

**City and Borough of Juneau**  
**ASSEMBLY FINANCE COMMITTEE**  
**March 19, 2014**

Finance Department Update for Development of the FY15 – 16 Budgets

1. The initial budget development work has been completed and the shortfall has increased significantly from the information prepared through Feb. 26, and provided to the COW on March 3. After allocating fund balance to cover the negotiated wage and benefit increases, previously authorized, the shortfall is \$4.9 million in FY15 and \$7.1 million in FY16.
2. There are two major factors driving the shortfall: declining fund balances and no growth in our major revenues (property and sales tax). A portion of the existing fund balance is being allocated to cover the \$3.1 million in wage and benefit cost increases agreed to for FY15 & 16. When the FY14 budget was built, we projected a 2.5 - 3% increase in both sales and property tax revenues, looking out 2 years. Given past history and economic indicators, this was viewed as a reasonable projection. However, based on the current FY14 year- - to- date actuals for both sources, it appears our actual revenues will be \$1.5 million below the budget. Projections for both revenue sources will be flat in FY15 and a modest 1% increase for FY16. While our revenues aren't decreasing, they aren't growing at the same rate that they have in the recent past.
3. The shortfall requires that we consider all available resources and options to deliver a balanced budget for the next 2 years. This includes: use of fund balances (money carried forward from prior years), service/program reductions, revenue increases and use of the Budget Reserve. We will introduce our initial balanced budget to the Finance Committee on April 2. This is the starting point for discussion and evaluation of our options. The final budget must be adopted by June 15.
4. On the expenditure side, CBJ has been in a "hold the line budget" mode since 2009. Certain cost increases (e.g. wage and health benefits, some commodity inflation, equipment replacement) have been funded. Also new services and facilities (e.g. Dimond Park Aquatic Center) authorized by the voters have been added over the past several years. Sustainable revenues were not raised to fully match the increased costs thus existing budgets absorbed the net increase. This has reduced annual resources available to carry into the next budget cycle by \$1 - \$2 million each year. To address this we have reduced or eliminated the "easier" things to do without. Positions have been left vacant or requested they be left open for a longer period of time prior to refilling. We have asked employees to do without training needed to keep current in their fields. In preparing this year's budget we will be working towards more sustainable solutions.
5. A matrix of the various funding scenarios and service reductions has been developed to assist in making decisions on how to balance the budget we introduce.

6. We are working with Department Directors to develop a prioritized list of sustainable program and service cost reductions. When submitting the budget April 2 we will have a proposed dollar amount of specific reductions identified and provide the full list of items considered. The proposed budget will contain a line for “unallocated reductions” that states the initial dollar amount of reductions. As we work through the weekly Finance Committee meetings and decisions are made the individual department operating budgets will be updated with the reductions.

# General Government Funding Shortall

## as of March 19, 2014

|                                                                                                       | FY15                  | FY16               | 2-year<br>combined totals |
|-------------------------------------------------------------------------------------------------------|-----------------------|--------------------|---------------------------|
| Need Determined After Completed Review of Departmental<br>Budgets and Major Revenues (as of 03/11/14) | \$ (5,916,000)        | (9,246,000)        | (15,162,000)              |
| Fund Balance Allocation for Negotiated Wages & Benefits                                               | 985,000               | 2,135,000          | 3,120,000                 |
| Remaining Need                                                                                        | <u>\$ (4,931,000)</u> | <u>(7,111,000)</u> | <u>(12,042,000)</u>       |

## City and Borough of Juneau

### Finance Department Analysis - March 19, 2014

Factors leading to the general government funding shortfall for balancing the FY15 & 16 Budgets.

| <b>Description</b>                                                                | <b>Positive<br/>(Negative)<br/>Contribution<br/>to FY15</b> | <b>Positive<br/>(Negative)<br/>Contribution<br/>to FY16</b> | <b>2 Year Total</b> | <b>Comments</b>                                                                                                                                                                                                      |
|-----------------------------------------------------------------------------------|-------------------------------------------------------------|-------------------------------------------------------------|---------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>1</b> Use of \$3 million of fund balance in the base funding sources for FY14. | \$ (3,000,000)                                              | (3,000,000)                                                 | (6,000,000)         | Expectation that growth in 2 major revenue programs would make this up for FY 15/16. [\$88 million with 2% increase each year = 1.8 million FY15 and \$3.6 million combined FY16 for 2 year total of \$5.4 million). |
| <b>2</b> FY14 Major Revenue Shortfall.                                            | (700,000)                                                   | -                                                           | (700,000)           | Primarily sales tax.                                                                                                                                                                                                 |
| <b>3</b> Special Sales Tax Transfer                                               | (1,000,000)                                                 | (1,000,000)                                                 | (2,000,000)         |                                                                                                                                                                                                                      |
| <b>4</b> Reduction in Departmental service revenues, fees, grants.                | (1,000,000)                                                 | (1,000,000)                                                 | (2,000,000)         | Ambulance billings, State Transit Grant, Federal Police Grant.                                                                                                                                                       |
| <b>5</b> Federal PILT Revenue.                                                    | 1,700,000                                                   | -                                                           | 1,700,000           |                                                                                                                                                                                                                      |
| <b>6</b> Federal Secure Rural Schools Revenue.                                    | (750,000)                                                   | (750,000)                                                   | (1,500,000)         |                                                                                                                                                                                                                      |
| <b>7</b> Negotiated wage & benefit cost increases.                                | (985,000)                                                   | (2,135,000)                                                 | (3,120,000)         | 2 year cost portion of 3 year wage increase (1%, 2%, 2%) & health increase in 1 year.                                                                                                                                |
| <b>8</b> School funding.                                                          | (192,000)                                                   | (292,000)                                                   | (484,000)           | Based on BSA at FY14 level.                                                                                                                                                                                          |
| <b>9</b> Other cost increases.                                                    | (800,000)                                                   | (100,000)                                                   | (900,000)           | Overtime, training, self insurance, inflation.                                                                                                                                                                       |
| <b>Totals</b>                                                                     | <b>\$ (6,727,000)</b>                                       | <b>(8,277,000)</b>                                          | <b>(15,004,000)</b> |                                                                                                                                                                                                                      |

## General Government Available Fund Balance Trend

| <u>Fiscal Year</u>        | <u>Adopted<br/>Budget<br/>Contribution<br/>(Use)</u> | <u>Actual<br/>Contribution<br/>(Use)</u> | <u>Fund<br/>Balance Govt<br/>Operations</u> | <u>Sales Tax<br/>Fund Balance</u> | <u>General<br/>Government<br/>Fund Balance</u> |
|---------------------------|------------------------------------------------------|------------------------------------------|---------------------------------------------|-----------------------------------|------------------------------------------------|
| <b>2011</b>               | (\$5,511,000)                                        | (\$5,234,800)                            | \$7,153,200                                 | \$100,000                         | <b>\$7,253,200</b>                             |
| <b>2012</b>               | (6,627,500)                                          | (3,087,400)                              | 4,065,800                                   | 2,400,000                         | <b>6,465,800</b>                               |
| <b>2013</b>               | (372,400)                                            | 2,299,900                                | 6,365,700                                   | 3,300,000                         | <b>9,665,700</b>                               |
| <b>2014<br/>Projected</b> | (\$2,967,600)                                        | (\$665,700)                              | \$5,700,000                                 | \$2,400,000                       | <b>\$8,100,000</b>                             |

# CBJ Budget Reserve

|                                       | General<br>Government | Sales Tax  | Combined<br>Total |
|---------------------------------------|-----------------------|------------|-------------------|
| FY13 Budget Reserve (audited)         | \$ 2,729,000          | 8,531,000  | 11,260,000        |
| FY14 Contribution                     | -                     | 500,000    | 500,000           |
| FY15-18 Scheduled Contributions       | -                     | 4,500,000  | 4,500,000         |
| Projected Budget Reserve at 6/30/2018 | \$ 2,729,000          | 13,531,000 | \$ 16,260,000     |

**City and Borough of Juneau**  
**CBJ FY15 & 16 Budget Funding Scenarios**  
**March 19, 2014**

|    | <u>Funding Options</u>                                                              | Scenario 1          |                  | Scenario 2       |                  | Scenario 3       |                  |
|----|-------------------------------------------------------------------------------------|---------------------|------------------|------------------|------------------|------------------|------------------|
|    |                                                                                     | FY15                | FY16             | FY15             | FY16             | FY15             | FY16             |
| 1  | Available Fund Balance Usage                                                        | \$ 2,800,000        | 3,100,000        | 2,400,000        | 3,000,000        | 2,500,000        | 2,800,000        |
| 2  | Budget Reserve                                                                      | -                   | 2,000,000        | -                | 1,300,000        | -                | 2,000,000        |
| 3  | Service/Program Reductions (FY15 amount counted also in FY16)                       | 1,200,000           | 1,800,000        | 1,500,000        | 2,600,000        | 1,000,000        | 2,500,000        |
| 4  | Property Tax Revenue Total                                                          | 1,900,000           | 1,900,000        | 1,900,000        | 1,900,000        | 1,400,000        | 1,400,000        |
| 4a | Fire Service Area raise rate .10 mill rate to cover portion of hydrant system mtnc. | 400,000             | 400,000          | 400,000          | 400,000          | 400,000          | 400,000          |
| 4b | Areawide - .23 mill increase                                                        |                     |                  |                  |                  | 1,000,000        | 1,000,000        |
| 4c | Areawide - .34 mill increase                                                        | 1,500,000           | 1,500,000        | 1,500,000        | 1,500,000        |                  |                  |
| 5  | Department fee & rate increases                                                     | 100,000             | 450,000          | 200,000          | 450,000          | 100,000          | 550,000          |
| 6  | CIP Sales Tax used for operations                                                   | -                   | -                | -                | -                | 1,000,000        | -                |
|    | <b>Totals</b>                                                                       | <b>\$ 6,000,000</b> | <b>9,250,000</b> | <b>6,000,000</b> | <b>9,250,000</b> | <b>6,000,000</b> | <b>9,250,000</b> |

Additional Options for Analysis

- a Reduce Tax Exemptions
- b Seasonal Sales Tax (+1%=6%)
- c Local Property Tax PILT Increases
- d Department Director Business Re-engineering

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|                        |                                                                                     | State Rev decrease &/or<br>Education support increase of<br>\$1 million |                   |
|------------------------|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------|-------------------|
|                        |                                                                                     | Scenario 4                                                              |                   |
| <u>Funding Options</u> |                                                                                     | <u>FY15</u>                                                             | <u>FY16</u>       |
| 1                      | Available Fund Balance Usage                                                        | \$ 2,800,000                                                            | 3,100,000         |
| 2                      | Budget Reserve                                                                      | 500,000                                                                 | 2,000,000         |
| 3                      | Service/Program Reductions (FY15 amount counted also in FY16)                       | 1,700,000                                                               | 2,700,000         |
| 4                      | Property Tax Revenue Total                                                          | 1,900,000                                                               | 1,900,000         |
| 4a                     | Fire Service Area raise rate .10 mill rate to cover portion of hydrant system mtnc. | 400,000                                                                 | 400,000           |
| 4b                     | Areawide - .23 mill increase                                                        |                                                                         |                   |
| 4c                     | Areawide - .34 mill increase                                                        | 1,500,000                                                               | 1,500,000         |
| 5                      | Department fee & rate increases                                                     | 100,000                                                                 | 550,000           |
| 6                      | CIP Sales Tax used for operations                                                   | -                                                                       | -                 |
| <b>Totals</b>          |                                                                                     | <b>\$ 7,000,000</b>                                                     | <b>10,250,000</b> |

Additional Options for Analysis

- a Reduce Tax Exemptions
- b Seasonal Sales Tax (+1%=6%)
- c Local Property Tax PILT Increases
- d Department Director Business Re-engineering