Date:	November 22, 2016
Memorandum To:	Citizens of Valdez
From:	Dennis Ragsdale, City Manager
Re:	**2017 Budget; Public Hearing**

Budget Process:

The 2017 City Manager-recommended Budget was presented to Council on October 19th, during the first of nine workshops. This recommended budget was the product of a three-week review of each department's budget requests.

The 2017 Draft Budget submitted for the November 22nd Public Hearing incorporates all revisions requested by Council during the budget workshops. The draft budget shows each department's spending plan and history, along with summaries of each fund. It omits department narratives, work plans and mission statements; these items will be incorporated into the final published document following adoption.

Revenue Assumptions:

TAPS and Property Taxes: The majority of general fund revenues (80%) are driven by the TAPS legal settlement executed in March of 2016. Since 2006, 90% of the City's General Fund revenues have been comprised of property taxes, and 90% of this figure represents taxes on the TAPS. These proportions continue in 2017, and will extend through 2020, pursuant to the settlement reached in 2016. TAPS tax revenues reflect an $8.5 billion total TAPS value, and the 2017 budget assumes a continued twenty-mill levy.

Administration anticipates continued excess revenues in 2017, as defined in State statutes (see *AS 29.45.080)*. Statues stipulate that excess revenues be either applied to debt service or remitted back to the State of Alaska. The City has sufficient outstanding debt to comply with this statute, and will therefore retain these excess revenues in 2017.

Permanent Fund Appropriation: Pursuant to City Charter (see *Section 6.7a)*, an appropriation of 1.5% of the Permanent Fund value is budgeted in 2017. This figure, estimated at $2.6 million is shown as a transfer to the General Fund.

Debt-Service Reimbursement: Administration anticipates ongoing debt-service reimbursement from the State of Alaska for its 2004 and 2012 School bonds, and its 2004 Harbor bonds. The reimbursement program does not apply to the 2015 Harbor bonds. Assuming continued annual appropriation at the State level, this program will provide a revenue stream to the Debt Service fund through 2034.

Intergovernmental Revenues: The 2017 Budget reflects status quo or diminished Federal and State financial assistance for existing programs. The City will continue to supplement local tax dollars whenever possible by seeking outside funding sources for operational and capital needs. The City will evaluate any associated new commitments as they would relate to grant administration, long term operations, and/or maintenance/replacement costs.

Operations and Special Revenue Funds: The 2017 Budget reflects status-quo assumptions for the City's "business-type" activities, i.e. utilities, ports and harbor. These services and facilities are subsidized by General Fund revenues, and Administration does not currently propose changes to fee structures or cost-recovery goals.

Annual Revenue Carry-Forward: Each year following the financial audit, the net variance between final budgeted and audited revenues, or "carry-forward", is calculated and made available for appropriation via revision to the current year's budget. The 2017 budget reflects continued efforts to reduce the carry-forward via accurate revenue forecasting and expenditure controls. In keeping with established practice, carry-forward figures are not included in the draft budget, but will instead be made mid-year following the final audit.

Expense Summary:

The 2017 Budget includes $36 million in General Fund expenditures, and reflects the following Council priorities, as articulated to the City Manager during 2016:

- **Housing & Land Use:** Including Aleutian Village Trailer Park, residential housing shortage, and acquisition and disposition of City land
- **Flood Mitigation:** Including permitting, monitoring, and material-extraction in the Lowe River, Glacier Stream, and Mineral Creek
- **Personnel Facilities**: Including solutions to insufficient space to accommodate all authorized FTE positions at the current City Hall complex
- **Fire Station:** Including remediation of existing facilities and/or relocation planning
- **Economic Development and Diversification:** Including expanded winter economy and tourism, and continued exploration of the Liquid Natural Gas project
- **Deferred Maintenance** of Buildings and Infrastructure
- **New Boat Harbor** Project and Planning
- **Beautification, Abatement and Code Enforcement**
- **Museum Facilities and Planning**
- **ADA Compliance for All Public Facilities**

Capital Projects and Major Maintenance: The five-year TAPS settlement executed in 2016 has protected the City's existing reserves from any future TAPS-related legal claim. With this development, the City is now free to deploy these resources to productive use, and so the 2017 Budget contains funding of an ambitious two-year Capital Project and Major Maintenance initiative. The two-year CIP and Maintenance plan totals over $21 million, which will be appropriated directly from General Fund balance, rather than from 2017 revenues. The Capital Project and Maintenance plan will be further developed into a five-year schedule early in 2017, and will be incorporated into the 2017 budget via budget revision, and updated annually thereafter.

Personnel: General Fund expenditures are budgeted at $36.6 million, which reflects both the addition of six new positions, and the elimination of four previously authorized positions, for a net Full-Time Equivalent (FTE) increase of 1.7. The augmented staffing plan will enable the City to not only maintain but increase service levels in accordance with Council priorities.

In addition to the Staffing change, Council has directed staff to budget a one-time payment to all FTE staff reflecting a $2,000 disbursement per FTE. This nominal payment is to be distributed evenly among all FTE staff.

Conclusion:

The submitted budget represents a balance between funding Council's top priorities and the pursuit of budgetary sustainability. Staff estimates that an operating deficit may be reached as early as 2024, using status-quo staffing assumptions and historic rates of inflation. However, the 2017 budget process has enhanced the understanding of both staff and Council of the need to pro-actively bend the cost-curve with each subsequent budget. With intelligent planning, creativity, and resourcefulness, staff is confident that the City will continue to meet its service, maintenance, and capital project goals while ensuring that the "crossed-lines" are pushed ever further into the future.