

Long-term Sustainability & Financial Planning Revisited

Council guidance and Policy considerations

Staff is seeking guidance on the following questions:

- How would Council like to approach additional funding for the “Rainy Day” Fund, if at all?
- Should an annual CMMP budget allocation be established? If so, at what amount?
- Should a portion of any CMMP budget allocation be put into “savings” for more robust project years?

Council guidance and Policy considerations - continued

Staff is seeking guidance on the following:

- Is an increase to the property tax mill rate appropriate for FY 2022? If so, in what amount?
- Is an increase to the raw seafood tax appropriate for FY 2022? If so, in what amount?
- Are there any other revenue sources that should be investigated?

Council guidance and Policy considerations - continued

FY 2022 Budget Items

- January 26, 2021
 - Budget Goals and Revenue Projections will be discussed
- February 9, 2021
 - Budget Goals will be adopted

Fiscal sustainability topics discussed tonight will play a role in each of those items.

Current topics

Economic Uncertainty

- Resource Landing Tax
- Sales Tax
- Cash flow

Rainy Day Fund

- Current Amount
- Annual Contribution with Goal

CMMP Budget

- Annual Cap
- “Saving up” for Projects

Additional/Increased Revenue Sources

- Explore New Taxes
- Expand Current Tax Base

Economic uncertainty – Resource Landing Tax

- Ruled unconstitutional by trial judge
- Currently on appeal to State Supreme Court
- Will most likely be appealed to the US Supreme Court

- Represents 16% of FY 2021 budgeted revenue
- Received \$4,094,954 in FY 2021 so far
- Averaged \$5,139,218 from FY 2016 to FY 2020

Economic uncertainty - Sales Tax

Budgeted and experienced reduction in sales tax collection

Budgeted

Experienced

FY 2020 - \$10,500,000

FY 2020 - \$10,639,923

FY 2021 - \$8,000,000

FY 2021 - \$4,681,544 (Actual)

FY 2021 - \$9,363,088 (Projected)

Economic uncertainty - Cash Flow

- Cash flow is a good indicator of an entity's overall health
- In general, proprietary fund cash flow has been on a downward trend in the last few years
- While historically strong over the last 10 fiscal years, Electric and Ports & Harbors budgeted cash flow for FY 2021 is negative

Rainy Day Fund

Benefits

- Bridge gap to ensure no interruption of City services, in the event of significant revenue loss
- Allow City time to strategically address budget shortfalls

Rainy Day Fund

How much does City have?

- In about 2010, Council set aside \$13,000,000 as a “Rainy Day” Fund
- No monies have been added to this amount since
- As of June 30, 2020, the City’s General Fund had more than \$68 million available with no strings attached; increase of \$30 million since June 30, 2015

Rainy Day Fund

How much does City need?

- Recommendation - Six to 12 months annual General Fund expenditures
- FY 2020 General Fund expenditures - \$24,459,037
- Current set aside amount meets minimum recommendation

Rainy Day Fund

Options

- Do nothing - with minimal budgetary increases, current set aside amount exceeds 6 months GF expenditures
- Through Council Resolution
 - Increase amount in a lump sum (i.e. move \$10 million from "Reserves" to "Rainy Day" Fund)
 - Establish annual allocation to increase amount (i.e. move up to \$500,000 of annual General Fund surplus to "Rainy Day" Fund)
 - Combination of both

CMMP Budget

- Historically, no formal fiscal guidance provided as part of budget goals.
- In any given fiscal year, the amount of capital projects proposed can have a significant financial impact
- In each of the last 10 fiscal years, non-proprietary funds' cash flow has exceeded \$10,000,000 annually
- If established, an annual cap would provide formal guidance to staff during budgeting process

CMMP Budget - Last 5 years

Total Approved

FY 2021 - \$4,219,131
FY 2020 - \$17,955,707
FY 2019 - \$11,191,507
FY 2018 - \$50,757,300
FY 2017 - \$9,061,686

General Fund Sourced

FY 2021 - \$1,966,793
FY 2020 - \$11,900,789
FY 2019 - \$2,757,958
FY 2018 - \$2,747,093
FY 2017 - \$3,609,772

Additional/Expanded Revenue Sources

There are several options for Council to consider, including:

- Tobacco Excise Tax
- Increase Property Tax mill rate
- Increase Seafood Tax
- Public Utility rate study (currently underway)

It does not appear that individually any one of the above will provide a significant revenue boost but could be used in conjunction with other cost saving measures.

Additional/Expanded Revenue Sources

Tobacco Excise Tax -

- Currently slated for adoption in early 2021 with implementation on July 1, 2021
- Proposed at \$1 to \$4 per pack
- Potential annual revenue - \$278,444 to \$1,113,778

Additional/Expanded Revenue Sources

Property Tax -

- Current mill rate is 10.5 and has not been increased in at least 10 years
- Each increase of 0.5 mills is equivalent to approximately \$340,000 annually

Additional/Expanded Revenue Sources

Raw Seafood Tax -

- Current rate of 2.0% of the reported catch value
- Collected monthly
- Subject to ebbs and flows of annual fish harvest
- Each increase of 0.1% is equivalent to approximately \$265,000 additional annual revenue

Additional/Expanded Revenue Sources

Public Utility rate study-

- Last completed in FY 2017
- Current study to be completed by Aldrich CPAs + Advisors
- New rates to take effect July 1, 2021
- Provide increased revenue to Public Utilities
- Potential recommendation for substantial rate increases



Supplementary information

Governmental Funds Cash Flow

Governmental funds (GF, 1% Sales Tax, Bed Tax) cash available for capital projects is roughly calculated as:

Total revenues

Less: Total expenditures

Plus: Capital projects/outlay

Less: (Increase) Decrease in Investments

Cash available for capital projects/outlay

Governmental Funds Cash Flow

Average cash available for capital projects last 10 years - \$13,653,275

Average cash available for capital projects last 5 years - \$12,325,784

Average cash available for capital projects last 3 years - \$11,134,848

Cash available for capital projects based on FY 2021 budget - \$3,916,825

Proprietary Funds Cash Flow

Each Proprietary fund's cash available for capital projects is roughly calculated as:

Total revenues

Less: Total operating expenses

Less: Principal and interest payments

Plus: Depreciation

Plus: Landfill closure costs (Solid Waste only)

Cash available for capital projects/outlay

Proprietary Funds Cash Flow Electric and Wastewater

Electric

Average cash flow last 10 years -
\$2,060,055

Average cash flow last 5 years -
\$2,765,197

Average cash flow last 3 years -
\$3,118,388

Negative years - 1

FY 2021 budget - (\$429,572)

Wastewater

Average cash flow last 10 years -
\$214,724

Average cash flow last 5 years -
(\$118,619)

Average cash flow last 3 years -
(\$165,492)

Negative years - 4

FY 2021 budget - (\$839,463)

Proprietary Funds Cash Flow Solid Waste and Water

Solid Waste

Average cash flow last 10 years -
\$139,167

Average cash flow last 5 years -
\$211,137

Average cash flow last 3 years -
\$96,592

Negative years - 1

FY 2021 budget - (\$537,540)

Water

Average cash flow last 10 years
- \$837,787

Average cash flow last 5 years
- \$869,697

Average cash flow last 3 years
- \$751,019

Negative years - 0

FY 2021 budget - \$50,301

Proprietary Funds Cash Flow Ports & Harbors and Airport

Ports & Harbors

Average cash flow last 10 years -
\$2,563,940

Average cash flow last 5 years -
\$2,315,985

Average cash flow last 3 years -
\$1,854,529

Negative years - 0

FY 2021 budget - (\$2,331,644)

Airport

Average cash flow last 10 years
- (\$713)

Average cash flow last 5 years
- \$51,398

Average cash flow last 3 years
- \$74,977

Negative years - 5

FY 2021 budget - \$64,562

Proprietary Funds Cash Flow Housing

Housing

Average cash flow last 10 years -
(\$59,867)

Average cash flow last 5 years -
(\$2,841)

Average cash flow last 3 years -
(\$23,000)

Negative years - 8

FY 2021 budget - (\$140,600)

Long-term Sustainability & Financial Planning

What is it?

A vital component to address challenges related to:

- Changing demographics
- Continued need for public services
- Economic and political uncertainty

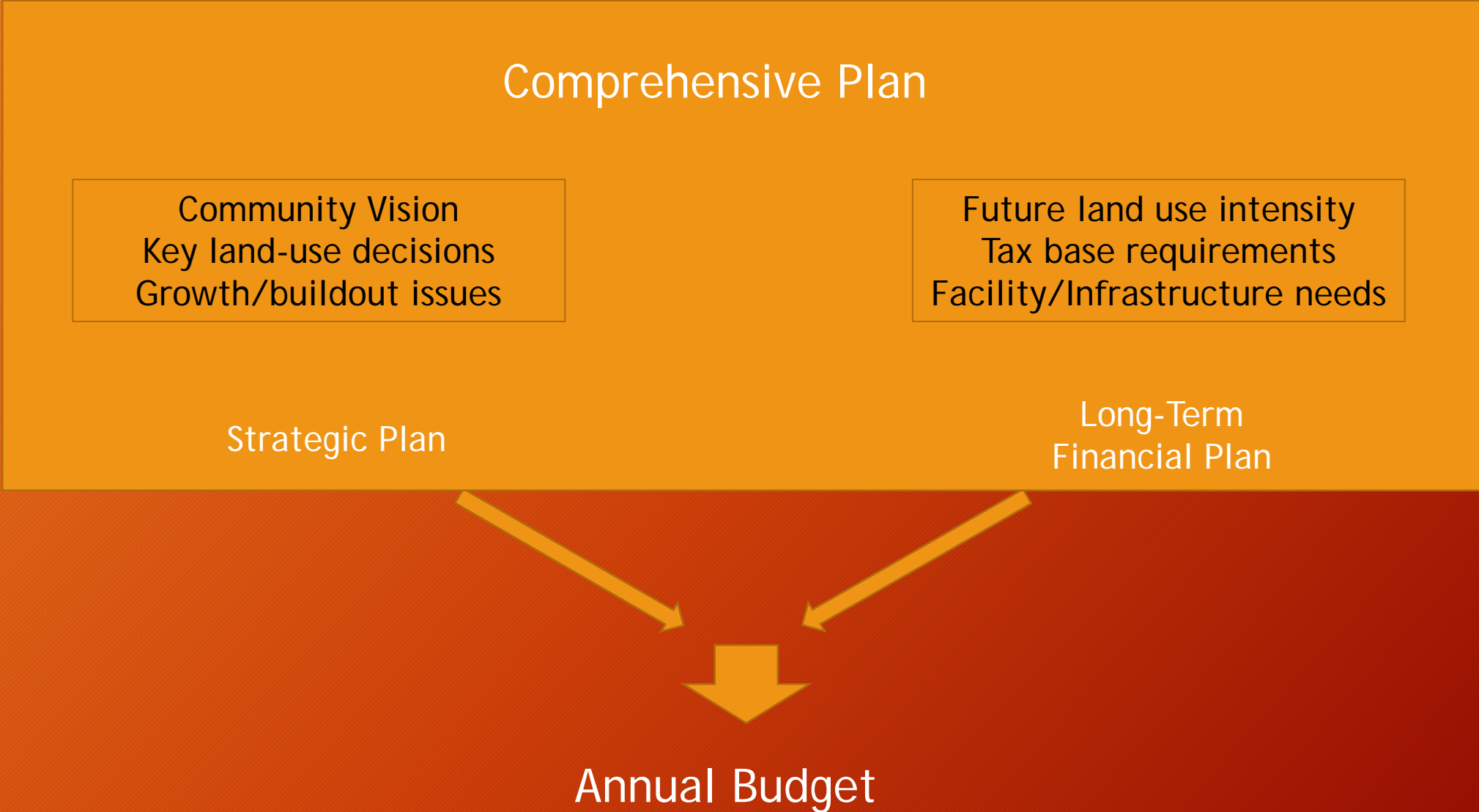
Purpose

- “Connects the dots” between the City’s Long-term Comprehensive Plan and the annual budgeting process
- Provides assurance and peace of mind that fiscal decisions follow an overarching plan
- Allows Council to establish specific objective benchmarks to assure fiscal stability for future generations

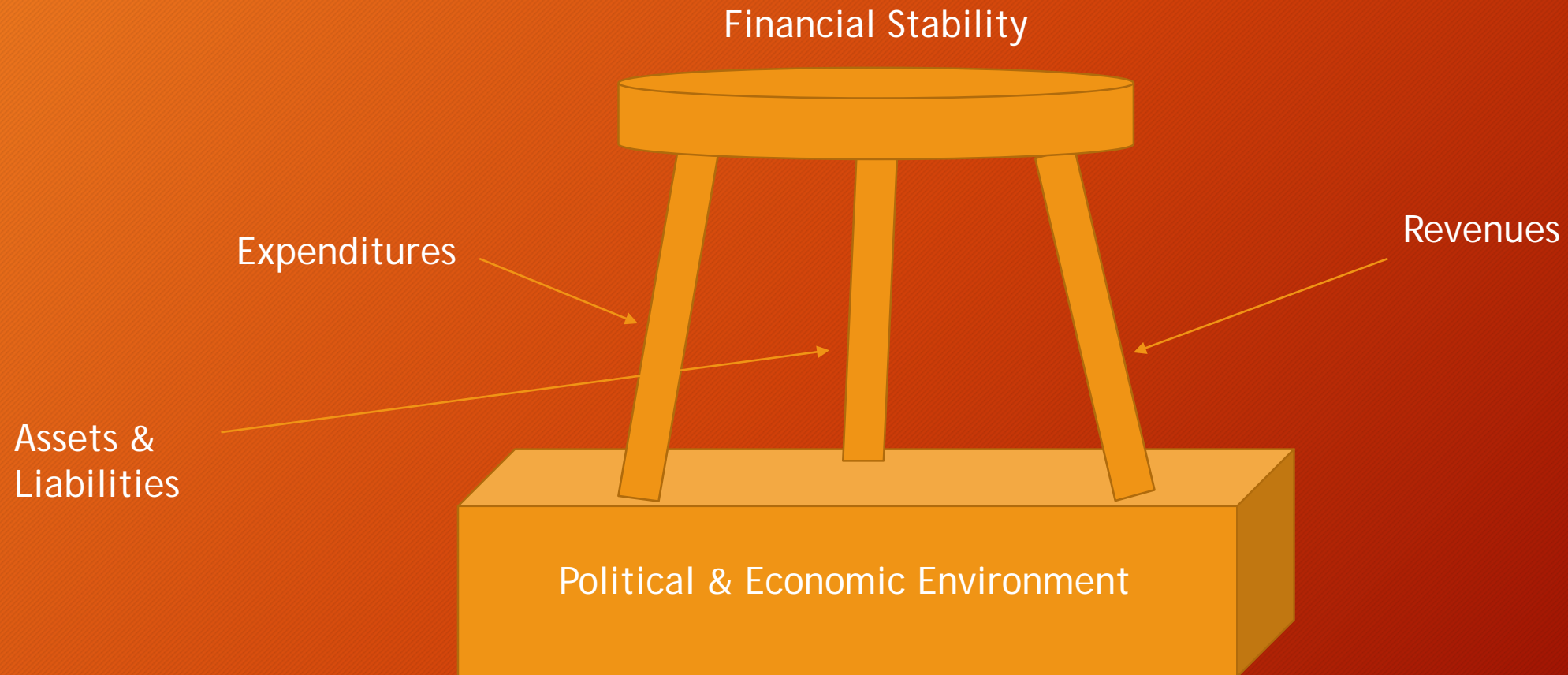
What the City already does

- Adopts a Comprehensive Plan every 10 years that outlines the community's vision and overarching goals, and develops more specific master plans
- Incorporates elements of the Comprehensive and master plans through the use of a multi-year Capital and Major Maintenance Plan to assist in the accomplishment of those visions and goals
- Establishes budget goals and revenue projections as part of the budget cycle

Comprehensive Planning's Relation to Financial Planning



The Legs and Foundation of Financial Sustainability



What more could we do?

- Establish fiscal policies to help insure City funds are available to provide services in case of an economic downturn (“Rainy Day Fund”)
- Establish specific budget guidelines to plan for CMMP and related budget shortfalls
- Strategic planning to assist staff and council in determining operational priorities for resource use