

February 15, 2012

TO: Mayor Bruce Botelho & Assembly Members

FROM: Fiscal Task Force

SUBJECT: Report on Sales Tax Budget Reserve Fund

Your Fiscal Task Force on the Sales Tax Budget Reserve has been meeting the past two months to resolve some of the issues surrounding the Sales Tax Budget Reserve.

First of all we were greatly impressed with the amount of time, energy and knowledge of the past two Task Forces. Their dedicated work and volunteer time has helped the CBJ in formulating some of our basic fiscal policies. A big thank you to all of them.

Our Task Force was tasked with a more pinpointed and much simpler set of goals. The purpose of the Task Force as given to us by the Mayor was to review the policy and Sales Tax Reserve Fund and to make recommendations regarding them. We were asked to address three items specifically:

- Whether the Assembly should maintain the fund;
- If so, at what amount (particularly in light of the rate of inflation); and
- Under what circumstances it should be accessed.

I am very pleased to inform you we came to consensus on all three items. After the first meeting there was no doubt we all agreed to maintaining the Fund. This is necessary to ensure adequate resources in the event of an emergency or significant, unanticipated reduction in revenue.

After reviewing other municipalities and cities, and looking at the recommendations of the Government Finance Officers Association (GFOA), we find that a reserve target of not less than two months of operating revenues is appropriate. This equates to 16.7% of the revenue stream which included the general government fund, road service area, fire service area and sales tax funds. We did not include funds dedicated to specific operating purposes, including special revenue funds, enterprise funds, the Equipment Replacement Fund and Risk Fund. For FY 12, the project revenues within the included funds total \$99,956,800 meaning at the present time the reserve target would be \$16,659,467. Reserve totals at the close of FY 2011 were \$11,080,177 leaving a target shortfall under this policy of \$5,579,290. The Task Force recommends the Manager and Assembly develop a plan to replenish the reserves as part of the FY 2013 budget process.

Under use of the fund we all felt this area needed to be tightened up somewhat, but even more important that you all understand this is not a slush fund. When you take dollars out of the fund you start a chain reaction for the next year's budget preparations. The Manager will need to come up with the funds to give you a balanced budget. That could consist of cutting the budget, increasing the mill

rate or some of both. We all agreed this fund should not be used for ongoing or recurring expenses. Those types of requests should be handled with the budget process.

We all strongly felt you need to hold yourselves accountable in the replacement of the fund. When the reserves are less than the target you should have the Manager present a written plan for Assembly review and approval to replenish the reserves. If you use the reserves during the year, you should have a plan to replenish the account. Most importantly when the Assembly finds the target not met, replenishment must take priority over tax reductions. This means the Assembly will not reduce the mil rate or other tax rates when the reserves are below target.

In conclusion, the Task Force recommends to the Assembly the following actions:

- You direct the Manager to have a resolution prepared based on this letter and the draft resolution attached.
- You direct the Manager to prepare a plan to replenish reserves as part of the FY2013 budget process.

The Task Force understands we are in financial difficulty. This in itself should show the Assembly the importance of a well thought out plan by the Assembly and the Manager. By putting the guide lines for the use and replenishment of the CBJ reserve funds into a resolution, it ups the level of scrutiny and the level of priority you, the Assembly and the Manager will give to this important issue.

I would like to thank my fellow committee members. Most of the Assembly know each of these members and know the wide breadth of knowledge and opinions they bring to the table. To be able to reach consensus and move these issues forward to you all was very rewarding. Mr. Duncan was invaluable sitting beside us the entire way. A special thanks goes out to Mr. Bush for taking on the role of scribe for our group.

Respectfully submitted,

Merrill Sanford, Chair

MAYOR'S TASK FORCE ON FISCAL POLICY  
OUTLINE OF DRAFT RESOLUTION ON CBJ RESERVE FUNDS  
AS PRESENTED TO THE CBJ FINANCE COMMITTEE  
FEBRUARY 15, 2012

1. General Findings

- a. Resolution setting reserve fund target is appropriate and necessary to ensure adequate resources in the event of an emergency or significant unanticipated reduction in revenues.
- b. Irrespective of the following, it is understood that reserve funds may be commingled with other CBJ funds, and hence may secure other general obligations or assist in meeting short term cash flow needs.
- c. Based upon review of models and similar policies from other cities and the recommendation of the Government Finance Officers Association (GFOA), we find that a reserve target of not less than two months, equating to 16.7% of operating revenues is appropriate. For The City & Borough of Juneau, such revenues shall include the General, Roaded Service Area, Fire Service Area and Sales Tax Funds.
- d. The balance of reserves shall be calculated in accordance with generally accepted accounting principles, but shall not include funds already committed to current or subsequent fiscal year expenditures.
- e. Irrespective of the manner of accounting, in separate funds or in one, reserves used in meeting the target include all funds currently identified as emergency reserves, plus long-term and "rainy day" reserves, but do not include funds dedicated to specific operating purposes, including special revenue funds, enterprise funds, the Equipment Replacement Fund and the Risk Fund.
  - i. Equipment Replacement Fund. The CBJ will maintain an equipment replacement internal service fund and will adopt replacement schedules for all significant equipment within each department. The CBJ will annually establish interdepartmental charges sufficient to provide for the timely replacement of equipment listed in the schedules.
  - ii. Risk Fund. The CBJ will maintain an insurance reserve internal service fund to provide coverage for various risks of loss including legal liability, professional, property, workers compensation, health and term life. Reserves to be accumulated will be actuarially determined, and may include additional funds deemed necessary to ensure adequate coverage. CBJ will annually establish interdepartmental charges sufficient to pay for current and accumulated losses plus amounts needed to pay for excess and special insurance policy premiums.
- f. This resolution supersedes all prior resolutions regarding city reserves.

2. Use of Reserve Fund:

- a. May be used only for the following:

- i. To provide for temporary funding of unforeseen needs of an emergency or nonrecurring nature;
    - ii. To permit orderly budget reductions or tax adjustments for a period not to exceed two fiscal years, when funding sources are lost;
  - b. Except as otherwise provided herein, may not be used for any ongoing or recurring expenses.
- 3. Replenishment of Inadequate reserves: Whenever reserves are less than the target,
  - a. CBJ Manager will annually present a plan for Assembly review and approval to replenish the reserves to the target over one or more fiscal years.
  - b. At any time an appropriation is made that will reduce reserves below target, the appropriation shall be accompanied by a plan to replenish reserves to target.
  - c. Assembly shall make every effort to replenish reserve funds as quickly as possible.
  - d. The Assembly finds that reserve replenishment must take priority over tax reductions, and therefore the Assembly will not reduce the mil rate or other tax rates when reserves are below target.

**To be included in cover letter from Task Force to Assembly**

- e. For FY 12, the projected revenues to these funds total \$99,956,800, meaning at the present time the reserve target would be \$16,659,467.
- f. Reserve totals at the close of FY 2011 were \$11,080,177, leaving a shortfall under this policy of \$5,579,290.
- g. Task Force recommends the Manager and Assembly develop a plan to replenish reserves as part of the FY 2013 budget process.

# ***DRAFT***

## **MINUTES - ASSEMBLY FINANCE COMMITTEE**

**February 15, 2012**

**Assembly Chambers**

### **I. Call to Order**

The meeting was called to order at 5:30 p.m. by Karen Crane, Chair.

### **II. Roll Call**

Committee Members Present: Karen Crane; Bruce Botelho; Ruth Danner; Johan Dybdahl; Jesse Kiehl; Carlton Smith; David Stone; Randy Wanamaker

Committee Members Absent: Mary Becker

### **III. Approval of Minutes**

The January 11, 2012 AFC meeting minutes were approved without objection.

### **IV. Budget Survey**

Eric McDowell and Bob Koenitzer, Senior Project Manager, from the McDowell Group presented the results of the 2012 Budget Survey.

### **V. Mayor's Task Force on Fiscal Policy**

Merrill Sanford, Chair, Bob Bartholomew and Rosemary Hagevig presented the task force's recommendation.

A detailed summary of the presentation and subsequent discussion follows these minutes.

### **VI. Community Development Department (CDD) Operations**

Dale Pernula, CDD Director, presented a summary of CDD's operations. Greg Chaney, Planning Manager, and Charlie Ford, Building Official, were also present.

### **VII. Financial Overview**

Due to time constraints, no presentation was given. Craig Duncan, Finance Director, suggested that the AFC members review the packet materials and he would answer any questions they may have at any time.

### **VIII. Adjournment**

The meeting adjourned at 7:05 p.m.

# **Finance Committee Meeting**

## **Detailed Summary Minutes re: Mayor's Fiscal Task Force**

### **2/15/2012**

Merrill Sanford opened with an introduction of the members of the Task Force, the timeline and scope of the project, and the suggestion by the Department of Law that the Task Force put their findings in a draft resolution form for the Assembly to consider. Mr. Sanford stated that Craig Duncan, Director of Finance, had all of the back up materials that the Task Force used to make its decision should any members of the Assembly want greater back ground information.

Mayor Bruce Botelho tasked the group with answering the following questions:

- Should the Assembly maintain the Reserves Fund (Fund, Reserves)?
- If the Fund should be maintain, what amount should the kept in the Fund?
- Under what circumstances should the Fund be accessed?

The Task Force added a fourth question for the Assembly to consider which was:

- How and when will the Fund be paid back if it is accessed?

The Task Force was in agreement that the Assembly should maintain the Fund. Mr. Sanford stressed that, while the resolution is only in draft, the Reserve Fund is extremely important to the functionality of the City in times of fiscal difficulty.

The Task Force agreed that 2 months of City operating expenses should be kept in the Fund. The 2 month ideal is supported by other municipalities and the professional organization, Government Financial Officers Association (GFOA). Two months of operating expenses works out to be approximately 16.7% of the general funds accounts – including in this revenue stream are the roaded services areas, the fire service areas, and the sales tax funds.

The equipment replacement fund and the risk fund were not included – as they have not been included in the past and are already designated dollars. It is the Assembly's prerogative to include the enterprise funds but the Task Force didn't address the enterprise funds at this point.

In FY12 the project revenues in the general fund was \$99.9 million. As a result, the target for the Reserve Fund would be \$16.7 million. This number is expected to be dynamic, not stagnate, and change each budget cycle to reflect to costs of 2 months worth of operations. Reserve Fund totals at the close of FY12 were approximately \$11 million, which leaves a target shortfall of approximately \$5.7 million. The Task

Force recommends the Assembly make a plan to replenish the Fund in the FY 13 budget. Task Force Member Bob Bartholomew added, as a point of clarification, that the plan should be part of the FY 13 budget but that Fund replenishment doesn't have to happen completely in FY 13.

Additionally, the Task Force recommends that the Assembly sits down with the City Manager to craft a replenishment plan instead of directing the City Manager to present a plan. The Task Force feels that this is important because ultimately, the Assembly is the group that would be responsible for the Budget and/or taking money out of the fund so they need to be connected to the outcome of those decisions.

Mayor Botelho asked Mr. Sanford if the Task Force discussed strategies for making use of a portion of the 1% sales tax that is coming up for renewal. Mr. Sanford said that the Task Force did discuss that possibility briefly because the Fund had been replenished with sales tax revenue in the past, but they did not want restrict the Assembly's options by making a recommendation to solely use sales tax revenue for Fund replenishment.

Mayor Botelho stated that in the past the Fund has been used to balance the budget. In light of the City's current financial difficulties, the Mayor asked if the Task Force had suggestions on how/if to use the Fund this budget cycle. Mr. Sanford said that professional opinion agrees that there are only two reasons for using the Fund:

- To provided for temporary funding of unforeseen needs of an emergency or nonrecurring nature
- To permit orderly budget reductions or tax adjustments for a period not to exceed two fiscal years, when funding sources are lost.

The Fund may not be used for any on-going or recurring expenses. Therefore using the Fund to finance new line items or contracts or to pay for expected needs is not appropriate. Task Force Member Rosemary Hagevig made comments regarding this point; however the audio recording was not able to pick up her words. In a follow up of the second point, Mr. Sanford reiterated Ms. Hagevig's comments that an example of an appropriate use of the Fund would be if the State of Alaska didn't follow through with revenue shares at the rate that Municipalities had come to expect and include in their budgeting process.

Assembly Member Ruth Danner asked if it was appropriate under the second point when the Assembly used the Fund to balance the budget last budget cycle. She stated that the cause for the shortfall was a projected decline in sales tax revenue due to a

decrease in cruise ship passengers. Mr. Sanford stated that it was the opinion of the Task Force that the Fund was used inappropriately at that time.

Mr. Sanford stated that it was the opinion of the Task Force that the budget should have been reduced because the items were on-going and not unforeseen. Ms. Danner disagreed, stating that the Assembly borrowed approximately \$2 million from the Fund because a funding source (sales tax revenue) was lost. Mr. Sanford reiterated that the Task Force was in agreement that using the Fund to balance the budget last cycle was an inappropriate use. Both Ms. Danner and Mr. Sanford agreed that the second provision should be wordsmithed better because as it is written, there is room for interpretation. Mr. Sanford attempting to clarify stated that it was the opinion of the Task Force that the use of the Fund to balance the budget last cycle was inappropriate because the line items in the budget were on-going.

Assembly Member Johan Dybdahl asked if the Fund could be a drag on the growth of City government because as the budget grows so would the Fund. Mr. Sanford reiterated that if you increase the budget then, yes, the target amount for the Fund will increase accordingly as well. Conversely, if the budget decreases then the target amount for the Fund will decrease.

Assembly Member Jesse Kiehl attempted to add clarification to earlier discussion between Ms. Danner and Mr. Sanford. Mr. Kiehl stated that the cruise ship passengers are expected to return and thus would not require a revenue adjustment. Mr. Bartholomew responded by saying that this area is a little gray, but in terms of cruise ship passengers, the sales tax revenue is projected in advance by 24 months so the Assembly has time to try to get the budget in line with those projections or raise other revenue.

Mayor Botelho stated that the way he understood things, sales tax can fluctuate and might do so substantially, but that is not a reason to use the Fund. He said that if the State Legislature, for example, decided not to fund pupil transportation for this year, filling that gap would be an appropriate use of money from the Fund, and gives the Assembly time to make adjustments for future funding of that program within its own budget. Mayor Botelho said that the Fund should be used to keep essential City programs and services running even if the money comes from a source outside of the City. He asked Mr. Sanford if that was a correct statement and Mr. Sanford agreed.

Mr. Sanford said that it was the Task Force's recommendation that the Fund be used as a last resort and to address funding issues as they arise if possible, and not a "normal stepping stone" to make up budget shortfalls.



Mayor Botelho inquired about another scenario where, in the course of the year there was a decision in regard to a labor agreement/contract which led to the recommendation of an award. He asked if that would be an appropriate use of the Fund. Mr. Sanford said no. Mr. Sanford stated that the Task Force discussed that issue in-depth and agreed that using the Fund in that case would be inappropriate as there should be monies build into the budget to cover labor issues. Ms. Hagevig made comments that could not be heard over the audio recording.

Mr. Bartholomew made comment that the two provisions for accessing the Fund looked at expenses and revenues. The first provision addressed unexpected expenses. The second provision addressed unexpected losses in revenue. However, a growing expense is not cause to access the Fund and should be addressed in the budget cycle.

Ms. Danner asked how a policy like this holds up during labor negotiations in communities that have a reserve fund but then say they do not have any money for increases. Mr. Sanford said it holds up because the Assembly has the final say in how monies are spent. In the case of a labor award, the Assembly has the right to say no to the mediator.

Mayor Botelho made the suggestion at this point to request more detailed summary minutes to be used as reference. Finance Committee Chair Karen Crane stated that it was also her intention to schedule this issue in a future Finance Committee meeting,

Mr. Dybdahl asked that if they put this issue into policy would this current Assembly be binding future Assemblies. Mr. Sanford said no because at the end of the resolution it would state that the, "CBJ Manager will annually present a plan for Assembly review and approval to replenish the reserves to the target over one or more fiscal years." He stated that it will be the job of the "Budget Director" to determine the Fund target amount as it moves accordingly with the budget. Mr. Sanford, quoting the work paper said, "At any time an appropriation is made that will reduce reserves below target, the appropriation shall be accompanied by a plan to replenish reserves to target." Mr. Sanford said that if, at any time monies are used from the Fund, that would be the time that the Assembly would sit down with the City Manager to come up with a plan for Fund replenishment; so as, "not to tie anyone's hands".

Mr. Sanford, continuing to read from the work papers quoted, "Assembly shall make every effort to replenish reserve funds as quickly as possible" and "The Assembly finds that reserve replenishment must take priority over tax reductions, and therefore the Assembly will not reduce the mil rate or other tax rates when reserves are below target." Mr. Sanford said that it was great that the Assembly has lowered the mil rate

gradually over the last ten years or so, but in some of those years it would have made more sense to replenish the Reserves. Mr. Sanford stated that by putting this into resolution then the future City Managers would have to incorporate the issue of replenishment into the budget.

Mr. Kiehl asked for an explanation of the current policy to replenish the Reserves from sales tax. The last Fiscal Task Force recommended setting the reserves in the Fund at the fixed amount of \$10 million and that is where the target has stayed for the last ten years (The suggestion was an amount between \$9-\$13 million). The Assembly was making little progress towards that goal so it was then that they decided to take 1% of the sale tax revenue and direct it towards building the Fund's reserves.

Chair Crane asked if there were any additional questions/comments. Hearing none, she concluded this portion of the Finance Committee Meeting.

Mr. Sanford praised the professionalism of all of the members of the Task Force and offered them up as points of contact should anyone on the Assembly have additional questions or would like more insight.