

KETCHIKAN CHARTER COMMISSION

AGENDA STATEMENT

NO | - 1

MEETING OF July 29th & 30th, 2004

ITEM TITLE Amend Exhibit F (Budget) and Acceptance of the Proposed Budget Materials for Inclusion in the Petition SUBMITTED BY Glen Thompson, Chair
--

SUMMARY STATEMENT

Chair Thompson has worked extensively revising the attached Exhibit F for inclusion in the Consolidation Petition. He took the City's 2004 and the Borough's 2004-2005 budgets and combined them, taking out one-time expenditures and removing only minimal staff for the first transition year into the new government.

By accepting these documents, they will be included in the Commission's Draft Petition for distribution to and comment by the members of the community. Should further financial information become available, the documents will be further modified prior to submission to the Local Boundary Commission.

RECOMMENDED ACTION:

"I move to amend Exhibit F (Budget) to the Petition and accept the proposed budget documents for the combined Municipality as presented."

EXHIBIT F

THREE YEAR ANNUAL BUDGET AND FINANCIAL PLAN

In accordance with the requirements for a petition by a political subdivision of the State of Alaska for consolidation of a home rule city and a general law borough as a home rule borough, a three-year operating and capital budget has been prepared for the proposed consolidation of the City of Ketchikan and the Ketchikan Gateway Borough into a new entity, the Municipality of Ketchikan, Alaska. The three-year operating and capital budget is attached as Exhibits F-1, F-2, F-3 and F-4. The City of Saxman, which is located within the boundaries of the Ketchikan Gateway Borough, will be excluded from the consolidation.

The three-year budget projects sources of revenues, items of expenditures, and surpluses and deficits through the first three full fiscal years of operations, starting with the anticipated fiscal year that begins on July 1, 2006. Expenditures include operating expenses, minor capital outlay, and planned major capital outlay. The three-year budget was developed in a manner that is consistent with the proposed charter for the Municipality of Ketchikan.

Assumptions

The development of the three-year budget required that certain assumptions be made about future events. These assumptions have a direct impact on the revenue and expenditure projections used to compile the three-year budget. These assumptions were developed using historical financial data about the separate operations of the City of Ketchikan and the Ketchikan Gateway Borough, as well as using economic and financial data about the community served by both governments. Recent events and changes have taken place in the economy of Ketchikan, which reduced the reliability and usefulness of the economic and financial data used to develop certain assumptions and compile the three-year budget. As a result, professional judgment became more crucial in deciding which data was still relevant and how other data could be modified to fit the circumstances that currently exist in Ketchikan. While every effort was made to develop reasonable assumptions, a certain amount of risk remains that the assumptions used to compile the three-year budget may prove to be partially or totally incorrect. In situations where assumptions deviate significantly from actual events that might take place during the period covered by the three-year budget, the actual outcome may be materially different than the projections included in this petition. The key assumptions used in the development of the three-year budget are as follows:

- The City of Ketchikan's 2004 General Government Annual Budget, the 2004 Ketchikan Public Utilities Annual Budget and the Ketchikan Gateway Borough's Fiscal Year 2005 Budget were used to develop base year revenues and expenditures. For the purposes of the three-year budget, 2004 was

selected as the base year. Since the Municipality of Ketchikan's first full year of operation is expected to begin on July 1, 2006, revenues and expenditures were restated in 2006 dollars.

- Personnel costs were based on the staffing plan included in the petition for consolidation. The staffing plan projects that 414.28 full-time equivalent employees will be required to staff the Municipality of Ketchikan. Staffing levels were projected not to increase or decrease during the period covered by the three-year budget. Duplicate positions that were adjusted as a result of consolidation were valued at the higher of the Borough or City salary for the duplicate position. For example, the Clerk position for the Municipality of Ketchikan was valued at the Borough's level of compensation because it was higher than the City's level of compensation for that position.
- ?Since the Consumer Price Index (Anchorage) from 1999 to 2003 averaged 2%, a general inflation factor of two percent (2%) was used to adjust the cost of commodities and services, and minor and major capital outlay. The cost of personnel services, which includes salaries, wages and employee benefit costs, was adjusted by an annual rate of two percent (2.0%). This adjustment is expected to cover the cost of step increases and increases in employee benefit costs such as an annual increase in health insurance costs. Salaries paid to assembly members were excluded from this adjustment because the Assembly is not expected to increase its salaries during the period covered by the three-year budget. Cost of living adjustments have not been specifically programmed for two reasons. As noted above, duplicate City and Borough positions have been programmed for the higher of the City or Borough salary and the three-year budget assumes full staffing for all positions. Since the probability of all positions actually being paid at the higher salary and/or no staffing vacancies is remote, it was determined that no additional adjustments were required to provide for a cost of living adjustment.
- ?The Municipality of Ketchikan will enter into a new Public Employees Retirement System participation agreement with the State of Alaska. The new agreement will retain the existing terms and conditions of the agreements the State has with the City and the Borough. The Municipality of Ketchikan will also enter into a new 218 agreement with Federal Social Security Administration. This agreement will permit the Municipality of Ketchikan to participate in the social security system.
- Operating transfers were modified to reflect the organizational structure of the Municipality of Ketchikan. No increases were programmed for operating transfers required to subsidize funds or programs unless an increase was required in order to maintain the solvency of the fund or program. Operating transfers required for debt service were based on existing and estimated debt

service schedules. Operating transfers required in order to comply with policies of the former City and Borough were programmed to continue until the earlier of the expiration of the legal mandate or the end of the period covered by the three-year budget.

Debt service expenditures were based on existing and new debt of the City and the Borough that will be assumed by the Municipality of Ketchikan

- As part of their annual budgeting process, the City develops a comprehensive five-year capital improvement program and the Borough compiles a three-year capital improvement program. Since both programs are heavily dependent on bond financing, which requires voter approval, and state funding, which has yet to be appropriated by the State Legislature, the usefulness of the capital improvements programs was limited.

As an alternative, the projections for major capital outlay were determined by reviewing historical capital expenditures, the above referenced capital improvement programs, and the local funding sources projected to be available during the period covered by the three-year budget. Capital projects involving public safety or public health were given the highest priorities in situations where there were competing projects for limited funds.

- The base year (Fiscal Year 2004) amount was used to determine funding for all community agency programs that are presently funded by the City and the Borough. Certain community agency programs were eliminated if it was clear from the review of the 2003/2004 budget documents that the funding was intended to be limited to one year or would expire prior to the date of consolidation. Community agency programs consist of local grants awarded to not-for-profit organizations for education, health, economic development, social and visitor promotion services.
- ?All state revenues were projected to remain at the base year amount with one exception. State grants used to finance mental health and substance abuse programs were projected to grow at an annual rate of one percent (1%).
- ?Although property values have increased at an average annual rate of 3.6% over the past ten years, property values for the purpose of the three-year budget were projected to increase at an average annual rate of two percent (2%). The closure of the Ketchikan Pulp Company and the continuing uncertainty in the local economy is expected to cause property values to increase at a much slower pace.
- ?Sales tax revenues were projected to grow at an annual rate of three percent (3%). Continued growth in the tourism industry, increases in the general price

index, and the Mile 4 North Development are expected to sustain this level of growth.

- ?Charges for services provided by the Municipality of Ketchikan such as utility services were projected to grow at an annual rate of two percent (2%). Charges for the use of port and transit facilities were projected to increase at an annual rate of three percent (3%). All other revenues such as permits, fines and miscellaneous income were projected to increase at an annual rate of either one or two percent.
- The financial plan identifies the disposition of the assets of the City and the Borough. The consolidation, if approved by the Local Boundary Commission and the voters, is not expected to take place until 2006. It was impractical to project the value of the total assets of the City and Borough that will be transferred to the Municipality of Ketchikan because the projection would span a two to three year period. To provide some indication of the value of the assets, the financial plan discloses the most recent projections of the unreserved fund balances of the funds that will become part of the Municipality of Ketchikan. The unreserved fund balances represent total assets less total liabilities. The unreserved fund balances approximate the net assets that will be transferred upon consolidation. For the general fixed asset and general long-term debt account groups, total assets or total liabilities were disclosed.
- Several one-time expenses were eliminated from the base year budget in projecting the consolidated three-year budget. Predominantly these were capital expenditures that will not re-occur or did not materialize, for example the \$58 million port expansion and associated bond debt.

Discussion of the Three-Year Budget and Financial Plan

As of December 31, 2003, the City had 21 funds (including KPU) totaling \$29,632,000, two account groups and approximately 315 employees. As of June 30, 2004, the Borough had 18 funds totaling \$31,106,000, two account groups and approximately 112 employees. The Ketchikan Gateway Borough School District was not included in the 2004 Borough totals and has not been included in the three-year budget or addressed in the financial plan. The School District is, however, part of the consolidation and its relationship to the Municipality of Ketchikan is discussed in the petition. State mandated local contributions required by the Municipality of Ketchikan to the School District have been programmed in the three-year budget. The new government, the Municipality of Ketchikan, will have 35 funds and approximately 414 employees. The consolidation will result in the elimination of approximately 13 paid positions. Included in this total are eight elected positions. The rest of the reduction comes from the reorganization of duplicated positions within the offices of the

Manager, Clerk, Attorney, Finance and Automation. Total first year savings, including personnel costs and fringe benefits, were estimated at \$518,000. **Since the restructuring of the Municipality of Ketchikan will continue long after the consolidation takes place, additional saving and economies of scale should be achieved. Some functions of the proposed new government that might warrant additional review are public works, utilities, planning and human resources.**

The foundation of the financial plan for the Municipality of Ketchikan is the three-year budget. Budgeting for a government typically begins with the development of a spending plan for the various funds of the government. Funds are, by definition, a separate fiscal and accounting entity in which financial resources are recorded and segregated for the purpose of conducting specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. In order to fully understand the proposed financial plan for the Municipality of Ketchikan, the three-year budget needs to be reviewed in the context of the funds that will be established for the new government.

For clarity, this financial plan deals primarily with the fund balances of the operating entities of the former Borough and City of Ketchikan. The associated fixed assets and liabilities associated with each fund will be allocated to each fund based upon the fund's purpose. For example, the City of Ketchikan's fire and police stations and associated equipment and associated debt will be transferred to the Gateway Service Area.

General Fund

The general fund is used to account for all financial resources of a municipal government except those required to be accounted for in another fund. The general fund is typically the operating fund of the municipal government and its services are generally provided on an areawide basis. Consequently, it is supported primarily through areawide taxes and other revenues derived on an areawide basis. The City and the Borough currently maintain separate general funds. Upon consolidation, the general fund of both governments will cease to function and their respective assets and liabilities will be consolidated or redistributed. The assets and liabilities of the Borough General Fund will be remitted to the Municipality of Ketchikan and placed in the general fund of the new Municipality. Since approximately 55% of the revenue and expense from the former city of Ketchikan are being transferred to the new Gateway Service Area, 55% of the City of Ketchikan's General Fund Balance will be transferred to a special revenue fund established to account for the financial resources of the Gateway Service Area which will be created at the time consolidation occurs. The Gateway Service Area is discussed in detail following the discussion of the general fund.

The Municipality of Ketchikan will have one general fund. Revenues earned by the general fund will come primarily from property taxes (36% of total revenues), sales taxes (25%), interdepartmental charges (16%), charges for services (10%) and intergovernmental revenues (4%). The Municipality of Ketchikan will assess a payment in lieu of taxes against the Ketchikan Public Utilities and Port Enterprise Funds. The assessment will amount to approximately seven percent (7%) of total revenues. By the third year of the three-year budget, general fund revenues are projected to total \$22.2 million.

Expenditures will include mayor and assembly, attorney, clerk, manager, community development, finance, assessment, animal protection, library, museum, recreation, public health, public works, cemetery maintenance and operations, education, and non-departmental functions. Under consolidation, library, museum, public health, and cemetery functions will be funded on an areawide basis. Prior to consolidation these functions were funded either on a non-areawide basis or solely by the City. By the third year of the three-year budget, general fund expenditures are projected to total \$22.9 million.

As was noted earlier, the three-year budget was compiled using the adopted budgets of the City and the Borough as a starting point. The City's 2004 spending plan for its general fund will require a draw-down of general fund reserves in the amount of \$877,000. The Borough's 2005 spending plan required a drawdown of general fund reserves in the amount of \$54,000. The combined deficits total \$931,000. In practice, the actual drawdown of reserves will most likely be less than programmed because, historically, appropriations have not always been spent as planned.

Modifications to the original spending plan are inevitable due to program delays and staff vacancies. Even though the actual drawdown of reserves will not be as significant as projected in the City and Borough budgets, a deficit is still expected to occur. As the three-year budget for the Municipality of Ketchikan was compiled, it became evident that the deficit would continue to be an issue and needed to be addressed to ensure that the financial plan for the proposed consolidated Municipality was fiscally responsible.

The restructuring of the personnel costs and elimination of one-time expenses served to eliminate nearly all of the projected operating deficit. This is predicated on maintaining the "status quo" on interdepartmental charges and Payments in Lieu of Taxes. Under this methodology, no change in the property or sales taxes are required. It is noted, however, that the Gateway Service Area will accumulate approximately \$750,000 per year in surplus that could lead to property tax relief in that service area in the future. It is also of note that several funds are operating at a significant deficit: Recreation Sales Tax, Solid Waste, Wastewater, Small Boat Harbor, Mental Health, and substance abuse. These fund operations will need to be continually evaluated for cost savings and solvency.

As previously noted, the assets and the liabilities of the Borough General Fund will be remitted to the Municipality of Ketchikan upon consolidation. At June 30, 2004, the Borough General Fund is projected to have an unreserved fund balance of \$1,346,000. The City of Ketchikan General Fund is projected to have an unrestricted balance of \$4,042,000 as of 12/31/05 and 45% of this fund or \$1,819,000 will be remitted to the Municipality of Ketchikan upon consolidation. Additionally, the Borough's Nonareawide Library Fund will be remitted to the Municipality of Ketchikan's General Fund upon consolidation, closing out that fund since operation of the library will become an areawide function. The Municipality of Ketchikan's General Fund will thus have a starting balance of approximately \$3,241,000. The disposition of the assets and liabilities of the City General Fund is outlined under the discussion of the City Service Area.

Special Revenue Funds

Special revenue funds are funds used to account for the proceeds of specific revenue sources that are legally restricted for specified purposes. The City and the Borough presently have 20 and 17 special revenue funds, respectively (excluding Ketchikan Public Utilities and the School District). Upon consolidation, the Municipality of Ketchikan will have 33 special revenue funds. The special revenue funds of the Municipality of Ketchikan will include former City and Borough special revenue funds. Some of these funds will be transferred directly to the Municipality of Ketchikan in their present form and others will be combined to form a single fund. For example, funds that serve the same purpose for both the City and the Borough will be combined. The proposed charter for the Municipality of Ketchikan will require the creation of one new special revenue funds to account for the Gateway Service Area. The special revenue funds of the Municipality of Ketchikan will be as follows:

Gateway Service Area: This is a new fund that will be established to account for the financial resources of a newly created service area within the current boundaries of the former City of Ketchikan. This service area will provide building inspection services, fire and police protection services, and certain public works services such as engineering, streets and roads, garbage collection and vehicle & building maintenance. (The commission noted that vehicle and building maintenance are also performed by the Municipality through it's General Fund and a future consolidation of this function may lead to cost savings).

Revenues earned by the Ketchikan Service Area will come primarily from property taxes (31% of total revenues), sales taxes (52%), charges for services (17%). The sales tax will consist of a one percent (1%) tax for public safety and a one and one-half percent tax (1.5%) for public works.

Upon consolidation, 45% of the fund balance of the former City General Fund and the entire balance of the City's Public Works Sales Tax Fund will be remitted to the Ketchikan Service Area. The City is projecting that at December 31, 2004, its General Fund and Public Works Sales Tax Funds will have unreserved fund balances of \$4,042,000 and \$5,090,000, respectively. Assets of the former City General Fund required to satisfy the accrued leave liabilities of the former City General Fund will not be remitted to the Ketchikan Service Area, but instead will be transferred to the Municipality of Ketchikan's General Fund along with the related liabilities. The transfer of these liabilities will be done in order to accommodate the City's financial accounting system.

Hospital Sales Tax Fund: This is an existing fund that was established to provide a source of funding for community health care facilities and services. Revenues earned by this fund come from a one percent (1%) sales tax. Upon consolidation, the

one percent (1%) sales tax will be changed from a City sales tax to an areawide sales tax. This fund provides the debt service for the former City's 1997 Hospital General Obligation Bond. It also provides operating subsidies for the General Fund, the Mental Health Fund, and the Substance Abuse Fund, and finances the Ketchikan General Hospital Substance Abuse Recovery Program. The assets and liabilities of this fund will be remitted to the Municipality of Ketchikan and used to provide areawide health facilities, health care services and operating subsidies for the General Fund. At December 31, 2004, this fund is projected to have an unreserved fund balance of \$1,032,000.

Transient Occupancy Tax Fund: This is an existing fund that was established to provide a source of funding to promote the visitor industry. Revenues earned by this fund come from a transient occupancy tax. The City currently assesses a six percent (6%) tax and the Borough assesses a four percent (4%) tax. Upon consolidation, this tax will be assessed at six percent (6%) areawide. Currently all of its earnings go toward funding the Ketchikan Visitors Bureau. The assets and liabilities of this fund will be remitted to the Municipality of Ketchikan and used to provide areawide visitor and community promotion services.

At December 31, 2004, this fund is projected to have an unreserved fund balance of \$5,000.

Recreation Sales Tax Fund: This is an existing fund that was established to provide a source of funding for recreational facilities and equipment. Revenues earned by this fund come from a one-half of one percent (.5%) areawide sales tax. In addition to providing funding for recreational facilities and equipment, this fund also provides the debt service for the former Borough's 1996 Indoor Recreation Center General Obligation Bonds. The assets and liabilities of this fund will be remitted to the Municipality of Ketchikan and used to provide areawide recreation services.

At June 30, 2004, this fund is projected to have an unreserved fund balance of \$53,000.

Solid Waste Services Fund: This is an existing fund that was established to account for all of the financial resources used by the City to operate its municipal landfill and collection services. Revenues earned by this fund come from charges for services paid by the users of the facilities and subscribers to collection services. Upon consolidation, the operations of the municipal landfill will become an areawide function. The collection operations assets and liabilities will be transferred to the Gateway Service Area to provide residential and commercial collection services to subscribers located within the Gateway Service Area. The fund balance of this fund will be remitted to the Municipality of Ketchikan for the benefit of users of solid waste disposal services and to pay for landfill closure and related future liabilities that are being assumed by the Municipality at large.

At December 31, 2004, this fund is projected to have an unreserved fund balance of \$2,863,000

Wastewater Services Fund: This is an existing fund that was established to account for all of the financial resources used by the City to operate its wastewater treatment plant and collection system. Revenues earned by this fund come from charges for services paid by the users of the facilities and services. Upon consolidation, the operations of the wastewater systems operated by the Borough will be incorporated into this fund. The assets and liabilities of this fund will be remitted to the Municipality of Ketchikan for the benefit of users of wastewater services.

At December 31, 2004, this fund is projected to have an unreserved fund balance of \$844,000.

Economic and Parking Development Fund: This is an existing fund that was established to account for all of the financial resources generated from the sale of the former Spruce Mill property. The resources of this fund are designated for economic development, and the improvement and development of parking facilities located primarily in the Central Business District. Upon consolidation, the assets and liabilities of this fund will be remitted to the Municipality of Ketchikan and combined with the Borough's existing Economic Development fund.

At December 31, 2004, this fund is projected to have an unreserved fund balance of \$80,000.

Ketchikan Boat Harbor Fund: This is an existing fund that was established to account for all of the financial resources used by the City to operate the five small boat harbors under its management. Revenues earned by this fund come from charges for services paid by the users of the harbor facilities and services. Upon consolidation, the assets and liabilities of this fund will be remitted to the Municipality of Ketchikan for the benefit of the users of harbor moorage services.

At December 31, 2004, this fund is projected to have an unreserved fund balance of \$128,000.

Mental Health Fund: This is an existing fund that was established by the City to account for all of the financial resources used to operate the Gateway Center for Human Services Mental Health Clinic. Revenues earned by this fund come from charges for patient fees, state grants, Medicare reimbursements, and private party insurance payments. Over the three-year budget period, annual operating subsidies ranging between \$300,000 to \$350,000 from the Hospital Sales Tax Fund will be required to keep this fund financially solvent. Upon consolidation, the assets and liabilities of this fund will be remitted to the Municipality of Ketchikan for the purpose

of providing areawide mental health services.

At December 31, 2004, this fund is projected to have an unreserved fund balance of \$59,000.

Substance Abuse Fund: This is an existing fund that was established by the City to account for all of the financial resources used to operate the Gateway Center for Human Services Substance Abuse Treatment Clinic. Revenues earned by this fund come from charges for patient fees, state grants, Medicare reimbursements, and private party insurance payments. Over the three-year budget period, annual operating subsidies ranging between \$480,000 to \$525,000 from the Hospital Sales Tax Fund will be required to keep this fund financially solvent. Upon consolidation, the assets and liabilities of this fund will be remitted to the Municipality of Ketchikan for the purpose of providing areawide substance abuse treatment services.

At December 31, 2004, this fund is projected to have an unreserved fund balance of \$205,000.

Special Assessment Guarantee Fund: This is an existing fund that was established by the City to account for all of the financial resources designated by the City Council to guarantee repayment of local improvement district improvements financed with local revenues. Repayment would be required in the event of a default by a property owner. Interest earnings on investments is the sole source of revenues for this fund. Upon consolidation, the assets and liabilities of this fund will be remitted to the Municipality of Ketchikan but reserved for the benefit of the Ketchikan Service Area because the original source of funding came from the former City General Fund.

At December 31, 2004, this fund is projected to have an unreserved fund balance of \$90,000.

US Marshall Property Seizure Fund: This is an existing fund that was established by the City to account for all of the financial resources derived from the sale of assets seized by federal law enforcement officers that were used in criminal activities. Upon consolidation, the assets and liabilities of this fund will be remitted to the Municipality of Ketchikan.

At December 31, 2004, this fund is projected to have an unreserved fund balance of \$9,000.

State and Federal Grant Fund: This is an existing fund that was established by both the Borough and the City to account for all of the financial resources derived from federal and state financial assistance programs not accounted for in other funds. Most of the financial assistance programs are of short-term duration and are not continuing. As a result, only residual assets are expected to be on hand at the time of

consolidation. Upon consolidation, any remaining assets will be remitted to the Municipality of Ketchikan and will be used for the intended purpose of on-going financial assistance programs. All activity will be accounted for in a single fund. This fund is also used to pass-through state revenue sharing to agencies providing community health care services.

At December 31, 2004, this fund is projected to have a zero unreserved fund balance.

Cemetery O & M Fund: This is an existing fund that was established by the City to account for a portion of the financial resources derived from the sale of cemetery plots and other cemetery services. Expenditures from this fund are restricted to subsidizing the annual cemetery maintenance contract as it pertains to normal and routine operations and maintenance. The subsidy takes the form of an annual operating transfer to the General Fund. Upon consolidation, the assets and liabilities of this fund will be remitted to the Municipality of Ketchikan for the purpose of providing areawide cemetery services.

At December 31, 2004, this fund is projected to have an unreserved fund balance of \$52,000.

Cemetery Development Fund: This is an existing fund that was established by the City to account for a portion of the financial resources derived from the sale of cemetery plots and other cemetery services. Expenditures from this fund are restricted to the future development and expansion of the Bayview Cemetery. Upon consolidation, the assets and liabilities of this fund will be remitted to the Municipality of Ketchikan for the purpose of providing areawide cemetery services.

At December 31, 2004, this fund is projected to have an unreserved fund balance of \$68,000.

Cemetery Endowment Fund: This is an existing fund that was established by the City to account for a portion of the financial resources derived from the sale of cemetery plots and other cemetery services. Expenditures from this fund are restricted to subsidizing the annual cemetery maintenance contract as it pertains to perpetual care. The subsidy takes the form of an annual operating transfer to the General Fund. Upon consolidation, the assets and liabilities of this fund will be remitted to the Municipality of Ketchikan for the purpose of providing areawide cemetery services.

At December 31, 2004, this fund is projected to have an unreserved fund balance of \$15,000.

Economic Development Assistance Fund: This is an existing fund that was established by the Borough to account for the financial resources derived from the receipt of \$25 million in economic disaster funds from the federal government.

Expenditures from this fund are restricted to mitigating the economic impact of the loss of the timber industry and promoting economic development in the community. Revenues earned by this fund come primarily from interest earnings from investments of the economic disaster fund. No expenditures have been programmed for the three-year budget period since the fund is currently over committed. Upon consolidation, the assets and liabilities of this fund will be remitted to the Municipality of Ketchikan for the purpose of providing areawide economic development and continuing the efforts to mitigate the negative economic impacts caused by the loss of the community's timber industry. At June 30, 2004, this fund is projected to have an unreserved fund balance of (\$745,000), a deficit.

Land Trust Repair and Maintenance Fund: This is an existing fund that was established by the Borough to account for areawide general purpose land trust financial resources. Revenues earned by this fund come primarily from earnings from its investments. Expenditures are currently limited to the repair, maintenance and replacement of buildings and other facilities owned and operated by the Borough. Operating transfers have been programmed to provide the General Fund with an operating subsidy. Upon consolidation, the assets and liabilities of this fund will be remitted to the Municipality of Ketchikan to be used for areawide purposes.

At June 30, 2004, this fund is projected to have an unreserved fund balance of \$6,300,000.

North Tongass Fire and EMS Service Area: This is an existing service area fund that was established by the Borough to account for financial resources restricted for the benefit of the residents of the service area. This service area currently provides fire protection and EMS services. Revenues earned by this fund come primarily from property taxes. Expenditures are currently limited to those required for providing adequate fire protection and EMS services. Upon consolidation, the assets and liabilities of this fund will be remitted to the Municipality of Ketchikan but reserved for the benefit of the South Tongass Service Area.

At June 30, 2004, this fund is projected to have an unreserved fund balance of \$77,000.

South Tongass Service Area: This is an existing service area fund that was established by the Borough to account for financial resources restricted for the benefit of the residents of the service area. This service area currently provides fire protection and EMS services. Revenues earned by this fund come primarily from property taxes. Expenditures are currently limited to those required for providing adequate fire protection and EMS services. Upon consolidation, the assets and liabilities of this fund will be remitted to the Municipality of Ketchikan but reserved for the benefit of the South Tongass Service Area.

At June 30, 2004, this fund is projected to have an unreserved fund balance of \$59,000.

Nichols View Service Area: This is an existing service area fund that was established by the Borough to account for financial resources restricted for the benefit of the residents of the service area. This service area is currently authorized to provide road construction and maintenance services. Revenues earned by this fund come primarily from other revenues. Minimal expenditures have been programmed for water and maintenance. Upon consolidation, the assets and liabilities of this fund will be remitted to the Municipality of Ketchikan but reserved for the benefit of the Nichols View Service Area.

At June 30, 2004, this fund is projected to have an unreserved fund balance of \$9,700.

Waterfall Service Area: This is an existing service area fund that was established by the Borough to account for financial resources restricted for the benefit of the residents of the service area. This service area currently provides sewer and road construction & maintenance services. Revenues earned by this fund come primarily from charges for services. Expenditures are currently limited to those required for providing adequate sewer and road construction & maintenance services. Upon consolidation, the assets and liabilities of this fund will be remitted to the Municipality of Ketchikan but reserved for the benefit of the Waterfall Service Area.

At June 30, 2004, this fund is projected to have an unreserved fund balance of \$23,600.

Mud Bight Service Area: This is an existing service area fund that was established by the Borough to account for financial resources restricted for the benefit of the residents of the service area. This service area currently provides road construction and maintenance services. The service area is also authorized to provide water supply, treatment and distribution services, but is currently not exercising these powers. Some residents of the service area have expressed an interest in terminating this service area.

Revenues earned by this fund come primarily from charges for services. Expenditures are currently limited to those required for providing adequate road construction and maintenance services. Upon consolidation, the assets and liabilities of this fund will be remitted to the Municipality of Ketchikan but reserved for the benefit of the Mud Bight Service Area.

At June 30, 2004, this fund is projected to have an unreserved fund balance of \$17,000.

Forest Park Service Area: This is an existing service area fund that was established

by the Borough to account for financial resources restricted for the benefit of the residents of the service area. This service area currently provides sewer and road construction & maintenance services. Revenues earned by this fund come primarily from property taxes. Expenditures are currently limited to those required for providing adequate sewer and road construction & maintenance services. Upon consolidation, the assets and liabilities of this fund will be remitted to the Municipality of Ketchikan but reserved for the benefit of the Forest Park Service Area.

At June 30, 2004, this fund is projected to have an unreserved fund balance of \$79,000.

Gold Nugget Service Area: This is an existing service area fund that was established by the Borough to account for financial resources restricted for the benefit of the residents of the service area. This service area currently provides sewer and road construction & maintenance services. Revenues earned by this fund come primarily from charges for services. Expenditures are currently limited to those required for providing adequate sewer and road construction & maintenance services. The three-year budget compiled for the Gold Nugget Service Area Fund shows that the fund will operate with a deficit over the three-year period covered by the budget. The deficit will range between \$3,500 and \$4,000. The three-year budget includes a modest increase in charges for services to keep the fund solvent. Upon consolidation, the assets and liabilities of this fund will be remitted to the Municipality of Ketchikan but reserved for the benefit of the Gold Nugget Service Area.

At June 30, 2004, this fund is projected to have an unreserved fund balance of \$8,570.

Debt Service Funds

Debt service funds are established to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. Debt issued for an enterprise activity is normally accounted for in an enterprise fund. The City and the Borough presently each have a debt service fund. Upon consolidation, the Municipality of Ketchikan will have one debt service fund. All the resources accumulated in the Borough's debt service funds and the City's General Obligation Bond Debt Service Fund will be transferred to the Municipality of Ketchikan's General Obligation Bond Debt Service Fund.

The debt service fund of the Municipality of Ketchikan is as follows:

General Obligation Bond Debt Service Fund: This is an existing fund which was established by both the Borough and the City to account for all the financial resources

used to provide debt service for issued and outstanding general obligation bonds. Upon consolidation, the Borough and the City General Obligation Bond Debt Service Funds will be combined into a single General Obligation Bond Debt Service Fund and the Municipality of Ketchikan will assume the responsibility for servicing all outstanding general obligation debt. The general obligation debt that will be assumed by the Municipality of Ketchikan and serviced through the General Obligation Bond Debt Service Fund is listed below:

- Hospital Construction, Series 1997
- Indoor Recreation Center, Series 1996
- School Improvements, Series 1999 (Valley Park/Houghtaling)
- School Replacement, Series 2000 (Fawn Mountain)
- School Improvements, Series 2003 (Schoenbar)

Operating transfers from other funds will provide the resources needed to service the above referenced debt. The three-year budget has been programmed for operating transfers from the following funds:

Hospital Sales Tax Fund: to provide for the debt service of 100% of Hospital Construction, Series 1997.

Recreation Sales Tax Fund: to provide for the debt service of 100% of Indoor Recreation Center, Series 1996.

School Bonds are scheduled to be repaid from a .5% sales tax approved by the voters and instituted effective July 1, 2004.

The Municipality of Ketchikan will also assume the responsibility for servicing other general obligation debt and municipal revenue bonds. The debt service for these bond issues will be accounted for in other funds. Upon consolidation, any assets held by the General Obligations Debt Service Funds of the City and Borough will be remitted to the Municipality of Ketchikan. At December 31, 2004, the City's fund is projected to have a zero unreserved fund balance and the Borough's fund is projected to have an unreserved balance of \$283,000.

Capital Projects Funds

Capital projects funds are created to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by enterprise funds. The City has two capital projects funds. Upon consolidation, the Municipality of Ketchikan will have two capital projects funds.

~~The capital projects fund of the Municipality of Ketchikan is as follows:~~

Major Capital Improvements Fund: This is an existing fund that was established by the City to account for financial resources designated for the development and construction of major infrastructure. Revenues earned by this fund come primarily from interest earned on investments, bond proceeds, state and federal grants, and transfers from other funds. No expenditures have been programmed for the three-year budget period because the City's plan for capital spending from this fund were inconclusive at the time that the three-year budget was compiled. Upon consolidation, the assets and liabilities of this fund will be remitted to the Municipality of Ketchikan but reserved for the benefit of the Gateway Service Area.

At December 31, 2004, these fund is projected to have an unreserved fund balance of \$1,306,500.

Community Facilities Development Fund: This is an existing fund that was established by the City to account for financial resources designated for the development and construction of future facilities like a such as a new library. Revenues earned by this fund come primarily from interest earned on investments and transfers from other funds. No expenditures have been programmed for the three-year budget period because the City's plan for capital spending from this fund were inconclusive at the time that the three-year budget was compiled. Upon consolidation, the assets and liabilities of this fund will be remitted to the Municipality of Ketchikan.

At December 31, 2004, these fund is projected to have an unreserved fund balance of \$267,000.

Internal Service Funds

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of a government, or to other governments, on a cost-reimbursement basis. The City and the Borough presently have one and two internal service funds, respectively. Upon consolidation, the Municipality of Ketchikan will have one internal service fund to account for its risk management efforts. The present City and Borough internal service funds will be combined to form a single fund.

The internal service fund of the Municipality of Ketchikan is as follows:

Self-Insurance Fund: This is an existing fund which was established by both the Borough and the City to account for certain resources used to finance various risk management and health insurance programs. Upon consolidation, the two Borough and the City Self-Insurance Funds will be combined into a single Self-Insurance Fund. Revenue earned by this fund will come primarily from premiums for health

insurance paid by other funds and employees of the Municipality of Ketchikan and Interdepartmental charges for liability claims.

Expenditures of the fund include costs incurred for third-party administrators, insurance premiums and claims. Expenditures of this fund have been programmed to increase at an annual rate of five percent (5%) primarily due to the increasing cost of health care. Upon consolidation, the assets and liabilities of this fund will be remitted to the Municipality of Ketchikan.

At December 31, 2004, the City's Self-Insurance Fund is projected to have an unreserved fund balance of \$1,597,000. At June 30, 2004, the Borough is projecting an unreserved fund deficit balance of (\$342,000) for its Self-Insurance Funds. The combined unreserved fund balance will total approximately \$1,254,000.

Enterprise Funds

Enterprise funds are established to account for operations financed and operated in a manner similar to private business enterprises. In this case the governing body intends for the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The City and the Borough presently have two enterprise funds each. Upon consolidation, the Municipality of Ketchikan will continue to operate the existing four enterprise funds.

The enterprise funds of the Municipality of Ketchikan are as follows:

Port Fund: This is an existing fund that was established by the City to account for financial resources designated for the operations of the Port of Ketchikan. Revenues earned by this fund come primarily from charges for services collected from the users of port facilities. Revenues were programmed to grow at an annual rate of three percent (3%) during the three-year budget period because growth in the cruise ship industry is expected to continue. This fund also provides the debt service for the Port Improvements, Series 1994 General Obligation Bond. Upon consolidation, the assets and liabilities of this fund will be remitted to the Municipality of Ketchikan.

At December 31, 2004, this fund is projected to have a fund equity of \$5,883,000.

Ketchikan Public Utilities Fund: This is an existing fund that was established by the City to account for the financial resources designated for the operations of Ketchikan Public Utilities. Revenues earned by this fund come primarily from charges for electric, telephone and water utility services. This fund also provides the debt service for the Municipal Utility Revenue Bonds, Series T, U and V. Upon consolidation, the assets and liabilities of this fund will be remitted to the Municipality of Ketchikan. Electric and telephone services will continue to be offered on a community-wide basis. Water services will only be offered within the Ketchikan Service Area.

At December 31, 2004, this fund is projected to have a fund equity of \$7,810,000.

Airport Fund: This is an existing fund that was established by the Borough to account for the financial resources designated for the operations of Ketchikan

International Airport and its ferry system. Revenues earned by this fund come primarily from charges for landing fees, airport terminal building leases, and ferry fares. The three-year budget compiled for the Airport Fund shows that the fund will operate with a deficit over the three-year period covered by the budget. The deficit will range between \$92,000 and \$96,000. While a long-term solution is needed to address this deficit, the fund has adequate reserves to finance such deficits over the short-term.

The Passenger Facility Charges Fund was incorporated into the Airport Fund for the purposes of the three-year budget. Revenues earned by this fund come from the federal government and are dedicated to provide the debt service for the Municipal Revenue Bonds, Airport and Ferry Improvements, Series 1999. Upon consolidation, the assets and liabilities of this fund will be remitted to the Municipality of Ketchikan. The services of the Airport Fund will continue to be offered on an areawide basis.

At June 30, 2004, these combined funds reported a fund equity of \$5,510,000.

Account Groups

Account groups are accounting entities used to establish control over and accountability for the government's general fixed assets and the un-matured principal of its general long-term debt and other long-term obligations. There are two types of account groups: General Fixed Assets and General Long-Term Debt. Both the City and the Borough each have one General Fixed Assets Account Group and one General Long-Term Debt Account Group. Upon consolidation, the General Fixed Assets Account Groups and the General Long-Term Debt Account Groups will be combined. The Municipality of Ketchikan will have one General Fixed Assets Account Group and one General Long-Term Debt Account Group.

Both account groups are described as follows:

General Fixed Assets Account Group: Both the City and the Borough maintain an account group called the General Fixed Assets Account Group. The General Fixed Assets Account Group is a schedule of all general fixed assets not accounted for in any other fund. By definition, fixed assets of enterprise funds are excluded. Upon consolidation, both General Fixed Assets Account Groups will be combined into a single General Fixed Asset Account Group. Since assets included in the General Fixed Asset Account Group include assets designated for or acquired by financial

As of December 31, 2003, the City's General Fixed Assets Account Group had a balance of **\$64,015,182.** As of June 30, 2004, the Borough had a balance of **\$12,897,208.** The combined balance of general fixed assets will total approximately ** \$77 million.**

General Long-Term Debt Account Group: Both the City and the Borough maintain an account group called the General Long-Term Debt Account Group. The General Long-Term Debt Account Group is a schedule of all long-term debt and other obligations of the Municipality not accounted for in any other fund. By definition, long-term debt and obligations of enterprise funds are excluded. Upon consolidation, both General Long-Term Debt Account Groups will be combined into a single General Long-Term Debt Account Group.

As of December 31, 2003, the City's General Long-Term Debt Account Group had a balance of ** \$17,949,627.** As of June 30, 2004, the Borough had a balance of **\$9,015,000.** The combined balance of general long-term debt will total approximately ** \$27 million.**

Conclusion

The three-year annual budget and the financial plan clearly demonstrate that the consolidation of the City and the Borough is financially feasible and beneficial to the residents of both the City and the Borough. The consolidation is projected to save approximately \$500,000 during the Municipality of Ketchikan's first year of operation.

Sales taxes remain substantially unchanged except for the modification of the one percent (1%) Hospital Sales Tax from a City sales tax to an areawide sales tax and an increase in the non-city transient tax from 4 to 6%. These tax rate changes will increase revenues by approximately \$265,000 in the first year.

Property taxes will not change.

The three-year annual budget compiled for the Municipality of Ketchikan is essentially in balance. As was discussed earlier, the current budgets for the general funds of the City and the Borough were not in balance. Going from an unbalanced budget to a balanced budget would normally, assuming all service levels and all revenues except for property taxes remain the same, result in an increase in the mill rate. Since the starting point for the three-year annual budget for the general fund of the Municipality of Ketchikan was the unbalanced budgets of the general funds of the City and the Borough, and no changes in services were programmed.

With the exception of several funds, the proposed three-year budget balances

restructuring of the new government will be an on-going process that will take several years to complete. As the new assembly and the new management team work together to blend the two separate governments into a single, cohesive governmental unit, other cost saving measures will be identified or developed which will go towards further reducing the cost of local government and reducing the local tax burden.

EXHIBIT F-1
Three-Year Annual Budget
Municipality of Ketchikan

EXHIBIT F-2
Three-Year Annual Budget
Expenditure Summary By Category
Municipality of Ketchikan

EXHIBIT F-3
Disposition of City and Borough Assets and Liabilities

EXHIBIT F-4
Proposed Staffing Modifications
Municipality of Ketchikan