

Resolution No. 22-47 Attachment A: Council Priorities for the 2023 Operating Budget

INTRODUCTION

Valdez City Council held its annual strategic planning retreat on July 16th, 2022 to discuss programming, service levels, and project priorities. During this meeting management also presented revised pro-forma budget summaries for 2023, as well as five-year forecasts through 2027. These data were then factored into preliminary Council direction, summarized below, for development of the 2023 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 establishment of a repayment liability reserve to capture the “worst-case” repayment of oil and gas revenue currently in jeopardy. Calculations otherwise reflected status-quo funding of other reserve accounts, slight growth in personnel costs, and no growth in other expense categories. The resulting calculations yield an estimated deficit of \$2.5MM-\$3MM, and five-year aggregate deficit over \$38MM.

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 2023 preliminary budget will be developed based on a continued twenty-mill levy, reflecting additional oil and gas property valuations not previously on the City’s tax roll, and slight inflation in other property values.

Other Revenues – 2023 Revenues 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, in Utilities Fund, for historic levels of commercial 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, and management will explore options as to alternative market exposure specifically as it relates to funds held as an offset to repayment liability.

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 levels 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 an 8.4% COLA. This figure will be achieved via a two-phase adjustment, and is based on Alaska/Anchorage official Consumer Price Index (CPI) figures. Council has affirmed this preliminary calculation, the procedure, and implementation to be executed via initial (phase 1) 4.2% increase during the 2022 Budget Year followed by an identical (phase 2) increase at the implementation of the 2023 Budget. Staff acknowledges that the funding for phase 1 will come from the difference between budget/actual in the salary/wage category from the 2022 Budget.

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 1.9% increase.

Other Expenses – Management will attempt to present other expense categories with no growth over adopted 2022 budget levels. This objective is targeted to a citywide aggregate, which allows for variance among individual departments to meet programming and 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 expense figures in terms of program and/or service level aggregates 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) – During 2022, the City Council worked to keep overall CSO funding within a reasonable range of growth, and 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 2023 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, will be revisited at a subsequent meeting prior to the adoption of the 2023 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 2023 per established convention.

Energy Assistance – Among the Reserve Funds is a specific appropriation for the Energy Assistance program. Council has articulated desire to evaluate the Energy Assistance program on an annual basis. Historically the program has been \$550 per residential and commercial customer. Management estimates this status quo cost to be approximately \$800,000.

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 Ports, 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 2023 budget transfers accordingly.

Valdez Housing (“VHIA”) Fund – Management proposed additional appropriations in support of Council’s emphasis on the pursuit of new/additional housing development. The preliminary budget will reflect appropriation of accumulated VHIA housing fund balances of approximately \$2.8MM, plus additional transfers of previously appropriated land-development reserves, toward specific housing development programming. The source fund and/or department for this programming is yet to be determined. Council expressed support for this appropriation, and acknowledges that it represents a deduction from accumulated savings.

Permanent Fund – Pursuant to City Charter, Council may annually appropriate up to 1.5% of the Permanent Fund for any purpose. This figure currently totals \$4.2 million. Council has articulated that this appropriation will be reflected in the 2023 Budget, and set aside for funding of bonded indebtedness specific to the Sewer Force Main bond.

CONCLUSION

The directives and parameters articulated in this document represent a starting-point for the 2023 budget and the emerging five-year 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 2023 Operating Budget deficit, and the necessity of appropriating funds from accumulated savings to balance the shortfall. Council has established a preliminary plan to fund Major Maintenance project priorities in the Spring of 2023, using a combination of the 2022 “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, with an emphasis on sustainability, continuity, flexibility, and pursuit of articulated programming and service-level priorities.