



KETCHIKAN GATEWAY BOROUGH

1900 First Avenue, Ketchikan, Alaska 99901

April 26, 2016

The Honorable Mayor and Assembly Members
Ketchikan Gateway Borough
1900 First Avenue
Ketchikan, Alaska

RE: Fiscal Year 2017 Budget and Capital Program Overview

Dear Mayor and Members of the Assembly:

In accordance with KGBC 4.05.020, presented here by the Borough Manager and Finance Director for your consideration is the proposed Fiscal Year 2017 Borough Budget and Capital Program ("Budget").

Highlights of the proposed FY 2017 Budget follow. The budget was prepared based on the preliminary assessment roll as of February 4, 2016, flat sales tax revenue compared to the FY 2015 actual and FY 2016 estimated receipts, and no cost of living adjustment for employees. The collective bargaining agreement with the International Brotherhood of Electrical Workers, which covers approximately 18 Parks and Recreation and Public Works employees, includes a 1.5% COLA. All other regular employees, including those represented by other unions, will receive no COLA per Resolution 2650, which was adopted by the Assembly on April 18, 2016. There is no increase budgeted for the Manager, the Attorney, or the Clerk.

KGBC 4.050.020(a) states "*the borough manager shall prepare and submit to the assembly, no later than the first regular assembly meeting in May of each year, a proposed annual budget and capital program for the next fiscal year, which shall contain detailed estimates of anticipated revenues and proposed expenditures for the year. The total of such proposed expenditures shall not exceed the total of such anticipated revenues.*" In compliance with Borough code, the budget presented here includes a 0.6 areawide mill rate increase for purposes other than education, i.e., General Fund purposes. However, the Manager and Finance Director recommend holding property tax rates at the current level, and instead using a portion of the fund balance to cover the deficit in the General Fund. This is discussed more fully in Section B, 3. General Fund Balance.

We also acknowledge and express sincere appreciation for the considerable efforts of the *many* Borough staff that helped craft a responsible fiscal plan to carry out the duties of the Borough and provide the services and facilities during the period beginning July 1, 2016, and ending June 30, 2017 as depicted on the next page:

- | | |
|---|---|
| 1. Schools ^a | 15. Solid Waste ⁿ |
| 2. Ketchikan International Airport ^a | 16. Assessment of Taxable Property ^a |
| 3. Airport Ferry System ^a | 17. Tax Collection ^a |
| 4. Fire Protection ^s | 18. Public Works ^a |
| 5. Emergency Medical Services ^s | 19. Animal Protection ^a |
| 6. Road Maintenance ^s | 20. Regulation of Alcohol ^a |
| 7. Library ⁿ | 21. Regulation of Fireworks ^a |
| 8. Wastewater ⁿ | 22. Aquatic Center ^a |
| 9. Planning ^a | 23. Recreation Center ^a |
| 10. Land Use Regulation ^a | 24. Parks and Sports Fields ^a |
| 11. Platting ^a | 25. Water Utility ^s |
| 12. Economic Development ^a | 26. Land Trust ^a |
| 13. Docks ^s | 27. Code Enforcement ^a |
| 14. Bus System ^a | |

^a = areawide basis; ⁿ = nonareawide basis; ^s = service area basis.

A. Ordinance 1793-Amended and Its Impact on the General and the Schools Reserve Funds

On May 5, 2014, the Assembly adopted Ordinance 1712, creating a Schools Reserve Fund to be used for extraordinary needs regarding schools. Because the fund did not have a source of revenue, it did not meet GAAP requirements for establishment of a separate fund. In order to carry out the will of the Assembly, staff segregated the funds in question into a separate savings account, and established a reservation of fund balance in the General Fund. On April 18, 2016, the Assembly adopted Ordinance 1793-Amended, which provides for a dedicated property tax and dedicates Federal Secure Rural Schools revenues to be deposited into the Schools Reserve Fund for school district operating purposes. Staff transferred the balance of the separate savings account out of the General Fund and into the new Schools Reserve Fund.

Ordinance 1793-A also directs that cash contributions for school funding, including the required local contribution and any discretionary cash, be appropriated from the Schools Reserve Fund. Non-cash in-kind services will continue to be processed through the General Fund. Furthermore, if the voters approve a tobacco tax in October 2016, 85% of the proceeds from the tobacco tax will be deposited into the Schools Reserve Fund.

Sales, transient occupancy, shared fish and other miscellaneous taxes, as well as any collections of prior years' delinquent property taxes, would continue to be deposited in the General Fund.

The implementation of Ordinance 1793-A creates a surplus in the Schools Reserve Fund, which can be used to increase school funding beyond the level proposed in the Assembly's annual policy session in January 2016. However, implementation of 1793-A also compounds the deficit in the General Fund, as shown in the table on the next page.

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Ketchikan Gateway Borough		General Fund	General Fund with Ord 1793-A	Schools Reserve Fund per Ord 1793-A
Row		FY 2017 Forecast	FY 2017 Forecast	FY 2017 Forecast
1	Beginning Fund Balance	10,604,469	7,879,784	2,724,685
2				
3	Revenue			
4	Property Tax	6,916,914	-	6,916,914
5	Sales Tax	5,094,184	5,094,184	-
6	Tobacco Tax	-	-	331,500
7	Fish, Transient Occ. Taxes and Misc. Revenue	420,700	420,700	-
8	State Revenue Sharing	369,772	369,772	-
9	SRS/Forest Receipts	750,000	-	750,000
10	Federal & State Revenue - PILT	950,000	950,000	-
11	PERS on Behalf	137,934	137,934	-
12	Transit Grant	1,000,000	1,000,000	-
13	Charges for Services	1,727,948	1,727,948	-
14	In-Kind or Contr. Services KGBSD	616,485	616,485	-
15	Transfers-in	1,678,845	1,596,845	82,000
16	Total Revenue	19,662,782	11,913,868	8,080,414
17	Expenditures			
18	General Fund (General Government)	5,163,260	5,163,260	-
19	General Fund (Public Services)	6,576,374	6,576,374	-
20	Capital Projects	285,390	285,390	-
21	Education - Mandatory RLC	4,650,284	-	4,650,284
22	- Discretionary (In-Kind Non-Cash)	616,485	616,485	-
23	Ttl Exp. Before Discretionary Cash	17,291,793	12,641,509	4,650,284
24				
25	Education - Discretionary (Cash)	2,699,153	-	2,617,153
26	Education - School Building Insurance	82,000	-	82,000
27	Education - To meet KGBSD request	-	-	847,113
28	Total Discretionary (Cash)	2,781,153	-	3,546,266
29				
30	Total Expenditures	20,072,946	12,641,509	8,196,550
31				
32	Current year surplus (deficit)	(410,164)	(727,641)	(116,136)
33				
34	Fund Balance Before Reserves	10,194,305	7,152,143	2,608,549
35	Reserves	2,724,685	5,000,000	2,000,000
36	Unreserved Fund Balance	7,469,620	2,152,143	608,549
37				

B. General Fund:

1. Overall General Fund Revenues restructured by Ordinance 1793-A

With the adoption of Ordinance 1793-A, areawide property taxes for education and Federal Secure Rural Schools revenues are now dedicated to the Schools Reserve Fund. There will still be minor property tax revenue in the General Fund as delinquent taxes from prior years are collected, but if no areawide tax for purposes other than education is adopted in the next several years, that revenue will taper off and disappear.

Comparing FY 2017 to FY 2016, without adjusting for the effects of 1793-A leads to a distorted view of the General Fund. For example, FY 2017 General Fund revenue is 39% lower than FY 2016 after removing property tax for education and Secure Rural Schools revenue. The table below has been adjusted to remove these two revenue sources from FY 2016, allowing a better year-over-year comparison. The table also excludes any property tax revenue for FY 2017 because the Manager and Finance Director are recommending against a property tax increase.

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General Fund Revenues (Adjusted for Ord 1793-A)					
General Fund	FY 2016	FY 2016	FY 2017	FY 2017-FY 2016 Final	
<u>Revenue</u>	Final	Estimated	Budget	\$	%
Property Tax (net of exemptions)	\$ -	\$ -	\$ -	\$ -	0.0%
Sales Tax	5,355,240	5,094,184	5,094,184	(261,056)	-4.9%
Other Taxes & Miscellaneous	185,000	202,263	180,700	(4,300)	-2.3%
Revenue from other governments	1,543,571	1,874,604	1,697,706	154,135	10.0%
Charges for Services	2,972,614	2,854,404	2,727,948	(244,666)	-8.2%
Interfund transfers	2,315,196	2,229,480	2,213,330	(101,866)	-4.4%
Total	\$ 12,371,621	\$ 12,254,935	\$ 11,913,868	\$ (457,753)	-3.7%

After adjusting for the effects for Ordinance 1793-A, General Fund Revenues are expected to decline by \$457,753, or 3.7% over the FY 2016 budget.

Although sales taxes show a decline from the FY 2016 budget, they are flat compared to FY 2015 actual and FY 2016 estimated.

For the last three years, it has been the Borough's practice to take a conservative stance regarding Federal funding, and budget for funding for *either* Secure Rural Schools *or* Payment in Lieu of Taxes. Consistent with that conservative stance, staff budgeted only Secure Rural Schools for FY 2016, and did not budget Federal Payment in Lieu of Taxes. Although revenue from other governments for FY 2017 is expected to increase by \$154,135, or 10% compared to FY 2016 budget, the fluctuations in PILT budgeting mask the decline in raw fish tax and State Revenue Sharing, as shown in the table below.

General Fund Revenue from Other Governments (Adjusted for Ord 1793-A)					
General Fund	FY 2016	FY 2016	FY 2017	FY 2017-FY 2016 Final	
<u>Revenue</u>	Final	Estimated	Budget	\$	%
Raw Fish Tax Refund	\$ 750,000	\$ 238,773	\$ 230,000	\$ (520,000)	-69.3%
Shared Business Fisheries Tax	21,000	10,770	10,000	(11,000)	-52.4%
State Revenue Sharing	595,633	598,123	369,772	(225,861)	-37.9%
PERS On Behalf Payments	176,938	176,938	137,934	(39,004)	-22.0%
Federal Revenue - PILT	-	850,000	950,000	950,000	0.0%
Total	\$ 1,543,571	\$ 1,874,604	\$ 1,697,706	\$ 154,135	10.0%

General Fund support is also transferred in as administrative fees from the enterprise funds and service areas, and impact mitigation allocations from the CPV Fund. The allocations from the CPV Fund are based on passenger counts and service hours and are conservatively calculated. It is noted that the FY 2017 State Operating Budget approved by the Alaska State Senate proposes to suspend the distribution of CPV tax proceeds for FY 2017. The same suspension was proposed in FY 2016; however, that provision was removed from the final version of the budget approved by the legislature. The decline in interfund transfers is largely due to a more conservative formula for the calculation of cruise passenger impact mitigation fees, reducing the fees by \$106,560 from FY 2016 levels.

2. GF Expenditures Increase by 1.6%

Total GF expenditures, after adjusting for Ordinance 1793-A, have increased by \$193,935, or approximately 1.6%.

General Fund Expenditures (Adjusted for Ord 1793-A)						
General Expenditures	FY 2016	FY 2016	FY 2017	FY 2017-FY 2016 Final		
	Final	Estimate		\$	%	
Administration	\$ 4,819,190	\$ 4,689,262	\$ 5,163,260	\$ 344,070	7.1%	
Animal Protection	516,758	522,415	519,793	3,035	0.6%	
Recreation	2,428,002	2,279,799	2,344,433	(83,569)	-3.4%	
Public Services & Transfers	1,734,954	1,809,939	1,632,168	(102,786)	-5.9%	
Transit	2,094,621	1,983,114	2,079,980	(14,641)	-0.7%	
Capital Projects	135,000	30,000	285,390	150,390	111.4%	
KGB School District (non-cash only)	782,914	776,912	616,485	(166,429)	-21.3%	
	<u>\$ 12,511,439</u>	<u>\$ 12,091,441</u>	<u>\$ 12,641,509</u>	<u>\$ 130,070</u>	<u>1.0%</u>	

Administration, which includes the Mayor and Assembly, Manager, Clerk, Attorney, Finance, Assessment, Planning and Automation departments has increased by 7.1%, most of which is due to increases in health insurance costs (12.2% overall and approx. \$190,000 in the General Fund) and moving the cost of 1.25 full time equivalent employees (FTEs) in the Planning Department from the CPV and Economic Development funds to the General Fund (\$149,918).

The decrease in recreation costs is driven by \$125,000 anticipated savings in electricity and heating fuel. Most of the savings is reflected in electricity because aquatic center staff anticipates using the oil boilers more for heating the pool while heating fuel prices are low.

3. General Fund Balance

The General Fund FY 2016 year-end balance was expected to be \$10,604,469. Of that fund balance, \$2,724,685 was a reservation for education purposes only, leaving \$7,879,784 available. With the adoption of Ordinance 1793-A on April 18, 2016, the reservation of funds was transferred to the new Schools Reserve Fund. The FY 2017 beginning fund balance for the General Fund is now the unreserved portion, or \$7,879,784.

General Fund expenditures for FY 2017 exceed revenues by \$727,641. Borough code requires that the Manager present a budget in which expenditures do not exceed revenues. In keeping with the requirements of Borough code, the budget presented includes a 0.6 mill areawide property tax for purposes other than education, however, the Manager and Finance Director recommend against increasing property taxes at this time. Instead, they recommend using a portion of the fund balance to cover the deficit.

General Fund Balance (adjusted for 1793-A)					
General Fund	FY 2016	FY 2016	FY 2017	FY 2017-FY 2016 Final	
	Final	Estimate		\$	%
Beginning balance	\$ 7,716,290	\$ 7,716,290	\$ 7,879,784		
Revenue	12,456,621	12,254,935	11,913,868	(542,753)	-4.4%
Appropriations	12,511,439	12,091,441	12,641,509	130,070	1.0%
Current year surplus (deficit)	(54,818)	163,494	(727,641)	(672,823)	1227.4%
Ending balance	\$ 7,661,472	\$ 7,879,784	\$ 7,152,143	\$ (509,329)	-6.6%

C. Schools Reserve Fund

The Schools Reserve Fund was established with the adoption of Ordinance 1793-A. The FY 2017 beginning fund balance is \$2,724,685. Total revenue is estimated to be \$8,080,414, but is dependent on the voters approving a tobacco tax in the October regular election, and on Congress reauthorizing the Federal Secure Rural Schools and Community Self-Determination Act. At this time, it is reasonable to expect that Congress will reauthorize the Secure Rural Schools program, but at reduced levels. This budget includes \$750,000 for Secure Rural Schools, a conservative but reasonable estimate. Budgeted revenue also includes \$82,000 transferred in from the School Bond CIP Fund to pay the cost of school building insurance.

Expenditures total \$8,196,550, which includes the Required Local Contribution, and discretionary cash for School District operating purposes, including the payment of all school district insurances. All non-cash in-kind contributions from the Borough are in the General Fund; all cash contributions are from the Schools Reserve Fund.

Schools Reserve Fund		
	FY 2016	FY 2017
	Estimate	Budget
<u>Beginning Fund Balance</u>	\$ -	\$ 2,724,685
<u>Revenue</u>		
Property taxes	\$ -	\$ 6,916,914
Tobacco taxes	-	331,500
Secure Rural Schools	-	750,000
Transfers in	2,724,685	82,000
	<u>2,724,685</u>	<u>8,080,414</u>
<u>Expenses</u>		
Required Local Contribution	\$ -	\$ 4,650,284
Discretionary cash contribution	-	3,546,266
	-	<u>8,196,550</u>
Surplus (deficit)	\$ 2,724,685	\$ (116,136)
Minimum required reserves	2,000,000	2,000,000
<u>Ending Available Fund Balance</u>	\$ 724,685	\$ 608,549

Although the budget shows a deficit of \$116,136 in the current year, the fund balance, *as projected in the Borough budget*, is not anticipated to drop below the \$2,000,000 required reserve.

Ordinance 1799, which determines the funding to be made available from local sources for the FY 2017 year, must address the uncertainties in revenue. In the event the tobacco tax is not approved by the voters, or Congress does not reauthorize the Secure Rural Schools Act, the proposed education funding from local sources will reduce the fund balance to a level below \$2,000,000, which requires a majority of 5 votes of the Assembly. To address this issue, Ordinance 1799 proposes using property taxes, transfers-in from the School Bond CIP Fund, U.S. Forest Service Payments (if Secure Rural Schools is not reauthorized) and a portion of the fund balance to meet the District’s funding request. In the event the tobacco tax is approved by voters, and/or Congress reauthorizes Secure Rural Schools at any level, those revenues will replenish the fund balance.

D. Airport Enterprise Fund

FY 2017 shows a deficit of \$59,647 in the Airport Enterprise Fund, or -1.3%. Revenues are expected to increase by 4.3%, and expenditures are expected to increase by 3.8%.

Airport Enterprise Fund					
	FY 2016	FY 2016	FY 2017	FY 2017-FY2016 Final	
	Final	Estimate	Budget	\$	%
<u>Revenue</u>					
From other Governments	643,200	643,967	635,479	(7,721)	-1.2%
Field	861,500	1,012,700	939,200	77,700	9.0%
Terminal	803,500	878,000	906,400	102,900	12.8%
Ferry	1,738,000	1,938,000	1,850,000	112,000	6.4%
Parking	184,000	220,000	221,000	37,000	20.1%
Transfers in and capital	299,765	599,765	172,303	(127,462)	-42.5%
	4,529,965	5,292,432	4,724,382	194,417	4.3%
<u>Expenses</u>					
Field	1,283,922	1,224,615	1,347,592	63,670	5.0%
Terminal	1,104,872	1,085,859	1,168,505	63,633	5.8%
Ferry	1,777,294	1,645,665	1,798,889	21,595	1.2%
Administration	442,596	461,632	469,042	26,446	6.0%
	4,608,684	4,417,771	4,784,028	175,344	3.8%
Surplus(deficit)	(78,719)	874,661	(59,646)	19,073	

The ending fund balance is \$17,599,065, of which \$18,400,300 is capital assets. In addition, there is a reservation of fund balance for grant funds for the construction of an airport waiting shelter. The available fund balance for the Airport Enterprise Fund is in a deficit position of (\$1,016,235).

E. Wastewater Enterprise Fund

FY 2017 revenues are \$59,037 or 8.4% higher than FY 2016, a result of the July 1 fee increase authorized in Ordinance 1787.

FY 2017 expenditures are down \$95,390 or 10.2% when compared to the FY 2016 budget. Approximately half the reduction is connected with the sludge pumping contract. The Public Works Department reduced the estimated number of pumps to be completed during the year based on recent years’ actual counts, which

reduced the total estimated cost of the contract. The balance of the reduction is attributed to small savings in multiple line items as a result of Public Works staff efforts to reduce costs in the Wastewater Enterprise Fund.

The Wastewater Enterprise Fund ending balance will be \$9,592,435, but \$9,445,709 is comprised of capital assets. The available fund balance is \$146,726.

F. Internal Service Fund

This fund is used to account for health insurance premiums paid on behalf of Borough and School District employees and for health insurance claims paid for employees.

The Borough's portion of the fund is expected to have a fund balance of \$82,229. Internal allocations of health insurance costs for the Borough were increased by 12.2% to build the fund balance to a reasonable level over a three to five year period, which would be approximately \$500,000, or three months' reserve. If the fund balance begins to approach the desired reserve level, the allocations may be rolled back. In addition to increasing the allocation rates, the ratio between employee-only, employee + spouse, employee + child, and employee + family were all revised to be more consistent with the broker recommended rates. The total increase, including both the rate increase and changes in employee status, is \$191,124 in the General Fund; \$88,469 in the Airport Enterprise Fund; \$9,267 in North Tongass; \$6,382 in South Tongass; and \$4,414 in other funds.

The School District continues to make progress in reducing the deficit in the District health insurance account. Due to a change in accounting procedures, the School District now carries any health insurance fund deficit at the end of the year on its own books. The Borough now records a receivable from the School District, as opposed to the Borough carrying the deficit. As of June 30, 2015, the School District deficit was \$416,538, compared to \$460,498 the prior year.

G. Land Trust Fund

Land sales income for FY 2017 is estimated to be \$100,000. Total rental income for White Cliff office space is estimated at \$485,047, of which \$231,442 is from tenants and \$253,905 is from the Borough offices and the SBDC.

FY 2017 year end fund balance will be approximately \$3.1 million. Reservations for interfund loans, bond reserves, and White Cliff major maintenance reduce the available fund balance to \$1,069,911.

Land Trust Fund Balance	
	FY 2017
Ending fund balance before reserves	\$ 3,146,025
White Cliff major maintenance reserve	\$ (1,000,000)
Bond reserve	(408,020)
Interfund loans to North Tongass Service Area, Waterfall Service Area, Airport and Wastewater enterprise funds	(668,094)
Reservations against fund balance	<u>\$ (2,076,114)</u>
Unreserved fund balance	<u><u>1,069,911</u></u>

H. Commercial Passenger Vessel Fund

The Planning Department has reviewed passenger counts and impact mitigation percentages for the various funds and departments impacted by the cruise ship passengers. This review would support an 11.63% allocation for most departments. However, in keeping with a conservative stance, staff is recommending using approximately one third of that, or 3.67%, for the allocation.

If the final adopted State Operating Budget does not re-instate the distribution of CPV taxes for receipt during the Borough's FY 2017 fiscal year, the fund will incur a deficit of \$383,193. To prepare for this possibility, the Manager will not release funds for certain Borough projects until it is clear the State will distribute funding to the Borough. Examples of the affected projects are Hopkins Alley and Newtown projects, painting of a Borough bus, relocation of a bus shelter, and partial match for acquisition of two new Borough buses.

<u>CPV Fund Summary</u>	
	<u>FY 2017</u>
Beginning fund balance	\$ 1,798,853
Total revenue	2,000,850
Outstanding projects carryforward	235,450
Impact mitigation, Borough operations	633,977
Grants	1,020,824
Borough operations	<u>291,795</u>
Total appropriations	<u>\$ 2,182,046</u>
Ending fund balance	<u><u>\$ 1,617,657</u></u>

I. Nonareawide Library Fund

The Borough's nonareawide contribution is estimated to be \$414,446 at 0.7 mills. The City has submitted a request for \$402,279 for FY 2017. This is an increase of \$11,704 or 3.0%, but City staff indicated last year that FY 2016 would be low due to one-time personnel cost changes. The FY 2015 request for funding was \$405,199.

J. Recreation Sales Tax Capital Projects Fund

The 0.5% sales tax for the Recreation Capital Projects Fund is estimated to generate \$1,698,065, the same as FY 2015 actual and FY 2016 estimated revenue. The major maintenance reserve for the Gateway Aquatic Center and Gateway Recreation Center totals \$1,000,000.

Proposed expenditures and additions to the maintenance reserve exceed revenue by \$274,820. There is \$565,000 budgeted for capital improvements, including grandstand replacement and ADA access improvements at Dudley Field, tennis court resurfacing, and replacing playground equipment at Triangle park.

The FY 2017 ending fund balance for the Recreation CIP Fund is \$2,537,976, with a \$1,000,000 reservation of fund balance, leaving an available balance of \$1,537,976.

K. School Bond/Capital Improvement Fund

The ½ cent sales tax will generate \$1,698,065. Reimbursements from the State for its portion of the school debt are projected to be \$2,452,701. After debt payments and capital expenditures, the fund balance for FY 2017 is projected to be \$5,008,883.

In response to SB 64 (April 2015) which suspends DEED participation in new school bond debt for five years, the Finance Department prepared an analysis demonstrating the effect of several scenarios on the fund balance over a ten-year time frame. That analysis, available from the Finance Department, projects a strong possibility of deficit fund balances by FY 2020, especially if the State cuts back on current debt participation, which happened in 1983, 1986, 1987, 1988, 1989, 1990, and 1991. Furthermore, the ½ cent sales tax is due to expire on January 1, 2022. In the near future, the Assembly will be considering an ordinance which would submit a ballot proposition to ask the voters to authorize a five-year extension of the tax.

School Bond / Capital Improvements Fund						
	FY 2015	FY 2016	FY 2016	FY 2017	FY 2017-FY2016 Final	
	Actual	Final	Estimated	Budget	\$	%
Beginning fund balance	\$ 4,431,808	\$ 4,634,080	\$ 4,634,080	\$ 5,024,031	\$ 389,951	
Revenue(sales tx + interest)	1,704,022	1,785,120	1,701,565	1,700,565	(84,555)	-4.7%
Transfers in	84,507	-	248,126	-	-	0.0%
Reimbursement (DEED)	2,517,988	2,558,553	2,558,553	2,452,701	(105,852)	-4.1%
Total revenue	4,306,517	4,343,673	4,508,244	4,153,266	(190,407)	-4.4%
Capital improvements	62,537	300,000	300,000	420,000	120,000	40.0%
Debt service	3,639,345	3,655,076	3,655,076	3,503,859	(151,217)	-4.1%
Transfers out	402,363	248,217	163,217	244,555	(3,662)	-1.5%
Total expenses	4,104,245	4,203,293	4,118,293	4,168,414	(34,879)	-0.8%
Revenues over Expenditures	202,272	140,380	389,951	(15,148)	(155,528)	
Fund balance	4,634,080	4,774,460	5,024,031	5,008,883	234,423	4.9%

L. Economic Development Fund

- No revenue
 - The only revenue shown is PERS on-behalf payments and is offset by an equal expense
- Community Grants and Credit Card Option continue in FY 2016
- No significant litigation expense expected in FY 2017
- .25 FTEs moved from Economic Development to General Fund, Planning Department
- FY 2017 Community Grants and Requested New Grants total \$313,587
- FY 2017 total expenditures are \$720,033
- FY 2017 year end fund balance is \$1,302,630, with reservations of \$979,104
- FY 2017 year end unreserved fund balance \$323,526

Economic Development Fund					
	FY 2016 Final	FY 2016 Estimated	FY 2017 Budget	FY 2017-FY2016 Final	
				\$	%
Beginning Balance	\$2,723,670	\$2,723,670	\$2,021,188	(\$702,482)	-25.8%
Revenue	2,362	2,362	1,475	(887)	-37.6%
Grants	323,589	287,625	313,587	(10,002)	-3.1%
Operating	329,503	216,011	171,408	(158,095)	-48.0%
Transfers out	207,831	201,208	235,038	27,207	13.1%
Total expenses	860,923	704,844	720,033	(140,890)	-16.4%
Current yr deficit	(858,561)	(702,482)	(718,558)	140,003	-16.3%
Unreserved fund balance	\$1,865,109	\$2,021,188	\$1,302,630	(\$562,479)	-30.2%
Reservations against fund balance					
Note receivable - Oceans Alaska			460,000		
Loan commitment - Oceans Alaska			140,000		
Reserve for negative airport cash in central treasury			379,104		
			979,104		
Unreserved fund balance			\$ 323,526		

M. No Significant Changes Proposed for Service Areas

Although Loring, Mud Bight, Forest Park and Gold Nugget are proposing deficits in the current year's budget, each of the individual service areas has sufficient fund balance to cover the deficits. All service areas with road powers have benefitted from mild winters which minimized snow plowing expenses.

North and South Tongass Service Areas both show current year surpluses, and in South Tongass, there are small surpluses in both water and fire operations.

Service Area Fund Balances						
Fund	Service Area	Beginning Balance	Revenue	Appropriation	Surplus(Deficit)	Ending Balance
800	South Tongass	\$ 340,697	\$ 1,100,923	\$ 1,024,615	\$ 76,308	\$ 417,005
810	Loring	16,675	47,133	48,230	(1,097)	15,578
830	Waterfall	(1,145)	37,125	33,466	3,659	2,514
840	Mud Bight	59,111	12,720	26,500	(13,780)	45,331
850	Nichols View	6,034	-	500	6,034	5,534
860	Forest Park	144,949	66,546	76,130	(9,584)	135,365
870	Gold Nugget	64,117	23,520	33,920	(10,400)	53,717
885	Homestead	74,467	38,203	38,202	1	74,468
890	North Tongass	68,311	891,854	880,999	10,855	79,166

N. Debt Service Schedule

		Schedule of Debt and Other Obligations					
		Principal	Principal	Principal	Net Interest Exp.	DEED	Year of
		7/1/2016	Payments	6/30/2017	FY 2017	Participation	Maturity
GO Bonds - 2009B & C	Aquatic Center	20,425,000	590,000	19,835,000	747,682	18%	2039
GO Bonds - 2010 One	Refunding bond	2,645,000	620,000	2,025,000	105,800	70%	2020
GO Bonds - 2010B Four	High school roof	2,425,000	220,000	2,205,000	61,709	70%	2026
GO Bonds - 2011 III	Refunding bond	3,655,000	450,000	3,205,000	166,300	70%	2023
GO Bonds - 2012 II	Refunding bond	2,495,000	585,000	1,910,000	101,150	70%	2020
GO Bonds - 2013 One	School facilities upgrades	3,640,000	460,000	3,180,000	150,550	70%	2023
GO Bonds - 2015A One	Refunding bond	1,665,000	530,000	1,135,000	53,350	70%	2019
Certificates of Participation							
C of P 2010A-1	White Cliff	310,000	150,000	160,000	12,400	0%	2018
C of P 2010A-2	White Cliff	3,700,000	-	3,700,000	132,134	0%	2036
Total		\$40,960,000	\$3,605,000	\$37,355,000	\$1,531,075		

Refunding bonds refinanced Houghtaling and Schoenbar remodels, and Fawn Mountain school construction.

O. Conclusion

1. Borough Budget is \$34.2 Million

After adjusting for transfers in and out, FY 2017 revenue for all funds is \$35,642,355 and expenses are \$37,152,993 after adjusting for the internal health insurance funds.

2. Reserves in Land Trust and Economic Development Continue to Drop

Although General Fund reserves have grown and the new Schools Reserve Fund establishes a reserve for purposes of education, the Economic Development and Land Trust fund balances have dropped significantly. Five years ago, the Economic Development Fund had available reserves of \$5,034,099, compared to just \$323,526 at the end of FY 2017. The Land Trust Fund reserves were \$2,510,511 in FY 2012, and have dropped to \$1,069,911 in FY 2017. The reduction in reserves is the result of intentional fiscal policy decisions by the Borough Assembly to avoid excessive fund reserves. Additionally, the Economic Development Fund balance declined by \$2.5 million as a result of a grant by the Assembly to the City of Ketchikan for construction of the Whitman Lake Hydroelectric project.

Source	Summary of Reserves			
	FY 2012	FY 2017	Incr(Decr)	% Change
General Fund	6,860,808	7,152,143	291,335	4.2%
Schools Reserve Fund	-	2,608,549	2,608,549	100.0%
Economic Development	5,034,099	323,526	(4,710,573)	-93.6%
Land Trust	2,510,511	1,069,911	(1,440,600)	-57.4%
Total reserves	\$ 14,405,418	\$11,154,129	\$ (3,251,289)	-22.6%

3. **Manager Recommends Against Increasing Taxes**

As discussed previously, the Manager recommends against increasing areawide taxes for purposes other than education. If the 0.6 mill tax presented in the FY 2017 budget only in order to comply with KGBC 4.50.020(a) is implemented, the General Fund reserve increase over five years will climb to \$1,122,296, or 16.4%, despite transferring \$2.7 million from the General Fund to the new Schools Reserve Fund. Without the 0.6 mill increase, the FY 2017 deficit in the General Fund will be \$727,641, and the year end fund balance will be \$7,152,143 as shown in the table above.

Respectfully submitted,



Dan Bockhorst
Borough Manager



Cynna Gubatayao
Finance Director