FY2022 BUDGET

—

BIG PICTURE GUIDANCE

THE IMPLICATIONS OF 2020'S ON THE FY2022 BUDGET

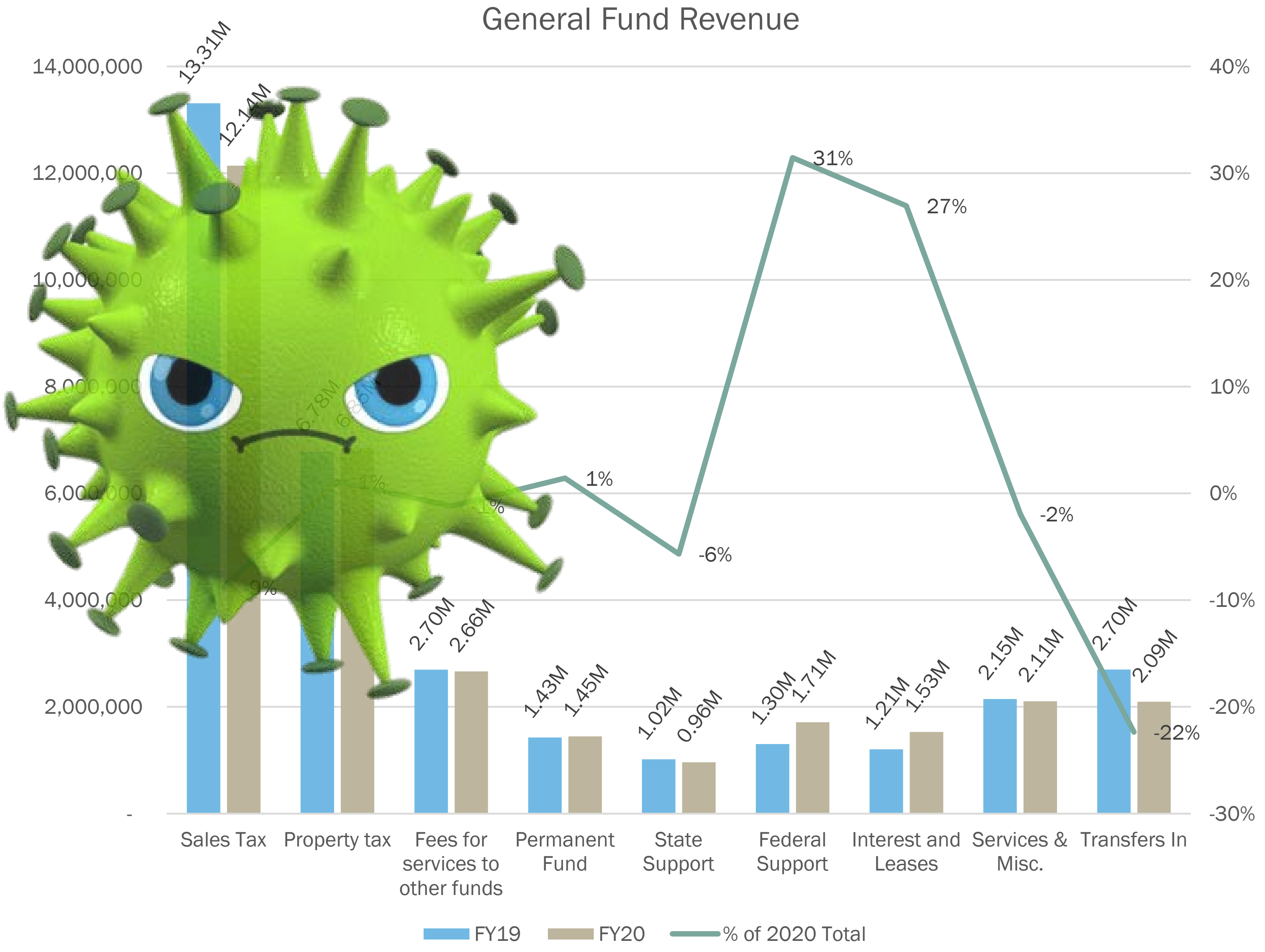
INITIAL BUDGET MEETINGS—GOAL TO PRESENT BUDGET REFLECTING ASSEMBLY INPUT

- **December 17th** — Discussion of context going into the FY2022 budget and big picture guidance
- **January 21st** — Initial discussion of General Fund—macro-level issues and school funding
- **February 4th** — Joint meeting with school board
- **February 18th** — Enterprise funds-guidance on rates any General Fund follow-up
- **February 24th** — DRAFT ADMINISTRATOR'S BUDGET

CONTEXT-GENERAL FUND REVENUE

Significant influences on FY2020 and FY2021 General Fund finances and their impact on FY2022 budget

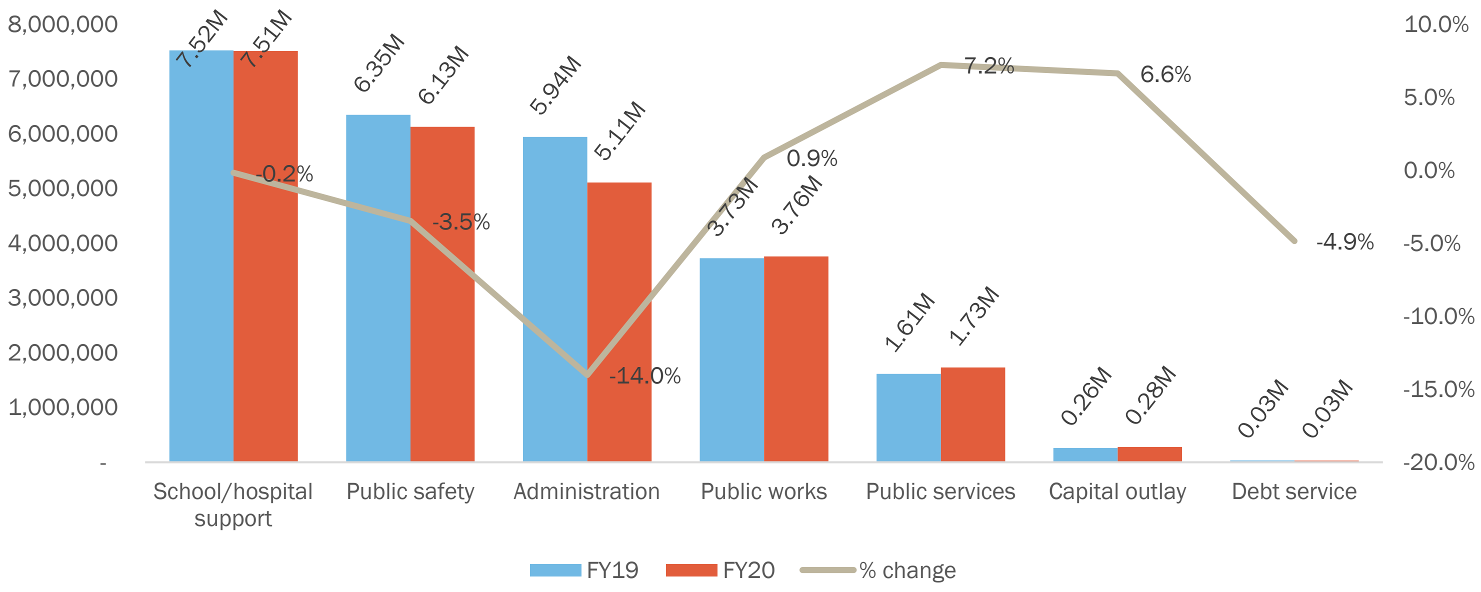
- Sales tax revenue higher than anticipated in first part of FY20 so overall impact of pandemic muted when comparing to budget.
- Significant reductions in sales tax revenue for 2nd half of FY20 (down $1.2M from FY19 to FY20 and Jul-Sep for FY21 was down $1.7M).
- Property tax barely increasing-increase in senior exemptions keeping pace with increased assessments ($1.1B property taxed). Additional $248.9M in mandatory and $98.7M optional exemptions not taxed.

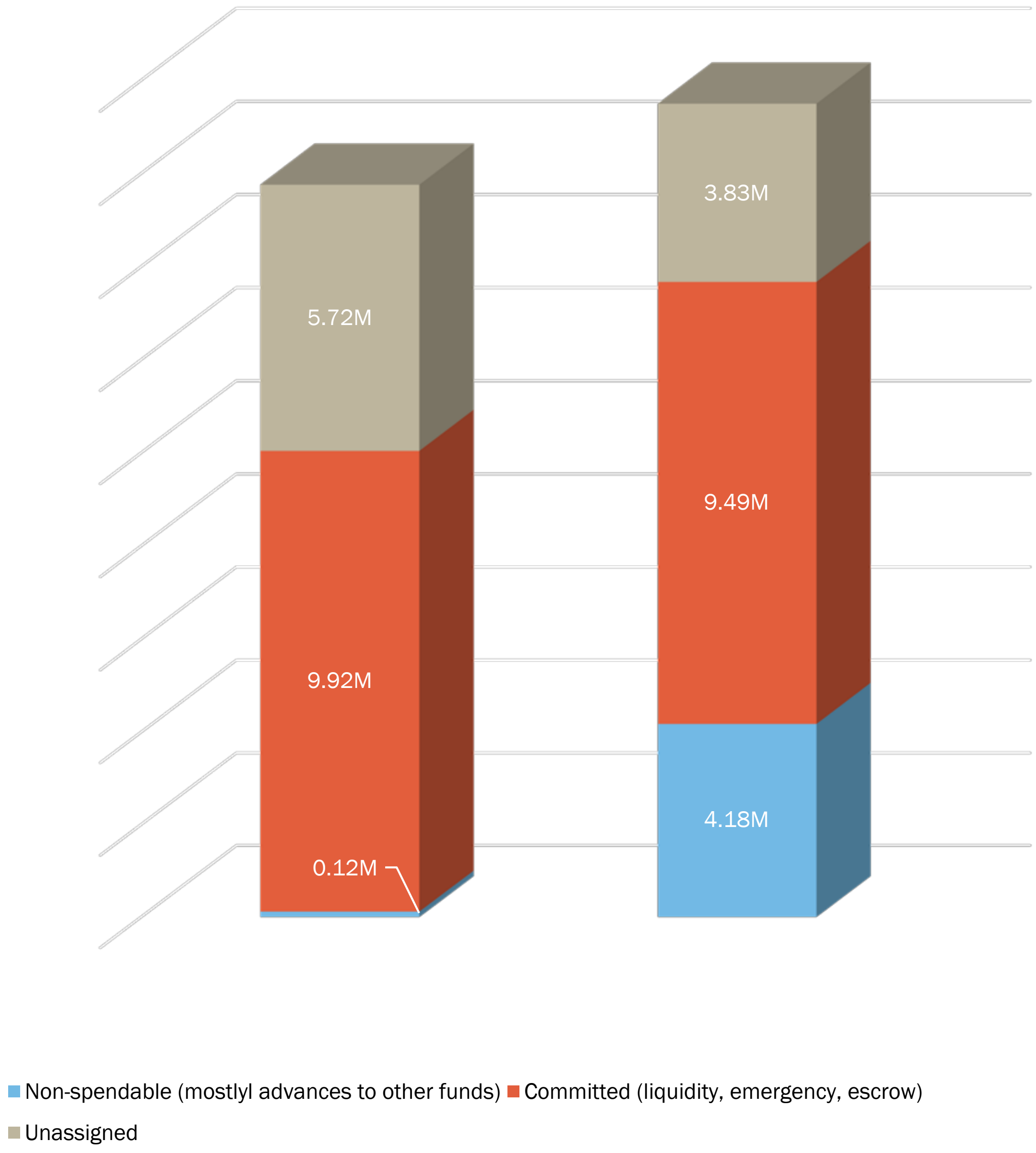


GENERAL FUND EXPENSES 2019 TO 2020

Expenses:

- FY20 GF expenses were down by $902K compared to FY19-the biggest year to year decreases were in admin and public safety- some cuts in services related to pandemic.
- Vacancies were a leading reason for decrease-while this continues in some areas, others are fully staffed, so we expect increased comparative expense for FY21/22





FUND BALANCES:

- Due to sale of SCH and resolution of significant liabilities, more of the GF's balance is restricted at the end of FY20 than the prior year leading to a lower unrestricted fund balance ($3.8M at the end of FY 20 vs $5.7M in FY19). Once SEARHC releases the payments on the sale from escrow, the SCH special revenue fund will be able to begin repaying the General Fund, which release the that portion of fund balance from restrictions.
- Fortunately while revenue decreased, due to circumstance as well direction to focus on core services, so were expenses—resulting in an overall increase to our fund balance.

WHAT DOES THE REST OF FY21 HAVE IN STORE FOR SITKA?

July-September 2020 sales tax down $1.7M from same period in 2019 (met downward revised budget)

- How will holiday sales look?
- Impact of participation in remote sellers commission

Release of hospital escrow?

- This would allow the SCH fund to repay the general fund increasing the unassigned fund balance

What happens April-June of 2021-do we see a rebound in tourism?

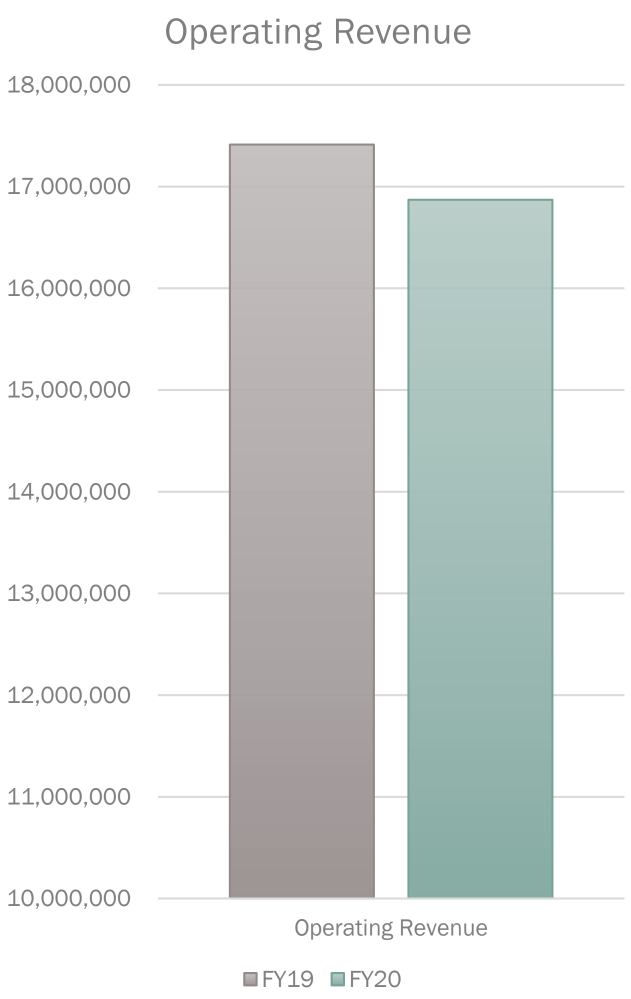
- Cruise ship restrictions?
- State mandates?
- General impact to economy and thus to tourism?

DECISIONS NEEDED TO FORMULATE FY2022 BUDGET-GENERAL FUND

WHAT CAN THE GENERAL FUND AFFORD? What level of services do we maintain?

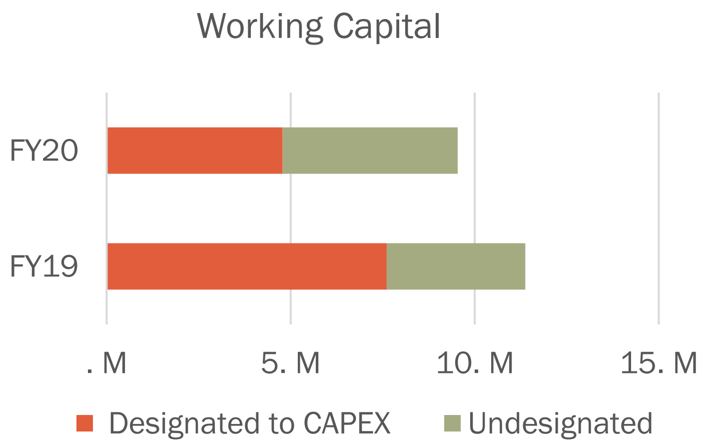
- Core services (mentioned in Charter/Code)
  - Public Safety
  - Public Works (Street, parks and recreation, building)
  - Education (single largest expense-funding level impacts rest of GF-what will happen with school bond debt service reimbursement?)
  - Supporting services (Planning, Finance, Assessing, Legal, IT Admin/Clerks)
  - Momentum of existing initiatives
- Not specified but currently supported:
  - Charitable (Donation pool, museum, other in-kind)
  - Economic development
  - Social services

- Knowing revenue is likely to be depressed into FY2022 to we budget anticipating that we will dip into our reserves?
  - Per charter the assembly must pass a "balanced budget" and a "balanced budget" means that appropriations must not exceed projected revenue and "reserves"
  - The term "reserves" is not a clear one, but generally could be understood to mean our available fund balance that is free of restrictions.
- Capital projects
  - Some funding (current balance $6.3M) has already been appropriated for upcoming and projects in progress
  - No new governmental capital projects were funding in the FY2021 budget
  - Deferred (scheduled, but not funded/underway) projects continue to increase, the longer we wait, the higher the cost)



ELECTRIC FUND FY2020/FY2021

- No FY2020 rate increase
- Extension of winter rates due to pandemic => year-to year decrease in revenue/expenses flat/capital spending up, so less working capital.
- 2% rate increase for FY2021
- Models contemplate FY2021 2% FY2022 rate increase
- FY2021 bond refunding = savings, potential for another round of advance refunding
- Challenges:
  - Aging infrastructure
  - Recruitment
  - Pandemic's impact on collections



DECISION AREAS ELECTRIC FUND

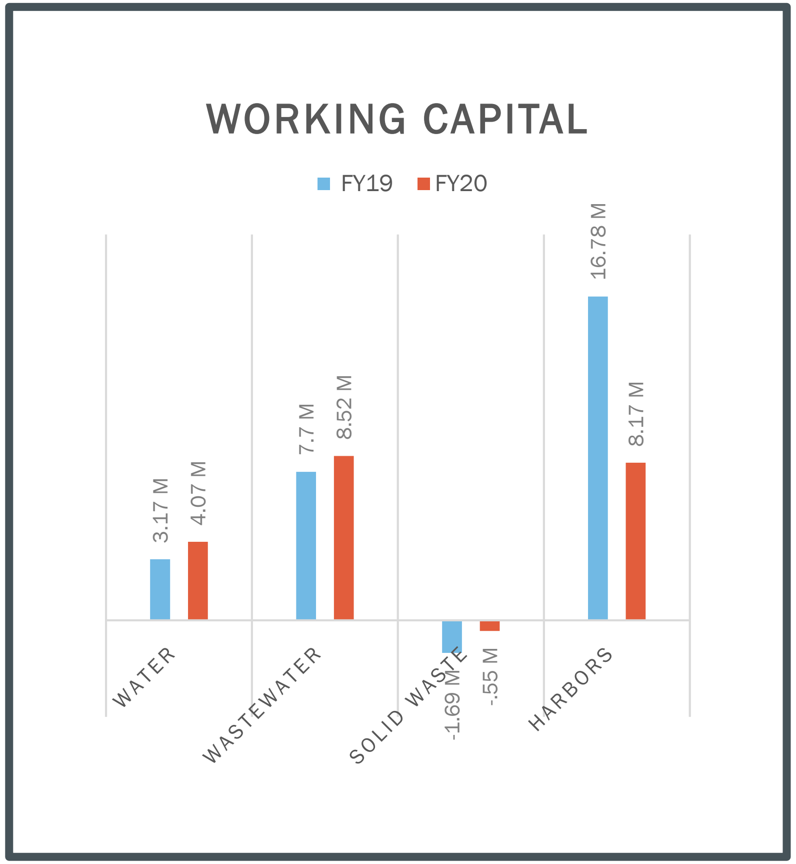
FY2022 rate increase 2% proposed

Infrastructure (tied to rates)

Staffing-recruitment/#FTEs

OTHER ENTERPRISE FUNDS (WITH RATES)

- WATER FUND
  - Rates for FY21 were increased 2%, rather than 5% as indicted in the model
  - Working capital increasing per model (to fund water filtration plant)
- WASTEWATER FUND
  - 2% increase in FY21 (model indicated 5.5% increase) no or lower increase may cause future spike
  - Working capital increasing-need for future repairs/debt service
- SOLID WASTE FUND
  - Fund ended FY20 in a better financial position, but still negative working capital
  - Looming challenges plus contractual increases drive rates
  - 5.5% increase in FY21-model suggests 5.5% increase for FY22 as well
- HARBOR FUND
  - 5% rate increase for FY21—Harbor Commission approved 5% for 3 years.
  - Project costs higher than in the master plan
  - In the long run, can ratepayers sustain continued rate increase? If not, what are the alternatives?



DECISION AREAS FOR WATER, WASTEWATER, SOLID WASTE, AND HARBOR FUNDS

- Balancing needed rate increases
  - Delayed rate increases often mean more spiked future increases
  - Burden on pandemic-stricken community
  - These funds less impacted by the pandemic-customers did benefit from CARES subsidies
  - Depending on operating structure and debt, some funds can withstand less than recommended increases more than others-other will force spiked increases in the near future
  - Rates driven largely by need to invest in capital repairs-do we visit this year what infrastructure we maintain?