

Attachment A: Council Priorities for the 2024 Operating Budget

INTRODUCTION

Valdez City Council held its annual strategic planning retreat July 28-29th, 2023 to discuss programming, service levels, and project priorities. During this meeting management also presented revised pro-forma budget summaries for 2024, as well as five and ten-year forecasts through 2028 and 2034, respectively.

During the strategic planning retreat, the City Council meticulously developed "Goal Qualifiers" that serve as vital benchmarks for evaluating their future initiatives. These Goal Qualifiers encompass a comprehensive range of factors to assess the effectiveness and feasibility of their goals. Goal Qualifiers include but are not limited to: the number of people impacted, the sustainability and financial burden associated with maintenance, construction costs, the influence on high-need service areas, and the potential economic impact. By implementing these Goal Qualifiers, the City Council aims to ensure that their decisions align with their strategic vision, benefit the community at large, and foster long-term sustainability and growth.

The various data and information were then factored into preliminary Council direction, summarized below, for development of the 2024 Operating Budget.

SUMMARY

Management presented preliminary budget figures and five-year forecasts. The calculations reflect added oil and gas tax revenue assumptions, along with the continuation of a repayment liability reserve to capture the "worst-case" repayment of ongoing oil and gas revenue currently in jeopardy. Calculations otherwise reflected status-quo funding of Citywide Service Levels, slight growth in personnel costs, and no growth in other expense categories. The resulting calculations yield an estimated deficit of \$1.0MM-\$3MM, and five-year aggregate deficit of \$14.2MM. Further, results from a ten-year iterative model were employed to illustrate possible outcomes over a ten-year time horizon. Key takeaways from the ten-year simulation include the end of the current 5-Year Settlement with TAPS owners and the impact to savings of a new agreement starting in the 2026 budget-year at various valuations.

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 2024 preliminary budget will be developed based on a continued twenty-mill levy.

Permanent Fund – For the 2024 budget, the City Council will appropriate for expenditure 1.5% from the permanent fund, as mandated by the charter's Section 6.7(a). The funds will be utilized for bonded infrastructure debt, while ensuring that the remaining amount continues to be held in trust for the benefit of present and future generations of Valdez residents, as per the charter's provisions.

Other Revenues – All Other Revenues in the 2024 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 and hotel occupancy tax, and in Ports and Harbor funds, for facilities fees, leases, and shipping volume. Interest earnings on accumulated fund balances will reflect current market rates on

allowable investment instruments. In the Utilities Fund, historic levels of commercial water and sewer charges will be taken into consideration and a moderate inflation adjustment will be presented to City Council for approval.

EXPENSES

Personnel - The City's largest expense category is "FTE Personnel", which is 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. The resulting "savings" are then carried forward to the next budget-year, when they are typically appropriated to approved maintenance and capital projects. Though not reflected in the preliminary budget, management is encouraged to use position vacancies as an occasion to re-examine staffing levels for potential reductions in overall staffing. Above all, an emphasis on maintaining current Service Level Objectives for the city while accounting inflation is desired. The City Council will evaluate specific feedback from the City Manager as to positions and services needed on a case by case basis.

Cost of Living Adjustment (COLA) – Salary and Wage rates will reflect a 2.2% Cost of Living Adjustment (COLA). This figure is based on Alaska/Anchorage official First-Half Consumer Price Index (CPI) figure. Council has indicated support to include this adjustment for consideration during the 2024 Budget Workshops in October.

Merit/Longevity Increases – Personnel costs will also reflect Finance and Human Resources best-estimates of scheduled raises pursuant to personnel regulations and current staffing data. Preliminary estimates reflect approximately a 0.9% increase.

Other Expenses – Management will attempt to present other expense categories with no growth over adopted 2023 budget levels. This objective is targeted to a citywide aggregate, which allows for variance among individual departments to meet Service Level Objectives and increased staffing levels. Wherever department expense categories reflect increases, management is encouraged to present a range of offsetting expenses and enhanced revenues for Council consideration. Management is also directed to present and quantify expense figures in terms of Service Level Objectives whenever possible to facilitate Council's consideration and analysis relative to their articulated program and service priorities.

Education – Council reaffirms its commitment to funding Valdez Schools to the maximum permitted by statutory formula. 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.

Community Service Organizations (CSOs) – City Council desires to keep overall CSO funding consistent with established Council priorities. Council also requests enhanced programming narratives and metrics so as to enable multi-year review and analysis of City-provided funds. These parameters notwithstanding, CSO requests will be compiled by staff and forwarded to Council as-received. CSO applications will be discussed on a standalone workshop during the 2024 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 discussing is needed, will be revisited at a subsequent meeting prior to the adoption of the 2024 Budget.

INTER-FUND TRANSFERS

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, 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. Maintenance and Capital Project appropriations will be set in the Spring of 2024 per established convention.

Energy Assistance – Among the Reserve Funds is a specific appropriation for the Energy Assistance program. Historically the program has been \$550 per residential and commercial customer. City Council evaluates the Energy Assistance program on an annual basis, and in the 2024 Budget, Council’s direction to staff is to present options for re-directing appropriations previously allocated to commercial customers totaling \$55,000 to a certain Economic Development initiative. Management estimates the cost for a “residential only” 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, Harbor, and Utilities. Council has expressed a desire to evaluate the level of subsidies to special revenue funds Utility/Port/Harbor/Airport on an annual basis, and explore ways to inform the public about these subsidies. Management will present preliminary 2024 budget transfers accordingly.

CONCLUSION

The directives and parameters articulated in this document represent a starting-point for the 2024 budget and the emerging 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. Council acknowledges a preliminary 2024 Operating Budget deficit, and the necessity of appropriating funds from accumulated savings to balance the shortfall. **It is the intent of City Council that this deficit does not exceed the amount being appropriated to the Repayment Reserve.** Council has established a preliminary plan to fund Major Maintenance project priorities in the Spring of 2023, using a combination of the 2023 “Carry-Forward” funds, and re-purposed funds previously appropriated. Council further acknowledges that the preliminary budget does not reflect Capital Project needs, and that these costs will be considered as deductions from accumulated savings and/or funded via issuance of additional debt, which will impact future operating budgets.

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 and service-level priorities.