

# GG Budget Updates No. 1 and 2



## TRANSMITTAL MEMORANDUM

TO: The Honorable Mayor and City Council

FROM: Karl R. Amylon, City Manager

DATE: November 20, 2020

RE: **2021 General Government Operating and Capital Budget Update No. 1: Supplemental Budget Strategies for Addressing COVID-19 – Port Enterprise Fund**

**2021 General Government Operating and Capital Budget Update No. 2: Supplemental Budget Strategies for Addressing COVID-19 – General Fund Layoffs**

Attached for City Council review are two memoranda from Finance Director Bob Newell, which address what staff believe are further measures that deserve consideration prior to final adoption of the 2021 General Government Operating and Capital Budget. The Finance Director and I believe such measures are necessary if the City Council is to adopt a final spending plan that is sustainable and avoids placing the City in a deficit position when it begins preparation of a spending plan for 2022.

**MEMORANDUM**  
**CITY OF KETCHIKAN, ALASKA**  
**Finance Department**  
Office of the Finance Director

*Bob Newell, Finance Director*  
*Camille Nelson, Financial Analyst*  
Phone: (907) 228-5621  
Facsimile: (907) 228-5617

TO: Karl R. Amylon, City Manager/KPU General Manager

FROM: Bob Newell, Finance Director

DATE: November 19, 2020

**SUBJECT: 2021 General Government Budget Update No. 1: Supplemental Budget Strategies for Addressing COVID-19 – Port Enterprise Fund**

The draft 2021 General Government Operating and Capital Budget was prepared on the assumption that the community of Ketchikan would be able to experience a limited cruise ship season in 2021 based on 50% capacity after adjusting for the loss of cruise ship traffic to Ward Cove Dock Group. The projected revenues and the requested appropriations contained within the 2021 Budget have all been adjusted accordingly to reflect the limited season and were based on the best available information about the plans for the upcoming season.

Recognizing that the duration and impact of the COVID-19 pandemic continue to be uncertain, management has prepared in the form of budget updates supplemental strategies that the City Council may want to consider. As more information about the pandemic becomes available the City will be in a better position to determine the financial impacts of pandemic on the finances of the City and economic health of the community. The City Council may choose to incorporate these strategies, or some form thereof, into the adopted 2021 Budget, or may choose to implement them based on future milestones as better information about the pandemic becomes available.

This budget update discusses supplemental budget strategies for the City's Port Enterprise Fund. The situation facing the Port Enterprise Fund can be illustrated from the following table that was taken from the 2021 Budget Transmittal Letter. For additional information, please refer to page B-5 in the transmittal letter.

	<b>Port Enterprise Fund</b>		
	<b>2021</b>		
	<b>Full Season</b>	<b>Partial Season - 50%</b>	<b>No Season</b>
Beginning Reserves, January 1, 2021	<u>\$ 4,116,133</u>	<u>\$ 4,116,133</u>	<u>\$ 4,116,113</u>
Revenues	11,987,594	6,953,956	482,574
Appropriations	<u>(8,050,438)</u>	<u>(7,755,549)</u>	<u>(6,461,151)</u>
Ending Reserves, December 31, 2021	<u>\$ 8,053,289</u>	<u>\$ 3,314,540</u>	<u>\$ (1,862,464)</u>

A partial season at 50% capacity will result in projected reserves for the Port Enterprise Fund in the amount of \$3.3 million by December 3, 2021. If the 2021 season is a repeat of 2020, the

reserves of the Port Enterprise Fund will be a negative \$1.9 million and will also result in the City being out of compliance with the debt service coverage requirements for the 2016 Port Bond for the second year in a row. The remedies for correcting a debt service coverage violation are non-existent because the pandemic has presented circumstances for which there are no remedies. The only requirement at this point is for the City to notify the Bond Bank that the City is out of compliance. The City has taken this action and the Bond Bank is currently reviewing SEC requirements to determine if the notification needs to be posted on EMMA, a national securities database for reporting financial information. The more immediate concern for the City is what can be done to reduce the \$1.9 million shortfall in reserves if there is no cruise season in 2021.

In an effort to develop an overall strategy for addressing the shortfall in reserves, management is suggesting that consideration be given to the following actions that may, in their current form or as modified by the City Council, be considered as an appropriate response to keep the Port Enterprise Fund solvent during the pandemic and ensure that it can meet its fixed financial obligations and protect the City's investment in infrastructure that is vital to the economy of Ketchikan.

- The CPV Special Revenue Fund is projected to have ending reserve balance of \$5.2 million on December 31, 2021. The City should consider putting these funds aside for the purpose of meeting the debt and lease obligations of the Port totaling \$4.1 million until such time that the City is able to accurately assess how long it will take for the SE Alaska cruise market to recover. Full recovery will most likely be influenced by two milestones – the end of the pandemic and the demand for cruises and the state of the personal finances of those who want to take a cruise. These two events may not occur at the same time and could result in a prolonged period of local economic instability.
- Assuming that there will be no cruise season in 2021, reduce the cost of personnel services by \$610,000 by not filling the vacant port director, operations coordinator and temporary employee positions.
- Determine if additional personnel or other cost savings could be achieved by contracting, on an interim basis, with a qualified firm to serve in a “caretaker” capacity to oversee the maintenance and limited operations of the Port.
- Review supplies and contract/purchased services accounts for additional cost savings.
- Consider a debt restructure that would involve the issuance of taxable bonds to pay the debt service on the 2016 Port Bond. This would be a last resort and would only come into play if the pandemic continues to impact the operation of the cruise ships and all other local measures have been exhausted.

The primary goals of these supplemental budget strategies are to acknowledge that the draft 2021 Budget is not a perfect document and that changes will be needed as more information about the COVID-19 pandemic becomes available and to communicate timely to the citizens, businesses and employees of the City of Ketchikan the actions the City Council may take either during budget deliberations or a later date when certain milestones or events have occurred.

**MEMORANDUM**  
**CITY OF KETCHIKAN, ALASKA**  
**Finance Department**  
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TO: Karl R. Amylon, City Manager/KPU General Manager

FROM: Bob Newell, Finance Director

DATE: November 20, 2020

**SUBJECT: 2021 General Government Budget Update No. 2: Supplemental Budget Strategies for Addressing COVID-19 – General Fund - Layoffs**

The draft 2021 General Government Operating and Capital Budget was prepared on the assumption that the community of Ketchikan would be able to experience a limited cruise ship season in 2021 based on 50% capacity after adjusting for the loss of cruise ship traffic to Ward Cove. The projected revenues and the requested appropriations contained within the 2021 Budget have all been adjusted accordingly to reflect the limited season and were based on the best available information about the plans for the upcoming season. The following actions have been taken to reduce requested appropriations for 2021:

- No cost of living adjustments were proposed.
- The cost of debt service has been lowered through refinancing. The City anticipates one more refinancing, or refunding, in 2021 that will further lower the cost of debt service.
- Rate increases were limited to port and solid waste services. The increase in the cost of transporting and disposing of solid waste was the sole cause for raising solid waste fees.
- Travel and education has been reduced across the board by 75% from 2020.
- Every department was required to review all of their operating and capital costs to determine where cuts could be made without compromising the City's infrastructure or its ability to deliver necessary services to its citizen.

Recognizing that the duration and impact of the COVID-19 pandemic continues to be uncertain, management has prepared in the form of budget updates supplemental strategies that the City Council may want to consider. As more information about the pandemic becomes available the City will be in a better position to determine the financial impacts of the pandemic on the finances of the City and economic health of the community. The City Council may choose to incorporate these strategies, or some form thereof, into the adopted 2021 Budget, or may choose to implement them based on future milestones as better information about the pandemic becomes available.

This budget update discusses supplemental budget strategies for the City's General Fund. The situation facing the General Fund can be illustrated from the following table that was taken from the 2021 Budget Transmittal Letter. For additional information, please refer to page B-4 in the transmittal letter.

**General Fund  
 2021**

	<u>Full Season</u>	<u>Partial Season - 50%</u>	<u>Limited Shore Excursion/ No Season</u>
Beginning Reserves, January 1, 2021	\$ 6,116,224	\$ 6,116,224	\$ 6,116,224
Revenues	22,647,529	21,341,054	20,220,588
Appropriations	<u>(24,432,144)</u>	<u>(24,432,144)</u>	<u>(24,432,144)</u>
Surplus (Deficit)	<u>(1,784,615)</u>	<u>(3,091,090)</u>	<u>(4,211,556)</u>
Ending Reserves, December 31, 2021	<u>\$ 4,331,609</u>	<u>\$ 3,025,134</u>	<u>\$ 1,904,668</u>

A partial season at 50% capacity will result in projected reserves for the General Fund in the amount of \$3.0 million by December 31, 2021. If the 2021 season is cancelled or if the cruise lines opt for the limited shore excursion option, the reserves of the General Fund could decrease to about \$1.9 million. The immediate concern for the City is that under a limited shore excursion/no season scenario, the City would start its 2022 budget cycle with only \$1.9 million in reserves on January 1, 2022. This would create a precarious situation for the City if the impacts of the COVID-19 pandemic continue into 2022 and the General Fund continues to operate at a deficit. Management believes that it would be in the City's best interest to be proactive by adopting strategies in 2021 that would increase limited shore excursion/no season scenario reserves from \$1.9 million to \$3.4 million. This would put the City in better position for its 2022 budget cycle and minimize the need to take more drastic action in 2022.

In an effort to develop an overall strategy for addressing the shortfall in reserves, management is suggesting that consideration be given to the development of a plan to reduce the operating costs of the City's general fund by implementing a plan to layoff employees. Ideally, the City should reduce the General Fund's operating costs by at least an additional \$1.5 million from what is currently proposed in the 2021 Budget in order to achieve the goal of having \$3.4 million in reserves on December 31, 2021. Since the cost of personnel services accounts for approximately 78% of General Fund appropriations it is the only budgetary classification where enough cost savings can be generated to reach this goal.

Attached to this memorandum is a schedule listing 15 positions funded by the General Fund that are being proposed for layoff status. Ten of the positions are currently filled and five are vacant. The proposal impacts nine departments and includes 13 represented positions and two non-represented positions. The total net savings after deductions for unemployment benefits and adjustment for interdepartmental charges is \$981,238.

It is important that the positions covered by the Alaska Public Employees Retirement System (PERS) that are laid off be treated as reduction in the workforce and not as an elimination of a position. If the layoff is treated as an elimination of a position, the City could be required to undergo a termination study to determine the projected retirement cost of the terminated employee and make annual payments to the PERS for the cost of that employee's retirement.

If the City Council determines that it is the City's best interest to layoff employees as outlined in this budget update, the City will still be about \$518,762 short of its goal to reduce General Fund costs by \$1.5 million. While it may be possible to go through the proposed 2021 Budget again to look for other areas to reduce costs, management believes that the budget for the General Fund is about as lean as it can be. Any further cuts could put the departments at risk for having inadequate resources to carry out their responsibilities. There are, however, two options that the City Council may want to consider that does not involve reducing costs. Those options are:

- A temporary increase in City's sales tax rate. An increase from 4.0% to 4.25% would raise at least \$534,000 annually. Many municipalities faced with addressing the fiscal challenges of COVID-19 have had to considering raising taxes as an option.
- Currently, the Community Facilities Development Fund is projected to end 2021 with \$1.9 million in reserves. The resources of the Community Facilities Development Fund were dedicated by a prior council to be used for repairing or replacing facilities for the fire, library and museum departments. The dedication was approved by motion. The current council could, also by motion, free up some of these funds and authorize the transfer of \$518,762 to the General Fund to address the remaining \$518,762 shortfall.

Neither option is desirable. Sales tax is considered to be a regressive tax that impacts low income households more than middle and upper income households. In addition, the pandemic has strained the finances of many of the citizens of Ketchikan. Raising taxes during the pandemic would add to the burden. Using the resources available in the Community Facilities Development Fund could potentially impact the plans the City has to renovate the Tongass Historical Museum, a valuable community asset and an important visitor attraction. If a transfers is made it should with the understanding that the funds most likely would not be replaced any time soon if at all.

Finally, during budget deliberations, the City Council may be able to identify potential areas for cuts that the staff may have overlooked. Management would welcome any suggestions that the City Council may offer that could help to minimize the impacts of reducing the City's workforce or the need to transfer funds from the Community Facilities Development Fund.

**City of Ketchikan**

**Savings Generated from Implementing a Layoff Strategy for Addressing  
the Budgetary Shortfall Projected for the General Fund**

<u>Department</u>	<u>Position</u>	<u>Retire- ment</u>	<u>Projected Wages</u>	<u>Projected Benefits</u>	<u>Total Compensation</u>	<u>Adjustment for Unemployment Claims</u>	<u>Subtotal</u>	<u>IDC %</u>	<u>Adjustment for Interdepartmental Charges</u>	<u>Net Savings</u>
CM - Human Resources	Administrative Assistant	PERS -IV	51,147	37,530	88,677	(14,430)	74,247	59.33%	(44,051)	30,196
Finance	Accounts Payable Technician	Union	55,702	35,809	91,511	(14,430)	77,081	59.33%	(45,732)	31,349
	Customer Service Representative II	Union	55,702	35,809	91,511	(14,430)	77,081	59.33%	(45,732)	31,349
Fire	Firefighter/EMT	PERS -IV	65,689	39,112	104,801	(14,430)	90,371	NA	-	90,371
	Firefighter/EMT	PERS -IV	65,689	33,134	98,823	(14,430)	84,393	NA	-	84,393
	Firefighter/EMT	PERS -IV	65,689	52,504	118,193	(14,430)	103,763	NA	-	103,763
Police	Police Officer	PERS -IV	34,092	21,637	55,729	(14,430)	41,299	NA	-	41,299
	Police Officer	PERS -IV	39,775	25,243	65,018	(14,430)	50,588	NA	-	50,588
	Police Officer	PERS -IV	39,775	25,243	65,018	(14,430)	50,588	NA	-	50,588
Library	Library Assistant I	Union	39,596	30,792	70,388	(14,430)	55,958	NA	-	55,958
Museum	Program Assistant - Vacant	Union	29,812	24,340	54,152	-	54,152	NA	-	54,152
PW - Engineering	Senior Project Engineer - Vacant	PERS -IV	115,650	74,211	189,861	-	189,861	43.16%	(81,944)	107,917
	Engineering Technician - Vacant	Union	54,538	35,689	90,227	-	90,227	43.16%	(38,942)	51,285
PW - Building Inspection	Building Inspector - Vacant	Union	67,808	40,070	107,878	-	107,878	NA	-	107,878
PW - Streets	Maintenance Technician - Vacant	Union	52,569	37,583	90,152	-	90,152	NA	-	90,152
<b>Totals</b>			<u>833,233</u>	<u>548,706</u>	<u>1,381,939</u>	<u>(144,300)</u>	<u>1,237,639</u>		<u>(256,401)</u>	<u>981,238</u>