



# KETCHIKAN GATEWAY BOROUGH

1900 First Avenue Ste 210 • KETCHIKAN, ALASKA 99901

• 907/228-6625 • fax 907/228-6684

[www.kgbak.us](http://www.kgbak.us)

OFFICE OF THE BOROUGH MANAGER

---

April 26, 2022

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

**RE: Fiscal Year 2023 Budget and Capital Program Overview**  
**Introduction May 2, 2022**  
**Ordinances 1980 & 1981**

Mayor and Members of the Assembly:

After two pandemic years, the FY 2023 Budget is prepared under more optimistic conditions. The cruise industry restarted in a limited way in late summer 2021, and is expected to be fairly robust for 2022. Seasonal businesses are returning, and the independent traveler season is expected to be strong again this year. Management assumes it will take one to two years before passenger counts fully return to pre-pandemic levels.

In accordance with KGBC 4.05.020, the Borough Manager and Finance Director are required to present the Fiscal Year 2023 Borough Budget and Capital Program (“Budget”) at the first meeting in May.

This budget authorizes \$61.0 million in borough wide expenditures. Of that, \$17.8 is in the General Fund and an additional \$12.0 is in the Local Education Fund. Per KGBC 4.05.020(a), the budget must be submitted to the Assembly no later than the first meeting in May, and per 4.45.340(b), the mill levy must be set before June 15<sup>th</sup> of each year.

The Manager and Finance Director 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, 2022, and ending June 30, 2023:

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

<sup>a</sup> = areawide basis; <sup>n</sup> = nonareawide basis; <sup>s</sup> = service area basis.

### **Strategic and Capital Plans**

Each January or February, the Assembly holds a one- to two-day Policy Session. In the work session meetings, the Assembly and staff discuss potential legislative and economic events and the fiscal impact to the Borough; review a five-year fiscal projection for all major funds and any other funds where extra attention may be warranted; establish assumptions for the upcoming budget; and set other policy direction as determined by the Assembly.

The Strategic Plan is a work plan that identifies specific priorities and outcomes to achieve during the next five years. The Borough's vision, as outlined in the Plan, is to provide quality-driven services that enhance the lives and safety of residents in a fiscally responsible manner. The priorities and objectives in the Plan support the vision and direct staff efforts and budget development. The FY 2023 – 2027 Capital Plan summarizes all the capital projects anticipated by staff and shows how capital projects support the Strategic Plan. Adoption of the Capital Plan by the Assembly endorses the investment of staff time during the early phases of projects and informs the Assembly and the Public of anticipated funding sources and budgetary needs. Final approval of projects and funding requires additional Assembly actions.

During the January 28, 2022 Policy Session, the Assembly adopted the updated Strategic Plan, and will adopt the Five-Year Capital Plan in May. Now that a robust cruise season is anticipated, capital projects that were halted or deferred have been reviewed and reintroduced into the FY 2023 budget as appropriate.

### **Assumptions**

Budgets are built on estimates and assumptions. The cumulative effect of these estimates and assumptions results in the proposed budget. The Assembly adopted Resolution 2935, revising the minimum General Fund balance reserves policy upwards from 25% to 30% of annual operating

expenditures. For FY 2023, Management proposes using General Fund reserves to establish a housing capital fund, and to allow the fund balance to decline in a measured fashion.

The major assumptions used in preparing the FY 2023 budget are as follows:

1. The Borough has been awarded \$15,123,921 in American Rescue Plan Act (ARPA) funding, to be distributed in FY 2022 and FY 2023. The State of Alaska is distributing \$12,423,814 through various departments and programs. The US Treasury is distributing \$2,700,106. All of the funds will be used as revenue replacement to provide government services, in compliance with guidance from the US Treasury.
2. In October, 2021, Borough voters approved the issuance of \$6,655,000 in general Obligation Bonds for the purpose of upgrading sports fields throughout the community. The bonds were issued in April 2022, and the payments will be made through the Recreation CIP fund. The bonds require a reserve of \$535,875, which will be held by the Recreation CIP fund.
3. At the April 18, 2022 meeting, the Assembly directed staff to set aside \$7,000,000 of General Fund reserves into a housing capital fund, to be used for the development of subdivisions, housing, and or roads. The objective is to create housing available to families making 60% of the area median income. To meet that objective, the Borough will likely partner with regional housing authorities and private developers, and use Borough land and grants to offset some of the development cost.
4. The budget assumes that cruise ship passenger bookings will average 75% over the course of the season. Initial booking are reported to be 30-50% of capacity, increasing to 90% by the end of the season. Sales tax revenue for FY 2023 are expected to be strong, a combined effect of increased visitors, and the change in the single unit sale exemption (sales tax cap) from \$1,000 to \$2,000 in January 2020. This assumption affects the General, Recreation CIP and School Bond CIP Funds for sales taxes.
5. In calendar year 2021, 75% of the passengers visiting Ketchikan arrived at the City of Ketchikan's port, while the balance arrived in Ward Cove, outside City limits, and the same ratio is assumed for the 2022 season. Commercial Passenger Vessel tax collected for passengers arriving inside City limits is shared with the City (\$2.50 each municipality), while the Borough keeps the entire \$5 each for those passengers arriving in Ward Cove.
6. Independent travel is expected to be strong. The numbers of independent travelers is very small compared to cruise passengers, but does result in increased transient occupancy taxes and airport revenues as compared to FY 2022 actual revenues.
7. A 3.0% cost-of-living adjustment (COLA) is included for FY 2023. All collective bargaining agreements have been renegotiated with a 3.0% COLA for FY 2023, and the Assembly approved the equivalent COLA for non-represented and contract employees through the adoption of Resolution 2931 on March 21, 2022.

8. The Borough conducted a compensation study in FY 2020. Initial implementation was contemplated for the FY 2021 budget, but because of the pandemic and economic uncertainty, implementation was delayed until second quarter FY 2022. The FY 2023 reflects the implemented compensation plan for the entire year, and Management has included a ½% market rate adjustment to maintain the market position of the plan.
9. In the last two years, most capital and major projects were cancelled or deferred. With the anticipated increased sales taxes, CPV taxes, and revenue replacement, capital and other major projects are being resumed.
10. Property tax revenue is based on the preliminary assessment roll dated March 21, 2022. City of Ketchikan assessments increased by 2.7%. Non-area-wide assessments increased by 4.1%. The overall Area-wide assessment increases by 3.4%. The entire area-wide 5.2 mill property tax revenue is dedicated to the Local Education Fund and is not used to support Borough operations. The pandemic has not negatively affected property values in the short term.

**A. General Fund:**

**1. Overall General Fund Revenues increases by 107.5%**

FY 2023 budgeted revenues are 107.5% or \$11,606,335 higher than the FY 2022 budget.

- Revenue from other governments is 289.2% higher than last year, due to the influx of American Rescue Plan Act funds. Although the deadline for use of funds is December 31, 2024 (FY 2025), Management expects the revenue to be fully recognized during FY 2023.
- Sales taxes, which include sales tax, remote sales tax, marijuana tax, and transient occupancy taxes are 60.7% higher than last year’s budget. Assumptions about the return of the cruise industry, a strong independent traveler industry, and the January 2020 increase in the single unit sales exemption all favorably affect the budget estimates.

<u>Revenues</u>	General Fund Revenues				
	FY 2022	FY 2022	FY 2023	FY 2023-FY 2022 Final Budget	
	Final Budget	Estimated Actual	Budget	\$	%
Sales tax	4,160,000	5,847,000	6,685,000	2,525,000	60.7%
Other taxes & miscellaneous	75,000	70,000	70,000	(5,000)	-6.7%
Revenue from other governments	2,681,634	6,458,994	10,437,374	7,755,740	289.2%
Charges for services	2,233,360	2,141,886	2,895,081	661,721	29.6%
Operating grants	1,100,000	1,100,000	1,400,000	300,000	27.3%
Interfund transfers	549,948	564,697	918,822	368,874	67.1%
<b>Total</b>	<b>\$ 10,799,942</b>	<b>\$ 16,182,577</b>	<b>\$ 22,406,277</b>	<b>\$ 11,606,335</b>	<b>107.5%</b>

**2. General Fund Expenditures Increase by 66.7%**

General fund expenditures increase by \$10,100,749. Of this, \$7,000,000 is for the housing capital fund, and \$1,291,000 is for capital projects, many of which were appropriated in prior years and then deferred due to the pandemic.

General Fund Expenditures						
	FY 2022	FY 2022	FY 2023	FY 2023-FY 2022 Final Budget		
	Final Budget	Estimated Actual	Budget	\$	%	
Administration	\$ 5,702,849	\$ 5,299,455	\$ 6,705,478	\$ 1,002,629	17.6%	
Animal Protection	640,203	623,236	755,669	115,466	18.0%	
Recreation	2,632,883	2,483,445	2,808,553	175,670	6.7%	
Public Services	2,317,721	2,308,599	2,492,974	175,253	7.6%	
Grants	344,635	344,365	389,982	45,347	13.2%	
Transit	3,030,853	2,991,982	3,796,237	765,384	25.3%	
Capital Projects	470,000	279,620	8,291,000	7,821,000	1664.0%	
<b>Total</b>	<b>\$ 15,139,144</b>	<b>\$ 14,330,702</b>	<b>\$ 25,239,893</b>	<b>\$ 10,100,749</b>	<b>66.7%</b>	

- In addition to wages and benefits increases related to the compensation plan and health insurance increases, the increase in Administration consists of:
  - A new Revenue and Collections Supervisor position in the Finance Department for \$135,981 in wages and benefits.
  - A new Administrative Assistant position in the Manager’s Office for \$118,131 in wages and benefits.
  - A new Economic Development Coordinator position in the Manager’s Office for \$107,363 in wages and benefits. This position is no net increase to the General Fund as a whole since it is a transfer from Public Services (Planning) to the Manager’s Office.
- Code Enforcement was transferred to the Animal Protection Department, an increase of \$111,734, but is offset by a decrease in Public Services.
- The Recreation budget increases by 6.7% or \$175,680 and is driven by the compensation plan and COLA increases.
- The proposed total for community grants is \$389,982 and is the Tier 1 amount recommended by the Grants Committee.
- The total Transit budget has increased by \$765,384, or 25.3%, however, Transit revenue, including grants, fare box, and CARES Act revenue reduces the General Fund contribution for FY 2023 to \$0.

**3. Reconciliation to FY 2021**

Because of the large increase in General Fund expenditures in FY 2023, Management provides the following reconciliation to assist in understanding the changes. FY 2023 is compared to FY 2021, as the compensation plan was partially implemented in FY 2022. Using FY 2021 provides a cleaner comparison. It should also be noted that the FY 2021 budget was reduced from prior years due to the pandemic.

<b>Reconciliation FY 2023 to FY 2021</b>			
FY 2023 Expenditures:	25,239,893	% increase over FY 21	
Compensation Plan	815,972		6.4%
COLA (3%, all employee groups)	222,164		1.8%
Market Rate Adjustment	37,027		0.3%
Incr. in Health Insurance Allocation	228,480		1.8%
Contract Employee Increases	91,019		0.7%
Admin Asst (Mgr Office)	118,131		0.9%
Parks Tech (Public Works)	78,809		0.6%
Collections Supervisor (Finance)	135,981		1.1%
		1,727,583	13.6%
Transit System Fully Staffed	1,347,542	(paid for by grants & CPV)	
GF Capital Projects	1,291,000		
IT Staff Added FY 2022	203,981		
Grants Committee Tier 1 increase	45,347		
Econ Dev Coord (no net incr)	-		
Set-aside for subdivisions/roads	7,000,000		
Misc other changes	968,107		7.6%
FY 2021 Expenditures	12,656,333		

**4. General Fund Balance**

In this FY 2023 budget, expenditures exceed revenues by \$2,833,617. Management recommends using reserves to fill the gap. Unassigned Fund Balance, or reserves, is savings from prior years. The June 30, 2021 audited unassigned General Fund Balance was \$10,411,898, or approximately 10 months of operating expenditures. The FY 2023 ending fund balance as presented in this budget is expected to be \$9,430,162, which is approximately nine months of expenditures. Although Borough code authorizes an areawide property tax for purposes other than education, it is currently not in use, and the Manager and Finance Director are not recommending implementation during FY 2023.

**B. Local Education Fund**

Total revenue and transfers in for FY 2023 are estimated to be \$11,243,679 which includes an estimate of \$1,070,363 for Secure Rural Schools. The formula is normally a declining formula, equivalent to about 96% of the prior year. The expected revenue for FY 2022 was \$719,647. The Borough was recently notified by the State that Secure Rural Schools distributions would be \$1,070,362 for FY 2022, 2023 and 2024. Budgeted revenue also includes \$245,917 transferred in from the School Bond CIP Fund to pay the

Fiscal Year 2023 Budget and Capital Program Introduction

April 26, 2022

Page 7 of 14

cost of school building insurance.

	Local Education Fund						
	FY 2022		FY 2022		FY 2023	FY 2023-FY 2022 Final Budget	
	Final Budget	Estimated	Actual	Budget	\$	%	
<u>Beginning Fund Balance</u>	\$ 2,850,693	\$ 2,850,693	\$ 2,601,455	\$ 2,601,455	\$ (249,238)	-8.7%	
<u>Revenues</u>							
Property taxes	7,821,933	8,158,090	8,421,500	8,421,500	599,567	7.7%	
Tobacco taxes	1,300,300	1,002,720	1,300,300	1,300,300	-	0.0%	
Secure rural schools	719,647	1,070,363	1,070,363	1,070,363	350,716	48.7%	
Interest income	20,000	27,527	20,000	20,000	-	0.0%	
In-kind services	185,604	185,604	185,604	185,604	-	0.0%	
Transfers in (insurance for buildings)	273,090	223,561	245,912	245,912	(27,178)	-10.0%	
	10,320,574	10,667,865	11,243,679	11,243,679	923,105	8.9%	
<u>Expenditures</u>							
Required local contribution	5,168,904	5,168,904	5,318,687	5,318,687	149,783	2.9%	
Discretionary cash contribution	5,339,034	5,339,034	5,339,034	5,339,034	-	0.0%	
Increased discretionary contr. Request	-	-	1,111,666	1,111,666	-	100.0%	
Transfers out for in-kind services	185,604	185,604	185,604	185,604	-	0.0%	
Insurance for buildings	273,090	223,561	245,917	245,917	(27,173)	-10.0%	
	10,966,632	10,917,103	12,200,908	12,200,908	122,610	1.1%	
Surplus (deficit)	(646,058)	(249,238)	(957,229)	(957,229)	(311,171)	48.2%	
Excess fund balance returned*	-	-	-	-	-	-	
<u>Ending Fund Balance</u>	\$ 2,204,635	\$ 2,601,455	\$ 1,644,226	\$ 1,644,226	(560,409)	-25.4%	
			Reservation of fund balance per KGBC 4.65.030(b)	(2,000,000)			
			Unreserved Fund Balance	\$ (355,774)			

\* Per KGBC 4.65.020(d), any unreserved fund balance held by the school district in excess of 5% of the total school district budget must be returned to the Borough.

Expenditures total \$12,200,908, based on preliminary estimates of the District’s funding request, which had not been received as of the drafting of this memo. The Required Local Contribution is \$5,318,687, an increase of \$149,783, or 2.8%. The District’s preliminary discretionary cash contribution request of \$6,450,700 is an increase of \$1,111,666. The estimates and budget as of this writing are based on information from School District Staff and have not yet been adopted by the School Board. School building insurance is estimated to be \$245,917, and \$185,604 is appropriated for in-kind services. In the interest of transparency, all non-cash in-kind contributions and certain cash payments for services provided by service areas are paid from the Local Education Fund after transfers-in from the General Fund to maintain a budget neutral impact on the School District.

Per KGBC 2.35.050(a), the school budget must be submitted to the assembly no later than May 1<sup>st</sup> for approval of the total amount. The Assembly must take action and notify the School Board of the amount of funding to be made available from local sources no later than 30 days after receipt of the request.

Based on current revenue of \$11,243,679 and expenditures of \$12,200,908, the FY 2023 deficit is \$957,229, the equivalent of 0.59 mills areawide property tax. The resulting estimated fund balance will be \$1,644,226, or \$355,774 below the minimum required fund balance. KGBC 4.65.030(b) requires a minimum Fund Balance, or reserves, of \$2,000,000. To appropriate below that minimum Fund Balance requires a supermajority vote of the Assembly, and a finding that extraordinary needs regarding the schools exist.

**C. Airport Enterprise Fund**

Airport Enterprise Fund						
	FY 2022	FY 2022	FY 2023	FY 2023-FY 2022 Final Budget		
<u>Revenues</u>	Final Budget	Estimated Actual	Budget	\$	%	
From other governments	\$ 754,928	\$ 808,112	\$ 656,841	\$ (98,087)	-13.0%	
Ferry	1,965,000	2,323,780	2,280,200	315,200	16.0%	
Field	913,750	1,131,200	1,170,000	256,250	28.0%	
Revilla Parking	185,000	240,000	245,000	60,000	32.4%	
Terminal	836,100	944,258	890,100	54,000	6.5%	
Administration and other	91,500	1,174,400	1,286,400	1,194,900	1305.9%	
	4,746,278	6,621,750	6,528,541	1,782,263	37.6%	
<u>Expenses</u>						
Field	1,445,988	936,311	1,725,514	279,526	19.3%	
Terminal	1,403,043	1,019,285	2,795,097	1,392,054	99.2%	
Ferry	2,089,696	1,881,371	2,311,980	222,284	10.6%	
Revilla Parking	177,198	147,253	379,425	202,227	114.1%	
Administration and other	599,063	387,276	559,866	(39,197)	-6.5%	
	5,714,988	4,371,496	7,771,882	2,056,894	36.0%	
Surplus(deficit)	\$ (968,710)	\$ 2,250,254	\$ (1,243,341)	\$ (274,631)	28.4%	

Total airport revenue is expected to increase from FY 2022 budget by 37.6%. The flight schedule has returned to pre-pandemic levels, and airlines have contacted the Borough about possible additional flights. Total expenses increase as compared to the prior budget by \$2,056,894 or 36.0%. Part of the increase in both revenue and expenditures is \$1,176,000 for the airport terminal expansion plan, to be reimbursed from PFC funds or grants, if awarded. The balance of the operating costs increase, approximately \$900,000, is related to wages and benefits increases, fuel and utility cost increases, and increased operating costs for the expanded Revilla side parking lot. Rate increases for ferry fares and parking fees which were initially discussed prior to the pandemic, but deferred, may need to be considered.

In 2019, the Borough awarded a contract for a Terminal Area Study to be conducted at the Airport. The completed study makes recommendations for long-term capital improvements to the Borough owned portions of the airport and includes funding recommendations. In addition to PFC funds, State Airport Funds, and Airport reserves, staff is pursuing funding opportunities in the Infrastructure, Investment,



and Jobs Act, including a potential grant through the Federal Aviation Administration and Congressional funding requests.

**D. Wastewater Enterprise Fund**

Revenue for FY 2023 is flat. Operating expenses increase by 16.54%. Approximately half the increase is in wages and related to the implementation of the compensation plan. Most of the balance is in contractual services, and related to the estimated number of septic systems to be pumped. Capital expenditures are for a new Vactor truck, carried over from FY 2022. The Wastewater Enterprise Fund ending net position will be \$8,163,194, more than 98% of which is capital assets.

Wastewater Enterprise Fund						
	FY 2022	FY 2022	FY 2023	FY 2023-FY 2022 Final Budget		
	Final Budget	Estimated Actual	Budget	\$	%	
Revenues	\$ 857,137	\$ 851,137	\$ 853,927	\$ (3,210)	-0.4%	
Operating Expenses	761,277	958,003	886,407	125,130	16.4%	
Capital	458,000	533,000	505,000	47,000	10.3%	
Total expenditures	1,219,277	1,491,003	1,391,407	172,130	14.1%	
Surplus(deficit)	\$ (362,140)	\$ (639,866)	\$ (537,480)	\$ 175,340	-48.4%	

**E. Internal Service Funds for Health Insurance**

The Borough and School District are partially self-insured for employee health insurance. Internal service funds are used to track the cost of claims and the offsetting allocations (or premiums) by departments. The Borough maintains two separate funds, one for the Borough and one for the School District. Actual costs and premium allocations are posted to the specific employer. At the end of each fiscal year, the School District’s Fund Balance is converted to a note receivable or payable to ensure that the Fund Balance is accurately reflected as an asset or liability of the School District.

As of June 30, 2021, the Note Receivable from the School District was \$2,494,714, an increase of \$931,564 over the prior year. In FY 2022, the School District made additional contribution to the fund of approximately \$1.6 million to reduce the note. In FY 2023, the school District will begin paying actual claims dollars, as opposed to transferring fixed premium dollars. This administrative change will prevent the self-insurance fund balance, held by the Borough, from continuing to incur operating deficits, and prevent the note from continuing to grow.

As of June 30, 2021, the Borough’s Fund Balance was a deficit of \$1,113,575. In FY 2022, the Assembly authorized a transfer of General Fund reserves of the same amount to eliminate the deficit. The per employee allocation (premium) is being increased from \$2,825 per month to \$3,301, a 16.8% increase. Management has also recommended that the Assembly review the fund balance after the completion of the audit each year, and determine whether or not action is required on an annual basis.

**F. Land Trust Fund**

Land Trust Fund					
	FY 2022	FY 2022	FY 2023	FY 2023-FY 2022 Final Budget	
	Final Budget	Estimated Actual	Budget	\$	%
<u>Beginning Fund Balance</u>	\$ 3,053,906	\$ 3,053,906	\$ 3,058,962	\$ 5,056	0.2%
<u>Revenues</u>					
Land and other resources	70,628	97,762	65,000	(5,628)	-8.0%
Leases, and other revenue	471,950	461,950	464,718	(7,232)	-1.5%
Total revenue	542,578	559,712	529,718	(12,860)	-2.4%
<u>Expenditures</u>					
Land Management	382,495	263,247	288,942	(93,553)	-24.5%
White Cliff	443,979	291,409	971,326	527,347	118.8%
Total expenses	826,474	554,656	1,260,268	433,794	52.5%
Surplus (deficit)	(283,896)	5,056	(730,550)	(446,654)	157.3%
<u>Ending Fund Balance</u>	<u>\$ 2,770,010</u>	<u>\$ 3,058,962</u>	<u>\$ 2,328,412</u>	<u>\$ (441,598)</u>	<u>-15.9%</u>
Reservations of Fund Balance					
			(181,897)		
			(255,414)		
			(1,000,000)		
			<u>\$ 891,101</u>		

Land and other resources income for FY 2023 is budgeted at \$65,000. Lease and other revenue is budgeted at \$464,718.

- Total rental income for White Cliff office space is estimated at \$448,480, of which \$164,368 is from arms-length tenants; \$52,659 is from the Ketchikan Gateway Borough School District for its administrative offices; and \$231,525 is from the Borough offices.
- Tideland lease revenues, interest income, and PERS on-behalf payments total \$31,238.

FY 2023 year-end Fund Balance is budgeted to be \$2,328,412. Reservations for interfund loans, bond reserves, and White Cliff major maintenance reduce the available Fund Balance to \$891,101.

**G. Commercial Passenger Vessel Fund**

Commercial Passenger Vessel Taxes are calculated and collected by the State on a calendar year and distributed in January or February of the following year. For developing the FY 2023 budget, Management directed staff to assume cruise ship bookings at 75% of capacity for calendar year 2022, with 25% of those passengers arriving in Ward Cove, outside City of Ketchikan municipal limits. These assumptions result in anticipated revenue of \$3,074,500.

Departments are planning for the provision of services to cruise passengers starting spring 2022. The biggest impacts are on Transit, and the North Tongass Fire and EMS Service Area where Ward Cove is located.

Fiscal Year 2023 Budget and Capital Program Introduction

April 26, 2022

Page 11 of 14

Commercial Passenger Vessel Fund					
	FY 2022	FY 2022	FY 2023	FY 2023-FY 2022 Final Budget	
	Final Budget	Estimated Actual	Budget	\$	%
<u>Beginning Fund Balance</u>	\$ 2,533,933	\$ 2,533,933	\$ 1,971,163	\$ (562,770)	-22.2%
Revenues	15,000	325,023	3,074,500	3,059,500	20396.7%
<u>Expenditures</u>					
Grants	241,080	241,080	476,600	235,520	97.7%
Equipment & capital improvements	260,313	-	565,982	305,669	117.4%
Summer services (ambassadors, etc)	179,068	110,545	260,000	80,932	45.2%
Allocation for Borough services	536,168	536,168	1,491,465	955,297	178.2%
Total expenditures	1,216,629	887,793	2,794,047	1,577,418	129.7%
Surplus (deficit)	(1,201,629)	(562,770)	280,453	1,482,082	-123.3%
<u>Ending Fund Balance</u>	\$ 1,332,304	\$ 1,971,163	\$ 2,251,616	\$ 919,312	69.0%

Expenditures are calculated on a fiscal year basis, which includes portions of two calendar year cruise ship seasons. Total expenditures as budgeted increase by 129.7%. The annual grant for the Ketchikan Visitor’s Bureau has been reinstated at \$300,000, compared to \$157,080 last year.

The allocation for Borough services is \$1,491,465, which includes \$820,047 for Transit, \$375,000 for the North and South Tongass Services areas, and \$218,263 for parks maintenance, code enforcement, and admin fees.

**H. Nonareawide Library Fund**

Nonareawide Library Services					
	FY 2022	FY 2022	FY 2023	FY 2023-FY 2022 Final Budget	
	Final Budget	Estimated Actual	Budget	\$	%
<u>Beginning Fund Balance</u>	\$ 305,538	\$ 305,538	\$ 276,997	\$ (28,541)	-9.3%
Revenue	514,838	511,580	531,709	16,871	3.3%
Expenditures	540,121	540,121	539,800	(321)	-0.1%
Surplus (deficit)	(25,283)	(28,541)	(8,091)	17,192	-68.0%
<u>Ending Fund Balance</u>	\$ 280,255	\$ 276,997	\$ 268,906	\$ (11,349)	-4.0%

The Borough’s nonareawide property tax revenue in FY 2023 is estimated to be \$527,459 at 0.7 mills, a 3.9% increase over FY 2022.

The City of Ketchikan, which operates the library, has submitted a request for \$539,800 for FY 2023, as compared to \$540,121 the prior year. Despite a minimal operating deficit of \$8,091, the Fund Balance on June 30, 2023 is expected to be \$268,906. Management is not recommending a property tax increase at this time.

### **I. Recreation Sales Tax Capital Projects Fund**

As of the drafting of this budget memo, the State of Alaska budget is still under development. Currently, full funding the School Bond Reimbursement Program is included, which funds the education eligible portion of the Gateway Aquatic Center. FY 2023 sales tax revenue is expected to be 42.5% more than FY 2022. The two items combined result in a 53.7% increase in revenues in the fund.

Debt service increases by 34.1% due to the addition of the 2022 Fields G.O. Bond. Until sales tax revenues fully return, management is taking a conservative approach to capital spending in the Rec CIP fund. The bond payments are prioritized, and other projects that might have been funded by the Rec CIP fund must be deferred or other funding sources identified.

	Recreation Capital Improvements Fund					
	FY 2022		FY 2022	FY 2023	FY 2023-FY 2022 Final Budget	
	Final Budget	Estimated	Actual	Budget	\$	%
<u>Beginning Fund Balance</u>	\$ 1,777,694	\$	1,777,694	\$ 2,059,090	\$ 281,396	15.8%
Revenues	1,447,298		1,921,866	2,224,394	777,096	53.7%
<u>Expenditures</u>						
Capital improvements	-		-	-	-	0.0%
Maintenancance and equipment	50,000		-	85,000	35,000	70.0%
Debt service	1,338,312		1,338,312	1,794,715	456,403	34.1%
Transfers out	302,158		302,158	363,200	61,042	20.2%
Total expenditures	1,690,470		1,640,470	2,242,915	552,445	32.7%
Surplus (deficit)	(243,172)		281,396	(18,521)	224,651	-92.4%
<u>Ending Fund Balance</u>	\$ 1,534,522	\$	2,059,090	\$ 2,040,569	\$ 506,047	33.0%

### **J. School Bond Capital Improvements Fund**

As discussed above, the School Bond Debt Reimbursement Program is expected to be fully funded by the State this year, which is a significant component of the School Bond CIP fund. FY 2023 sales tax revenue is budgeted at 42.5% higher than last year. Total FY 2023 revenue is \$1,581,815, an increase of 123.1% compared to last year's budget.

Total expenditures increase by \$1,364,737 due to resumed capital spending, an increase of 57.9%. Projects which have been deferred for several years are being resumed. Management is also cautiously optimistic that the State’s improved financial position will result in State grants for at least some of the deferred projects. The current year excess of expenditures over revenue for the fund is \$739,557, and the FY 2023 ending fund balance is \$3,362,464.

	School Bond Capital Improvements Fund						
	FY 2022		FY 2022		FY 2023	FY 2020-FY 2019 Final Budget	
	Final Budget	Estimated Actual	Budget	Budget	\$	%	
<u>Beginning Fund Balance</u>	\$ 4,145,523	\$ 4,145,523	\$ 4,102,621	\$ 4,102,621	\$ (42,902)	-1.0%	
<u>Revenues</u>							
Sales tax	1,277,666	1,642,878	1,819,000	1,819,000	541,334	42.4%	
Reimbursement (DEED)	-	386,263	1,040,481	1,040,481	1,040,481	0.0%	
Interest Income	7,500	14,000	7,500	7,500	-	0.0%	
Total revenues	1,285,166	2,043,141	2,866,981	2,866,981	1,581,815	123.1%	
<u>Expenditures</u>							
Capital improvements	349,263	200,600	1,714,600	1,714,600	1,365,337	390.9%	
Debt service	1,499,250	1,499,250	1,486,400	1,486,400	(12,850)	-0.9%	
Transfers out	435,722	386,193	406,138	406,138	(29,584)	-6.8%	
Total expenditures	2,284,235	2,086,043	3,607,138	3,607,138	1,322,903	57.9%	
Surplus (deficit)	(999,069)	(42,902)	(740,157)	(740,157)	258,912	-25.9%	
<u>Ending Fund Balance</u>	\$ 3,146,454	\$ 4,102,621	\$ 3,362,464	\$ 3,362,464	\$ 216,010	6.9%	

Capital improvements include work at Schoenbar, Valley Park, Pt. Higgins, Houghtaling, and Kayhi. A new roof and HVAC system needed at Point Higgins School will likely require the issuance of a \$6 million bond within two or three years. If sales tax declines do not go too deep or last too long, or if the School Bond Debt Program is reinstated for new bonds, the fund should be able to support the associated debt service.

**K. Conclusion**

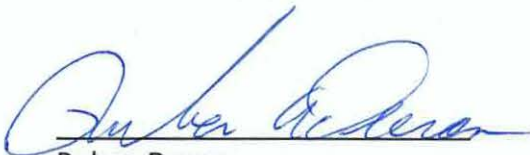
**1. Borough Budget is \$61.0 Million**

FY 2023 revenue for all funds is \$49,452,169 and expenditures are \$61,033,453.


The budget as presented requires using \$2,833,617 of General Fund reserves. Prior conservative actions on the part of elected officials and management have resulted in healthy reserves, and the FY 2023 ending General Fund Balance is expected to be equivalent to 9 months of operating expenditures. The recommended use of reserves in this budget can be absorbed without service cuts or reductions in force and without raising general fund revenue at this time.

If the Assembly chooses to approve the School District's request full funding request of \$6,450,700, the Local Education Fund balance will be \$1,644,226, well below the \$2,000,000 minimum required by KGBC 4.65.030(b). Approving an appropriation that will drop the fund balance below the \$2.0 million minimum will require a finding that extraordinary needs exist, and a supermajority vote of the Assembly. Furthermore, to maintain current funding levels, some additional revenue source must be identified.

Respectfully submitted,



Ruben Duran  
Borough Manager



Cynna Gubatayao  
Finance Director