

Special Ketchikan City Council meeting was called to order by Mayor Williams at 7:03 p.m., October 28, 2010, with the following members present: Dick Coose (via teleconference), Jason Harris, Matthew Olsen, Jack Shay, Robert Sivertsen and Marty West. Councilmember Kj Harris was absent.

The Pledge of Allegiance was given by all persons in the Chambers.

Staff present were Manager Amylon, Assistant Manager Martin, Finance Director Newell, City Attorney Bradford, Information Technology Manager Thomas, Human Resources Director Miller, Fire Chief Hill, Library Director McQuerry, Police Chief Talik and City Clerk Suiter.

COMMUNICATIONS

Mayor Williams noted there was a PowerPoint presentation from staff on the table.

PERSONS TO BE HEARD – None

NEW BUSINESS

Resolution No. 10-2361 – Adopting the Budget for the Year 2011, Appropriating from the General Government Funds for the Fiscal Year 2011

Moved by Shay, seconded by Jason Harris the City Council approve Resolution No. 10-2361 adopting the budget for the year 2011, appropriating from the General Government funds for the Fiscal Year 2011.

Manager Amylon presented a PowerPoint outlining the method used in the formation of the draft budget. He said since the Council has only had the budget for a couple of days, he would attempt to give the Council a big picture view of next year's spending plan.

He reviewed the preparatory budget work session that was held in July, noting he and the finance director came to the table with two basic recommendations: to maintain draw down of General Fund Appropriated Reserves to no less than \$3 million, and to maintain draw down of Public Works Sales Tax Appropriated Reserves to no less than \$2.5 million. He advised they could only meet one of those goals. He reminded the Council provided direction in a variety of areas, including: programming the budget with no increase to the mill rate; keep everything on the table and not decrease the level of services to be provided to City residents in 2011; program capital projects for 2011 as generally outlined in staff's report; program an across-the-board 2% cost of living increase for represented and non-represented employees; program no increase in the mill levy to absorb the debt service for the fire station bond, which is projected to approximate \$518,000; with the exception of the Ketchikan Visitors Bureau, program a 10% across-

the-board decrease from the 2010 funding level for community agencies; and program a 5% wastewater rate increase for 2011.

Manager Amylon continued what staff is presenting is a document based on the direction given by the Council. He pointed out the added debt service is a real problem, making it difficult to achieve the goals as expressed by the Council. He stated because of that, they had to come up with other means to develop a responsible spending plan for next year. He explained those means manifested themselves in three areas: draw down of Appropriated Reserves; combination of spending cuts, primarily vacant staff positions; and “smoke and mirrors,” or one-time budgeting techniques.

He continued by showing a five-year history of General Government Appropriated Reserves, including the Enterprise Funds. He pointed out if the Council took the time to study the table, two things should become readily apparent. He said over the five-year period ending December 31, 2011, the reserves of the City’s governmental funds are projected to decline by almost 45 percent to \$15.22 million. He said the biggest detractors are the General Fund, the Public Works Sales Tax Fund, the Harbor Construction Fund and the Major Capital Improvements Fund. He stated during the same period, the reserves of the City’s enterprise funds are projected to decline by 30.5% to \$5.75 million, the biggest detractor being the Port Enterprise Fund, which has been impacted by the decision of the cruise line companies to reduce the number of sailings to Alaska and Ketchikan.

Manager Amylon said the one message staff is trying to convey to the Council is if this trend continues, particularly as it related to capital improvements, the City will have to rely more on debt and grants to fund those projects. He said by using debt, the cost of government can be expected to increase, and the reliance on grant funding could cause the City to incur more deferred maintenance while staff pursues grant funding. He gave the example of the Denali/Hawkins slide, stating without adequate reserves the City’s ability to quickly respond to public emergencies could be adversely impacted. He stated he and Mr. Newell believed if the trend is not reversed, the City could eventually be required to take more draconian measures to balance its budgets in terms of additional staff cuts and increases in the mill levy.

He addressed the area of staffing reductions, and in comparing the 2011 budget with the 2010 budget, there is a staffing reduction of 26.5 positions, 19 of which were abolished when the City decided to transfer the operations of Gateway Center for Human Services to Akeela, Inc. He explained the 2011 budget proposes a reduction in staff by an additional 7.5 positions to try to bring spending for the General Fund more in line with its revenue projections and reduce the General Fund’s programmed operating deficit. He provided a table that outlined the proposed staffing reductions, and explained the proposed reduction will reduce the General Fund’s labor cost by \$715,000. He and Finance Director Newell recommended that any restoration to the positions be accompanied by a plan to fund the restoration.

Manager Amylon continued that one-half of the General Government's portion of the 2011 appropriation directed to the Ketchikan Visitors Bureau is programmed from the Economic & Parking Development Fund as opposed to the Transient Tax Fund. He advised the revenues derived from transient taxes have been programmed for transfer directly to the General Fund, noting that in the absence of such a transfer, Appropriated Reserves of the General Fund will decrease to beneath the \$3 million recommended level.

Manager Amylon pointed out the 2011 Engineering Division Budget contains a \$1 million appropriation for the abatement of dangerous buildings, which includes the Bawden Street Apartments and the Knickerbocker Hotel. He noted \$750,000 of the appropriation is programmed to come from the Economic & Parking Development Fund. He said in the absence of such an appropriation, Appropriated Reserves of the Public Works Sales Tax Fund will decrease to \$1,010,000, which is well below the recommended level of not less than \$2.5 million.

Manager Amylon related the 2011 Budget includes all governmental and proprietary funds of the City, except KPU. He explained the total amount requested for appropriations in 2011 is \$107,479,162 as compared to \$97,173,689 in 2010. He showed the comparison by major category of appropriation between 2010 and 2011. He stated personal services are projected to decrease by \$1,836,399, which includes the recommended staffing reduction. He continued commodities and services are projected to decrease by \$1,728,353, which includes lower insurance costs and the elimination of Gateway Center for Human Services. He noted capital outlay has increased by \$16,958,894, which includes \$327,778 for minor capital projects and \$47,281,117 for major capital projects. Manager Amylon explained the three successful bond ballot propositions and a \$6 million grant for the Port are the driving forces behind the proposed 2011 Capital Budget.

In addressing debt service, Manager Amylon said it will increase by \$610,097 in 2011, equating to an increase from 10.1% of operating expenses before transfers in 2010 to 12.8% in 2011. He stated transfers to the Community Facilities Development Fund will cease and transfers to the General Obligation Bond Debt Service will begin to provide funding for the debt service on the City's 2010 Fire Station General Obligation Bond.

Manager Amylon said the proposed 2011 budget allows for the continuation of basic local government services without significantly increasing the tax burden on citizens. He felt it is a fiscally responsible spending plan that may require the use of reserves to balance the operations of the General Fund in a manner that does not compromise the City's financial position. He went on to caution that it requires a draw down of General Fund reserves in the amount of \$1.167 million, leaving a fund balance at the end of the year of slightly more than \$3 million. He stated this presents a challenge for the City Council next year: how to balance the budget while maintaining General Fund reserves of at least \$3 million.

He reminded while the proposed reductions in spending and staffing will likely cause some impacts in the City's ability to provide services as the public has come to expect, the cost of local government can only be anticipated to increase in the years ahead. He provided a table that outlined property tax revenues as adjusted for inflation, which reflected that the value of such revenues has actually decreased. He showed a similar table related to sales tax revenues, stating sales tax has enabled the City to maintain a lower mill levy. He pointed out the cruise ship industry redeployment has had a negative consequence in terms of local government in going forward, and if the community is not willing to accept the decreases in local government services that are proposed or identified during future deliberations, the bottom line is alternative funding sources have to be identified until the local economy recovers.

Manager Amylon concluded the budget is a working document intended to initiate discussion by the Council and the public over not only next year's spending plan, but the spending plans for 2012 and beyond. He stressed the Council cannot look at the budget solely in terms of 2011, but needs to be thinking two or three years out. He stated they are hoping the final product will be a spending plan for next year that is acceptable, and serves as a basis for the City's continued support of the local economy. He hoped to have the KPU budget to the Council sometime early next week.

Councilmember Shay thanked staff for all the work, and he noted he talked to Alaska Ship and Drydock today and their possibility of bidding on 25 vessels that the Navy is going to be ordering. He noted the jobs created there are for the wintertime when the Alaska Marine Highway vessels are laid up and other persons are bringing in their vessels for servicing. He felt maybe it was time to consider a seasonal sales tax, and he asked questions about General Government reserves.

In response to Councilmember Shay, Manager Amylon noted if the Council concurs, the Port Fund owes the Economic and Parking Development Fund just about \$2 million, and we don't anticipate starting to receive state CPV funds until early in 2012. He continued staff's recommendation is that money in the first year be used to retire that debt. He explained staff wanted to try to minimize the size of the library bond as much as possible and we'd like to add that money to the Community Facilities Development Fund to try to bring the size of the bond issue down. Councilmember Shay asked several other questions of staff.

Councilmembers asked other questions of staff regarding payment in lieu of taxes, reserves in different funds, potential economic opportunities, and other issues related to the budget.

Mayor Williams said community agencies will be coming before the Council on November 29, and he reminded of a new concept regarding community agencies. He noted he didn't think it could be put into place this year, but he was interested in going that direction. He said he wanted to bring it to the table when community agencies were discussed. He reported it was going to be a topic at the next Cooperative Relations

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Committee meeting, and he would see if there was any interest on the Borough's part. He thanked staff for the review.

MAYOR AND COUNCIL COMMENTS

Councilmember Coose requested the clerk submit information that was previously submitted regarding the deputy clerk and herself for Monday night.

ADJOURNMENT

As there was no further business, the Council adjourned at 8:00 p.m.

Lew Williams III, Mayor

ATTEST:

Katherine M. Suiter
City Clerk