

KETCHIKAN CHARTER COMMISSION

AGENDA STATEMENT

NO G-1 & G-2

MEETING OF **August 5, 2005**

ITEM TITLE

Work session¹ to discuss the comments and brief submitted to the Local Boundary Commission on the 2004 Ketchikan Consolidation Petition, changing the submitted budget of the 2004 Petition, as well as any other items of business of the Commission

SUBMITTED BY Glen Thompson

SUMMARY STATEMENT

The Ketchikan Charter Commission submitted the 2004 Consolidation Petition to the Local Boundary Commission the end of September 2004. The LBC provided a comment period for individuals and municipalities until December 27, 2004. The City of Ketchikan submitted a brief and the Ketchikan Gateway Borough Manager, as well as the City of Ketchikan Mayor submitted written comments on the document.

During this weeks' meeting, the Commission will recess into work session to again discuss the budget and timeline/format of the Commission's response documents to the LBC.

RECOMMENDED ACTION:

G-1 "I move to recess into work session to discuss the Commission's response to the comments and briefs received by the LBC, as well as any other Commission business."

G-2 "I move to reconvene into regular session to consider scheduling of any further necessary meetings, adoption of any proposed language for the formal response (if necessary) and to conduct the rest of the Commission's business.

¹ Work sessions are informal discussion sessions held for purpose of exchanging and gathering information. No action may be taken, formal rules of order are relaxed, and it is not required that minutes be kept.

From the minutes of the 4/22/05 meeting:

THOMPSON gave an update on the budget. He had a chance to meet with NEWELL & HOUTS and there are a few things he wants to go through with the Commission to get some direction on which way to go. NEWELL is in the middle of the changes due to the Enron & GASBY situations and their audit has been pushed back and they're trying to do their audit for 2003 at this time and then move into 2004. HOUTS is in the same situation with the Borough budget. They will not be able to provide any numbers on the PERS/TERS, insurance & fuel for the Commission until ***mid-to-late May***. The LBC was contacted and they have given the Commission an open-ended extension for our reply comments. They said it was more important for the Commission to get the numbers right and get somewhat of a consensus going forward than it is to rush the process along. (*Emphasis added*)

From the minutes of the work session at the 4/22/05 meeting:

THOMPSON said he'd talked with HOUTS & NEWELL last week for an hour. They went through most of the information encapsulated in the City's response brief. They are going to come up with the numbers for PERS/TERS, insurance and fuel. Those numbers will be put into the budget and a mill rate equivalent will be calculated. There were some other things from the City's brief that were discussed with a couple of issues that were things that were just missed, errors and omissions, but there were a couple that were brought up that THOMPSON told the finance directors he wanted to bring back to the Commission.

From the City brief:

PERS/TERS costs and the insurance costs: Both finance directors have agreed to provide the Commission with those numbers so they can be put into a column on the budget.

Increases in property tax values: That was considered a non-issue based upon the fact that we are still seeing some property tax increases and the 1% was accepted as being valid.

Staffing plan: The concern with the staffing plan was that because we eliminated a position of City Manager/Assistant City Manager, the question was whether the Commission's intent was to eliminate 1/2 position for KPU Manager and the answer was no. THOMPSON said he told them that adjustments would be made to that particular part of the budget to put that 1/2 manager back in there since that wasn't the intent of the Commission.

Mill rate stabilization: The Commission proposed to stabilize the mill rate with some of the funds from the Land Trust Fund, the Hospital Tax Fund, etc. One of the things that was brought up is that there are times when the Hospital Sales Tax Fund is probably going to be brought down to virtually nothing to pay for major repairs which will then sought

after from the contractor. That process would likely take a few years. THOMPSON said he understood that, but there are other ways that this type of thing could be financed. He told the directors that this was not necessarily an ongoing and recurring thing; this is something that is rather unusual and extraordinary item and to put that into a projected budget doesn't make sense since that Fund may be drawn down that one time, but that doesn't mean that the following years those funds wouldn't be generated to cover the budget use of those funds. THOMPSON said he thought that was one the Commission would hold the line in the projected budget for utilization of the Hospital Tax Fund. HARRINGTON wanted to know if that met with the 2 Finance Director's mode of thought or would this be a collision item. THOMPSON said he wasn't sure if the City would come back, even after we do all these adjustments, and be completely satisfied that we've done what they think we should do, but, he said, their argument that there will not be Hospital Tax Funds (\$800,000) in an ongoing basis doesn't have substance, in his opinion.

MCCARTY said that seems like a prime example of what's seen in an auditor's report, the type of item with an asterisk noting to see another page. He said there was no question that sort of thing where there is a relatively small amount on a yearly basis coming in and major impacts on a periodic, maybe three to five or seven year period, maybe it gets hit and then it would continue to build the fund again. He said he understands that everyone thinks that lump of money is always there, but it just peaks and valleys as those funds are used. He asked THOMPSON if that Fund could be handled with a footnote or something of that nature in the budget.

THOMPSON said there would probably be some sort of adjustment to that because the other item that has to do with the Hospital Sales Tax Fund predominantly is the grant funding that's traditionally been in place for Mental Health and other programs at the hospital has competition for those funds now. THOMPSON said he wasn't saying there wouldn't be adjustments to those budget items, but it probably wouldn't be taken away completely and say it wouldn't be available at all.

MCCARTY said that footnoting and having people look elsewhere is really the only way to deal with that. Both arguments are correct depending on what point in time is being looked into. THOMPSON said the likelihood is that information will probably be put into the discussion in the Transition Plan saying we are using these funds and predicting that this is going to be on an ongoing basis, but that there is the one-time hit. There are other areas that could be used to fund disasters such as this, but this is their easiest way to go and it's a policy decision on the part of the City. MCCARTY restated that there should be some place to explain the difference in the numbers.

Economic Development Fund (City's Economic Development Parking Fund):

THOMPSON said this is one that we combined for convenience sake in the Economic Development Fund and the Parking Fund was one that we'd already said was something not intended to be a raid on the City's fund and that will be left in the Gateway Service Area. It's very clear that was not the intent (to raid) and there is one sheet that still reflected the incorrect information. . THOMPSON said of the Economic Development

Parking Fund that it was not the intent to take those funds, so those will be returned to the GSA.

Payments in Lieu of Gateway Service Area Taxes: THOMPSON said that issue had pretty much been corrected in recent deliberations of the Commission. He said there are two things that are going to come up and he said he and the directors had discussed them. There were two areas that the City felt that we were not covering all the bases. One was the Port should be paying a PILT to the Gateway Service Area for police, fire, ambulance, etc. The other was the payment from KPU to the GSA. THOMPSON said his question to NEWELL was, "What portion of the PILT from the Utility back to the main government would be attributable to services provided by the GSA as opposed to the General Fund?" He said that most of the PILT from KPU would go back to the General Fund. If there are specific services and costs that could be identified from the service area standpoint that need to be covered, certainly those funds should go to the GSA. NEWELL said he would come up with the numbers for both KPU and the Port and the justification for why those funds should go to the GSA.

¼% Sales Tax Revenue: This is the quarter percent going from the GSA to the Municipal General Fund. The City's contention is that if the ¼% is needed, put that ¼% in there, but don't take it out of the GSA. THOMPSON said that after the discussions by the Commission, he's just going to take that movement of the ¼% back where it was.

OTTE pointed out that an agenda statement to do that. That would be a technical thing to take that ¼% because we did vote on it. THOMPSON said an agenda item would probably be needed for all the modifications to the budget because the tax effects are going to be shown with some of these changes, so an agenda item would certainly be warranted. He said all of it might be able to be covered at once. That one might be one to handle separately because it is in a separate area of the Code.

HARRINGTON asked whether the ¼% specified in the Charter and it was pointed out that it wasn't in the Charter, but in the Transition Plan. He continued that since we have specified that the new Assembly may change the taxes however they want. HARRINGTON said that it's in the Transition Plan merely to give a guess as to how the Commission perceives this happening, so however THOMPSON wants to do it to adjust the budget, it's clear that the ¼% is not in concrete. When the final plan vote comes, let's vote on the new Transition Plan, not just the parts.

Later in the meeting, HARRINGTON pointed out that the ¼% **is** in the Charter, Section 16.06(b), so at the next meeting, the second paragraph will need to be eliminated if we are not going to take that money. The City, said THOMPSON, is objecting strongly to this transfer of monies. HARRINGTON said that the new Assembly will have the ability to adjust this if, in their wisdom in the future, it is determined that those funds are needed in the Municipality rather than just the GSA.

OTTE said that we'd already determined that those funds were needed in the Municipality

and with good reason behind why we made that ¼% change. She said this might be a little contentious when it's brought back for a vote of the Commission.

THOMPSON pointed out that in the City's conclusion in their brief they say that, " the Petition uses unrealistic assumptions to create a budget and a financial plan which are neither feasible nor plausible...it should not be approved as written ...the proposed budget and financial plan need to be corrected...the expenses and funding of the services should be more fairly distributed..." It's obvious that they were very upset with some of these things and he said he thinks that's one of the issues that was clearly brought up that they felt that ¼% was something that was very deleterious to the GSA's position. HARRINGTON said there'd been enough conversation by the Commission that said we think it ought to go that way, but the City says no, it shouldn't go that way, therefore, we back off of it. It doesn't leave it in concrete, but allows the new Assembly the option to change it if they need it and he said, that's where it needs to be is not with us, but with the new Assembly. PAINTER said that it should be removed from the Charter but left in the Transition Plan as a suggestion. THOMPSON said that it's been discussed enough and assuming that consolidation goes through, the new Assembly will understand that it's something that's been discussed and would be an option to consider.

Transfer of 20% Net Assets of the City's General Fund to the Municipality:

THOMPSON said the other concern was the transfer of 100% of the City's Economic Development Parking Fund to the new Municipal government. He said the 20% was somewhat of an agreed-upon number between NEWELL and himself prior to the original document being submitted. They had discussed what that number represented as being approximately equal to the costs on the assets that were being transferred to the Municipality so that there were funds in the main fund to pay for ongoing expenses associated with those transferred items. Apparently the City is not happy with 20%, so THOMPSON said he'd asked the City to give him a number that they are comfortable with. It's just taking it out of one pot and putting it in the other; how much is being moved from the GSA to the Municipality and how much of the reserves should go with those transferred assets

Borough's Plans to Annex Additional Land: This was not addressed, nor will it be addressed by a decision of the Commission because it can be footnoted, and it is mentioned in the Petition, that's such a moving target that it cannot be addressed other than to mention the fact that it's an ongoing issue.

THOMPSON said there were a bunch of items in the City's brief regarding various errors and omissions that the Commission has already addressed, for the most part. He said the biggest thing for the Commission to decide is the use of the Hospital Sales Tax Funds. He said the Commission had used about 1.8 million dollars, which is about 1.8 mills, of funds from some of the other funds, in order to balance the new General Fund. THOMPSON said that there's nothing under the table about it, it's just the fact that's what's being done now and we continued that practice. The City's contention is the use of the Hospital Sales Tax Fund may not be available for use and it's questionable whether the Land Trust Fund will

be there for use. If they are, great; if not, then it's a 1.8 mill problem. We can certainly identify that. He said he wasn't certain that the Commission would be willing to agree that these funds would not be available on an on-going basis because of extraordinary circumstances. He said that's the primary issue that he'd like the Commission to be aware of and there may still be a fuss with us using some of those excess funds.

OTTE said that at that point, an agenda statement would need to be brought forward so that a formal vote can be taken on the issue. THOMPSON agreed.

THOMPSON said that all the stuff that's easy to do and we've already talked about and know what's going to happen; the PERS/TERS are going to have an effect and a lot of the things having to do with transfers of monies between the funds that are not going to have an effect with the bottom line, but, he said, this issue of the Hospital Tax Funds would have a major impact on the proposed budget and it's something the City has brought up in their brief that we hadn't heard of before. Both the fact that there's this large claim (\$1.6-2 million) for the roof on the hospital and there is grant funding that is in a competitive mode where it used to be guaranteed.

MCCARTY said the Commission can get banged for having inaccurate numbers and there are a number of these that are clearly moving targets. THOMPSON interjected that if the Commission's budget is too conservative, it will look like we'll have to jack the taxes up through the roof. MCCARTY said that it could be presented as a current snapshot because anything else is merely a prediction. THOMPSON said that a lot of the numbers are going to change over the next couple of years and he said there are things that we are not going to know about. As these things unfold, does that invalidate the model and the feasibility plan that we're trying to bring forward? These kinds of problems are going to happen all the time. There are several different ways the scenario could be played. THOMPSON wanted to know if the Commission was going to be held to a higher standard to go back every time there's a catastrophe and re-do the feasibility plan? MCCARTY said that a best-guess estimate should be all that's required to show the feasibility and at some point the plan budget needs to be left alone to advance the process.

MCCARTY said that once consolidation goes through, the idea of us and them will decline, but right now, everyone has their turf and are suspicious of change and he said he could see trying to get as close as we can so people have a reasonable idea what effect this consolidation might have. Common sense and necessity will soon dictate what choices are made. There seems to be this constant tension between people who want everything pinned down and those who acknowledge that there's no way to know what the future is going to bring.

Discussion Item

Chair Thompson submits the following for discussion:

I'd like to see a discussion item about the method we will use (cover letter and specific submissions) to the LBC as our formal response. We can take up the issue of the budget stuff under this discussion.

We need to start putting together the doc we plan to submit and I'd like to "get 'er done" by the end of August.