - Reserve Funds are established via transfers from General Fund, and reflect costs-items that span multiple years, are unpredictable in nature, and/or serve to mitigate drastic annual variances. Examples include maintenance and capital projects as mentioned above, liquidation of accrued leave-time, and purchase of major equipment items, respectively. Management will continue with conventional reserve-fund levels to ensure adequate coverage of related expenses and liabilities.

**Energy Assistance** – Among the Reserve Funds is a specific appropriation for the Energy Assistance program. The program consists of a \$595 energy credit per qualifying residential customer. Management estimates the cost for the program to be approximately \$750,000.

**Special Revenue Funds and Fee Subsidies** – Council has historically approved fee-levels that are less than full cost-recovery levels, so as to provide reduced cost of living and enhanced quality of life for the benefit of residents. The imbalance of revenues and costs for related services are reflected in transfers from

General Fund to impacted funds, specifically Airport and Utilities. Council has expressed a desire to evaluate the level of subsidies to special revenue funds on an annual basis and explore ways to inform the public about these subsidies. Management will present preliminary 2026 budget transfers accordingly.

**CONCLUSION**

The directives and parameters articulated in this document represent a starting point for the 2026 budget and the dynamic long range financial plan. The final adopted operating budget may ultimately reflect revised priorities and parameters following a review of preliminary budgets during related work sessions in October. The preliminary budget will reflect Capital Project needs, composing a full picture of the City’s Operational and Capital Budget as a work plan for the upcoming fiscal year.

Council continues to strive to evaluate budget requests within a multi-year context, within the framework of the mission of the City of Valdez – “To cultivate an environment of opportunity, sustained prosperity, and well-being for all people of Valdez” – while in pursuit of articulated programming within the framework of the City’s Comprehensive Plan.