

TRANSMITTAL MEMORANDUM

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TO: The Honorable Mayor & City Council

Initials:



FROM: Delilah A. Walsh, City Manager

File #: MGR25-065

DATE: January 30, 2025

Mtg. #: 02/06/25 MRg

RE: **Updated COK 1.01 Budget Policy v2**

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On January 16, 2025, the City Council revised the Council Budget Policy № COK 1.01 to remove the dedication of funds to public art by striking section VII.G. The revised policy showing that revision is attached for your information.



**Title/Subject: Budget Policy**

Document/Policy #: COK 1.01

Type: ☒ Council Policy    ☐ CM Policy    ☐ Work Rule    ☐ Guideline

Effective Date: 08/17/2023

Version #: 2+

Last Revision: 01/16/2025~~n/a~~

# City of Ketchikan & Ketchikan Public Utilities Budget Policies

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## I. Purpose

The purpose of this policy is to establish the principles and procedures for the development, approval, and execution of the City/KPU annual budget. Adopted on April 20, 2023, it is the core purpose of the Ketchikan City Council to provide the affordable services and reliable infrastructure necessary for all citizens to flourish. The finalized budget becomes a roadmap to fulfill this purpose.

## II. Budget Preparation

The budget shall be prepared and submitted to the City Council in accordance with the Article 5 of the Ketchikan Municipal Code (KMC) by the office of the City Manager and Ketchikan Public Utilities (KPU) General Manager in accordance with Article 3§3-2(3)<sup>1</sup> of the City Charter and §2.32.030(d)<sup>2</sup> of the KMC.

It is the responsibility of the City Council to set budgetary goals and guidelines and adopt appropriations at the fund level. It is the responsibility of the Manager and staff to prepare a budget within those standards and guidelines and meet the needs and objectives of each department and division. Under the KMC, the proposed budget for the next fiscal year will contain detailed estimates of anticipated revenues and proposed expenditures for the year and the total of such proposed expenditures shall not exceed the total of such anticipated revenues.<sup>3</sup>

Long-range budgets will be developed based on projected growth according to any Council adopted comprehensive or strategic plan; public demand; and location, use, and condition of present facilities and infrastructure.

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<sup>1</sup> The city manager shall be chief administrative officer and head of the administrative branch of the city government. [...] He shall [...] Prepare a budget annually and submit it to the council, be responsible for the administration of the budget after it goes into effect, and recommend to the council any changes in the budget which he deems desirable;

<sup>2</sup> The manager of public utilities shall [...] (d) Prepare a budget annually and submit it to the city council;

<sup>3</sup> City Charter Section 5-2

### III. Budget Policies

#### A. General

The City Council adopts appropriations at the fund level and department heads are responsible for managing their budgets within the total appropriated budget under their control. Any budget adjustment between funds, interfund transfers or interfund loans must be approved by the City Council.

#### B. Achieve a Structurally Balanced Budget

Create a structurally balanced budget that supports financial sustainability for multiple years into the future. To achieve a structurally balanced budget, recurring revenues will be equal to or exceed recurring expenditures now and into the future and pursuant to resolution 90-1645, maintain financial stability for KPU.

To ensure stability and fiscal responsibility, revenues will be conservatively estimated and will not assume growth rates in excess of inflation and expenditures budgeted at least at 100% of historical and/or anticipated costs.

#### C. Strategic Commitments

Adopted on April 20, 2023, it is the vision of the Ketchikan City Council that in 10 to 15 years, the City of Ketchikan will be among the top 10 places to live in the United States. To that end the following strategic commitments will be reflected in the City's budget.

- Protect people and property.
- Maintain and enhance City/KPU infrastructure.
- Protect and enhance the natural environment.
- Improve economic vitality and development.
- Preserve and enhance livability.
- Provide efficient and effective City support services by pursuing partnerships with other agencies/entities and through the use of technology and innovative problem solving.
- Preserve, enhance, and celebrate the historic, cultural and artistic elements of Ketchikan.
- Ensure equity of services and opportunities.

### IV. Reserve Fund Balance Policy

Reserves are the portion of fund balance that is set aside as hedge against risk. The City wishes to maintain existing service levels without unnecessary increases in taxes or fees, and maintain a stable financial position during periods of economic uncertainty; to provide sufficient resources to meet cash flow needs; maintain an investment grade bond rating capacity; cover unforeseen emergencies; avoid short-term borrow to fund operations; and set aside funds for major capital projects or equipment purchase when deemed appropriate. To that end, the City will establish prudent reserves in the Funds in order to ensure financial stability throughout the fiscal year including provision for unforeseen contingencies and consideration to revenue timing.<sup>4</sup> This policy establishes a threshold minimum for the City's Funds and is intended to serve as a guide for operational, budgetary, and policy decisions made by the City Council and management.

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<sup>4</sup> City of Ketchikan Fund Balance Policy Approved March 7, 2013

The following reserve objectives are set forth by Council for the City/KPU in past Council action. Reserves levels are not a perfect measure of structural balance, but are a good and readily available measure for our organization. Further, reserve levels may be impacted by major capital projects or unforeseen circumstances and documentation related to this impact will be included with the budget submission.

#### A. Fund Balance Objectives

1. General Fund – a minimum fund balance equal to three (3) months of operations, or 25% of budgeted expenditures in the Fund.
2. Public Works Sales Tax Fund – a minimum fund balance equal to three (3) months of operations, or 25% of budgeted expenditures in the Fund, plus amounts consistent with the City's capital improvement plan as applies to relevant infrastructure and equipment replacement and major maintenance.
3. Solid Waste Fund - a minimum fund balance equal to three (3) months of operations, or 25% of budgeted expenditures in the Fund, plus amounts consistent with the City's capital improvement plan as applies to solid waste capital, closure and post-closure requirements.
4. Wastewater Fund - a minimum fund balance equal to six (6) months of operations, or 25% of budgeted expenditures in the Fund, plus amounts consistent with the City's capital improvement plan as applies to wastewater infrastructure replacement and major maintenance.
5. Boat Harbor Fund - a minimum fund balance equal to six (6) months of operations, or 25% of budgeted expenditures in the Fund, plus amounts consistent with the City's capital improvement plan as applies to harbor-related infrastructure replacement and major maintenance.
6. Port Fund - a minimum fund balance equal to five (5) months of operations, or 25% of budgeted expenditures in the Fund.
7. Ketchikan Public Utilities Fund - a minimum fund balance equal to three (3) months of operations, or 25% of budgeted expenditures in the Fund, plus amounts consistent with the City's capital improvement plan as applies to public utilities infrastructure replacement and major maintenance.
  - a. KPU Total Fund: Maintain an unobligated cash reserve equivalent to 12% of the annual operations and maintenance budget not including depreciation expenses. <sup>5</sup>

Restricted funds will maintain balances in accordance with the provisions of the applicable bond and/or debt ordinances.

All other funds will maintain balances sufficient for and in accordance with any covenants, agreements and sound fiscal practices.

#### B. Fund Deficit Management

It is understood the fund balance objectives listed above may not be possible in and some economic conditions may require use of a fund balances to avoid a budget deficit. Deficit balances are monitored and through this policy will be resolved in a timely manner. An ideal recovery period for a deficit budget balanced with reserve funds is three years. A plan of action to reduce or eliminate the deficit will include items such as returning unanticipated revenue to reserve balances, limiting capital expenditures, reducing spending and proposed tax and rate increases.

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<sup>5</sup> Resolution 90-1645

## V. Debt

Debt will not be used for operating costs. Whenever possible, the City shall identify alternative sources of funding and availability to minimize the use of debt financing. Long-term general obligation debt will be issued when necessary to acquire land and/or fixed assets, based upon the City's ability to pay. Long-term general obligation debt will be limited to those capital projects that cannot be financed from existing revenues and only when there is an existing or near-term need for the acquisition or project.

Capital projects financed through the issuance of long-term debt shall not exceed the expected useful life of the capital project being financed.

The City shall establish affordability guidelines in order to preserve credit quality. A debt-to-equity ratio is the calculation of total debt divided by total equity. A debt service coverage range (DSCR) measures our organization's ability to pay debt obligations with current cash flow (e.g. a measure of 2 means we have two times the cash flow to pay our debts). The financial ratios set forth below are the ideal targets and are achieved through reasonable financial application.

Resolution 90-1645 sets forth goals for KPU to achieve a debt-to-equity ratio of 40%/60% and debt service coverage range of between 1.50 and 2.00; and for KPU to maintain financial ratios consistent with a bond rating of 'baa' or better<sup>6</sup>.

The same financial ratio goals for KPU will be applied to General Government.

## VI. Revenue & Taxation

The design of efficient and effective revenue systems will guarantee the generation of adequate public resources to meet expenditure obligations. It is the goal of this policy to ensure the City of Ketchikan will maintain the lowest taxation rates consistent with quality services. Further, KPU will maintain the lowest utility rates to rate payers consistent with quality service and maintain a minimum two (2) year rate horizon from the initiation of any base rate modification.<sup>7</sup>

When developing the budget, the City/KPU will use historic trend analysis to establish baseline estimates of major revenues including incorporating proposed rate increases where applicable. As part of the budget preparation process, all departments will also review programs annually to determine if they are meeting current needs or can be streamlined, eliminated or updated.

### A. Ad Valorem Taxation (Property Taxes)

Property tax is the tax that results when the net assessed value of a property is multiplied times the millage rate applicable to that property. This millage rate is expressed as a multiple of 1/1000 of a dollar (mill). Pursuant to the KMC Article V, the Council by ordinance provides for the annual assessment, levy and collection of taxes on property<sup>8</sup>; the taxable status of which is set on the assessment day.<sup>9</sup>

The City of Ketchikan is a first-class City and is therefore limited, by AS 29.45.090, to a maximum property tax levy of 30 mills (3% of assessed taxable value). Through this policy, the City will ensure any property tax increases are limited to one-half (0.5) mill or less in any single fiscal year. In years assessed property

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<sup>6</sup> Resolution 90-1645

<sup>7</sup> Resolution 90-1645

<sup>8</sup> City Charter Article V§5-8 Same: Assessment, Levy and Collection of Property Taxes – Exemptions.

<sup>9</sup> City Charter Article V§5-10 Same: Assessment – Equalization.

values have increased resulting in unanticipated increased revenue and all fund balance objectives are met, the Council will hold the tax levy rate flat.

## B. Sales Tax

The City of Ketchikan may levy a consumer sales tax pursuant to KMC§3.04. Expanding a tax base can improve tax impacts for our citizens and to that end, the City has imposed a seasonal tax rate effective April 1 through September 30. This effort ensures our organization captures the revenue of the expanded buyer base to include tourists, visitors and seasonal workers. The levy of a lower sales tax rate October 1 through March 31 ensures consistent funding for City operations and the lowest impact to our residents.

Alaska State statutes no longer limit the sales tax levied by a municipality. Through this policy, the City will ensure any sales tax increases are limited to an annual aggregation of 0.5% or less in any single fiscal year.

## C. Marijuana Sales Tax

Pursuant to KMC§3.04.130 proceeds from the marijuana sales tax will be used to address the needs of the homeless populations and humanitarian purposes set by the City Council. Through this policy, the City will ensure any tax increases are limited to an annual aggregation increase of 1% or less in any single fiscal year.

## D. Other Taxes

The City levies additional taxes (e.g. transient) for special revenue funds to raise money for a specific purpose. The City will strive to make sure that the tax does not place an undue burden on its own citizens. Any special revenue taxation will be designed to limit the impact to local citizens. This can be done by targeting special revenue taxation to non-residents.

## E. Enterprise Rates

Rate design and rate-setting processes will be addressed in a separate Council policy; it is the objective of City/KPU to ensure service users are paying their fair share of program costs. To that end, rate studies for revenues that support enterprise funds should be conducted at least every five years to update assumptions and ensure revenues are sufficient to recover operating costs and infrastructure maintenance and development.

In general, rates and fees shall be sufficient to cover 100% of the costs of service delivery, unless such amount prevents an individual from obtaining essential services. Fees or service charges should not be established to generate money in excess of the cost of providing service. Fees may be less than 100% if other factors, e.g., market forces, competitive position, etc., need to be recognized.

# VII. Sales Tax Allocations

## A. Public Works Sales Tax Fund

As part of the total sales tax levied by the City, 1.5% is levied and obligated to defray part of the cost of capital improvements to defray part of the operational costs of city government.<sup>10</sup>

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<sup>10</sup> KMC§3.04.130(a)

## B. Hospital Sales Tax & Other Public Works Fund

As part of the total sales tax rate levied by the City, 1% is levied for a hospital facility, street improvements and other public works facilities.<sup>11</sup>

## C. Public Safety Sales Tax

As a part of the total sales tax levied by the City, 0.5% is levied on sales made between October 1 through March 31 and 1.5% is levied between April 1 and September 30 for the purpose of providing public safety services.<sup>12</sup>

## D. General Government Sales Tax

As a part of the total sales tax levied by the City, 1.5% is levied on sales (excluding residential rent) made between April 1 through September 30.<sup>13</sup>

## E. Community Grant Program

Under Council direction, 3.24% of annual sales tax revenue (to include the general fund, hospital sales tax fund and public works sales tax fund), as of September 30<sup>th</sup> of each year will be dedicated to this program.<sup>14</sup>

The KPU Enterprise fund will match the sales tax revenue dedicated to this program.

## F. Technology Investment Program

Through this policy, one- and one-half percent (1.5%) of annual sales tax revenue (to include the general fund, hospital sales tax fund and public works sales tax fund), as of September 30<sup>th</sup> of each year would be dedicated to information technology network development and innovation for more efficient services. Any technology or software upgrades will take into consideration equipment and maintenance cost impacts to each department.

## ~~G. Public Art & Beautification Program~~

~~Through this policy, one percent (1%) of any capital project or purchase over \$250,000 total will be budgeted and dedicated to art in public places.~~

# VIII. Budget Development

The City Council adopts appropriations at the fund level and department heads are responsible for managing their budgets within the total appropriated budget under their control. Any budget adjustment between funds shall be approved by the City Council. Budget adjustments within a fund shall be approved by the City Manager.

Ideally, holding spending flat is preferred but not realistic in an inflationary economic environment; therefore, the City Council will set and communicate any spending limits or a soft cap by or before September 1<sup>st</sup> of each calendar year. For budget preparation purposes, the default soft spending cap will be limited to no more than a 5% annual increase in each department, excluding personnel services and benefits. The purpose and need for any increases beyond 5% must be well documented within the budget request and further increases to the set spending limit or soft cap will be requested during Council budget

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<sup>11</sup> KMC§3.04.130(b)

<sup>12</sup> KMC§3.04.130(c)

<sup>13</sup> KMC§3.04.130(d)

<sup>14</sup> City Council Meeting of August 12, 2022



hearings. This limit/cap will take into consideration revenues and the essential services and will be a realistic limit that can be met without causing major disruptions to government services. Those essential services are:

1. Services necessary for health, welfare and public safety within the City;
2. Infrastructure operations and maintenance;
3. Critical infrastructure as listed in the City/KPU capital improvement plans (CIP);

All possible funding sources, governmental or private, will be explored before committing City/KPU funds. Further, the City/KPU will seek grants or private funds whenever available to finance capital improvements.

Expenditures using non-recurrent revenue will also be non-recurrent. When non-recurrent funds, such as grants, are used for recurrent operational expenses, the department will remit a plan for future budget consideration.

## IX. Employee Investment & Development

The City/KPU is committed to maintaining a lean and efficient workforce while controlling the growth of our organization and when possible, to keeping the size of the staff the same each fiscal year. Staffing levels for each new budget year shall remain the same as the prior year unless pre-approved by the City Manager/KPU General Manager or previously authorized by the City Council. Any requests for increases in staffing levels must include an analysis, safety standards, or business case justifying the request.

Employee training and succession programs ensure the continuity and effectiveness of City/KPU staff and should be programmed in the budget.

## X. Recurring Expenditures

Recurring expenditures will be programmed in the budget each year. Salaries, benefits, materials and services, and asset maintenance costs are common examples of recurring expenditures. Recurring expenditures should be such to maintain current/status quo service levels.

The City/KPU budget will be programmed with a minimum COLA (cost of living adjustment) to all salaries and wages at levels approved or required by any collective bargaining agreements (CBA) for represented personnel. Employee benefit costs will be programmed in accordance with collective bargaining agreements as well as any benefit cost increases.

## XI. Capital Expenditures

Capital asset acquisitions are typically not thought of as recurring expenditures although some capital assets may be acquired every year, they are not the same assets year after year. A five-year capital improvement plan will include capital costs for public projects, including an estimate of subsequent operating costs. Capital project proposals should include as complete, reliable and attainable cost estimates as possible. The plan should indicate resources necessary to complete any given phase of the project, e.g., design, rights-of-way acquisition, construction, project management, contingency, etc.

Project cost estimates for the Capital Budget should be based upon a thorough analysis of the project and are expected to be as reliable as the level of detail known about the project.

The City/KPU will coordinate implementation of capital improvements with the development of the operating budget. The CIP will be reviewed annually ahead of the Budget Process. Capital needs will not be considered during the Budget Process unless they have already been identified in the CIP.

Long-range capital improvement plans and budgets will be developed based on projected growth, public demand and condition of present infrastructure and facilities. Capital projects and purchases that are listed in the current budget are presumed approved and can be carried over and expended in the new year as long as there are sufficient funds. The Manager will advise the Council of projects that will be carried over during budget hearings.

The City/KPU shall maintain all its physical assets at a level adequate to protect our capital investment and to minimize future maintenance and replacement costs. Again, prior to undertaking a capital project, all ongoing operational and maintenance costs shall be identified and included as part of the budget discussion.

## XII. Public Reporting & Transparency

The budget shall be in such form and have such contents as the council may require. The budget and any budget message accompanying it, shall be a public record in the office of the city clerk, and shall be open to public inspection. Sufficient copies of the budget and any budget message shall be made for distribution to persons on request.<sup>15</sup> Citizen involvement during the budget process shall be encouraged through public hearings and work sessions.

Actual revenue and expenditures shall be monitored monthly by Finance staff against budget estimates and appropriations. Monthly reports outlining the status of revenues and expenditures shall be provided to all departments and the City Manager. Quarterly financial reports discussing financial operations and major trends shall be distributed to all departments, City Manager, and City Council. Once a month, give a state of the Finances report, we have unfilled positions that have salary savings, capital project status, are there any concerns from the FD or the gate – are we in good standing, are we over, are things okay?

The City's accounting and financial reporting systems shall be maintained in conformance with current accepted principles and standards of the Government Accounting Standards Board (GASB), and the Government Finance Officers Association (GFOA). Financial statements and budget presentation are prepared in accordance with requirements and recommendations set by both organizations.

An annual financial audit shall be performed by an outside firm.

Approved, adopted and passed this ~~17<sup>th</sup>~~-16th day of ~~August, 2023~~January, 2025.

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<sup>15</sup> City Charter Section 5-2