

**CITY OF KETCHIKAN  
SPECIAL CITY COUNCIL MEETING**

**March 17, 2009**

**7:00 p.m.**

**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. Analysis of 2009 General Government Annual Budget for Funding Alternatives to Undertake Repair and/or Replacement of Municipal Bridges and Trestles

**6. MAYOR AND COUNCILMEMBER COMMENTS**

**8. ADJOURNMENT**



City Manager  
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Ketchikan, AK 99901

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**TRANSMITTAL MEMORANDUM**

**TO:** The Honorable Mayor and City Council

**FROM:** Karl R. Amylon, City Manager

**DATE:** March 9, 2009

**RE:** **Analysis of 2009 General Government Annual Budget for Funding Alternatives to Undertake Repair and/or Replacement of Municipal Bridges and Trestles**

At its meeting of February 19, 2009, the City Council adopted a motion approving in first reading Ordinance No. 09-1621 establishing a one-half percent (.5%) sales tax dedicated to ongoing repair and/or replacement of municipal bridges and trestles within the City (see Exhibit A). If adopted in second reading, the proceeds from the sales tax would be used to first pay debt service, estimated at \$600,000 per year, on a proposed \$6.6 million bond issue to pay for work undertaken in 2008 and 2009. The remaining proceeds, estimated at \$900,000 annually, would be used to fund additional work to the bridges and trestles that will be required in the next several years that will not be funded through the initial bond issue.

The City Council amended Ordinance No. 09-1621 to provide for a sunset of the sales tax upon retirement of the debt. Staff was subsequently directed not to submit the ordinance for consideration in second reading until such time as the City Council scheduled a meeting to review the 2009 General Government Annual Budget to determine if alternative funding sources were available in lieu of the proposed bond issue. In light of the declining national economy, some Councilmembers have expressed reservations about issuing debt and increasing sales taxes to finance the required work. The purpose of this report is to review the 2009 General Government Annual Budget and examine what options, if any, are available for funding repair and/or replacement of the bridges and trestles.

While the Finance Director and I believe that it is prudent for the City Council to be concerned about how the national economy may affect the local economy and the finances of the City, we recommend that a balanced approach be taken. In this context, it is important to note again what has been discussed with the City Council numerous times over the years, i.e., the City's cost of doing business has been rising. The City's General Fund has been more or less breaking even for a number of years. It is now starting to trend more towards a deficit. Finance is currently projecting that the City's General Fund will report a \$200,000 - \$300,000 deficit for the year ended December 31, 2008. Up until 2008,

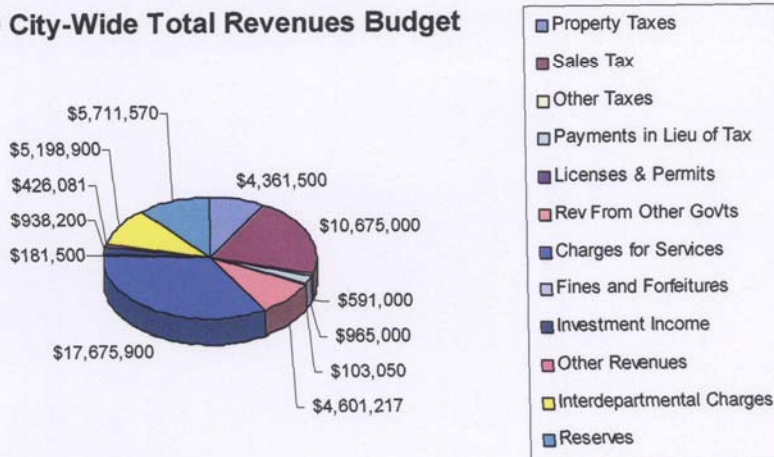
rising sales tax revenues and appreciating property values have been covering cost increases. If the slow down in tourism materializes and property values follow the national trend, both sales revenues and property tax revenues may decline putting additional financial pressure on the City's General Fund. Absent any action to reduce costs, it may become necessary to use reserves or raise taxes to balance the City's General Fund. When coupled with the alternative of attempting to internally finance the Bridges & Trestles Capital Improvement Program, such a scenario could put an additional strain on the City's finances. Simply stated, should the economy experience a significant decline, the City could have less cash in the bank for addressing emergencies and managing its role in the local economy.

The 2009 General Government Annual Budget totals \$51,428,918. As indicated in the charts and tables below, the budget is primarily funded by property taxes (8%), sales taxes (20%) and charges for services (34%). While property taxes and charges for services are anticipated to remain stable, there is a certain degree of uncertainty as to whether sales tax will hold at current levels. While there is no question that the national economy is suffering, recently released information from the cruise lines appears to indicate that 2009 bookings may be ahead of 2008 levels (see Exhibit B). Although staff anticipates sales tax receipts are likely to decline, it is too early in the year to make accurate projections as to what the likely decrease will be. If such a decline does materialize, staff believes that the current level of reserves is sufficient to offset short-term revenue losses.

**2009 City-Wide Total Revenues Budget**

	Total
Property Taxes	\$ 4,361,500
Sales Tax	\$ 10,675,000
Other Taxes	\$ 591,000
Payments in Lieu of Tax	\$ 965,000
Licenses & Permits	\$ 103,050
Rev From Other Gov'ts	\$ 4,601,217
Charges for Services	\$ 17,675,900
Fines and Forfeitures	\$ 181,500
Investment Income	\$ 938,200
Other Revenues	\$ 426,081
Interdepartmental Charges	\$ 5,198,900
Reserves	\$ 5,711,570
<b>Total</b>	<b>\$ 51,428,918</b>

**2009 City-Wide Total Revenues Budget**

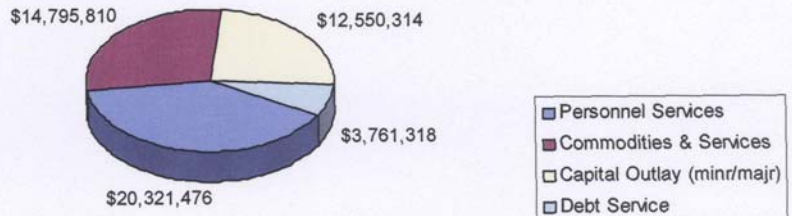


Personnel Services and Capital Outlays comprise 39% and 24% of the budget respectively. Commodities & Services and Debt Service account for the remaining 37% of the current year's spending plan. While the latter expense categories are somewhat fixed, the City Council has discretion regarding staffing levels and the amount of expenditures dedicated to capital projects.

**2009 City-Wide Total Expense Budget**

Personnel Services	\$	20,321,476
Commodities & Services	\$	14,795,810
Capital Outlay (minr/majr)	\$	12,550,314
Debt Service	\$	3,761,318
Fund Advances		
Fund Transfers	\$	-
	\$	<u>51,428,918</u>

**2009 City-Wide Total Expenditures Budget**

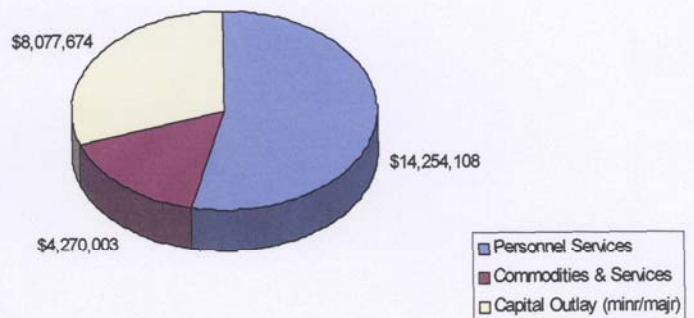


If the intent of the City Council is to attempt to fund the repair and/or replacement of the municipal bridges and trestles through personnel reductions and reductions in capital spending, only those portions of the budget financed from the General and Public Works Sales Tax Funds and certain "unrestricted" funds are appropriate for consideration. Restricted Funds such as Solid Waste, Wastewater, Port & Harbors and the KPU Enterprise Fund should be excluded as a means to fund repairs and/or replacement of the bridges and trestles. The General Fund and Public Works Sales Tax Fund components of the budget are detailed below:

**2009 Budgeted Expenses Funded by General Fund and PW Sales Tax Fund**

Personnel Services	\$	14,254,108
Commodities & Services	\$	4,270,003
Capital Outlay (minr/majr)	\$	8,077,674
Debt Service		
Fund Advances		
Fund Transfers		
	\$	<u>26,601,785</u>

**2009 Budgeted Expenses Funded by General Fund & PW Sales Tax Fund**



Personnel Services and Capital Outlays comprise 53% and 30% of the General Fund and Public Works Sales Tax Fund components of the budget respectively. Commodities & Services accounts for the remaining 17%. Personnel Services and Capital Outlays are appropriate for consideration in terms of spending reductions to finance the necessary bridge and trestle work.

The proposed \$6.6 million bond issue is based upon reimbursing the Public Works Sales Tax Fund \$2,858,000 for work undertaken to date and approximately \$198,000 in bond issuance costs. Should the City Council elect not to reimburse the Public Works Sales Tax Fund and withdraw the ballot proposition, this leaves a balance of \$3,544,000 in bridge and trestle work that needs to be accomplished in 2009.

In adopting the 2009 General Government Annual Budget, the City Council appropriated \$115,000 and \$7,006,078 respectively in General Fund and Public Works Sales Tax Fund capital projects. Of the \$7,121,078 programmed, \$2,287,693 has been committed or obligated to date. As indicated in Exhibit C, \$4,833,385 in proposed capital spending is available to address bridges and trestles.

If the City Council elects not to move forward with the ballot proposition and associated sales tax increase, staff has identified the following projects that could be deferred:

**Identified Capital Projects  
To Be Deferred In 2009**

Main Street Fire Station Replacement	\$ 900,000
Replace Police Station Phone System	40,000
Police Digital Evidence Management System	39,000
Fire Station No. 2 Repair/Remodel	156,000
Fire Engine No. 2 Refurbishment	200,000
Fire Boat Maintenance & Repairs	75,000
Library Facility Replacement	375,881
THC Electric Boiler	65,000
KAR House Window Replacement	25,000
Jackson Heights/North Yorktown Paving	970,000
Overlay Asphalt Streets	300,000
Plow and Sander Truck Replacement	160,000
City Hall Front Entrance Remodel	165,000
City Hall Electric Boiler	80,000
 Total	 \$3,550,881

While deferring these projects generates sufficient revenue to undertake the programmed repairs and/or replacement of the municipal bridges and trestles in 2009, such an option is not consistent with the City's ongoing objective to plan for and undertake economic development projects and infrastructure investment. The City has invested millions of dollars in port improvements, utility upgrades, transportation infrastructure, and health care facilities. All of these investments have produced results that can be measured in terms of employment opportunities and private sector investments throughout the community of Ketchikan. The City's role in the local economy needs to be considered and weighed against whatever action may be taken by the City in its attempt to develop a plan to internally finance improvements to the City's bridges and trestles.

Although the Finance Director and I appreciate that increasing the sales tax is neither desirable nor popular, failing to do so could further jeopardize the City's finances and result in an outcome that could potentially be far worse. As indicated in Exhibit D, the

revised year-end estimate for 2009 Appropriated Reserves of the Public Works Sales Tax Fund is currently projected at \$1,417,284, a decrease of \$5,231,078 from the close of Fiscal Year 2008. The Finance Director has advised my office of his recommendation that the Appropriated Reserves of the Public Works Sales Tax Fund not be allowed to decrease any further and that under normal circumstances they be maintained at a level of not less than \$2.5 million.

For Fiscal Year 2009 the City is projecting Public Works Sales Tax Receipts of \$4,600,000 of which \$2,000,000 is to be transferred to the General Fund. Assuming similar revenues in 2010, \$2.6 million would be available for capital projects. When added to the revised year-end estimate for 2009 Appropriated Reserves of \$1,417,284, a total of \$4,017,284 would be available for appropriation next year. Assuming the projects identified for deferral this year are reprogrammed to 2010, the amount available for new projects decreases to \$446,403. Based on the 2009-2013 Capital Improvement Program, \$2,011,500 of Public Works Sales Tax Fund Projects has already been programmed for 2010. This leaves a shortfall of \$1,565,097. Assuming the Finance Director's recommendation that the Appropriated Reserves of the Public Works Sales Tax Fund not be allowed to drop below \$2.5 million, the deficit increases to nearly \$4,065,097, which is approximately \$400,000 less than the year-end estimates of what is currently available in the Economic Development & Parking, Major Capital Improvements and Community Facilities Development Funds.

#### Revised 2009 Year-End Estimated Appropriated Reserves

Economic & Parking Development	\$ 82,722
Major Capital Improvements	1,629,925
Community Facilities Development	2,756,832
 Total	 \$ 4,469,479

These funding sources, while available, have been traditionally reserved for major facility projects such as the construction of a new fire station or library.

Additionally, staff has identified the following expenditures that may or may not be realized in 2009.

#### Unanticipated 2009 Capital Expenditures

Hawkins/Denali Storm Drainage Repair	\$ 300,000
General Government Purchase of Water Warehouse from KPU	25,000
Totem Heritage Center Repairs	350,000
Storm Drainage Systems Assessment	500,000
Property Acquisition – Fire Station/Library	1,000,000
Additional Grant Street Trestle Repairs	250,000
 Total	 \$ 2,425,000

Should any of these expenditures materialize, further draw down of the remaining appropriated reserves will have to be considered.

Based on the analysis above, The Finance Director and I do not believe internally funding the Bridges and Trestles Capital Improvement Program is a viable course of action. Given that \$7,006,078 in Public Works Sales Tax Funds was budgeted for capital projects in 2009, the \$2,011,500 programmed for 2010 will likely increase. While projects may be deferred, the inevitable result is to cause an accelerated draw down of reserves to a point where significant increases to the mill levy will be required if the City Council wishes to continue addressing Ketchikan's deteriorating streets and infrastructure.

As indicated above, the draw down of reserves will take away the cushion that the City may need to navigate its way through the national economic crisis should it impact Ketchikan as it has in so many communities throughout the nation. Reserves allow the City to take immediate action when an emergency arises and provides the time necessary to develop long-term solutions that will best serve the community without jeopardizing the overall finances of the City and of those who live in the community.

The City Council also has the ability to consider reductions to employee staffing, in order to free up financial resources to address the bridges and trestles. Based on the estimated costs of the General Fund and Public Works Sales Tax Fund components of the 2009 budget, the \$3,544,000 in bridge and trestle work that needs to be undertaken in 2009 is the equivalent of twenty-four percent (24%) of the personnel services cost or the equivalent of forty-two (42) positions. Reducing the workforce by this amount would have a significant impact on the City's ability to provide services. Since an across the board decrease is not likely viable, some departments would be hit harder than others if essential services are to be the first priority. While reductions in staffing could be mitigated by eliminating some of the capital projects identified above, the City Council will have to assess the likelihood of a whether a consensus between reduced capital spending and staff reductions is a balance that can be agreed upon.

Additionally, it is important to remember that the City is the third largest employer in the community behind the State and the Ketchikan General Hospital. Any strategy that includes laying off employees in a remote community like Ketchikan has the potential of impacting a broad range of economic factors such as retail sales, sales tax revenues, property values, school enrollment and funding, and state revenue sharing. In other words, if the City were to reduce its labor force, this action could have the potential of making the local economic situation worse.

In conclusion, it is staff's strong belief that the reduced bond issue of \$6,600,000 and modest increase in the sales tax is more viable than elimination of capital projects and staff reductions, or a combination of both. When taken together, the bond issue and sales tax increase provide a mechanism to address the immediate bridges and trestles issue and provide the resources necessary to continue maintenance of the City's overall infrastructure in the years ahead.

Alternative motions have been prepared for City Council consideration.

### **RECOMMENDATION**

It is recommended that the City Council adopt Alternative Motion No. 1 directing the City Manager to submit Ordinance No. 09-1621 for consideration in second reading at the City Council meeting of April 2, 2009.

**Alternative Motion No. 1:** I move the City Council direct the City Manager to submit Ordinance No. 09-1621 for consideration in second reading at the City Council meeting of April 2, 2009.

**Alternative Motion No. 2:** I move the City Council direct the City Manager to take such actions to fund \$3,544,000 in bridge and trestle repairs and/or replacement in 2009 as determined appropriate by the City Council.

"UNAPPROVED"

February 19, 2009

**Ordinance No. 09-1621 – Amending Ketchikan Municipal Code Section 3.04.020 Entitled “Levy of Tax;” Adding a New Subsection (H) to Section 3.04.130 Entitled “Use of Proceeds of Sales Tax” – First Reading**

Copies of Ordinance No. 09-1621 were available for all persons present.

Moved by Williams, seconded by West the City Council approve in first reading Ordinance No. 09-1621 amending Ketchikan Municipal Code Section 3.04.020 entitled “Levy of Tax;” adding a new subsection (H) to Section 3.04.130 entitled “Use of Proceeds of Sales Tax;” and establishing an effective date.

Moved by Williams, seconded by Freeman to amend by sunsetting the additional one-half percent tax with the payoff of \$6,600,000 in bonds that may be approved by the voters on May 12, 2009.

Motion to amend passed with West, Freeman, Jason Harris, Kj Harris, Williams and Coose voting yea; Bergeron absent.

Mayor Weinstein said he didn't really agree with staff breaking out the funds to be specifically for bridges and trestles, and he would like to see the money available for other repair projects as needed.

Mayor Weinstein inquired whether there should be a budget meeting before the ordinance comes back in second reading, and the Council was affirmative. Mayor Weinstein said the ordinance would not come back until the budget has been reviewed.

Motion, as amended, passed with Williams, West, Freeman and Weinstein voting yea; Kj Harris, Coose and Jason Harris voting nay; Bergeron absent.

**Ordinance No. 09-1620 – Increasing Canneries and Allied Industries Water Rates by a Total of 11.4% Over A Three- Year Phase-In Period – First Reading**

Moved by Williams, seconded by Jason Harris the City Council approve in first reading Ordinance No. 09-1620 increasing canneries and allied industries water rates by a total of 11.4% over a three-year phase-in period; establishing a date for a public hearing; and providing for an effective date.

In response to Councilmember Coose, Finance Director Newell said an audit of the canneries will increase their monthly rate, and with the phase-in rates in three years it will bring their payment up to the 15% that was initially proposed.

Motion passed with Jason Harris, Williams, Freeman, Coose, Kj Harris and West voting yea; Bergeron absent.

## Ketchikan Daily News March 7-8, 2009 Edition

### Record cruise bookings reported

KETCHIKAN (KDN) — Carnival Cruise Lines saw a ray of business sunshine recently in form of record bookings for a one-week period ending March 1.

During that time, the 22-ship line recorded the most "net weekly bookings" in Carnival history, according to the company.

Also, Carnival reports that its net bookings between mid-January and March 1 ran 10 percent higher than during the same period in 2008.

Carnival acknowledged that its pricing was at lower levels. The company is "aggressively marketing" its offerings.

"This record booking activity, while at lower pricing, is certainly encouraging," said Carnival President and CEO Gerry Cahill. "It tells us that despite the uncertain economic climate, consumers clearly need more fun in their lives and view their vacations as a valuable and necessary part of that."

While the announcement was specific to Carnival Cruise Line itself, Princess Cruises, another line under the Carnival Corp. umbrella, also reported increased bookings this week.

Princess is crediting travel agents and lower prices for boosting its "wave season" bookings nearly 6 percent above the volume during the same period of 2008.

"Travel agents gave us a record-breaking reservations day in January, and this further result shows that they continued to sell Princess cruises at an extraordinary rate throughout the first two months of the year," said Jan Swartz, Princess executive vice president of sales, marketing and customer service.

Exhibit C  
2009 General Fund and Public Works Sales Tax Fund  
Programmed Capital Improvements

Department	CIP	General Fund	Public Works Sales Tax Fund	Committed
Finance	Financial & Accounting System		\$445,054	No
	Fax/Copier Upgrade	\$15,000		No
Information Technology	Fire Suppression System	20,000		No
	Universal Power Supply Upgrade	30,000		No
	Shared Disk Array	50,000		No
Fire	Main Street Fire Station Replacement		900,000	No
	Station No. 2 Repair/Remodel		156,000	No
	Engine No. 2 Refurbishment		200,000	No
	Fire Boat Maintenance and Repairs		75,000	No
	Fire Training Building Replacement		18,000	No
	Defibrillator Replacement		7,350	No
	Pumper Tanker Replacement		56,550	Yes

Department	CIP	General Fund	Public Works Sales Tax Fund	Committed
Police	Replace Station Phone System		40,000	No
	Digital Evidence Management System		39,000	No
	Parking Enforcement Vehicle		26,500	No
Library	Library Facility Replacement		375,881	No
Museum	Clean and Repair Totem Poles		10,000	No
	THC Electric Boiler		65,000	No
	THC HVAC Upgrade		38,500	No
Civic Center	Bay Doors – Panel Improvements		27,000	No
Gateway Center for Human Services	Reception Remodel and Furniture Replacement		20,000	No
	Security Upgrades		15,000	No
	KAR House Window Replacement		25,000	No
Engineering	Geographic Information System		30,000	No
	GPS Surveying Equipment & Software		25,000	No

Department	CIP	General Fund	Public Works Sales Tax Fund	Committed
	Hansen Information System Upgrade		100,000	Yes
Streets	Bridges and Trestles Repair		750,000	Yes
	Jackson Heights and N. Yorktown Asphalt Paving		970,000	No
	Asphalt Chip Seal		550,000	Yes
	Asphalt Seal Coat		75,000	No
	Overlay Asphalt Streets		300,000	No
	Storm Drainage Improvements		30,000	No
	Safer Streets and Sidewalks Program		75,000	No
	Water Street Sidewalk Widening		630,143	Yes
	Water and Treemont Streets Stabilization		150,000	Yes
	Plow and Sander Truck Replacement		160,000	No
	Third Avenue Rock and Tree Maintenance		50,000	No

Department	CIP	General Fund	Public Works Sales Tax Fund	Committed
	Betty King Alley Wood Plank Overlay		30,000	Yes
Cemetery	Crypts & Niches		180,000	No
Garage	PW Break Room Upgrade		21,100	Yes
Building Maintenance	City Hall Front Entrance Remodel		165,000	No
	City Hall HVAC Controller Upgrade		95,000	No
	City Hall Electric Boiler		80,000	No
Total		\$115,000	\$7,006,078	

**CITY OF KETCHIKAN, ALASKA  
2009 REVENUES AND APPROPRIATIONS SUMMARY  
ALL FUNDS**

Fund	Est Funds Available Jan 1, 2009	Revenues		Appropriations			Appropriated Reserves Dec. 31, 2009
		Revenues	Transfers In	Operating	Capital	Transfers Out	
101 General	4,300,762	15,427,654	3,216,442	18,880,707	115,000	265,000	3,684,151
110 Hospital Sales Tax	1,802,602	3,126,000		15,000	140,000	2,597,318	2,176,284
111 Public Works Sales Tax	6,833,362	5,280,000			8,696,078	2,000,000	1,417,284
112 Shoreline	163,533	5,000				6,374	162,159
113 Solid Waste Services	3,413,589	2,938,000		2,881,996	840,000		2,629,593
114 Wastewater Services	2,163,068	2,118,600		2,019,858	607,000		1,654,810
115 Transient Tax	490,765	440,000				448,539	482,226
118 Economic & Parking Development	80,322	2,400					82,722
120 Small Boat Harbor	285,207	1,257,000		1,117,060	50,000		375,147
135 Gateway Center for Human Services	177	2,546,514	1,340,665	3,869,417			17,939
150 Special Assessment Guarantee	285,694	6,500				292,194	
152 US Marshall Property Seizure	205,121	6,000				40,000	171,121
160 Federal and State Grant		100,000			100,000		
171 Bayview Cemetery O & M	58,387	8,000				5,000	61,387
172 Bayview Development	139,587	19,300			20,000		138,887
173 Cemetery Endowment	3,043	2,500				5,000	543
215 GO Bond Debt Service			837,318	837,318			
290 Self-Insurance Fund	724,438	2,041,400		2,041,400			724,438
329 Harbor Construction Fund	165,011	1,060,905			1,225,000		916
336 Major Capital Improvements	1,579,925	50,000					1,629,925
337 Community Facilities Development	2,411,832	80,000	265,000				2,756,832
402 Ketchikan Port Fund	2,449,580	9,078,575		7,716,584	1,346,500	562,000	1,903,071
404 Port Repair & Replacement Fund	569,500	28,000	562,000				1,159,500
	<u>28,125,505</u>	<u>45,622,348</u>	<u>6,221,425</u>	<u>39,379,340</u>	<u>13,139,578</u>	<u>6,221,425</u>	<u>21,228,935</u>

EXHIBIT D