

## **Resolution #24-32**

### **Attachment A**

## **Council Priorities for the 2025 Operating Budget**

### **INTRODUCTION**

Valdez City Council held its annual strategic planning retreat June 20-21<sup>st</sup>, 2024 to discuss financial outlook, vision, and top priorities. During this meeting management also presented revised pro-forma budget summaries for 2025, as well as five-year forecasts through 2029. During the strategic planning retreat, the City Council developed Budget Parameters for the upcoming Fiscal Year, completed vision statement pre-work and identified next steps, received status updates on Comprehensive Plan goals, revisited established goal qualifiers, and refined priorities for the 2025 Budget. The various data and information were then factored into preliminary Council direction, summarized below, for development of the 2025 Operating and Capital Budget.

### **SUMMARY**

Management presented preliminary budget figures and five-year forecasts illustrating a long-range financial plan for the City. Calculations reflect added oil and gas tax revenue assumptions, along with the continuation of a Repayment Reserve to capture the “worst-case” repayment of ongoing oil and gas revenue currently in jeopardy. Preliminary calculations otherwise reflected status-quo funding of Citywide levels of service, growth in personnel costs based on recent history, and inflationary growth in other expense categories averaged over 5 preceding years. Management further presented scenarios with large “levers” or decision-points for council to consider, each with varying degrees of impact to the City’s financial picture. Levers included the upcoming conclusion of the current 5-Year agreement with Trans-Alaska Pipeline System (TAPS) owners most recently renewed in Fiscal Year 2020 which represents roughly 80% of General Fund revenue. Current forecasted trends of revenue and expenditure based on history and historic TAPS valuation, reflect cautious optimism of a balanced budget through fiscal year 2028.

### **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 2025 preliminary budget will be developed based on a continued twenty-mill levy.

**Permanent Fund** – For the 2025 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 City’s Charter.

**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, the Utility Fund for water and sewer charges, 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.

## **EXPENSES**

**Personnel** - “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 occasion to re-examine staffing levels for changing priorities and reallocation of overall staffing levels. The City Council will evaluate specific feedback from the City Manager as to positions and services needed on a case-by-case basis, keeping goal qualifiers first and foremost as a backdrop for balancing levels of service to the community.

As a budget category, FTE Personnel has a baseline increase of 6.5% driven by the following three factors:

**Cost of Living Adjustment (COLA)** – Salary and Wage rates will reflect a 2.5% 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 2025 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.

**Benefits** – Additional benefits costs are associated with every marginal increase in wages such as the two examples above, however, the combination of substantial increases to reinsurance carrier markets and a small, self-funded healthcare pool comprise the primary drivers behind an estimated 11.3% increase to employee benefits costs for the upcoming budget year.

**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 2025 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.

**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. Changes for the 2025 CSO Program include:

- Biannual progress report for each CSO receiving funding
- Overall funding target is not more than 75% of the Valdez Program Budget for each organization
- Financial statements be presented side-by-side with prior year and current year.

Council wishes to acknowledge that future iterations of the set of guidelines may include an overall funding target of not more than 50% of the Valdez Program Budget for each organization and a requirement for local representation with respect to the expenditure of City of Valdez funds. 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 2025 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 2025 Budget. CSO funding is not to exceed 2% of the overall budget.

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

**Capital Projects (CIP) Funds** – For the first time in recent history, the Long-Range Capital Plan and Capital (CIP) Budget will be folded into the Operating Budget process. This change was driven by numerous factors and will allow a view to the full commitment to Operating and Capital expenditures in the 2025 Adopted Budget. The CIP program will continue to 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 \$550 energy credit per qualifying residential customer. Management estimates the cost for the program to be approximately \$675,000.

**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 2025 budget transfers accordingly.

## **CONCLUSION**

The directives and parameters articulated in this document represent a starting point for the 2025 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 evaluated within the framework of the City's Comprehensive Plan.