

CITY OF KETCHIKAN
SPECIAL CITY COUNCIL MEETING

7:00 p.m. August 23, 2004

AGENDA

1. **CALL TO ORDER**

2. **ROLL CALL**

Please rise for the Pledge of Allegiance

3. **COMMUNICATIONS**

4. **PERSONS TO BE HEARD**

5. **NEW BUSINESS**

 a. Draft Consolidation Petition

6. **MAYOR AND COUNCILMEMBER COMMENTS**

7. **ADJOURNMENT**

TRANSMITTAL MEMORANDUM

CITY OF KETCHIKAN
OFFICE OF THE CITY MANAGER
Karl R. Amylon, City Manager
Jim Voetberg, Assistant City Manager
Rebecca Brown, Administrative Assistant

TO: The Honorable Mayor and City Council

FROM: Karl R. Amylon, City Manager

DATE: August 20, 2004

Re: **Draft Consolidation Petition**

The City Council has scheduled a special meeting for Monday, August 23, 2004 at 7:00 p.m. in the City Council Chambers, in order to review the Charter Commission's draft petition for consolidation of the City and the Borough. Attached for City Council review is a copy of the presentation that the Finance Director, Bob Newell, and I intend to make at the Charter Commission's meeting of August 20, 2004. The Commission will be advised that the concerns expressed are those of staff only and do not necessarily reflect the official position of the City Council. The comments are self-explanatory and require little elaboration on the part of my office.

Staff's preliminary review concentrated on the three-year budget and transition plan. Three sets of concerns are immediately apparent:

1. Factual or Calculation Errors;
2. Material Assumptions/Exclusions; and
3. Equity of Underlying Assumptions.

Taken together, we believe the draft petition reflects a minimum funding shortfall for the Municipality of Ketchikan of at least between \$1,230,000 in the first year increasing to \$1,615,000 by the third year. Likewise, the Gateway Service Area is under funded by at least \$409,000 in the first year and by \$1,194,000 by the third year. These deficits will further increase as those issues such as PERS and pending bond issues are factored into the three-year budget plan. Consequently, it is staff's belief that the draft petition does not yet meet the standards under AS 29.05.031 (a)(3) and 3ACC 110.055 in that it does not present a feasible and plausible budget. More importantly, if the identified deficiencies are not addressed, in its current form the draft petition does not provide the voters with an accurate assessment of the impacts of consolidating the City and Borough.

TRANSMITTAL MEMORANDUM

CITY OF KETCHIKAN
OFFICE OF THE CITY MANAGER
Karl R. Amylon, City Manager
Jim Voetberg, Assistant City Manager
Rebecca Brown, Administrative Assistant

TO: The Charter Commission

FROM: Karl R. Amylon, City Manager

DATE: August 20, 2004

Re: Draft Consolidation Petition

Chairman Thompson, Members of the Commission. My name is Karl R. Amylon and I currently reside at 3847 Denali Avenue. I am presently employed as City Manager of the City of Ketchikan and General Manager of Ketchikan Public Utilities. The City Finance Director, Bob Newell, accompanies me this evening and it is our intent to address the draft consolidation petition. At the outset I wish to make it clear that these are staff comments only and should not be construed as the formal position of the City Council. The City Council will be meeting in special session on Monday, August 23rd, in order to review and discuss the draft petition. Consequently, further comments may be submitted to the Commission.

Before we begin, I again would like to again take this opportunity to acknowledge the Commission's efforts. Both Bob and I fully appreciate the extent of the work you have accomplished to date and efforts that will be required in the next few weeks. Compiling a draft petition for submittal to the Local Boundary Commission is by no means a simple task.

That notwithstanding, in order for the LBC to approve the petition for consolidation, the Commission must determine that the proposed Municipality of Ketchikan meets the standards under AS 29.06.130 (a) which, in this particular case, consist of the standards for borough incorporation under AS 29.05.031. In particular, AS 29.05.031 (a)(3) and 3ACC 110.055 require the Local Boundary Commission to determine whether the area within the proposed consolidated borough possesses the

human and financial resources to provide municipal services on an efficient and cost-effective basis. Factors set out in 3 ACC 110.055 that are relevant to the financial resources aspect of the statutory standard include the anticipated functions, expenses, and income of the proposed borough, along with the feasibility and plausibility of the proposed budget.

As Mr. Newell and I discussed with Chairman Thompson this morning, we do not believe the draft petition and budget meets this standard. The deficiencies that we will address must be corrected, not only to secure a favorable determination from the LBC but also to provide the voters an accurate assessment on the implications of consolidating the City and Borough.

Since we've only had the draft petition for less than two weeks, our preliminary review concentrated on the three-year budget and transition plan. Three sets of concerns are immediately apparent. The first focuses on factual or calculation errors within the documents. The second deals with the Commission's material assumptions and/or the failure to address other conditions known to exist. The third deals with the equity of the Commission's approach in structuring and funding the proposed Municipality of Ketchikan. Taken together, we believe the draft petition reflects a minimum funding shortfall for the Municipality of Ketchikan of at least between \$1,230,000 in the first year increasing to \$1,615,000 by the third year. Likewise, the Gateway Service Area is under funded by at least \$409,000 in the first year and by \$1,194,000 by the third year. These deficits will further increase as those issues such as PERS and pending bond issues are factored into the three-year budget plan. Consequently, the draft petition does not yet meet the standards under AS 29.05.031 (a)(3) and 3ACC 110.055 in that it does not present a feasible and plausible budget.

1. Factual or Calculation Errors:

- The transition plan states that the current City mill rate is 6.7 and the current non-areawide mill rate is .93. Both of these figures are incorrect. The current City mill rate is 6.4 and the current non-areawide mill rate is 1.2.
- The financial plan states that the City's transient tax rate is 6 percent. The City raised its transient occupancy tax to 7 percent from 6 percent. The financial plan does not put the transient tax in single fund. The Borough's portion of the tax,

approximately \$37,000, is currently being accounted for in the Municipality of Ketchikan's General Fund. The City's portion is being accounted for in the Transient Occupancy Tax Fund. The Borough's portion should be reclassified from the General Fund to the Transient Occupancy Tax Fund.

- The line item "All Other Taxes" in the amount of \$985,627 accounted for in the Municipality of Ketchikan's General Fund in Year One includes approximately \$650,000 for sales taxes arising from the reduction of the Public Works Sales Tax from 1.5 percent to 1.25 percent and increasing the general sales tax accounted for in the General Fund from 1.5 percent to 1.75 percent. When this figure is added to the \$5,351,574 of sales tax revenues already accounted for in the General Fund, the total amount of sales tax revenues recorded in the General Fund rises to \$6,001,574. The City believes that the most that could be accounted for in the General Fund is \$5,258,000. This belief assumes that the proposed Charter does not modify how the existing sales tax for recreation and education purposes should be used and that a one percent sales tax generates revenues of \$2,589,832 on an areawide basis in Year One.
- The transition plan proposes that the Municipality of Ketchikan will assume emergency 911 dispatch powers and that funding for this service will be derived from the Municipality's General Fund. The three-year budget does not appear to reflect any funding from the Municipality's General Fund other than the transfer of \$100,000 of revenues generated by the E911 surcharge. The City estimates the annual cost of providing emergency 911 dispatch services to be \$560,000, which needs to be added to the General Fund Budget and deleted from the Gateway Service Area Budget. The revenues generated from E911 should also be added to the General Fund Budget. The projected shortfalls referenced earlier do not take into account the required adjustments.
- One-time grants of \$83,000 for fire protection were inadvertently carried over and should be eliminated from the intergovernmental revenues of the Municipality of Ketchikan's General Fund. A similar amount should be eliminated from the cost of the Gateway Service Area Fund's fire expenditures.
- A one-time transfer of \$100,000 into the Borough's General Fund has been inadvertently carried over and should be eliminated from the interdepartmental revenues of the Municipality of Ketchikan's General Fund.
- The \$650,000 transfer from the Land Trust Fund to the Municipality of Ketchikan's General Fund for school debt should be eliminated. The recently enacted ½ percent sales tax increase is for debt service. The resources of the Land Trust Fund are no longer needed for debt service and their use is legally restricted. The financial plan should be modified to remove the operating transfer from the Land Trust Fund. Likewise, the transfer of \$732,000 from the General Fund to the GO Debt Service Fund should be eliminated. The ½ percent sales tax

allocated for debt service should be accounted for directly in the GO Debt Service Fund.

- Revenues in the three-year budget for the Municipality of Ketchikan's General Fund include \$397,000 for library services from the Borough. This needs to be eliminated. Expenses for library services were also overstated for the same reason.
- Public Works Sales Tax revenues projected in the three-year budget for the Gateway Service Area Fund increase from \$2.98 million in 2006-07 to \$3.69 million in 2007-08. This appears to be a typographical error resulting from reducing the Public Works Sales Tax from 1.5 percent to 1.25 percent. This figure needs to be adjusted downwards by approximately \$615,000 and \$633,000 in Fiscal Years 2007-08 and 2008-09 respectively.
- Other revenues projected in the three-year budget for the Gateway Service Area Fund inadvertently carried over \$421,600 for one-time only grants and should be eliminated.
- The treatment of Public Works - Building Division is unusual. In year 2006-07, the cost of this program is split between the Municipality of Ketchikan's General Fund and the Gateway Service Area Fund. In years 2007-08 and 2008-09, the entire cost of this program is funded exclusively from Gateway Service Area Fund.

2. Material Assumptions/Exclusions:

- The three-year budget assumes property taxes growing at a rate of two percent and appears based on actual revenue receipts. This is not realistic. Assessed values for the City and the Borough have been declining for the past two years. Since property tax revenues are not based on assessed values, no growth, unless generated by legislated mill increases, should be forecast. This results in reductions in revenues forecast for the Municipality of Ketchikan of \$404,642 to \$756,671 from 2006-07 to 2008-09 respectively. The Gateway Service Area property taxes should likewise be decreased by \$53,403 to \$191,547 from 2006-07 to 2008-09 respectively.
- The three-year budget projects that payments in lieu of taxes will increase. Borough payments in lieu of taxes have generally been fluctuating and City payments in lieu of taxes have been flat for many years. Although we have not revised the estimate, I would urge the Commission to revisit this issue.
- The three-year budget and transition plan do not address and/or incorporate the City and the Borough's plans to issue new debt. This will have a material impact and must be disclosed and accounted for. Likewise, there is no discussion of the

North Tongass Fire and EMS Service Area debt. Again, although we have not revised the estimate, I would urge the Commission to revisit this issue.

- Many of the expenditures reported in the financial plan were adjusted for general price increases using an inflation factor of 2 percent. Exceptions should have been made for the following as they specifically will have a material impact and must be disclosed and accounted for:

Debt Service – As previously mentioned, actual or estimated annual debt service should be used.

General Insurance – a minimum increase of 10 percent should have been used. For example, the City paid \$828,000 in 2001 for general insurance including workers compensation. In 2004, the City paid in excess of \$1.8 million.

Health Insurance – a minimum increase of 10 percent should be used.

Retirement (PERS) – a minimum increase of 26 percent should have been used in order to adjust the base year and the first year of operation. By July 1, 2006, the City alone will be paying \$1.2 million more than the base year and the Borough will be paying about \$600,000 more. These estimates need to be adjusted accordingly.

- The financial plan recommends balancing the Municipality of Ketchikan's General Fund with a subsidy of approximately \$874,000 from the Hospital Sales Tax Fund. The City's consolidation petition included a similar subsidy of \$1 million. At the time the City developed its petition, the Hospital Sales Tax Fund had reserves of approximately \$4.4 million. The reserves of the Hospital Sales Tax Fund are currently at \$968,000. This level of reserves might affect the Municipality of Ketchikan's ability to use resources from the Hospital Sales Tax Fund to balance its General Fund. Although we have not revised the estimate, I would urge the Commission to revisit this issue.
- Lastly, the financial plan for the Gateway Service Area Fund does not include any capital costs for the Public Works - Collection Division. At least \$50,000 should be added.

3. Equity of Underlying Assumptions:

Again, I would reiterate these are staff comments, which may or may not reflect the position of the City Council.

- Upon consolidation, the three-year budget and transition plan propose that the net assets of the City's General Fund be split and that 45 percent be transferred to the Municipality of Ketchikan's General Fund and 55 percent be transferred to the

Gateway Service Area. The financial resources that generated the net assets were derived from within the proposed Gateway Service Area. The net assets should be either be retained by or reserved for the Gateway Service Area for the benefit of citizens living within its boundaries.

- Lowering the amount of Public Works Sales Tax accounted for in the Gateway Service Area Fund from 1.5 percent to 1.25 percent, in order to account for the cost of maintaining those programs and facilities that were transferred from the City to an areawide basis does not seem to be equitable. Since 1998, the City has spent an average of \$80,127 annually from the Public Works Sales Tax on these programs. The amount of sales tax generated from .25 percent amounts to approximately \$591,500 in Year One. The net assets derived from the Public Works Sales Tax should be retained by the Gateway Service Area for the benefit of citizens living within its boundaries. Future projects that will rely on the full Public Works Sales Tax include Fire Station and Public Works Warehouse replacement and major street improvements. As federal and state resources continue to diminish, Public Works Sales Tax will be critical to the service area to maintain services and infrastructure utilized by residents living and/or working in the former City.
- Upon consolidation, the three-year budget and transition plan propose that the net assets of the City's Economic Development and Parking Development Fund be transferred to the Municipality of Ketchikan and eventually consolidated with the Borough's Economic Development Fund. The Economic Development and Parking Fund was primarily established with the proceeds from the sale of the Spruce Mill property. The primary purpose of the fund is to finance parking that was removed from the downtown area as a result of the sale of the Spruce Mill property and to address future parking needs in the downtown core as a result of the development. The net assets of the Economic Development and Parking Fund should either be transferred to the Gateway Service Area or reserved for the benefit of the Gateway Service Area.
- Upon consolidation, the three-year budget and transition plan propose that the net assets of the City's Community Facilities Development Fund be transferred to the Municipality of Ketchikan. The financial resources that generated the net assets were derived from within the proposed Gateway Service Area and were intended to fund facility replacement within the proposed service area. The net assets should be retained by or reserved for the Gateway Service Area for the benefit of citizens living within its boundaries.
- Upon consolidation, the three-year budget and transition plan propose that the net assets of the City's Wastewater Services Fund be transferred to the Municipality of Ketchikan. The financial resources that generated the net assets were derived from within the proposed Gateway Service Area and were intended to fund wastewater operations and improvements within the proposed service area. The

net assets should be retained by or reserved for the Gateway Service Area for the benefit of citizens living within its boundaries.

- The staffing plan is incomplete and needs more thought and clarity. The proposed staffing plan does not take into account that some of the City managerial positions are currently shared between General Government and KPU. For example, it appears that the present plan will result in half-time positions for KPU General Manager, KPU Assistant Manager, KPU Administrative Assistant, KPU Engineering Manager, and KPU Assistant Engineering Manager. If the expectation is that the present Borough and City Public Works Engineering staff will undertake responsibilities for the Municipality, the Gateway Service Area and KPU, this is not realistic.

The staffing plan also proposes to delete one data processing technician. In essence, this means the City Data Processing staff will have to assume the responsibility of maintaining and servicing the personal computers and computer networks currently operated by the Borough. This is not advisable.

- Unlike the City's petition, the three-year budget and transition plan do not present an exhibit detailing a comparison of the existing and future millage rates for the Municipality of Ketchikan, the Gateway Service Area and the Service Areas. This is absolutely essential.

As you can see from the above analysis, we believe there are many issues that the Commission must review and address prior to submitting the petition to the Local Boundary Commission. I again stress that these comments are preliminary in nature only and with time other concerns will likely be identified. If they are not satisfactorily addressed, the petition clearly will not meet the requirements under AS 29.05.031 (a)(3) and 3ACC 110.055 and the LBC will require that the Commission and/or Borough deal with them prior to approving the petition. More importantly, in its current form the petition does not provide the voters with an accurate assessment of the impacts of consolidating the City and Borough.

As I stated to the Commission several weeks ago, the Commission faces the same problem as the City did in trying to balance the interests of City residents versus non-City residents. Despite the recent increases in Borough property and sales taxes, the financial resources that were available three years ago have diminished significantly. If it is the Commission's contention that consolidation will only pass by maintaining a "reasonable" tax structure for all Borough residents, then you are ultimately confronted with determining what services will be necessary for the consolidated borough and what

services will not. Simply modifying the City's petition will not suffice. If you're unwilling to undertake such an exercise, it will, in my opinion, be difficult if not impossible to meet the expectations that may exist among most Ketchikan residents. To that end, it is my hope that the Commission's goal will be to provide the facts and let the voters ultimately decide whether consolidation is in the best interest of the community.

Again, I wish to express my appreciation for your efforts to date and look forward to working with you in the future.

Fiscal Year 2006 - 07			Fiscal Year 2007 - 08			Fiscal Year 2008 - 09			Explanation
Petition	Revised	Difference	Petition	Revised	Difference	Petition	Revised	Difference	
8,713,599	8,308,957	(404,642)	8,887,871	8,308,957	(578,914)	9,065,628	8,308,957	(756,671)	Property taxes restated at 8.43 mills using current assessed values
5,351,574	5,257,389	(94,185)	5,512,121	5,415,111	(97,010)	5,677,485	5,577,564	(99,921)	Revised to reflect proper amount and distribution of sales taxes
985,627	342,552	(643,075)	1,005,340	349,403	(655,937)	1,025,446	356,391	(669,055)	Sales tax derived from reducing the PW Sales Tax from 1.5 to 1.25
814,347	731,347	(83,000)	814,347	731,347	(83,000)	814,347	731,347	(83,000)	Eliminate one-time only fire grants
2,159,194	1,762,194	(397,000)	2,202,378	1,797,438	(404,940)	2,246,426	1,833,387	(413,039)	Eliminate revenue from Boro to City for library services
3,326,679	2,576,679	(750,000)	3,393,213	2,628,213	(765,000)	3,461,077	2,680,777	(780,300)	Eliminate transfer from LTF for debt service & \$100,000 one time transfer
1,351,020	18,979,118	(2,371,902)	21,815,270	19,230,469	(2,584,801)	22,290,409	19,488,423	(2,801,986)	
1,565,109	1,156,179	408,930	1,596,411	1,179,303	417,108	1,628,340	1,202,889	425,451	Eliminate "intercompany" adjustment that overstated Library costs
1,628,498	896,498	732,000	1,661,067	914,428	746,639	1,694,289	932,717	761,572	Eliminate transfer for school debt service
3,193,607	2,052,677	1,140,930	3,257,478	2,093,731	1,163,747	3,322,629	2,135,606	1,187,023	
18,157,413	16,926,441	(1,230,972)	18,557,792	17,136,738	(1,421,054)	18,967,780	17,352,817	(1,614,963)	
Fiscal Year 2006 - 07									
3,419,397	3,365,994	(53,403)	3,487,785	3,365,994	(121,791)	3,557,541	3,365,994	(191,547)	Restated property taxes at 5.77 mills using current assessed values
5,347,820	5,347,820	0	6,122,549	5,508,255	(614,294)	6,306,226	5,673,503	(632,723)	Sales tax beginning in Yr 2 because .25 reduction was not applied
506,259	67,626	(438,633)	516,384	68,979	(447,405)	526,711	70,358	(456,353)	Eliminated one-time only grants - \$300,000 & \$121,600
9,273,476	8,781,440	(492,036)	10,126,718	8,943,228	(1,183,490)	10,390,478	9,109,855	(1,280,623)	
2,404,387	2,321,387	83,000	2,452,475	2,367,815	84,660	2,501,525	2,415,171	86,354	Eliminate one-time only fire grants
2,404,387	2,321,387	83,000	2,452,475	2,367,815	84,660	2,501,525	2,415,171	86,354	
6,869,089	6,460,053	(409,036)	7,674,243	6,575,413	(1,098,830)	7,888,953	6,694,684	(1,194,269)	
Fiscal Year 2006 - 07									
3,145,975	1,932,957	(1,213,018)	3,208,895	1,932,957	(1,275,938)	3,273,072	1,932,957	(1,340,115)	Operating transfers mixed in with debt reimbursement from State
899,946	828,410	(71,536)	917,945	853,262	(64,683)	936,304	878,860	(57,444)	Correct omission of .5 percent sales tax for education debt service
4,045,921	1,658,011	(2,387,910)	4,126,840	1,658,011	(2,468,829)	4,209,376	1,658,011	(2,551,365)	
	4,419,378	4,419,378	4,126,840	4,444,230	317,390	4,209,376	4,469,828	260,452	
3,949,717	4,419,378	469,661	4,028,712	4,419,378	390,666	4,109,286	4,419,378	310,092	Added Borough's two proposed school bond issues
3,949,717	4,419,378	469,661	4,028,712	4,419,378	390,666	4,109,286	4,419,378	310,092	
96,204	0	(96,204)	98,128	24,852	(73,276)	100,090	50,450	(49,640)	