



## MEMORANDUM

**TO:** Mayor Gabriel and Council Members

**THROUGH:** Paul Ostrander, City Manager

**FROM:** Terry Eubank, Finance Director

**DATE:** January 4, 2022

**SUBJECT:** Fiscal Year 2023 Budget Development Goals Work Session

---

The purpose of this memo is to introduce a list of recommended goals for the Council's consideration and to provide a recommended process for the January 10, 2022 FY2023 budget goal-setting work session.

The goals recommended by the administration include a broad statement of purpose, referred to as the "WHY," and eight specific goals. Adoption of goals by the Council will provide the administration with direction in the development of its proposed FY2023 Budget. This year will be the first time Council has worked toward establishing and formally adopting goals to guide the administration's draft budget development. As evident by the minimal changes made by the Council to the administration's proposed budgets in prior years, the administration has succeeded in anticipating the goals that have guided the budget process. However, formal adoption of budget goals by a resolution of the governing body is considered a best practice by the Government Finance Officers of the United States and Canada in providing greater transparency into the City's budget process. Additionally, holding a work session to develop budget goals gives the public an additional opportunity to participate and provide input into the formation of their City's budget.

Besides taking steps to continually improve, provide greater transparency in, and seek additional public participation in the City's budget process, clear communications of Council's goals for the administration's proposed budget will be extremely important in FY2023 considering the economy and inflationary pressures not seen in the United States for forty years. Inflation figures for 2021 are scheduled for release on January 12 and are expected to show inflation of 6.0% or greater. Economic conditions like this amplify the basic questions the City must address every year during the formation of its budget:

1. Are the City's tax rates and fees sufficient to fund City operations and capital needs, and what are the public and Council's current and long-term goal for tax rates and fees?
2. What is the City's capacity to address employee compensation and benefits to assure the City can attract and retain qualified and talented employees to provide its services to the citizens of Kenai?

3. Considering current reserve levels and revenue expectations, what is the City's capacity to provide funding beyond normal operations for the maintenance of existing and construction of new City infrastructure?
4. What is the minimum level of reserves needed in each fund to ensure sustainable operations in the future to include the ability to maintain operations when unforeseen economic situations occur, catastrophic equipment failures occur, or other unforeseen but significant events happen?

At the work session, the administration recommends discussing each of the specific goals recommended by the administration individually, beginning with an explanation of the goal by the administration. Based upon the discussion, and being mindful that Council cannot take formal action during a work session, the administration will attempt to incorporate any changes to the goals for inclusion in a resolution for adoption at the January 19 Council Meeting. As with any resolution, Council will have the ability to make amendments prior to passage of the resolution.

Your support for incorporating this step in the City's budget process and this work session is appreciated

## **Fiscal Year 2023 Budget Development Goals**

### **Broad Statement of Purpose**

It is a goal of the City to formulate and adopt a budget which is fiscally responsible and meets the needs and priorities of the community it serves. A fiscally responsible budget ensures revenues, taxes, and fees, are sufficient but not excessive to fund current operations and contribute to the long-term maintenance of City infrastructure used to provide services. Meeting the needs and priorities of the community means prioritizing essential services while being mindful that non-essential services such as parks, recreation, arts, library and senior services have significant importance to a vibrant, well-balanced community in which individuals have a desire to live and businesses seek to locate.

### **Specific Goals**

1. Submit a budget for consideration which maintains the City's current mill and sales tax rates which is also compliant the General Fund, Fund Balance Policy codified in KMC 7.25.
2. Propose salary schedule adjustments commensurate with inflation as measured by the Alaska Consumer Price Index for All Urban Consumers, second half over second half to the extent possible while meeting the City's Fund Balance Policy/Goals with no increase in the rates of taxation or reduction in services.
3. Improve the sustainability of and maintain the quality of employee medical, dental and life insurance while continuing toward an employee cost share of 15%; a process that began in FY2021 and continued in FY2022 by increasing the employee cost share 1% per year. A 1% increase in the employee cost share for FY2023 would bring the employee's share to 13%.
4. Seek opportunities for efficiency by striving to reduce the cost of goods and services without negatively impacting operations.
5. Compile a list of capital projects, projects costing \$35,000 or more, for Council adoption. The investment in maintaining infrastructure over time should at a minimum equal the depreciation, an accounting process by which the cost of an asset is spread over its useful life, recorded annually on City capital assets and infrastructure. The City's FY2021 depreciation by fund and function were:

General Fund:	
General Government	\$92,271
Public Safety	\$193,424
Public Works	\$876,529
Parks, Recreation & Culture	\$317,968
Social Welfare Services	<u>\$69,739</u>
	\$1,549,931
Airport Fund:	
	\$2,123,505

Water & Sewer Fund	<u>\$1,079,565</u>
Total All Funds	<u>\$4,753,001</u>

6. Adjust rates, charges and fees in all funds commensurate with inflation as measured by the Alaska Consumer Price Index for All Urban Consumers, second half over second half. The monthly rents at Vintage Pointe should not increase more than \$35.00 per month over FY2022 rates for existing tenants as of June 30, 2022.
  
7. For the Airport, Water & Sewer, Personal Use Fishery, and Congregate Housing Funds, the proposed budget should project ending fund balance/retained earnings of at least 50% of the FY2022 budgeted expenditures net of any projected lapse and any use of fund balance should be for one-time or capital purchases and not for reoccurring expenditures/expenses. The ending fund balance for each fund should not be less than:
 

Airport Fund	\$1,485,772
Water & Sewer Fund	\$1,262,634
Personal Use Fishery Fund	\$231,905
Congregate Housing Fund	\$253,366
  
8. Senior Citizen Fund fees and rates should be adjusted to a level sufficient to limit the increase in required transfer from the General Fund to no more than a 10% increase, \$22,052, over FY2022 amounts.