

KODIAK CITY COUNCIL

WORK SESSION AGENDA

Tuesday, April 24, 2012

Kodiak Island Borough Conference Room

7:30 p.m.

Work sessions are informal meetings of the City Council where Councilmembers review the upcoming regular meeting agenda packet and seek or receive information from staff. Although additional items not listed on the work session agenda are sometimes discussed when introduced by the Mayor, Council, or staff, no formal action is taken at work sessions and items that require formal Council action are placed on a regular Council meeting agenda. Public comments at work sessions are NOT considered part of the official record. Public comments intended for the "official record" should be made at a regular City Council meeting.

Discussion Items

- 1. Public Comments (limited to 3 minutes)
- 2. UV Project Update (Floyd Damron, CH2MHill) No Backup
- 3. Harbor Rate Studies Presentation 1
- 4. Humane Society Request No Backup
- 5. Baranov Museum Request 25
- 6. Discussion of Revenue Increase Plan 30
- 7. NLC Training Report, Public/Private Partnerships
(Councilmember Haines) No Backup
- 8. April 26, 2012, Agenda Packet Review

To Be Scheduled

- 1. Summer Meeting Schedule
- 2. New Library Groundbreaking Date

Clerk's Note: Please replace the Cruise Ship Rate Study in your work session packet with this one, which is the final version.



Memorandum

Date: March 2, 2012
To: Aimée Kniaziowski, City Manager, City of Kodiak
Marty Owen, Harbormaster, City of Kodiak
From: Alexis Bond, Northern Economics, Inc.
Re: Cruise Ship Rates in Kodiak – **FINAL**

This memo serves as a summary of our analysis of cruise ship tariffs charged at the Port of Kodiak. As requested by the City of Kodiak's Port and Harbor Department, Northern Economics, Inc. reviewed the costs incurred by the port as a result of hosting cruise ships and determined the revenue necessary to support the ongoing operations, maintenance, and eventual replacement of the cruise ship-related facilities. This information is presented as an annual revenue requirement as well as a set of rates we expect will cover that requirement based on anticipated activity levels.

Preliminary Results and Recommendations

Our analysis quantifies the expense of supporting cruise ship operations at an annualized life cycle cost of \$155,950. This sum includes annual operating expenses of \$88,350 and capital costs for replacing cruise ship-related infrastructure during the modeling period (2012-2060).

On average, from FY 2009-2011, cruise ships called 20 times per year and occupied 12,460 linear foot-days of dock space at Pier II. This activity generated, on average, \$30,600 in dockage, \$26,900 in security revenues, \$3,000 in water revenues, and just over \$660 dollars in lightering.¹

The gap between the cruise ship costs and the offsetting revenue produces an annualized cost of \$92,230.² Average annual cruise ship net tonnage between FY 2009-2011 amounted to 305,300 net tons. Consequently, the port of Kodiak's tonnage rate should be at or near \$0.30 per net ton to adequately cover annualized life cycle costs. This compares to the \$0.15 per net ton currently charged.

¹ Please note that these "offsetting" revenues exclude a significant amount of tonnage revenues because the study team's approach was to derive an appropriate tonnage fee by looking at the shortfall between total cruise vessel costs and offsetting revenues.

² Garbage fees were omitted from our analysis. From 2008-2010 revenues were negligible (less than \$200). In 2011 our records show a garbage revenue sum of \$14,425 from one account, which we believe to be either an outlier or an accounting error.

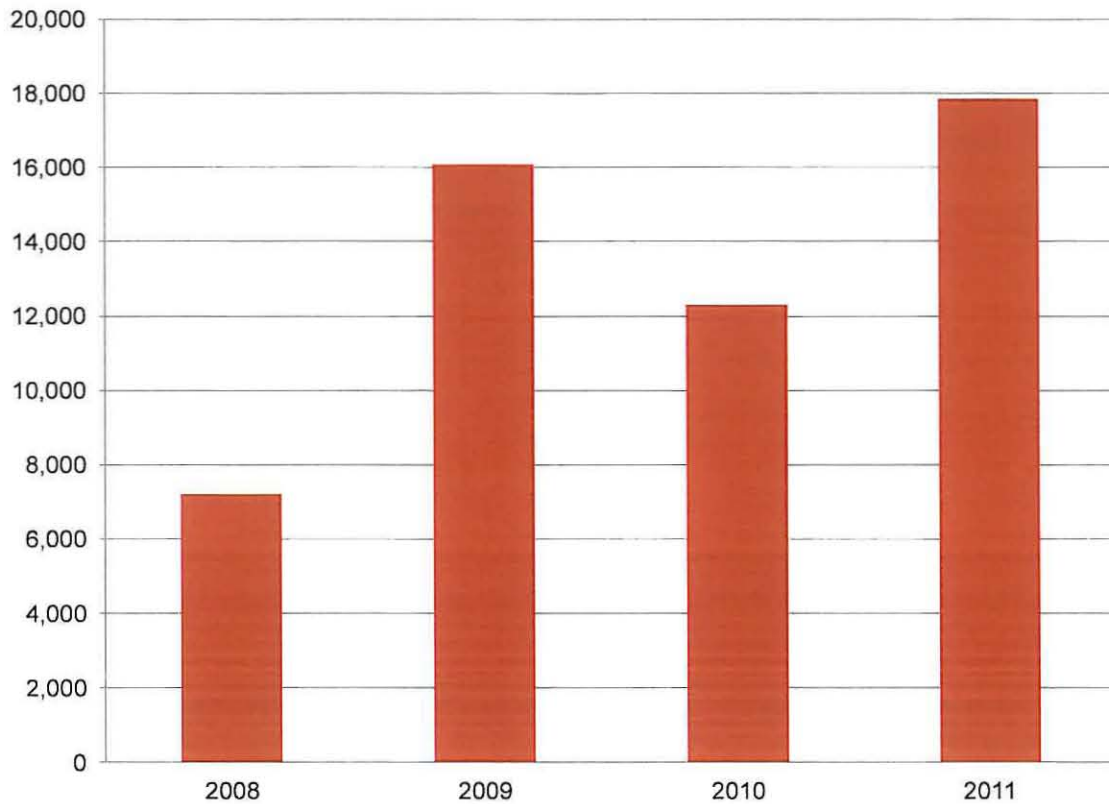
Going forward the study team recommends:

- Kodiak should increase its net tonnage rate to meet costs incurred as a result of cruise ship activity. While it may not be feasible to implement the increase at one time, it should be noted that this analysis was done in 2012 dollars and, should the increase be carried out incrementally, the end goal will need to be adjusted for inflation.
- Vessel tonnage increases exponentially relative to vessel length. This means that the tonnage increase will have a disproportionate impact on larger vessels. We suggest that the Port of Kodiak consider setting a maximum threshold for tonnage fees at or near 50,000 net tons.
- Kodiak should decide on a practical method of tracking cruise ship use of port facilities relative to other user groups. For this analysis linear feet–days are used; while the use of feet–days allows for a rough allocation of wear and tear on port infrastructure, it is a weak indicator in that it does not break durations down into units of less than one day, and does not account for cargo volumes. Going forward, net tonnage or gross tonnage of all users (not just passenger vessels) may be a more accurate metric.
- Rates charged for independent services, such as potable water or garbage, should be increased to the level necessary to cover the cost of providing these services. The current security charge is a prime example of such cost structuring (costs for security services are passed through to cruise lines at cost plus 10 percent).
- Annual or periodic rate increases should be applied to the port’s fees, determined by the appropriate Producer Price Index (PPI). Increasing revenues to meet rising costs is essential to long-term sustainability.
- If cruise ship tax revenue projects are intended to remain separate and transparent, the costs for those projects should be tracked as expenditure and depreciation line items in the port’s financial statements.
- This analysis assumes revenues are generated using the current rate structure. The tonnage rate is determined using the estimated gap between revenues and costs. If the non-tonnage revenues are changed, the tonnage rate may need to be re-evaluated.

Background

Over the past five years Kodiak was scheduled to receive between fifteen and twenty-four cruise ships each year (City of Kodiak 2011). The ships vary in size and capacity; smaller ships, such as the Orion II, may carry only 100 passengers and 70 crew members, while larger ships, like the Diamond Princess, are nearly ten times this length and carry more than 2,600 passengers and 1,000 crew members. Alaska is a popular cruise ship destination and each year nearly one million cruise passengers come to the state. Though Kodiak’s portion of cruise ship passengers is relatively small when compared to the statewide total, the annual influx of cruise ship visitors is significant for the community, with its resident population of only 6,100 (ADOLWD 2011).

Figure 1. Cruise Ship Passengers at the Port of Kodiak, by Fiscal Year (2008—2011)

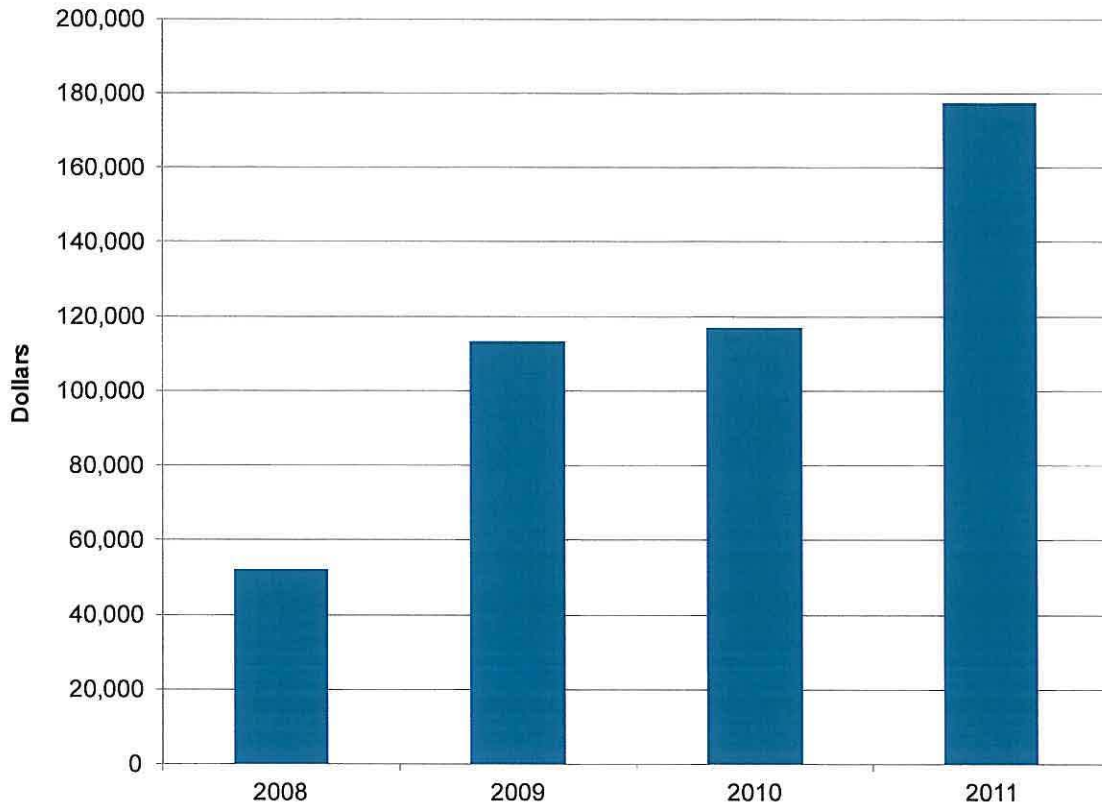


Source: Kodiak Convention and Visitors Bureau 2012

The City of Kodiak's audited financial statements show that in 2011, the Port of Kodiak received \$177,450 in direct cruise ship revenues³. The revenues shown in Figure 2 were generated through applicable dockage, tonnage, lightering, security service, water, and occasional garbage fees.

³ It should be noted that cruise ship operating revenues as recorded by the port and harbor department are not equivalent to cruise ship revenues as reported in the City of Kodiak's annual financial statements. The city's annual figures include state cruise passenger excise tax revenues and fees from similarly sized non-cruise vessels, such as Coast Guard Cutters.

Figure 2. Cruise Ship Revenues at the Port of Kodiak, FY 2006—2011



Note: In nominal (dollars of the year) terms, values are not adjusted for inflation.
Source: City of Kodiak, Port and Harbor Department 2011

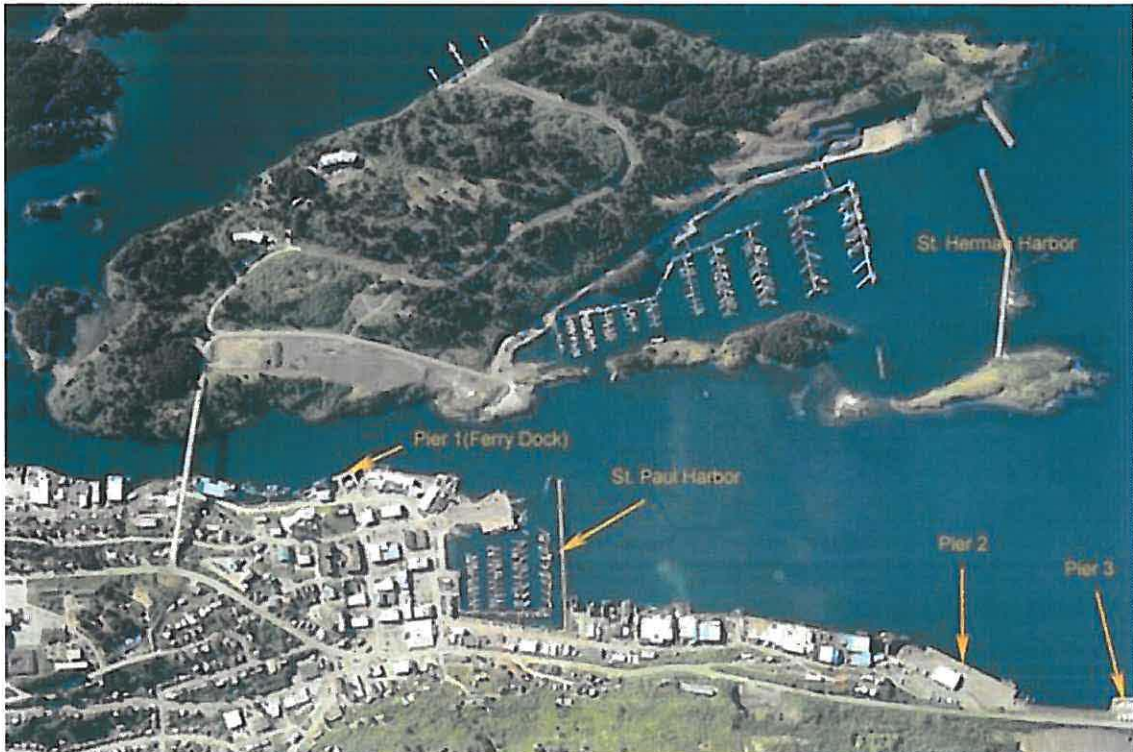
Though a pattern of revenue growth is clear, it should be noted that 2011 was the only year in those reviewed where the port would have met its annualized life cycle costs; in each of the three previous years the port fell short of the current target.

Operations

Cruise ships call at Pier II in Kodiak, also known as the City Dock. Pier II is located about .5 miles west of downtown, just east of Pier III (the cargo terminal). While some cruise lines offer shuttle service, visitors who prefer to walk can access downtown via Shelikof Street. The walk from Pier II to downtown passes many of the city's seafood processing facilities, including Alaska Pacific, Ocean Beauty, Westward, and International. An upgrade to the sidewalks between Pier II and downtown is currently being planned, and will be funded using monies from the state's cruise ship head tax. A restroom and visitor's reception area on Pier II will also be constructed using this funding⁴. All three projects are scheduled for the summer of 2012.

⁴ While replacement costs for these facilities would normally be included in the cruise ship tariff, this analysis assumes that the cost of replacement will be funded by the state (also from head-tax revenues).

Figure 3. Kodiak Port and Harbor Map



Source: City of Kodiak

In many ways, accommodating cruise ship operations appears to have been easier in Kodiak than at other Alaska ports. Conversations with city personnel revealed that the city's three deep-water piers do not require additional dredging to accommodate the large ships. In addition, the public water mains were constructed with the local seafood processors in mind, and are already sized properly for distributing large volumes of commercially used water. Offering potable water to cruise ships did not require upgrades (Kodiak Public Works 2011). While some additional safety measures were needed, the city passes through the cost for any additional security that is required during a cruise ship's stay by invoicing the cruise line for the expense plus a 10 percent fee.

Revenues and Costs

Piers II and III are tracked together within the city's financial system as the Cargo Pier Enterprise Fund. Revenues generated by the fund are broken out into dockage, wharfage, Pier III, cruise ships, and rentals. Cruise ship visits to Kodiak generate several revenue streams including dockage,⁵ tonnage,⁶

⁵ The charge assessed against a vessel for berthing at a wharf, pier, bulkhead structure, or bank, or for mooring to a vessel so berthed (Port of Kodiak 2012).

⁶ A passenger-vessel fee assessed by the net tonnage of the ship, excluding Alaska Marine Highway Vessels (Port of Kodiak 2012)

lightering charges,⁷ security fees, and water fees. The fees paid by passenger vessels such as cruise ships are summarized in Table 1.

Table 1. Passenger Vessel Fees

Type	Amount
Dockage	\$1.50 per foot <150'
	\$2.00 per foot 151'—500'
	\$2.50 per foot > 500'
Tonnage	\$0.15 per net ton
Passenger lightering	\$500.00
Security	At cost + 10%
Water	\$100.00 first 1,000 gallons
	\$5.00 each additional 1,000 gallons

Source: Port of Kodiak Cargo Terminals Tariff 11, 2011

Of these charges, security, lightering, and tonnage apply specifically to passenger vessels. Security charges are assessed at cost plus a ten percent mark-up, and provide little useable revenue for the port. Lightering takes place only sporadically and does not apply to vessels at dock in Kodiak. Consequently this analysis focuses on tonnage rates as they are a consistent revenue stream for the port and are applied specifically to cruise vessels at dock in Kodiak.

Operating Costs

Operating costs incurred by Pier II are tracked in two ways. First, shared general and administrative costs for the entire Cargo Pier Enterprise Fund (including the warehouse and Pier III) are summarized, as shown in Table 2.

Table 2. General and Administrative Operating Expenses for the Cargo Pier Enterprise Fund, 2006—2011

Category	2006	2007	2008	2009	2010	2011
Salaries and Benefits	249,959	249,745	248,312	237,606	363,061	242,264
Professional	1,674	3,285	305	-	1,130	5,356
Goods and services	60,449	51,347	55,227	53,241	43,402	48,082
Repairs and maintenance	-	-	-	27,467	541,500	-
Machinery and Equipment	10,800	-	-	-	-	-
Interfund Charges:						
Finance and administration	63,830	73,260	99,390	85,830	99,660	20,780
Public works services	66,690	60,330	66,090	50,900	52,380	21,609
Engineering	-	-	-	-	-	35,550
Harbormaster services	70,000	70,000	71,640	89,010	82,140	89,043
Other	-	-	-	3,771	8,725	8,860
Total General and Administrative	523,402	507,967	540,964	547,825	1,191,998	471,544

Source: City of Kodiak Consolidated Annual Financial Reports, 2006—2010

⁷ A daily fee assessed to vessels which do not dock at Kodiak, but instead moor offshore and shuttle passengers to and from the Port of Kodiak.

A separate section notes the operating expenses specifically for Pier II, shown in Table 3.

Table 3. Pier II Operating Expenses, 2006—2011

Category	2006	2007	2008	2009	2010	2011
Goods and services	28,572	23,938	19,648	22,079	27,167	23,181
Utilities and fuel	16,174	14,392	18,606	16,944	15,737	17,723
Professional Services	-	-	-	-	-	64,118
Repairs and Maintenance	82,655	8,100	140,274	-	-	109,728
Machinery and Equipment	4,613	3,609	-	-	-	-
Total Pier II	132,014	50,039	178,528	39,023	42,904	214,750

Source: City of Kodiak Consolidated Annual Financial Reports, 2006—2010

In both cases, for the first year of our analysis (2012) we assume that operating expenses will be equivalent to the most recent six-year average available, adjusted to 2012 dollars using the PPI for port and harbor operations. This equates to \$699,900 for general and administrative expenses (Table 2) and \$121,800 for Pier II expenses (Table 3).

Capital Costs

When asked what capital infrastructure at the port was installed specifically for the purpose of accommodating cruise ship passengers, the city provided the information shown in Table 4.

Table 4. Cruise Ship Passenger Infrastructure

Item	Original Cost (\$)	Expected Life (Years)
Jersey Barriers	30,000	20
Fencing	150,000	20
Signage	5,000	20
Miscellaneous lighting, etc.	20,000	20
Security office (portable)	15,000	10

Source: City of Kodiak 2011

The first expenditure was for fencing and took place in 2005; the rest of the items were installed in subsequent years between 2005 and 2011 (Owen 2011).

In addition to these dedicated expenses, cruise ship revenues should be sufficient to support an allocated portion of the capital costs required for upkeep and eventual replacement of Pier II. Pier II is a multi-use facility that is utilized by commercial freight carriers, fishing vessels, government vessels, and cruise ships. According to local sources, the pier was originally constructed around 1990 and received major maintenance and repairs in the late nineties and again just five years ago (Owen 2011). In 2012 dollars, the cost of Pier II was approximately \$30.7 million. Going forward the harbormaster expects to need a replacement or major overhaul of the dock in 30 years (2042).

Modeling and Results

Using the existing operating and capital cost data, the study team constructed a model using a life cycle cost approach to estimate the annualized cost of operating, maintaining, and replacing the cruise ship-related infrastructure at the Port of Kodiak.

The modeling parameters shown Table 2 were used to produce an annualized cost expressed in real terms in 2012 dollars. The operating and capital cost inflation rates were used only to bring historical costs forward to 2012 dollars. Nominal cost for future years should be adjusted annually for inflation or an appropriate PPI.

Table 5. Modeling Parameters

Parameter	Assumption	Description
Modeling Period	2012—2060	50-year period based on most recent full-year data available (2010)
Discount Rate	3.5%	The life cycle cost model assumes a real discount rate of 3.5 percent. This is higher than the real discount rate of 2.3 percent, based on U.S. Office of Management and Budget guidance (OMB 2010), but represents a more appropriate cost of money than that currently seen in 30-year Treasury bonds.
Capital Cost Inflation Rate	3.8%	Average of the CAGR for new construction and maintenance and repair construction from 2001—2010.
Operating Cost Inflation Rate	3.2%	CAGR ¹ of the port and harbor operations Producer Price Index from 2004—2010 ²

¹ CAGR=Compound Annual Growth Rate

² Port and harbor PPI began in 2004

Source: U.S. Bureau of Labor Statistics 2011; Northern Economics, Inc. 2011

As previously mentioned, Pier II is a shared facility and is grouped with Pier III in the port financials (Cargo Pier Enterprise Fund). Consequently, only a portion of the operating and capital costs for shared services and facilities were allocated to cruise ship operations. We allocated by proportion of usage as measured by annual linear feet–days at the Pier II dock relative to annual linear feet–days of total use at the facilities.

Table 6. Allocations of Cruise Ship-Related Expenses

Description	2008—2009	2009—2010	2010—2011	Average
Cruise Ship Feet at Pier II	13,123	11,007	13,261	12,224
Total Annual Vessel Feet at Pier II	128,751	69,407	109,976	102,711
Cruise Ship Feet at Pier II as a Percentage of Total Feet at Pier II (%)	10.2	15.9	12.1	12.1
Total Annual Vessel Feet at Pier III	16,425	10,999	20,179	15,868
Cruise Ship Feet at Pier II as a Percentage of Total Feet at Pier II and Pier III (aka "Cargo Pier Enterprise Fund") (%)	9.0	13.7	10.2	10.5

Capital costs incurred specifically for cruise ship servicing were allocated at 100 percent. Capital costs for shared use of Pier II were allocated at 12.1 percent. A similar distribution method with an allocation of 10.5 percent was used for distributing shared operating costs. Total annual operating costs attributable to cruise ship activity are estimated at \$88,350 a year. Our modeling results quantify the total expense of supporting cruise ship operations at an annualized life cycle cost of \$155,950.

The port's costs are offset by the revenues generated by cruise ship visits each year. In order to determine what the appropriate tonnage rate should be, the study team first estimated the revenues that would be generated through all other applicable fees. On average, this activity generates \$30,600 in dockage, \$26,900 in security revenues, \$3,000 in water revenues, and just over \$660 dollars in lightering⁸ each year.

The gap between the cruise ship costs and the offsetting revenue produces an annualized cost of \$92,230. Average annual cruise ship net tonnage between FY 2009-2011 amounted to 305,300 net tons. Consequently, the port of Kodiak's tonnage rate should be at or near \$0.30 per net ton to adequately cover annualized life cycle costs.

Table 7 shows the difference that charging the suggested tonnage rate would have made in FY 2011. Last year the port of Kodiak would have earned an additional \$56,300 in tonnage revenue if the \$0.30 rate was used, assuming that traffic volumes stayed the same.

Table 7. Comparison of Kodiak 2011 Cruise Ship Revenues at Current and Suggested Tonnage Rates

Type	Current Rates (Tonnage at \$0.15)	Suggested Rates (Tonnage at \$0.30)
Tonnage	56,267	112,535
Dockage	31,991	31,991
Water	1,800	1,800
Garbage	14,425	14,425
Security	37,895	37,895
Total	142,378	198,645

Note: 2011 cruise ship revenues by source were provided by the City of Kodiak's Port and Harbor Department. These figures do not agree with the total cruise ship revenue reported in the City of Kodiak's 2011 audited financials. For the purpose of evaluating cruise ship rates, the data provided by the Port and Harbor Department were used.

Market Comparison

Table 7 summarizes Kodiak's existing cruise ship rates, and compares them to those in Juneau, Petersburg, Ketchikan, Haines, Seward, Homer and Sitka. Data sources for the table include published tariffs and personal communications with ports when published rates were unavailable.

Port rates are not standardized among ports; fees vary by type and unit of measure. Anomalies among the rates shown in Table 7 are noted and clarified below the table.

⁸ As noted earlier, garbage fees were omitted from our analysis. From 2008-2010 revenues were negligible (less than \$200). In 2011 our records show a garbage revenue sum of \$14,425 from one account, which we believe to be either an outlier or an accounting error.

Cruise Ship Rates in Kodiak – DRAFT

Table 8. 2012 Rate Comparison

Charges	Kodiak	Juneau	Petersburg	Ketchikan	Haines	Seward	Homer	Sitka
Lightering	\$500.00	\$600.00	\$175	\$280	\$250			\$660.00
Dockage (Per Foot per day rate)	<150' \$1.50 151'-500' \$2.00 >500' \$2.50	\$3.00, May to Sept.; Vessels over 200'	\$300/ \$400 Inner harbor/ PETRO dock	300'-399' \$1.21 400'-499' \$1.45 500'-599' \$1.94 600'-699' \$2.23 700' + \$2.54	300'-399' \$3.05 ^a 400'-499' \$3.13 500'-599' \$3.23 600'-699' \$3.30 700'+ \$3.35	0'-300' \$2.60 ^b 301'-600' \$3.70 601'-700' \$4.60 701'-800' \$6.45 800' + \$7.35	\$2.27	None
Vessel Tonnage fee	\$0.15	None	None	None	None	None	None	None
Passenger Fee (per head)	None	\$5.00	None	\$7.00 (docking)/ \$4.00 (lightering)	None	\$7.35	None	None
Port Maintenance Fee	None	0.055 ^c	None		None	\$1.32 ^d	None	None
Port Development Fee	None	\$2.18 per arriving passenger	None	120'-499' \$1.25 ^f 500'+ \$1.90		None	\$481.53 Cruise ship service charge	None
Water	\$100/1st 1,000 gallons, \$5.00/ea. additional 1,000 gallons.	\$3.35 per 1,000 gallons	\$0.03 per gallon	300'-499' \$263.00 ^e 500'-800' \$460.00 900' + \$650.00	\$50 + \$4.00 per 1,000 gallons	\$150+ \$11.50 per 1,000 gallons	\$102.00 + \$38.81 per 1,000 gallons (5,000 gallon minimum)	None
Security	Approx. \$1,300 (cost + 10 %)	None	None	None	None	\$250 per vessel per day	None	None

^a Haines dockage rate is for dockage at Chilkoot dock for 2012. Rates increase each year till 2015.

^b At Seward, vessels docked 12 or fewer hours will be assessed half the applicable dockage fee.

^c For each net registered ton of vessel displacement; assessed to any vessel over 100 gross tons.

^d Called a facility charge per passenger.

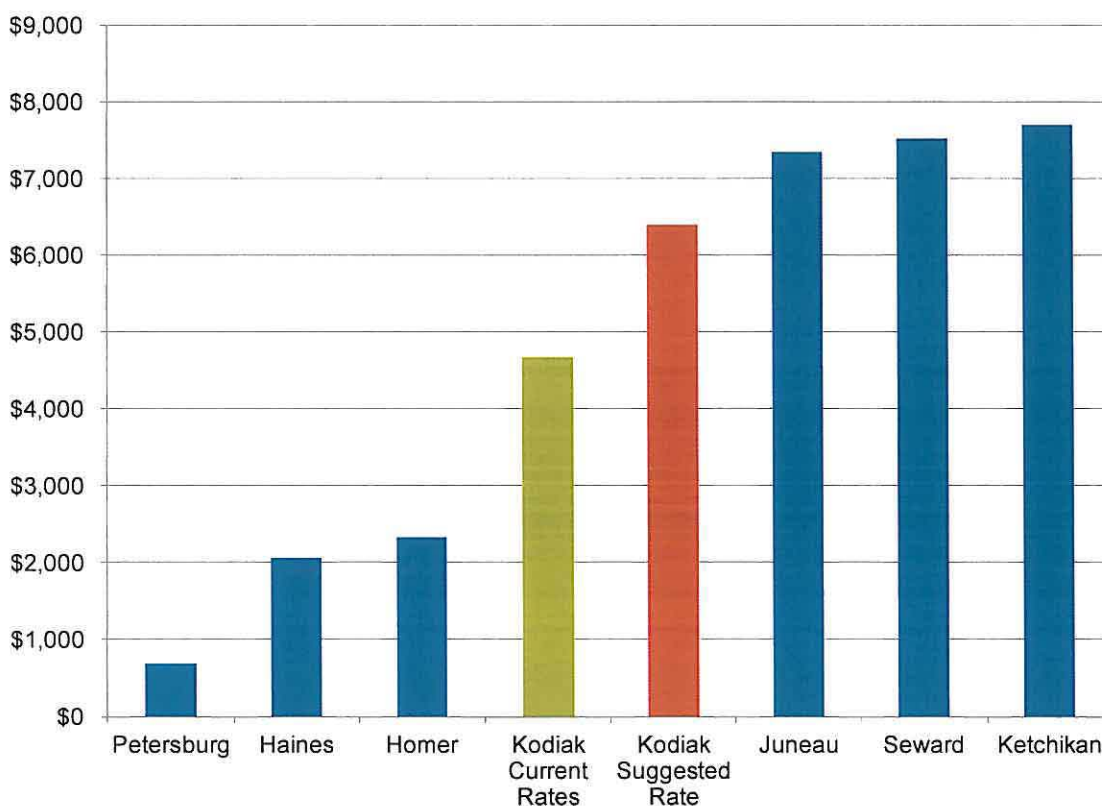
^e Ketchikan's water rate is a flat fee assessed by length of vessel.

^f The Port Development Fee is assessed by length of vessel and is per foot, per service, from May 1 through September 30.

Source: Multiple published tariffs and personal communications with referenced ports and harbors. Complete list in references section.

Given the lack of standardization among rates, illustrative examples best allow for comparison across ports. Figure 4 shows the revenue generated by a hypothetical vessel docking for twelve hours at each of the previously mentioned ports. The vessel is a 600 foot cruise ship (11,500 net tons), carrying 680 passengers and purchasing 10,000 gallons of water. This example closely approximates the revenue that would be generated by a vessel such as the Pacific Princess.

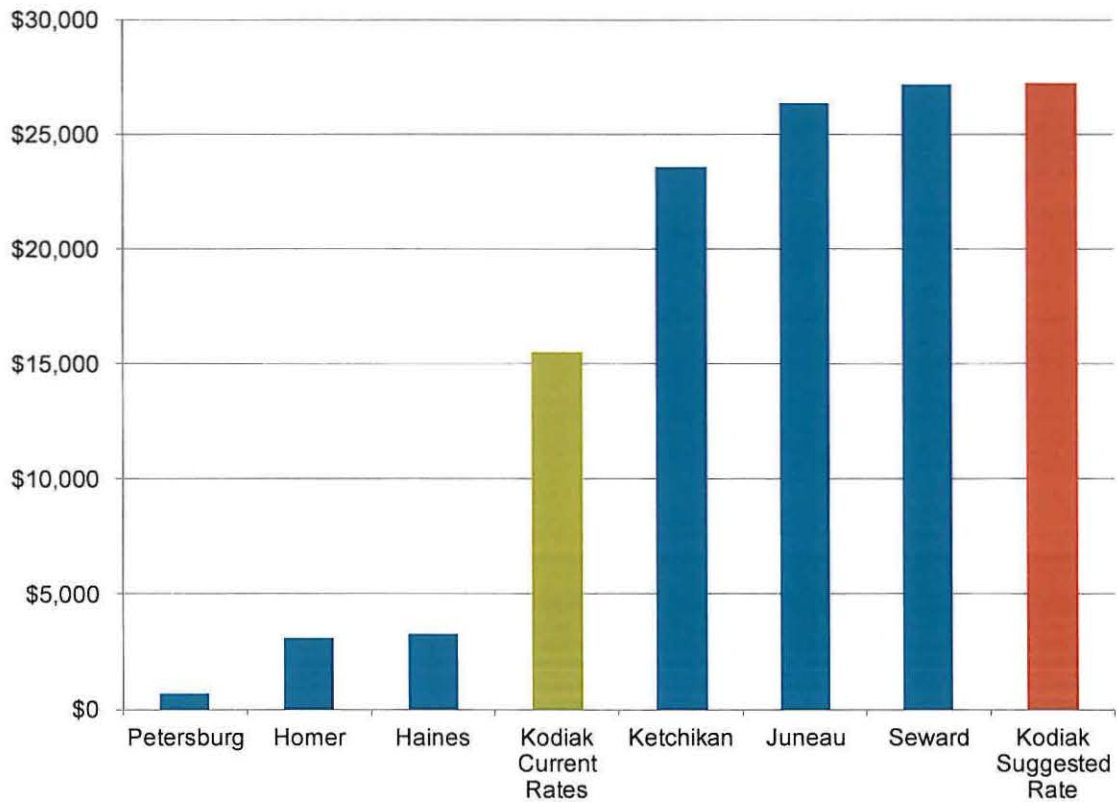
Figure 4. Revenue Comparison for a 600 foot Cruise Ship



In this example, Kodiak’s suggested rate would yield approximately \$1,725 more in revenue when compared to current rates. While these revenues would be significantly more than those seen in Petersburg, Haines or Homer, they remain below those charged at the larger and more popular cruise ship ports.

It should be noted, however, that at the very large end of the vessel scale, Kodiak’s increased tonnage rate would shift its revenue ranking when compared to the other ports. Figure 5 shows the estimated revenues from a cruise ship that is 950 feet in length (78,000 net tons), carries 2,670 passengers, and purchases 10,000 gallons of water. This example is representative of one of the largest vessels to schedule calls at Kodiak, like the Diamond Princess.

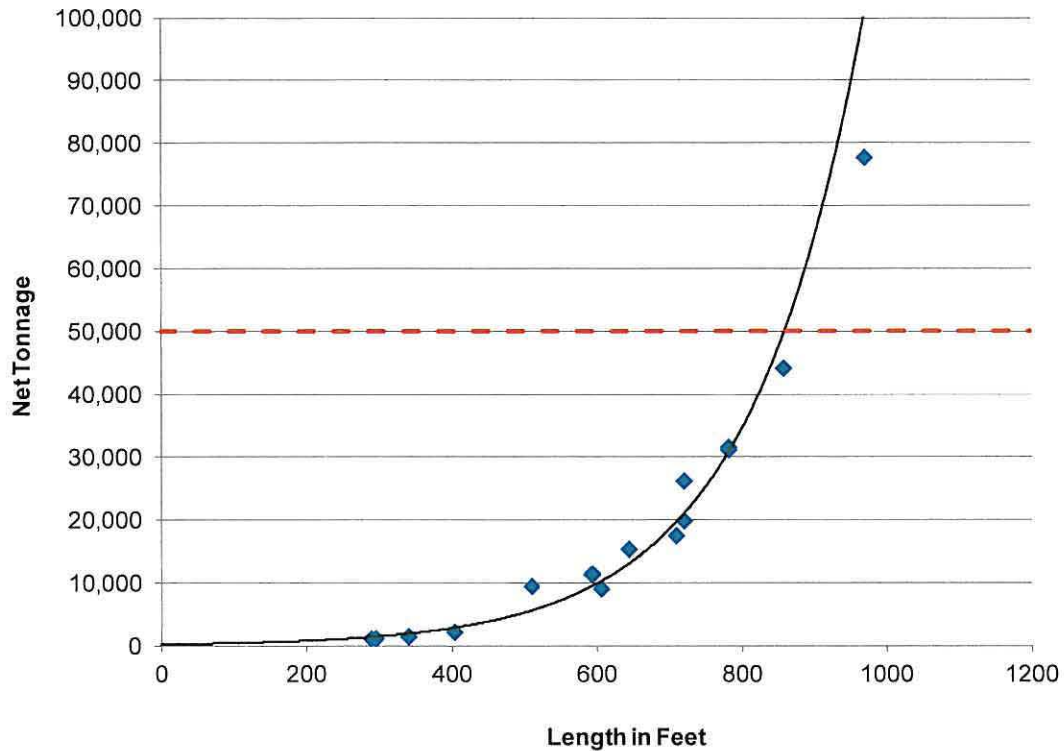
Figure 5. Revenue Comparison for a 950 foot Cruise Ship



In this example, the suggested tonnage rate would increase revenues by more than \$11,500, putting Kodiak ahead of revenues generated in Ketchikan, Juneau or Seward.

The relationship between net tonnage and length of vessel is not linear. As shown in the figure below, for the vessels recorded as visiting Kodiak between 2008 and 2011, net tonnage increased exponentially relative to length of vessel.

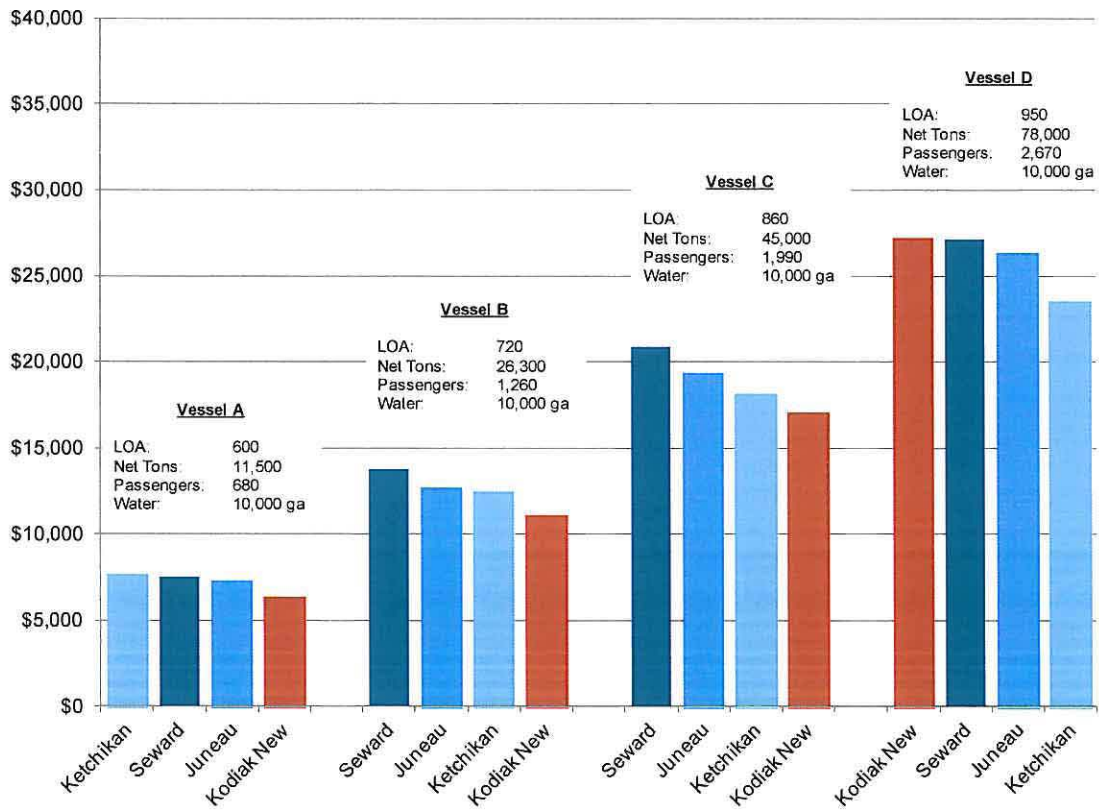
Figure 6. Net Tonnage and Length Overall of Vessels Calling Kodiak, 2008-2011



Given the sharp tonnage increases for larger vessels, the study team recommends that the suggested tonnage charge of \$0.30 be capped at or near 50,000 net tons (the dashed line in the figure above) to preserve Kodiak’s market competitiveness. For example, a vessel that is 860 feet in length, 45,000 net tons, and holds 1900 passengers (characteristics similar to the Sun Princess) which purchases 10,000 gallons of water will be charged less in Kodiak than in Juneau, Ketchikan or Seward. Beyond this point the study team feels that Kodiak’s competitiveness will suffer.

Figure 7 summarizes the impact that the non-capped, \$0.30 tonnage rate would have on revenues in Kodiak. The figure shows expected revenues generated by four different sized cruise ships docking for twelve hours at Kodiak, Seward, Ketchikan and Juneau. With an uncapped rate, vessels that exceed about 50,000 net tons will likely have to pay more in fees to dock in Kodiak than any of the other three ports.

Figure 7. Revenue Comparison for Four Vessel Sizes



References

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Clerk's Note: Please replace the Kodiak Harbor Rate Study in your work session packet with this one, which is the current version.



Memorandum

Date: February 17, 2012
To: Aimée Kniazowski, City Manager, City of Kodiak
Marty Owen, Harbormaster, City of Kodiak
From: Mike Fisher
Re: Kodiak Harbor Rate Study

This memo provides moorage rate recommendations for the Kodiak Harbor System based on a life cycle cost model that considers all of the costs associated with operations, maintenance, and replacement of harbor facilities. Our findings and recommendations are presented below, followed by a discussion of the analytical process, data, and assumptions used in the analysis.

In reviewing the information in this memorandum, it is important to keep in mind that two factors are at play in determining moorage rates. First and foremost, the life cycle cost approach suggests an increase in rates is needed to cover the full cost of the harbor system's facilities, from operations and maintenance to replacement after they have reached the ends of their useful lives.

The second factor affecting the rates presented here is the allocation of costs to each of the different vessel sizes. While many of the length-based rate scenarios result in the average rate, the rates for each size class vary because of tiers that assign a higher per-foot rate to higher vessels and a lower per-foot rate to smaller vessels.

Rate Recommendations

Our model estimates an annualized life cycle cost of \$2,566,685. This cost is found by taking projected cash flows for operations, maintenance, and facility replacement and "discounting" them to 2012 dollars to find their net present value. The discounting process reduces the value of future cash needs based on a discount rate of 3.5 percent. Once future cash needs are determined, an annualized amount is calculated, which we have called the life cycle cost. The life cycle cost is the annual amount needed to be covered to ensure that future cash needs are met.

The annualized life cycle cost of Kodiak's harbor facilities considered in this study is \$2.567 million. The city received about \$2.092 million in revenue in fiscal year 2010¹, which results in a shortfall of

¹ This study uses revenues and expenses from fiscal year 2010, as this was the latest available information when the study began. Fiscal year 2011 data is now available and shows slightly higher revenues and slightly higher expenses. This revenue total includes moorage, pier and dock fees, and other fees and charges. Pier and dock fees and other fees and charges are included as fixed, offsetting revenues in the amount of \$392,000 annually. The revenue total omits administrative charges to other funds, rentals, and other to remain consistent with past rate-setting efforts.

\$475,000 when compared with the life cycle cost. It is important to note that the actual cash requirements vary from year to year due to replacement schedules of the harbor facilities.

Based on the 28,686 linear feet over which to allocate this cost, the model suggests an average moorage rate of \$75.57 per linear foot is needed to cover costs in fiscal year 2012, after adjusting for the current mix of permanent and transient users. Under a square footage approach, a moorage rate of \$5.13 per square foot is needed to cover costs in fiscal year 2012. These rates are expressed in real terms in 2012 dollars; therefore, the nominal rate to be charged in future years should be adjusted annually for inflation or an appropriate producer price index.

We have considered three alternative approaches for recommending changes to the rate structure, as described below. The first approach is to maintain the existing rate structure and adjust it to ensure it covers all costs. The second approach is to modify the size categories within the existing rate structure to ensure a more equitable distribution of costs. The third approach is to adopt a square-footage-based rate structure.

Rate Changes within the Existing Structure: After reviewing the rate structure currently in place for the Kodiak Harbor System, we believe the rate structure is well-designed with its tiered rates and relative sharing of costs across the different size classes. If the city elects to keep its existing tiered, length-based moorage structure, we recommend applying an across-the-board increase of 46.67 percent to the current rates². The city could implement this increase gradually to ease the burden on users. This will increase the average moorage rate to the level required to meet the annualized life cycle costs of all harbor facilities. Specific rates are shown in Table 3 under the “Flat Percentage Increase” column. The next section, “Alternative Cost Allocations and Rates Under Linear Moorage Rates,” looks at different rate scenarios based on the current structure.

Rate Changes and an Adjusted Structure: The city might also consider adopting some minor changes to its tier structure to adjust the lengths at which the rate increases. The benefit in doing so would be to smooth out some of the large increases from one rate class to another. For instance, rates increase roughly 50 percent with an increase of vessel length from the 41–60-foot range to the 61–80-foot range. The section titled “Cost Allocations and Rates Under An Alternative Rate Structure” considers an alternative rate structure.

Square-Footage-Based Rate Structure: If the city were to adopt a square-footage-based moorage structure, the life cycle cost would be allocated over a total of 422,356 square feet, based on the current (January 26, 2012) harbor users. This would result in a square footage life cycle cost of \$5.13, after adjusting for the current mix of permanent and transient ratepayers. Again, this rate is expressed in real terms in 2012 dollars; therefore, the nominal rate to be charged in future years should be adjusted annually for inflation or an appropriate producer price index. We understand this approach has some support from the Ports and Harbors Advisory Board and can be implemented with the city’s new marina management software. If the square footage approach has sufficient support to be implemented, we would recommend it based on its ability to account for space requirements and facility wear and tear with a single rate. The section titled “Rates Under Square Footage Moorage Rates” discusses this option.

² Note: If a monthly transient moorage option is offered, as discussed in this memo, the recommended rate increase would be 50.55 percent.

Alternative Cost Allocations and Rates Under Linear Moorage Rates

Based on the average linear moorage rate of \$75.57 needed to cover costs, this section looks at multiple options for rate changes. Each option would assign a different share of costs to different sizes of vessels while still generating the same level of revenue overall. Note that this is the rate for exclusive annual moorage; transient users would continue to pay one-sixtieth of the exclusive annual rate each day or, if implemented, a monthly rate of one-fifth of the annual rate. Further, these rates assume the city will increase rates 3.5 percent annually to account for inflation.

Starting from this estimated moorage rate of \$75.57 per linear foot, we have considered several scenarios for rate changes. The first set of scenarios considers the effects of rate changes based on the current mix of exclusive and transient users. Table 1 shows the average moorage rate, estimated revenue generated, and the percentage increase over current rates for each scenario.

Table 1. Exclusive Moorage Rate Recommendations, With Current Mix of Exclusive and Transient Users

Scenario	Average Moorage Rate (\$/lf)	Estimated Revenue Generated (\$)	Percentage Change from Base Case
Base Case (2011 Rates)	51.52	1,749,944.21	0.00
Flat Percentage Increase	75.57	2,566,684.53	46.67
Flat Rate for All Vessel Sizes	75.57	2,566,684.53	46.67

Source: Northern Economics, Inc. analysis

The second set of scenarios considers the effect of these rate changes, with the addition of a monthly transient use option as discussed in the assumptions section. The monthly rate is assumed to be one-fifth of the annual rate (with a five-month cap). Table 2 shows the results of each scenario with 10 percent of users opting for a monthly rate.

Table 2. Exclusive Moorage Rate Recommendations, With Monthly Transient Use Option

Scenario	Average Moorage Rate (\$/lf)	Estimated Revenue Generated (\$)	Percentage Change from Base Case
Base Case (2011 Rates)	51.52	1,579,975.02	0.00
Flat Percentage Increase	79.96	2,566,684.53	55.19
Flat Rate for All Vessel Sizes	79.96	2,566,684.53	55.19

Source: Northern Economics, Inc. analysis

The specific scenarios we considered in our analysis, based on the existing exclusive and transient user mix, are discussed below. Following the descriptions are tables summarizing the rates for each scenario, with the current user mix and with a monthly option.

- **Base Case:** This scenario assumes the rates effective July 1, 2011 remain in effect. The result of this scenario is an average moorage rate of \$51.52 per foot and a net loss of \$817,000 when all life cycle costs are included.
- **Flat Percentage Increase (Recommended Approach):** This scenario simply takes the base case scenario, with its tiered rates, and determines what rates need to be in order to cover the full life cycle cost of the harbor system. The life cycle cost model estimates annual revenue requirements of approximately \$2.6 million, which can be generated with an average moorage rate of \$75.57 per foot (a 46.67 percent increase).

- **Flat Rate for All Vessel Sizes:** As an alternative to the flat percentage increase, this scenario adjusts how revenue requirements are allocated across the different vessel sizes, resulting in a flat per-foot charge for all vessels, rather than a tiered rate. Smaller vessels would see an increase in rates and larger vessels would see a decrease in rates, relative to the flat percentage increase, even though the overall average rate would remain at \$75.57 per foot.

Table 3 shows the moorage rates under each of the scenarios for the existing mix of exclusive and transient users.

Table 3. Linear Moorage Rates for Each Scenario, With Current Mix of Exclusive and Transient Users

Slip Size (Linear Feet)	Scenario		
	Base Case	Flat Percentage Increase	Flat Rate for All Vessel Sizes
Exclusive Annual Moorage Rate (\$/Linear Foot)			
17	30.000	44.002	75.570
23	30.000	44.002	75.570
24	30.000	44.002	75.570
30	30.000	44.002	75.570
35	30.000	44.002	75.570
40	30.000	44.002	75.570
46	41.000	60.136	75.570
48	41.000	60.136	75.570
55	41.000	60.136	75.570
60	41.000	60.136	75.570
62	61.000	89.470	75.570
85	71.500	104.871	75.570
90	71.500	104.871	75.570
100	71.500	104.871	75.570
110	82.000	120.271	75.570
125	89.000	130.538	75.570
150	89.000	130.538	75.570
151	100.000	146.672	75.570

Source: City of Kodiak (2010), Northern Economics, Inc. analysis

Table 4 summarizes the moorage rates under each scenario with a monthly transient use option. The monthly rate is assumed to be one-fifth of the annual rate, with a five-month cap. We have assumed 10 percent of users would opt to pay the monthly rate.

Table 4. Linear Moorage Rates for Each Scenario, With Monthly Transient Use Option

Slip Size (Linear Feet)	Scenario		
	Base Case	Flat Percentage Increase	Flat Rate for All Vessel Sizes
	Exclusive Annual Moorage Rate (\$/Linear Foot)		
17	30.000	46.558	79.960
23	30.000	46.558	79.960
24	30.000	46.558	79.960
30	30.000	46.558	79.960
35	30.000	46.558	79.960
40	30.000	46.558	79.960
46	41.000	63.629	79.960
48	41.000	63.629	79.960
55	41.000	63.629	79.960
60	41.000	63.629	79.960
62	61.000	94.667	79.960
85	71.500	110.962	79.960
90	71.500	110.962	79.960
100	71.500	110.962	79.960
110	82.000	127.258	79.960
125	89.000	138.121	79.960
150	89.000	138.121	79.960
151	100.000	155.192	79.960

Source: City of Kodiak (2010), Northern Economics, Inc. analysis

Optional Late Payment Penalty

In addition to the scenarios discussed above, we also considered the effects of assessing a late payment penalty or pre-payment discount.

Offering a discount for the pre-payment of moorage has a similar effect to that of changing the cap on transient rates, except that the effects are split between those who pre-pay and those who do not. If every user were to receive a pre-payment discount, the moorage rates would change to exactly offset the discounts. If a portion of users were to receive a pre-payment discount, they would experience slightly lower costs, while those who did not receive the discount would see higher rates. This is the nature of a life cycle cost model; someone has to cover the costs that are waived for selected classes of users, resulting in a zero-sum game.

An optional approach to offering a pre-payment discount is to assess an administrative fee for post-payment of moorage. The city’s Vessel Mooring Agreement states that moorage will be pre-paid unless credit is approved in advance, so users have been informed of the pre-payment requirement. Assessing an administrative fee for post-payment of moorage would likely be defensible as long as it were based on the cost of tracking down users and collecting payment.

A review of moorage agreements for selected harbors in south central Alaska found that most offered a pre-payment discount, but none indicated a late payment penalty other than giving a warning that late payment can lead to impoundment, a lien, and/or legal fees. For example, the City of Homer offers a \$5 per day discount for proper registration and prepayment of transient daily moorage. The City of Cordova offers a \$0.15 per foot discount for prepaid daily moorage versus billed moorage. The City of Seward’s moorage agreement explicitly states that moorage fees are due in advance.

Cost Allocations and Rates Under An Alternative Rate Structure

As an alternative to the existing tiered structure, the city might consider a slightly different structure that would smooth out some of the large increases in the current structure. The current structure, shown in Table 5, has varying rate increases (on a percentage basis) between different vessel size classes.

Table 5. Current Tiered Moorage Rate Structure

Vessel Length	Exclusive Annual Moorage Rate (\$ per Foot)	Percentage Increase Over Previous Length Range	Percentage Increase Over Lowest Rate
0–20	30.00	-	-
21–30	30.00	0.00	0.00
31–40	30.00	0.00	0.00
41–60	41.00	36.67	36.67
61–80	61.00	48.78	103.33
81–100	71.50	17.21	138.33
101–120	82.00	14.69	173.33
121–150	89.00	8.54	196.67
≥151	100.00	12.36	233.33

An alternative structure, shown in Table 6, has a gradually decreasing rate of increase as vessels become larger, which smooths out the increases. This alternative structure also has two fewer size classes, with classes more closely linked to slip sizes and common vessel sizes.

Another result of the alternative rate structure is a more pronounced difference between the smallest size class and the largest, which is intended to provide a more equitable distribution of costs across all vessel sizes. This is reflective of the greater loads placed on facilities that handle larger vessels and the greater space requirements of these longer vessels, such as larger turning radii.

Table 6. Revised Tiered Moorage Rate Structure with New Rates

Vessel Length	Exclusive Annual Moorage Rate (\$ per Foot)	Percentage Increase Over Previous Length Range	Percentage Increase Over Lowest Rate
0–35	40.43	-	-
36–48	54.18	34.0	34.0
49–62	70.43	30.0	74.2
63–85	89.45	27.0	121.2
86–110	111.81	25.0	176.6
111–150	137.52	23.0	240.1
≥151	167.78	22.0	315.0

Rates Under Square Footage Moorage Rates

Based on a square footage moorage rate of approximately \$5.13 needed to cover life cycle costs, Table 7 looks at the implications of a \$5.13 per square foot moorage rate for selected vessels using Kodiak harbor facilities. The table does not provide representative data but rather highlights rate changes for some of the vessel width extremes. Vessel lengths were selected simply based on there being vessels in the harbors with wide ranges of widths.

Table 7. Rates Assessed Under the Square Footage Option

Vessel Length (Feet)	Vessel Width (Feet)	Total Annual Exclusive Moorage Cost (\$)	Cost Increase Relative to Base Case (%)
25	8	1,027	37
25	12	1,540	105
32	8	1,314	37
32	17	2,792	191
47	12.5	3,015	56
47	24	5,790	200
48	12	2,956	50
48	17	4,188	113
58	16	4,763	100
58	26	7,740	225
98	24	12,072	72
98	34	17,102	144

Note: For illustrative purposes only. Not adjusted for slip length for vessels shorter than their slip.

As seen in the table, the rate increases relative to the current rates (base case) increases with length but also increases for wider vessels within a given length range.

A few aspects of this analysis are important to note:

- We have assumed the city would maintain the same system for assessing transient moorage.
- Vessels are assumed to be rectangular, in that there has not been any adjustment for the actual square footage of the vessel at the waterline or for the curvature of each vessel. If a vessel is shorter than its slip, the slip length and vessel width are used to find the area.

- The analysis does not assume a minimum width.
- The analysis does not take into account a tiered, square-footage-based rate structure. If tiers were added to the square footage method, it would allow the city to fine tune the rates to specific vessel sizes.

A Three-Year Plan for Achieving Full Life Cycle Cost-Based Rates

Due to the size of the rate increase being proposed, the city may opt to implement a three-year plan for achieving life cycle cost-based rates rather than implement a single, large increase. The three tables in this section provide three-year rate plans to reach the full life cycle cost under the existing tier structure (flat percentage increase scenario), the alternative tier structure, and square-footage-based rates. It is important to note that costs will increase over time due to inflation. Each table shows a project life cycle cost based on a 3.5 percent inflation rate.

Table 8 shows the three-year plan for exclusive annual moorage rates under the existing tier structure. The table assumes a flat percentage increase is adopted.

Table 8. Exclusive Annual Moorage Rate (\$/Linear Foot) for a Three-Year Plan for Achieving Life Cycle Cost-Based Rates for the Existing Tier Structure and Flat Percentage Increase Scenario

Slip Size (Linear Feet)	Year			
	2011	2012	2013	2014
17	30.00	34.67	40.71	47.14
23	30.00	34.67	40.71	47.14
24	30.00	34.67	40.71	47.14
30	30.00	34.67	40.71	47.14
35	30.00	34.67	40.71	47.14
40	30.00	34.67	40.71	47.14
46	41.00	47.38	55.64	64.42
48	41.00	47.38	55.64	64.42
55	41.00	47.38	55.64	64.42
60	41.00	47.38	55.64	64.42
62	61.00	70.49	82.78	95.84
85	71.50	82.62	97.03	112.34
90	71.50	82.62	97.03	112.34
100	71.50	82.62	97.03	112.34
110	82.00	94.76	111.28	128.84
125	89.00	102.85	120.78	139.84
150	89.00	102.85	120.78	139.84
151	100.00	115.56	135.70	157.12
Revenue	1,749,944	2,022,191	2,374,743	2,749,497
Life Cycle Cost	2,479,888	2,566,685	2,656,518	2,749,497
Shortfall	729,944	544,494	281,775	0

Table 9 shows the three-year plan for exclusive annual moorage rates under the alternative tier structure.

Table 9. Exclusive Annual Moorage Rate (\$/Linear Foot) for a Three-Year Plan for Achieving Life Cycle Cost-Based Rates for the Alternative Tier Structure

Slip Size (Linear Feet)	Year			
	2011	2012	2013	2014
17	30.00	31.85	37.41	43.31
23	30.00	31.85	37.41	43.31
24	30.00	31.85	37.41	43.31
30	30.00	31.85	37.41	43.31
35	30.00	31.85	37.41	43.31
40	30.00	42.68	50.13	58.04
46	41.00	42.68	50.13	58.04
48	41.00	42.68	50.13	58.04
55	41.00	55.49	65.16	75.45
60	41.00	55.49	65.16	75.45
62	61.00	55.49	65.16	75.45
85	71.50	70.47	82.76	95.82
90	71.50	88.09	103.45	119.77
100	71.50	88.09	103.45	119.77
110	82.00	88.09	103.45	119.77
125	89.00	108.35	127.24	147.32
150	89.00	108.35	127.24	147.32
151	100.00	132.19	155.23	179.73
Revenue	1,749,944	2,022,191	2,374,743	2,749,497
Life Cycle Cost	2,479,888	2,566,685	2,656,518	2,749,497
Shortfall	729,944	544,494	281,775	0



KODIAK HISTORICAL SOCIETY

101 MARINE WAY, KODIAK, ALASKA 99615
(907) 486-5920 • FAX (907) 486-3166

E-MAIL: baranov@ak.net

WEB PAGE: <http://www.baranovmuseum.org>

April 6, 2012

Mayor Pat Branson and City Council Members
City of Kodiak
P.O. Box 1397
Kodiak, AK 99615

Dear Mayor Branson and City Council Members,

With this letter, the Kodiak Historical Society respectfully requests your continuing support in the operation of the Baranov Museum. As you know, the City of Kodiak and the Society have been operating the museum in partnership since 1972. Together we have built a first class museum, combining a unique National Historic Landmark building with an outstanding collection of historic artifacts, informative exhibits, and well-attended programs that encourage the exploration and understanding of Kodiak history.

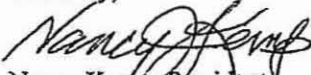
For FY2013 we are requesting \$75,500 in operating support from the City of Kodiak. This amount is equal to approximately 25% of our annual operating budget, and represents a \$5,500 increase over FY2012. The requested increase of \$5,500 would allow for the provision of 10% matching funds for a federal Institute of Museum and Library Services grant (award notification pending July 2012) in the amount of \$55,500. Enclosed please find the proposal abstract outlining the goals and project activities.

As you know, we have devoted considerable energy and attention over the past four years to necessary preservation work on the museum facilities. With this work successfully behind us, we have turned our research and development focus to the renovation of our permanent exhibits. In addition to maintaining museum operations, high standards of collections care, and our school-age educational programming, we have:

- Hired our first full-time Curator of Collections position to facilitate greater research, writing, and publishing on the collections, and support the renovation of the permanent exhibits.
- Developed three temporary exhibits over the past 12 months exploring diverse themes of science, art and history. These exhibits include *The Big One: Earthquakes in the Pacific Northwest*, *Father Gerasim, Monk and Artist*, and *Whaling the Kodiak Grounds*.
- Secured two ~\$9,000 grants for expanded programming and exhibit development, including an award from the Alaska Humanities Forum to prepare an exhibit on Kodiak's Filipino community to debut October 2012.

Our staff works very hard to maximize operational support from the City by securing additional grant funds and donations from individuals. We have established positive and productive relationships with public agencies and private foundations on the state and national level, and will continue to seek outside funding to further our strategic goals. We appreciate your partnership very much and thank you for your continuing support.

Sincerely,


Nancy Kemp, President

The Kodiak Historical Society seeks a Museums for America grant in the amount of \$55,591 to support our project *Exhibit Renovation Phase I: Building Meaning*. With this project we will complete design development for 2,800 square feet of exhibits at the Baranov Museum in Kodiak, Alaska. The goal of this project is to complete the process of planning and design to enable the fabrication of exhibits that will fully capitalize on the museum's assets, and better reflect the diversity of our community both historically and presently. At the project's conclusion we will have a complete interpretive design, detailed floor plans for exhibit flow, and construction documents to guide fabrication.

We believe that exhibits at the Baranov Museum should engage visitors and increase their curiosity, knowledge and understanding of the history and characteristics of the Kodiak community. The Baranov Museum is a community history museum located within a National Historic Landmark facility, known as the Russian American *Magazin*. The *magazin* is a two-story, 4,000 square-foot log structure built by the Russian-American Company in 1808 as a warehouse for their wealth of seal and sea otter furs. The building's ownership and evolving use over time provide an excellent framework for exploring 200 years of social, cultural and environmental history in coastal southwest Alaska through themes of immigration, industry and natural resource exploitation. The primary themes for exhibit development are 1) The *magazin* in which the museum is housed bears witness to over 200 years of Alaska history, and 2) Cultural diversity is central to Kodiak's historic and contemporary reality.

This project will begin in August of 2012 and project activities will extend to July of 2013. Project activities include concept design, schematic design, detailed design development stage, and, ultimately, the creation of final design documents. Throughout the process we will seek ideas and feedback from the Kodiak community through surveys and public meetings.

Curator of Collections Anjuli Grantham will lead interpretive planning and design for the project. She will be responsible for research, exhibit narrative development, drafting exhibit text and audiovisual scripts, and selecting objects, artifacts and images. IMLS funds will support the hiring of exhibit design consultant Sarah Asper-Smith of Exhibit AK. Ms. Asper-Smith will assist museum staff with the exhibit plan and creation of specific exhibit elements. Her deliverables to the project will include detailed floor plans, elevation drawings of each exhibit, graphic design layouts, and construction drawings, including fabrication details and specifications such as casework construction, artifact placement, audiovisual hardware systems and lighting requirements.

The project's audience is the diverse community of Kodiak Island. Through the exhibition planning process, the museum will be able to share its cultural assets with the community and in turn, understand what objects and stories most resonate with our local audience. In this process, the museum and the community will be forging connections and building meaning. The interpretive exhibits that this project makes possible will enhance the visitor experience by engaging visitors intellectually, emotionally, and physically. The stories communicated through the exhibits will equip visitors to connect present-day community concerns and realities with related historic events.

Kodiak Historical Society Strategic Plan 2010 - 2015

Core Purpose: Preserve and share Kodiak history

Core Values: Preservation, Education, Community, Innovation, Excellence

The Kodiak Historical Society creates opportunities for the public to explore the natural, cultural and artistic heritage of Kodiak Island and neighboring communities. We believe that our collections are catalysts in the learning process and the Baranov Museum is a community gathering place where knowledge is discovered, shared and exchanged.

Strategic Goals:

Goals for 2010 - 2015 were developed by the Kodiak Historical Society Board and staff with consideration of internal resources, external influences and with the assistance of the following assessment tools:

1. Collections Condition Assessment completed by Conservator Dana Senge of DKS Conservation Services, 2007.
2. Comprehensive Visitor's Survey using the American Association of State and Local History's Performance Management Program, 2007.
3. American Association of Museum's Museum Assessment Program , 2009.

Collections

- Provide an optimal environment for preservation and access.

Most critical work includes collections re-housing to create safe permanent supports for artifacts in storage, and improved exhibit cabinetry and mounts in the museum gallery. Current exhibit cabinetry do not provide a sealed environment, are susceptible to vibrations caused by visitor traffic and would likely cause significant damage to objects housed within in the event of an earthquake, feature fluorescent bulbs potentially damaging to organic materials, and generally show signs of wear due to age.

- Improve intellectual control and access to the collections through cataloguing, digital photography and web publishing.

The Society owns and cares for a unique and significant collection of objects, artifacts, photographs and archival material relating to the history of Kodiak Island and neighboring communities. Although the museum has successfully increased museum visitation numbers over the past five years, there remains a greater potential to share the collections with a broader audience through research, cataloguing, digital photography and web publishing. To fulfill this potential, KHS will expand the Curator of Collections position from PT to FT, with responsibilities broadened to collections-based research and publication (both traditional media and through an online database) to advance our public service mission.

December 10, 2010

- Develop a long-range conservation plan for the collections.

A conservation plan provides a strategy for the long-term care of collections including the management of the environment surrounding the collections (preventive conservation) and the treatment of individual objects. A conservation plan will identify the conservations needs of the collections, prioritize them and guide the allocation of resources to deal with them.

- Explore building, acquiring or leasing additional storage space for the collections.

2010Comments: Collections storage re-housing work will result in more proficient use of existing space and additional available space. However, there is not adequate storage space in the historic facilities for the larger objects in the collection, specifically the furniture, much of which remains on exhibit permanently because of a lack of adequate storage facilities.

- Pursue thoughtful and strategic deaccessioning of objects not supported by the KHS Collections policy.

Audience

- Renovate the permanent exhibits to focus on storytelling and the interpretation of history narratives supported by the building and collections.

Exhibits at the Baranov Museum are intended to increase the knowledge and understanding of the significance Kodiak Island and neighboring communities, and their development over time. Renovating the exhibits to focus on telling Kodiak stories in a complete and deliberate way, rather than simply sharing individual extraordinary artifacts, will improve visitor comprehension of Kodiak history.

- Develop and deliver educational programming to encourage life-long learning.
- Reactivate the membership committee to develop relationships based on meaningful and personal connections. Develop a donor recognition strategy.

Business Planning

- Draft a case statement for the Museum's Endowment fund to help explain to potential donors the endowment's role in the Museum's financial stability.
- Develop a service agreement with the City of Kodiak for Museum services over the long-term.
- Develop a marketing plan to effectively promote the Museum's programs and services through a variety of traditional and new media.
- Pursue accreditation through the American Association of Museum's Accreditation program.

December 10, 2010


Financial Contributions to the Baranov Museum
from the City of Kodiak for Operations & Programs

1972-73	\$ 1,972.18
1973-74	\$ 2,106.21
1974-75	\$ 3,282.34
1975-76	\$ 4,016.86
1976-77	\$13,695.00
1977-78	\$18,000.00
1978-79	\$21,300.00
1979-80	\$22,300.00
1980-81	\$31,085.00
1981-82	\$44,870.00
1982-83	\$64,400.00
1983-84	\$71,653.00
1984-85	\$76,500.00
1985-86	\$69,863.00
1986-87	\$79,300.00
1987-88	\$70,700.00
1988-89	\$82,000.00
1989-90	\$82,000.00
1990-91	\$85,500.00
1991-92	\$88,932.00
1992-93	\$86,354.00
1993-94	\$85,589.00
1994-95	\$86,500.00
1995-96	\$86,000.00
1996-97	\$87,500.00
1997-98	\$87,500.00
1998-99	\$92,000.00
1999-0	\$92,000.00
2000-01	\$92,000.00
2001-02	\$92,000.00
2002-03	\$92,000.00
2003-04	\$92,000.00
2004-05	\$50,000.00
2005-06	\$50,000.00
2006-07	\$50,000.00
2007-08	\$57,000.00
2008-09	\$60,000.00
2009-10	\$60,000.00
2010-11	\$70,000.00
2011-12	\$70,000.00



MEMORANDUM

TO: Mayor Branson and City Councilmembers

FROM: Aimée Kniazowski, City Manager 

DATE: April 24, 2012

RE: Work Session Agenda Item #6 – Discussion of Revenue Increase Plan

The City's General Fund revenues have remained relatively stable over the years and are used to pay for government services like police, fire, finance, library, parks and recreation, public works, and other primary governmental functions. The major source of revenue in the General Fund is the local sales tax, which makes up approximately 54% of the fund revenues. The next largest source comes from various state revenue sources and contributes about 12% of General Fund revenues. This source is unpredictable, and the City has no control over revenue received from these external sources. Property taxes make up only 5% of the General Fund revenues. The City's mill rate has been set at 2 mills since 1985, and while the tax is predictable, it provides only minimal revenues to the General Fund.

The City has not increased its primary source of revenue, sales tax, in 20 years, but the cost of doing business for the City has risen dramatically since 1993 as it has for local residents and businesses. The adjusted CPI has risen over 30% since 1999 alone. The City pays more for personnel costs, supplies, and equipment now than it did in 1993. It costs more to maintain, repair, upgrade or replace important infrastructure like roads, buildings, airports, utility systems, parks, and docks. It costs more to meet unfunded state and federal mandates like the UV treatment plant and the wastewater discharge permits and regulatory requirements like OSHA, EPA stormwater treatment and prevention plans, and spill prevention plans and systems.

Below is a summary of City sales tax history:

- 1956 – 2% Sales Tax initiated
- 1961 – Sales Tax was raised to 3%
- 1969 – Sales Tax was raised to 5%
- 1983 – 5% Transient Room Rental Tax initiated
- 1993 – Sales Tax was raised to 6% and Transient Room Sales Tax to 11% (5% Transient Tax + 6% Sales Tax) (20 years since last sales tax increase)**
- 2004 – Sales Tax Cap was raised from \$500 to \$750

The General Fund contributes annual allocations to the following funds to fund capital projects and other improvements:

- Street Capital Improvement Fund - \$450,000
- Harbor Capital Improvement Fund - \$500,000
- Parks & Recreation Capital Improvement Fund - \$50,000

Historically the City has used the General Fund fund balance to balance the General Fund budget and provide the annual allocations to the Streets, Harbor, and Parks and Recreation capital improvement funds as noted above. Over time the fund balance has been used without a plan to replenish it. If the City continues on this course, the fund balance reserves will not be adequate to contribute to new capital projects or to balance the operating expenses of the fund. City staff has noted that the trend for General Fund revenues is relatively static while expenses are increasing each year resulting in an increased reliance on and use of fund balance. The fund balance cannot sustain this decline and will decline to a point which will be below the recommended practice of two months of operating expense reserves.

The trends and 5 year revenue and expense projections as presented to City Council on January 10th indicate that the City needs to take action to increase revenues, decrease expenses, or some combination of both in order to maintain a viable financial position (see Attachment B).

On January 14, 2012, Council held a day-long special planning meeting to identify what financial preconditions would be necessary to care for the existing infrastructure and resources and to plan for the future. Several scenarios were discussed (see Attachment C), and Council decided their goal was to ensure Kodiak remains a viable community with a solid future. This discussion resulted in Council's policy decision to increase revenues to cover current costs and meet current needs, to avoid the use of fund balance to balance the budget each year, and to take steps to replenish the fund balance before it falls below the required level 2-6 months of operational reserves. The most effective way to meet current needs and cover the large annual shortfalls without using fund balance requires an increase in the sales tax and increasing or eliminating the sales tax cap. After reviewing several revenue scenarios, Council decided to increase the sales tax to 7% and increase the sales tax cap to \$3,500 which is estimated to generate an additional \$3 million per year (see Attachments D and E).

In order to make those changes, Council must amend KCC 3.08, the portion of the City Code dealing with sales tax and the sales tax cap. This proposed amendment will be introduced for first reading at Council's April 26, 2012 regular meeting.

Taking this step to raise taxes is a challenge for the City and the community. However, steps have to be taken to alleviate the continuing drain on the fund balance. The City can no longer defer action on this issue, and the City Council recognizes this. They want to maintain what Kodiak already has to offer, and they want to keep our community's future bright. Cutting services will not allow them (or us) to reach that goal, but increasing revenues for the first time in 20 years will help ensure we can address continually rising costs and allow the City to remain a fiscally viable organization.

Attachments:

- Attachment A: Kodiak Sales Tax History
- Attachment B: City revenue projections for all major funds
- Attachment C: January 14 planning meeting highlights
- Attachment D: Sales tax and tax cap revenue projections
- Attachment E: Summary report from January 14, 2012 planning meeting



SALES TAX HISTORY

Includes notes on relationship to exemption of Borough
personal property tax

At a special election held February 7, 1956, followed by passage of Ordinance 205 on August 27, 1956, the voters and the Council established a two percent sales tax. One percent was allocated for boat harbor construction and the remaining one percent for streets. When \$500,000 was collected the Council was to decide if the tax should be continued. Personal and real property taxes were both levied and collected by the City because the Borough was not incorporated.

On October 3, 1961, an election was held on Ordinance 245. This ordinance exempted City residents from personal property tax and raised the sales tax to three percent. One percent was allocated for the boat harbor; one percent to street improvements; and one percent for general municipal purposes. Resolution Number 3-62 called for a special election on March 27, 1962, to ask the voters whether to return to the two percent sales tax. Ordinance 249 was passed by the Council on April 12, 1962. It ratified the October 1961, and the March 1962 elections and set the rate at three percent.

In 1963, the Borough was incorporated and the City became liable for personal property tax payments to the Borough under Alaska Statute 29.53.025(c)(2) which read: "a home rule or first class city shall have the same power to grant exemptions or exclude property from borough taxes that it has as to city taxes, provided that the exemptions or exclusions have been adopted as to city taxes and further provided that the city appropriate to the borough sufficient money to equal revenues lost by the borough because of the exemptions or exclusions, the amount to be determined annually by the assembly without weighted voting."

Ordinance 327, passed in 1968, designated two percent of the sales tax for public works projects and one percent for general municipal purposes.

In October 1968, a five percent sales tax proposed to the voters failed. However, the Council passed Ordinance 330 initiating the five percent sales tax to be effective July 1, 1969. On June 26, 1969, the Council declared a one-year moratorium on the effective date of Ordinance 330. In 1970, the Council again postponed the effective date one year. It was never brought up in 1971.

In 1975, Ordinance 437 was passed allocating one and one-half percent of the sales tax to public works projects; one-half of one percent for general municipal purposes; and one percent for Kodiak Island Borough personal property tax.

On July 1, 1977, Ordinance 496, eliminating any designation of the sales tax, went into effect. The sales tax was to go into the general fund for allocation by the Council during the budget process.

On November 28, 1977, the Council passed Ordinance Number 508, repealing the personal property tax exemption, to become effective December 28. On December 22, 1977, the Council repealed Ordinance Number 508 and passed in the first reading Ordinance 513, which repealed the exemption from Borough ad valorem taxes only. This maintained the exemption from City personal property tax. At the October 3, 1978, regular election this measure went to the voters as Proposition #4 and was defeated.

Ordinance Number 557, effective October 1, 1979, increased the rate to five percent and dedicated one percent for new road improvements construction, paving, and major contracted maintenance; one percent for harbor and port capital improvements; and three percent to the general fund to be appropriated as determined by the Council. This was done without a vote of the people just before the State Legislature made a referendum vote required for "increasing the rate of levy of sales tax" under AS 29.53.420.

On October 8, 1981, the Council passed Ordinance Number 619 which again exempted personal property from City ad valorem tax but allowed the Borough to assess the tax if they so chose. At a joint City/Borough Worksession held November 19, 1981, the Council agreed to repeal this ordinance and agreed to continue reimbursing the Borough for personal property taxes provided the Borough changed the classification of boats so that boats were only taxed at \$5.00 or \$15.00, based on tonnage. This the Borough did by approving Borough Ordinance No. 81-50-0 as authorized by AS 29.53.025(b)(1). This Alaska Statute was repealed effective January 1, 1986. (See Note 1.)

Ordinance Number 667, which would have amended KCC 3.04.010(b) by repealing the exemption of personal property from assessment and levy of ad valorem taxes, was approved in the first reading March 24, 1983. A public hearing was held April 14 and action was postponed to the July 28 meeting. At that time a motion to amend the ordinance to include provisions for placing the matter on the October ballot failed and a motion was made to reconsider the amendment at the August 11 meeting. The vote on approving Ordinance Number 667 in the second reading failed on a tie vote.

Ordinance Number 676, effective July 1, 1983, initiated a five percent transient room rental sales tax.

Ordinance Number 705, which would have repealed the provision of the Kodiak City Code exempting personal property from assessment and levy of ad valorem taxes, failed in the first reading October 13, 1983. This ordinance was identical to Ordinance Number 667 which failed earlier in the year. One of the reasons cited for the failure of Ordinance Number 667 was opposition to taking action on the repeal until the Borough had exempted business inventories from the tax. The Borough had passed Ordinance Number 83-35-0,

exempting business inventories from personal property tax on September 6. Another reason for opposition to the repeal was the Attorney's opinion that it could not be reinstated once it was withdrawn. (See Note 2.)

Ordinance Number 757, effective April 13, 1985, allocated the five percent transient room rental tax as follows: seventy percent or less to a Council-approved tourism program; twenty percent or more for tourism enhancement projects, such as beautification, within the City, development of which shall be solely at the Council's discretion; and ten percent for the administrative costs associated with such programs.

Ordinance Number 800, presented to the voters as Proposition #4 and Proposition #5, was approved at the October 7, 1986, election and ratified October 14, 1986. These propositions were placed on the ballot because the ten million dollar maximum imposed by Ordinance Number 557 had almost been reached. Proposition #4 continued the collection of one percent sales tax for new construction and major repairs for roads and parks. This dedicated tax allocated seventy-five percent for new capital road improvements by contract; fifteen percent for contractual repair of existing road improvements; and ten percent for new park construction and capital improvements. Proposition #5 approved the continued imposition of a one percent sales tax and allocated forty percent of the tax for new boat harbor development; twenty percent for development and improvement of the existing and planned wharves, docks, and berthing facilities; twenty percent for capital construction on the existing and planned wharves, docks, and berthing facilities; and twenty percent for support facilities, such as parking and other services pertinent to the docks and boat harbor. The collection of these dedicated sales taxes would continue until December 31, 1996, unless further ratified by the voters at the October 1996 election.

Ordinance Number 676, which had instituted the five percent transient room rental sales tax in 1983, was reviewed after five years and renewed by Resolution Number 05-88, approved February 25, 1988, for a five year period ending June 30, 1993. It was renewed May 27, 1993, by Resolution No. 14-93 for a five-year period ending June 30, 1998; renewed April 23, 1998, by Resolution No. 98-10 for a five-year period ending June 30, 2003; and renewed May 8, 2003, by Resolution 03-06 for a five-year period ending June 30, 2008.

Ordinance Numbers 818 and 819, which would have repealed the exemption of personal property tax and the residential utilities exemption, were introduced May 28, 1987, in response to Borough Ordinance 87-19-0, introduced May 7, 1987, which would have taxed vessels at \$10 per ton, thereby increasing the City-paid personal property tax by approximately \$270,000. The Borough had agreed to tax boats at \$5 for vessels under five tons and \$15 for vessels over five tons rather than by value if the City exempted residential utilities from sales tax. The City exempted the utilities from sales tax, but when the Borough considered changing the method of taxing the boats, the City decided to consider repealing the exemption of the personal property tax and the residential utilities tax exemption. The Borough ordinance was defeated June 3, 1987, and Ordinance Number 818 and Ordinance Number 819 both failed June 16, 1987.

Borough Ordinance 89-09-0, which would have raised the vessel tax from \$15 to \$100 a

year for a vessel of more than five net tons, was introduced at the March 2, 1989 Borough Assembly meeting. This would have increased the City-paid personal property tax by approximately \$41,565. However, the Assembly approved a motion to withdraw the ordinance at the March 2 meeting.

Ordinance Number 964, effective July 1, 1993, increased the general sales tax rate to six percent, and the transient room sales tax rate to eleven percent. The ordinance also dedicated specific portions of both taxes to three separate funds or accounts, one for road improvements and capital equipment, and park construction and capital improvements; another for port and harbor capital improvements; and the third for tourism enhancement projects.

Ordinance 1047 exempted from sales tax the sales of pull tabs, raffle and lottery tickets, and other tokens of participation in authorized games of chance.

Ordinance 1084 clarified the taxable status of sales conducted in premises that are partially within and partially outside the City limits by adding to 3.08.010 the following subsection: (f) For the purposes of this section, any building or other place of business shall be considered to be within the city if any part thereof or any substantial part of a contiguous parking area or other supporting facility is within the city.

Ordinance 1105 amended 3.08.140 to allow acceptance for filing sales tax returns on the on the first business day following a due date falling on Saturday, Sunday, or a holiday.

Ordinance Number 1155, effective July 17, 2003, extended the 2% sales tax dedicated to road improvements, capital equipment, and park construction and capital improvements to December 31, 2013, unless further extended by the City Council.

Ordinance Number 1171, effective September 16, 2004, increased the sales tax cap from \$500 to \$750 for FY'05, \$1,000 for FY'06, \$1,250 for FY'07, \$1,500 for FY'08, and annually after FY'08, if warranted, by multiplying the current maximum beginning of each fiscal year by an inflation factor, which is determined by calculating the average percentage increase in the U.S. Department of Commerce Consumer Price Index for U.S. city average for all items indices.

NOTES:

1. AS 29.45.050(b)(1), effective 01/01/86, provides that a municipality may, by ordinance, classify boats and vessels for the purposes of taxation and may establish the assessed valuation of boats and vessels on the basis of their registered or certificated net tonnage. Borough Ordinance 85-3-0, approved in 1985, changed the tax to \$15 per year for all boats and vessels.

2. AS 29.45.050(d) stating "Exemptions or exclusions from property tax that have been granted by a home rule municipality in addition to exemptions authorized or required by law, and that are in effect on September 10, 1972 and not later withdrawn, are not affected by this chapter," was changed in 1985 with the enactment of AS 29.45.050(b)(3) which specifically granted municipalities the power to exempt personal property from taxation. The setoff payment to the Borough would have to be revived if the exemption were reenacted.

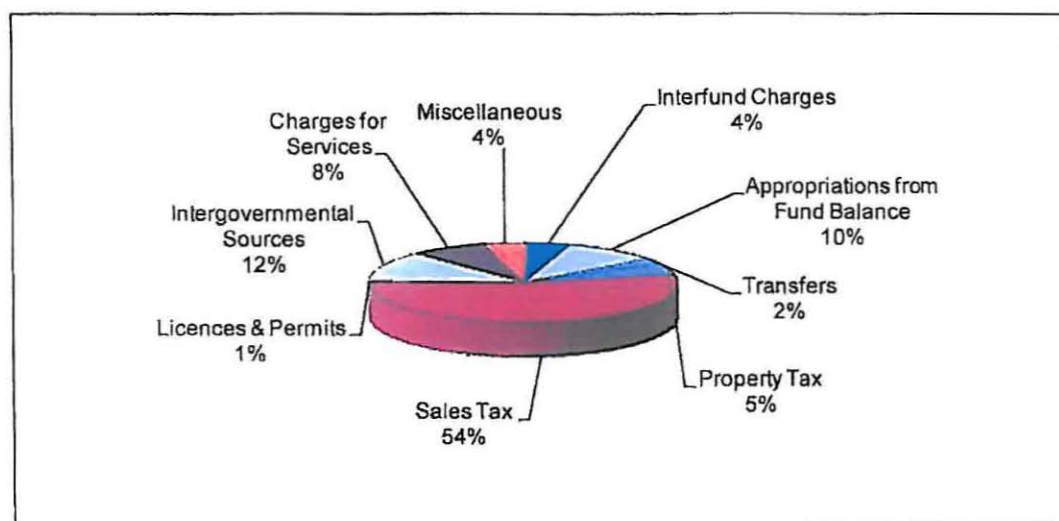
Fiscal Year 2013- 2016 Revenue & Expense Forecast

Governments find themselves in a difficult position when it comes to providing services and raising revenue; they seek to provide services while minimizing the apparent cost to the taxpayer. In order to develop the fiscal year 2013 budget, three major funds have been forecast to show the projected trends in revenues and expenses for fiscal years 2013 through 2016. The General Fund, Harbor Funds, and Water & Sewer Funds have been forecast based on a regression analysis forecasting method. This is a technique in which a straight line is fit to actual values from fiscal years 2007 through 2011, and the adopted budget for fiscal year 2012 to forecast the future. The forecasts seek to estimate the City's future positions if the status quo is maintained and to identify areas that may need to be addressed in order to protect the City's future ability to maintain adequate fund balance reserves.

GENERAL FUND

The General Fund is used to account for resources traditionally associated with government that are not required legally or by sound financial management to be accounted for in another fund. Principal sources of revenue are (Fig.1) sales tax, property tax, charges for services, and intergovernmental revenues. Primary expenditures (Fig.2) are for general government administration, public safety, public works, public recreation and transfers to other funds. The departments found within the General Fund include: Legislative/Legal, Executive, City Clerk, Finance, Police, Fire, Public Works, Engineering, Parks and Recreation, Library and Non-Departmental which is used for city wide expenses.

Figure 1: General Fund - FY 2012 Budgeted Revenues



The following applies to Fig.1 above:

Taxes - Includes property tax and sales tax. The real-property assessment role is final by June 1, causing tax revenue projections to be estimated prior to knowing the actual amounts of the assessment role. Sales tax revenues are collected on a quarterly basis, causing a lag time in annual projections.

Licenses and Permits – Includes permits for taxicabs, buildings, electrical, plumbing, animal licenses and other miscellaneous licenses.

Intergovernmental Sources –Includes State of Alaska Raw Fish Tax Sharing; Shared Fisheries Business Tax; Fuel, Alcohol and Utility Revenue Sharing; State grants and miscellaneous sources. The Alaska State legislative session coincides with the City's budgetary calendar, causing estimates to be based on historical data for the State funding levels to local governments. As the State budget is fine-tuned, adjustments are also made to the City's revenue estimates.

Charges for Services – Includes those services performed for the public associated with the following departments: police, fire, public works, parks and recreation, library, as well as miscellaneous administrative services.

Miscellaneous – Includes fines and forfeitures, interest, rents and royalties, judgments, restitutions, asset sales, and other revenues.

Interfund Charges – Includes the allocation of monies between funds to cover services rendered.

Transfers – Other Financing Sources (Uses). Includes the transfer of monies between funds to cover expenses without a requirement of repayment.

Use of Fund Balance – Relates to Net Change in Fund. This is the amount of fund balance used to balance the General Fund budget.

Figure 2: General Fund - FY 2012 Budgeted Expenditures by Function

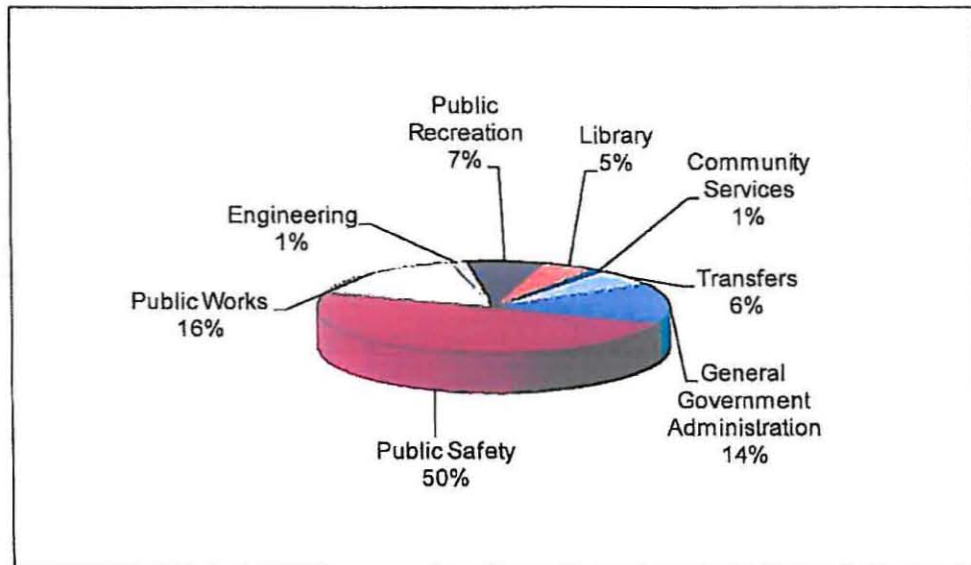
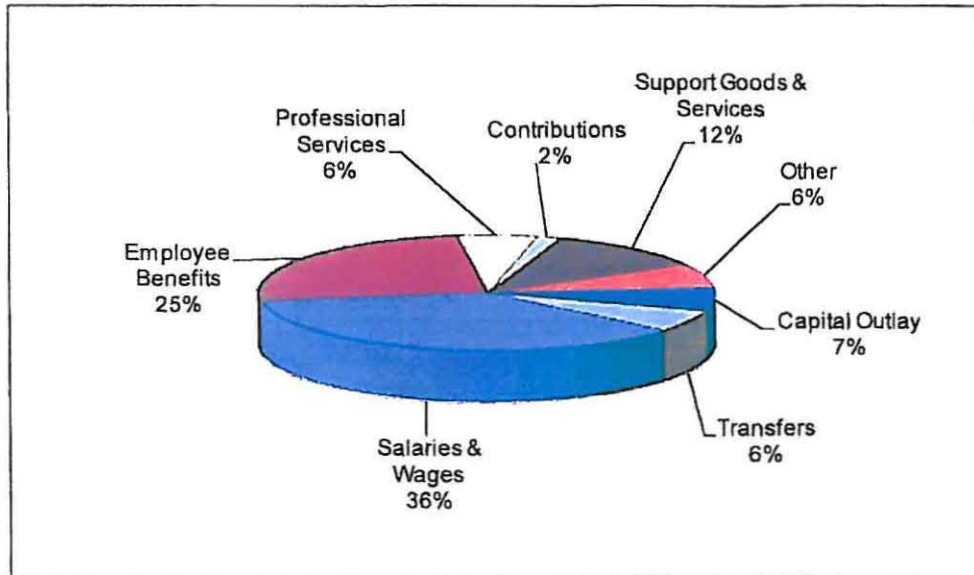


Figure 3: General Fund - FY 2012 Budgeted Expenditures by Account Classification



The following applies to Figure 3 above:

Salaries & Wages – Includes all wages paid to City employees for administrative and service delivery functions. Includes salaries and wages, temporary wages, overtime, holiday pay, sick and annual leave.

Employee Benefits – Includes group insurance, Social Security and Medicare payments, retirement contributions, unemployment compensation, and workman's compensation.

Professional Services – Includes all services contracted out.

Contributions – Includes contributions made to various local non-profit agencies.

Support Goods & Services - Includes expenditures for communications, advertising, dues and subscriptions, training and travel, supplies, and equipment rental.

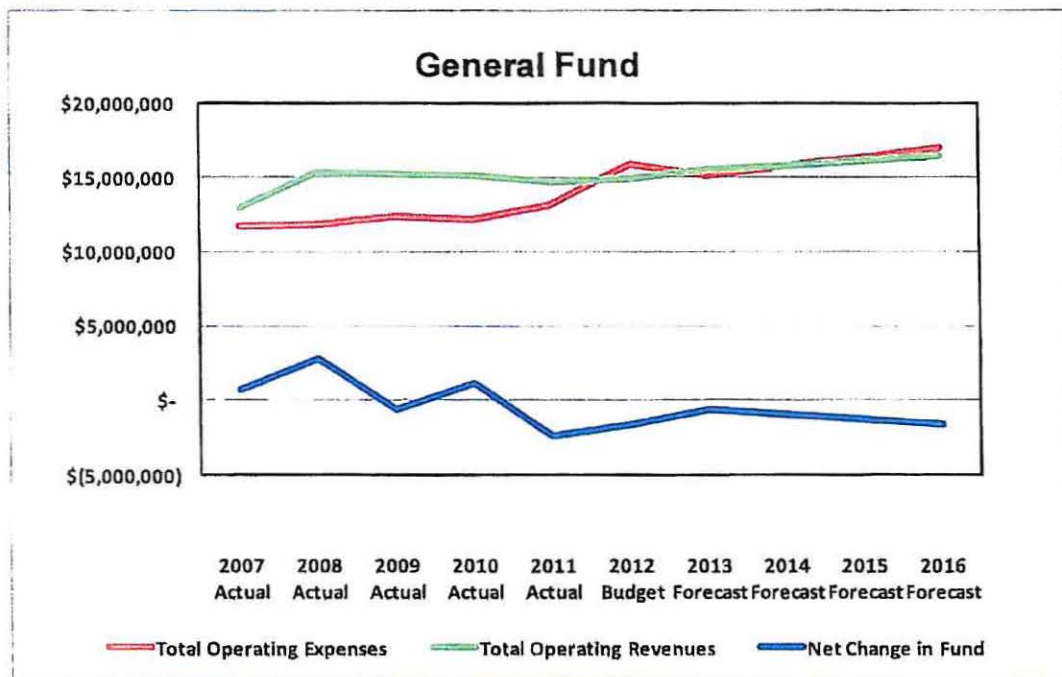
Public Utility Services – Includes electric, fuel oil, garbage, and any other utilities.

Other – Includes miscellaneous expenses.

Capital Outlay - Includes equipment purchases greater than \$5,000.

Transfers – Other Financing Sources (Uses). Includes transfers from the General Fund to other funds.

Figure 4: General Fund Forecast - Actual 2007-2011, Budgeted 2012, Forecast 2013-2016



Actual operating revenues have been greater than actual operating expenses from fiscal year 2007 through fiscal year 2011 (Fig.4). In fiscal year 2012, the adopted budget for operating revenues is less than the budget for operating expenses. This will result in a loss before any transfers are accounted for. Historically the City of Kodiak has used fund balance to balance the general fund budget. Over time the fund balance has been used without a plan to replenish it.

Under the City Sales Tax code 3.08.025, Allocation of Sales Tax, \$500,000 is allocated to harbor improvement capital projects, \$450,000 to street improvement capital projects, and \$50,000 to parks and recreation capital projects annually. This transfer contributes to the decline each year in fund balance forecasted from fiscal year 2013 through 2016.

The revenue sources for the general fund have been somewhat stable with sales tax (54%) (Fig.1) as the largest source of revenue. Sales tax can generate a great deal of revenue, it is relatively easy to collect, its costs to the taxpayer are opaque, and it is elastic (expands and contracts with the economy). In addition, because it is paid as a percentage of an item's cost, it automatically adjusts during inflationary periods. Unfortunately, it also is regressive, more volatile, and seasonal than property taxes, and relies on the cooperation of retailers.

Property tax makes up 5% of the total revenue for the general fund. The greatest advantage of property tax is its stability during economic downturns. It has been the most unpopular tax because unlike other taxes, it taxes an asset that may not generate any income for the taxpayer and is due in a lump sum.

The second largest revenue source is the intergovernmental revenues (12%) which are revenues received from the State. These revenues can be volatile and unpredictable. Unlike the sales and property tax that the City Council can control, the City has little control over the intergovernmental revenues received.

The trend for the general fund revenues is declining while the trend for expenses is increasing resulting in an increasing use of fund balance. The fund balance cannot sustain this decline and will decline to a point which will be below the recommended practice of two months of operating expense reserves.

Salaries and benefits are the largest expense in the General Fund, or 61% (Fig.3) of the total expense budget, with support goods and services at 12%. Continued increases in health insurance costs have caused significant increases in the benefit category. The City is faced with increased expenses due to inflation, increases in utilities, equipment replacement, and repairs and maintenance to an aging infrastructure. Overall expenses are estimated to increase at a greater rate than revenues beginning in fiscal year 2012 (Fig.4).

The trends and consequent projections indicate that the City will need to take action to increase revenues, decrease expenses, or some combination of both in order to maintain a viable financial position.

Table 1 on the next page shows the detail for the actual, budget and forecasted fiscal years. It is important to note that these forecasts do not include future planned capital projects, which would place further demands on the fund balances. .

TABLE 1: Forecast Analysis - Income Statement with forecast values along a linear trend using existing values 2007-2012

GENERAL FUND	Actual	Actual	Actual	Actual	Actual	Budget	Forecast	Forecast	Forecast	Forecast
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Fund Revenues										
Property Tax	632,102	659,440	651,699	685,999	765,539	773,500	795,339	825,041	854,744	884,446
Sales Tax	8,489,795	8,875,306	9,308,960	9,404,691	9,654,542	9,125,000	9,703,996	9,864,266	10,024,537	10,184,807
Licenses & Permits	51,535	102,748	76,679	70,489	93,193	75,000	86,521	88,877	91,234	93,590
PERS Relief	203,176	353,911	640,340	269,592	407,269	427,540	474,753	500,785	526,818	552,851
State Revenue Sharing	240,365	778,085	389,286	400,759	428,304	430,000	435,497	432,934	430,371	427,808
Department of Revenue - Fish Tax	760,099	823,097	946,635	1,046,010	740,229	1,000,000	991,039	1,021,047	1,051,055	1,081,063
DCED Shared Fisheries Tax	68,674	62,581	70,855	70,933	87,810	70,000	80,048	82,402	84,757	87,111
Fuel Tax Sharing	6,728	6,955	6,634	5,993	6,215	6,500	6,104	5,990	5,875	5,761
Other Intergovernmental Revenues	121,124	106,154	109,190	95,647	79,664	109,100	88,167	83,791	79,416	75,041
Police General	785,835	752,476	774,075	707,836	997,627	1,045,840	1,040,872	1,097,136	1,153,400	1,209,664
KIB Revenues	308,797	292,806	269,811	272,873	178,930	140,000	125,615	91,827	58,040	24,253
Parks & Recreation	117,557	107,881	98,194	117,300	121,688	116,000	118,378	119,884	121,391	122,898
Library	19,413	18,623	18,941	18,580	15,467	19,000	17,148	16,808	16,469	16,129
Other Charges for Services	73,027	47,618	71,872	77,789	42,394	70,700	61,761	61,150	60,539	59,927
Fines & Forfeitures	29,452	55,229	20,122	23,514	6,156	20,500	6,970	1,582	1,000	1,000
Interest	217,721	283,602	234,671	31,162	24,500	60,000	30,000	30,000	30,000	30,000
Rents & Royalties	128,906	97,030	173,089	157,688	125,476	150,000	156,238	161,250	166,261	171,273
Miscellaneous	59,772	1,200,191	762,229	1,066,199	268,423	503,800	616,316	608,568	600,819	593,071
Interfund Charges	609,740	760,429	690,920	678,820	662,622	790,378	758,585	775,661	792,738	809,814
Total Operating Revenues	12,923,818	15,384,163	15,314,201	15,181,871	14,706,050	14,932,858	15,593,346	15,869,002	16,149,464	16,430,508
Fund Operating Expenses										
Salaries & Wages	4,870,631	5,035,785	5,168,357	5,213,895	5,480,849	6,173,610	6,113,417	6,339,006	6,564,595	6,790,185
Fringe Benefits	3,474,894	3,337,676	3,315,039	3,019,330	3,463,215	4,315,475	3,915,988	4,038,381	4,160,776	4,283,170
Professional Services	602,053	558,970	627,702	654,944	812,982	940,626	947,761	1,018,679	1,089,597	1,160,516
Contributions	212,180	232,564	226,853	232,638	226,218	279,800	267,526	276,808	286,089	295,370
Support Goods & Services	1,536,988	1,655,159	1,619,069	1,735,339	1,721,232	1,993,852	1,970,161	2,044,415	2,118,670	2,192,924
Utility Services	392,152	493,199	443,579	503,316	547,851	535,234	579,799	606,630	633,461	660,293
Administrative Services	21,939	27,447	23,687	33,275	34,559	36,000	39,607	42,499	45,392	48,284
Capital Outlays	603,918	316,215	492,152	322,994	333,557	1,161,041	805,161	881,404	957,646	1,033,889
Interest Expense	-	168,021	512,227	530,740	528,490	520,990	530,000	530,000	530,000	530,000
Total Operating Expenses	11,714,735	11,825,036	12,428,684	12,246,468	13,148,953	15,956,628	15,169,418	15,777,822	16,386,226	16,994,631
Operating Gain (Loss)	1,209,083	3,559,127	2,885,536	2,935,403	1,557,097	(1,023,770)	423,928	91,180	(236,763)	(564,123)
Other Financing Sources (Uses)										
GOB Issuance	-	8,000,000	-	-	-	-	-	-	-	-
Transfers In	924,796	1,528,024	1,626,843	531,870	96,288	400,000	-	-	-	-
Transfers Out	(1,433,470)	(10,350,205)	(5,118,473)	(2,318,826)	(3,999,224)	(1,015,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)
Net Other Financing Sources (Uses)	(508,674)	(822,181)	(3,491,630)	(1,786,956)	(3,902,936)	(615,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)
Net Change in Fund	700,408	2,736,946	(606,093)	1,148,447	(2,345,839)	(1,638,770)	(576,072)	(908,820)	(1,236,763)	(1,564,123)
Net Assets at Beginning of Year	4,872,862	5,573,270	8,310,217	7,704,123	8,852,570	6,506,731	4,867,961	4,291,889	3,383,069	2,146,306
Net Assets at End of Year	5,573,270	8,310,217	7,704,123	8,852,570	6,506,731	4,867,961	4,291,889	3,383,069	2,146,306	582,183

General Fund – Fund Balance

Figure 5 below shows the total fund balance each fiscal year and Figure 6 shows the change in fund balance each fiscal year or the use of fund balance per fiscal year. In fiscal year 2011 the use of fund balance was \$2,345,839. The City has budgeted using \$1,638,770 of fund balance in fiscal year 2012. The Fund Balance is made up of the assets of a fund less the liabilities, as determined at the end of each fiscal year. The year-end fund balance is recorded in the following categories: non-spendable, subsequent year's expenditures, and the unassigned balance that can be used. The City follows the recommended practice outlined in the Government Financial Officers Association (GFOA) to maintain a minimum General Fund balance of two months operating expense as a reserve. The budgeted fiscal year 2012 ending fund balance that is available for use in the fiscal year 2013 budget is estimated to be \$1,933,500. This is based on the ending fiscal year 2011 fund balance of \$6,506,731 less the budgeted use of fund balance in the fiscal year 2012 budget of \$1,638,770, two months of operating reserves of \$2,659,438, and the funds owed to the general fund from other funds in the amount of \$275,000.

Figure 5: General Fund – Total Fund Balance each Fiscal Year

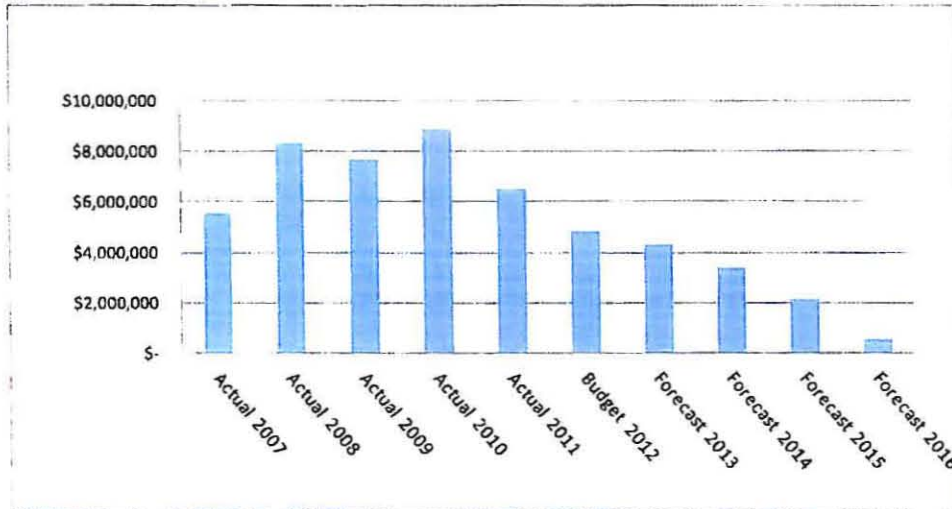
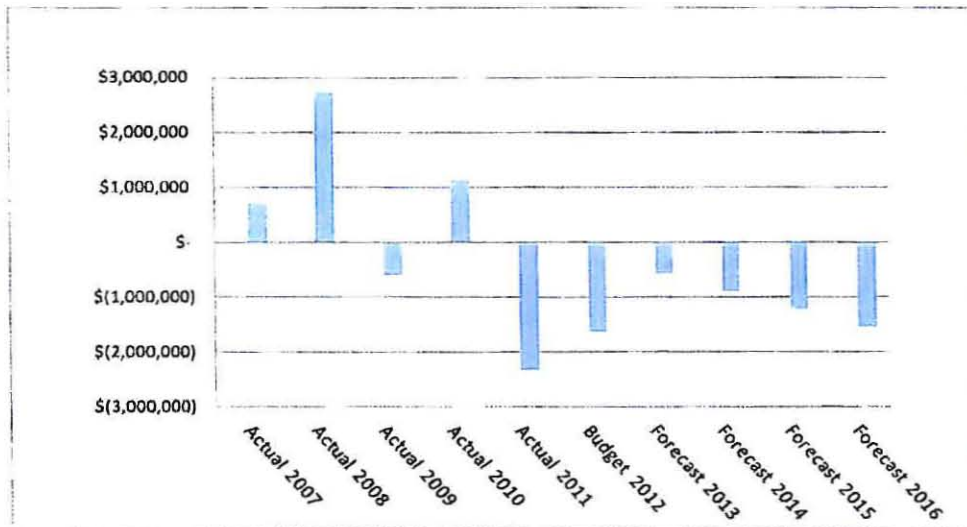


Figure 6: General Fund – Change in Fund Balance each Fiscal Year



WATER & SEWER FUNDS

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the City Council is that the costs of providing goods and services to the public on a continuing basis be financed or recovered primarily through user charges; or where the City Council has approved the use of the fund balance reserves to fund capital projects or operations. The following are water and sewer enterprise funds:

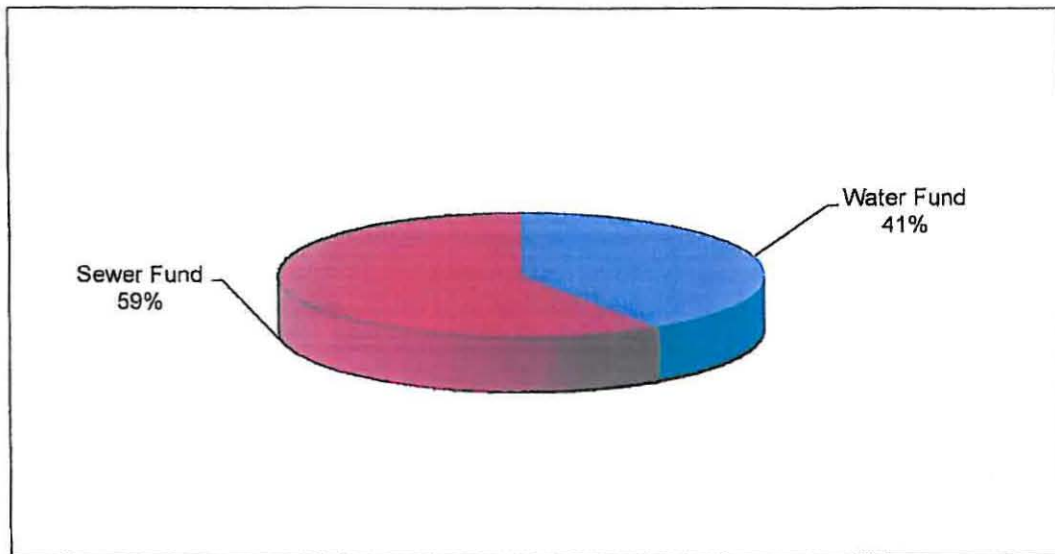
Water Utility Fund

This fund accounts for all activity of the city owned and operated water utility.

Sewer Utility Fund

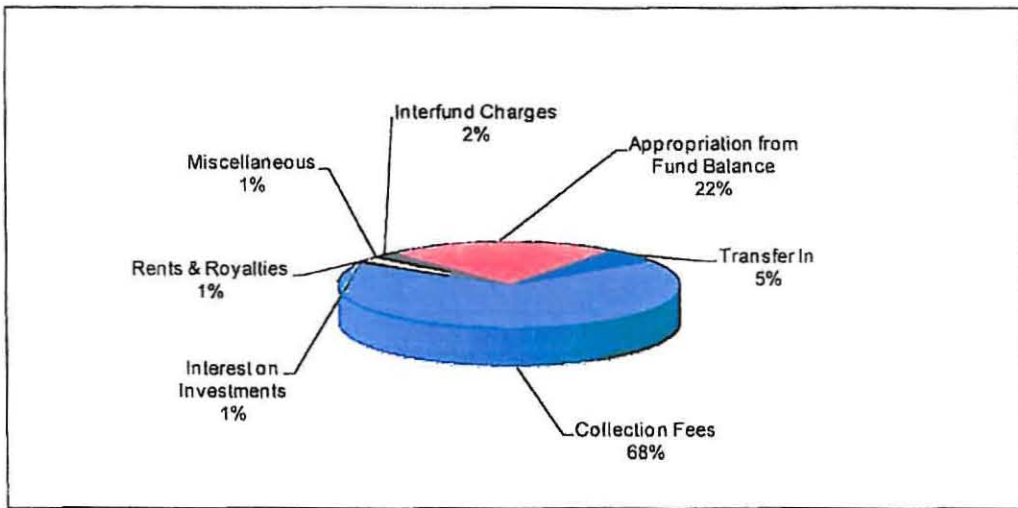
This fund accounts for all activity of the city owned and operated sewer utility.

Figure 7: Water & Sewer Funds - FY 2012 Budgeted Revenues by Function



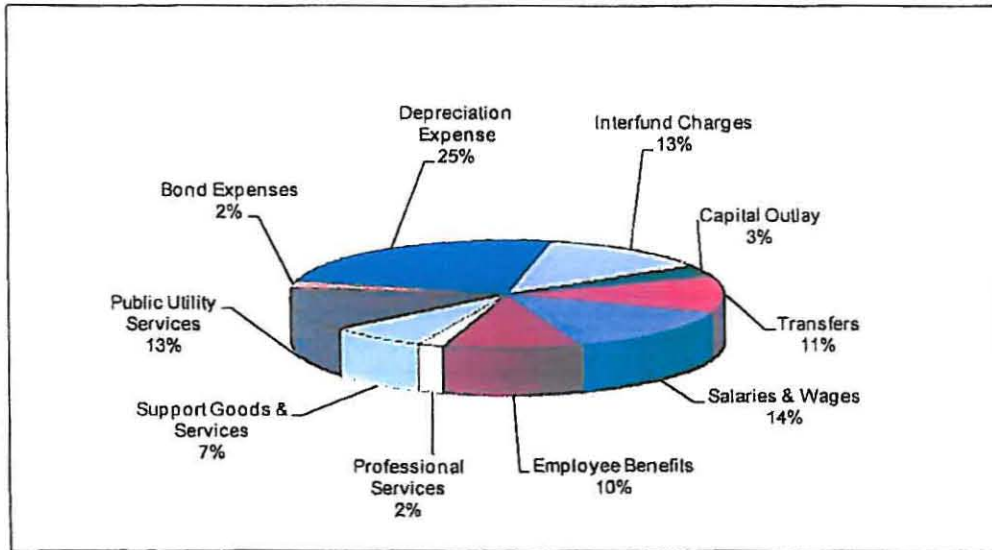
The Sewer Fund generates 59% of total revenues and the Water Fund generates 41% (Fig.7). The Water and Sewer Funds are responsible for maintaining the City's aging infrastructure while keeping rates to residents reasonable.

Figure 8: Water & Sewer Funds - FY 2012 Budgeted Revenues



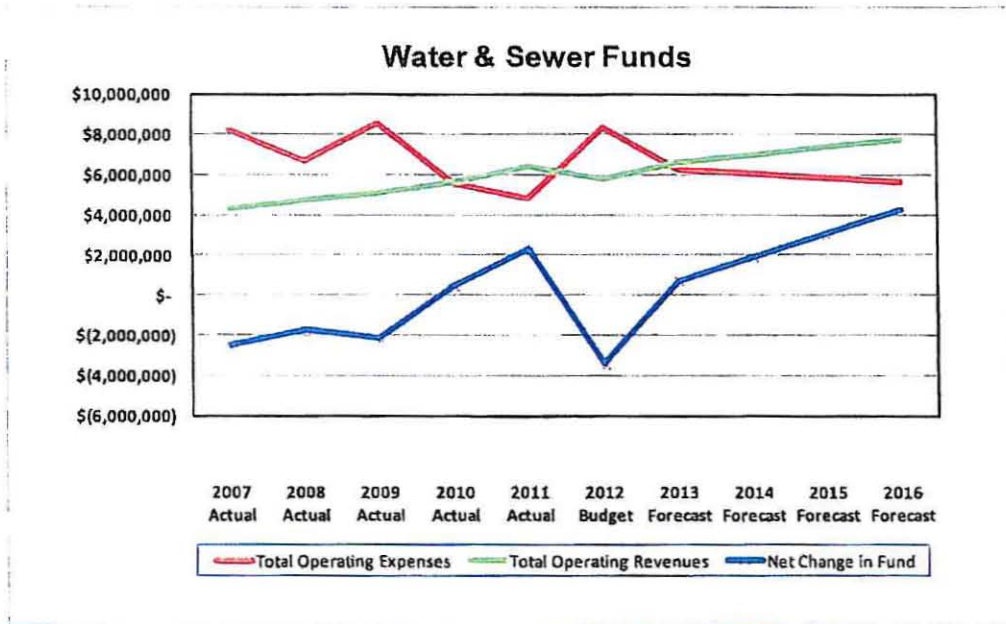
The main source of revenue is collection of fees for services at 68% (Fig.8) of total revenues. The Water and Sewer Funds use Fund Balance to make transfers to capital project funds and for operations.

Figure 9: Water & Sewer Funds - FY 2012 Budgeted Expenditures by Account Classification



The largest expense in the Water and Sewer Funds is for depreciation at 25% (Fig.9) of total expenses, salaries and benefits at 24%, and public utilities at 13%.

Figure 10: Water & Sewer Funds Forecast - Actual 2007-2011, Budgeted 2012, Forecast 2013-2016



With rate studies every five years, the water and sewer funds have been able to plan for future capital projects and operations by maintaining a reasonable fund balance.

Water Rates			Sewer Rates		
Fiscal Year	Residential Rate	% Increase	Fiscal Year	Residential Rate	% Increase
2006	25.30		2006	32.20	
2007	25.30	0%	2007	38.02	18%
2008	26.82	6%	2008	42.93	13%
2009	28.43	6%	2009	48.39	13%
2010	30.13	6%	2010	54.55	13%
2011	34.95	16%	2011	59.82	10%
2012	39.14	12%	2012	62.81	5%
2013	43.84	12%	2013	62.81	0%
2014	47.35	8%	2014	62.81	0%
2015	51.14	8%	2015	62.81	0%
2016	55.23	8%	2016	62.81	0%

Table 2 below shows the detail for the actual, budgeted, and forecast fiscal years. These forecasts do not include future capital projects.

TABLE 2: Forecast Analysis - Income Statement with forecast values along a linear trend using existing values 2007-2012										
Water & Sewer Fund	Actual	Actual	Actual	Actual	Actual	Budget	Forecast	Forecast	Forecast	Forecast
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Fund Revenues										
Collection Fees	4,298,624	4,756,869	5,040,778	5,581,077	6,374,280	5,747,100	6,563,279	6,924,277	7,285,274	7,646,272
Other	34,646	21,443	35,365	58,284	53,477	48,820	60,995	66,420	71,846	77,271
Total Operating Revenues	4,333,270	4,778,312	5,076,143	5,639,361	6,427,757	5,795,920	6,624,274	6,990,697	7,357,120	7,723,543
Fund Operating Expenses										
Salaries & Benefits	1,340,344	1,391,518	1,490,838	1,487,245	1,549,698	1,750,720	1,754,010	1,826,091	1,898,171	1,970,252
Professional Services	289,295	340,081	730,825	664,733	151,698	132,000	243,000	202,494	161,988	121,482
Support Goods & Services	381,220	316,641	345,514	322,309	342,366	515,847	443,360	464,134	484,809	505,683
Utility Services	594,298	722,582	577,012	468,376	825,707	943,250	883,087	938,673	994,259	1,049,844
Capital Outlays	57,469	20,471	4,196	12,230	11,896	240,000	147,207	172,777	198,348	223,918
Interfund Charges	207,480	264,920	239,000	173,610	183,180	918,844	655,793	748,542	841,291	934,040
Repairs & Maintenance	3,645,307	1,842,262	3,447,635	711,956	6,286	2,110,000	368,560	(86,301)	(541,162)	(956,023)
Depreciation	1,702,103	1,768,848	1,772,086	1,766,325	1,765,018	1,767,800	1,788,153	1,797,046	1,805,938	1,814,831
Total Operating Expenses	8,217,516	6,667,323	8,607,106	5,606,784	4,835,849	8,378,461	6,283,171	6,063,456	5,843,742	5,624,027
Earnings (loss) from Operations	(3,884,246)	(1,889,011)	(3,530,963)	32,577	1,591,908	(2,582,541)	341,103	927,241	1,513,378	2,099,516
Nonoperating Revenue (Expenses)										
Investment Income	452,946	295,834	88,695	20,914	38,596	70,000	(114,258)	(192,950)	(271,643)	(350,335)
Interest Expense	(39,396)	(31,317)	(23,126)	(22,064)	(32,356)	(148,470)	(104,197)	(119,838)	(135,479)	(151,119)
State PERS Relief	35,603	108,112	104,049	42,515	66,234	44,030	52,254	48,110	43,966	39,822
Other	18,973	4,034	(383)	28,777	(490,519)	-	(228,123)	(272,390)	(316,658)	(360,925)
Net Nonoperating Revenue (Expenses)	468,126	376,663	169,235	70,142	(418,045)	(34,440)	393,357	975,351	1,557,345	2,139,339
Earning (loss) Before Transfers	(3,416,120)	(1,512,348)	(3,361,728)	102,719	1,173,863	(2,616,981)	734,460	1,902,591	3,070,723	4,238,855
Other Financing Sources (Uses)										
Capital Contributions	13,898	369,282	1,793,672	1,086,345	1,169,683	-	-	-	-	-
Transfers In	3,053,416	200,000	886,720	673,761	669,633	-	-	-	-	-
Transfers Out	(2,160,000)	(800,000)	(1,485,100)	(1,375,761)	(713,633)	(605,000)	-	-	-	-
Net Change in Fund	(2,508,808)	(1,743,066)	(2,166,436)	487,064	2,299,546	(3,421,981)	734,460	1,902,591	3,070,723	4,238,855
Net Assets at Beginning of Year	43,506,337	40,997,529	39,254,463	37,088,027	37,575,091	39,874,637	36,452,656	37,187,116	39,089,707	42,160,430
Net Assets at End of Year	40,997,529	39,254,463	37,088,027	37,575,091	39,874,637	36,452,656	37,187,116	39,089,707	42,160,430	46,399,285

Water & Sewer Funds - Fund Balance

Figure 11 below shows the total fund balance each fiscal year and Figure 12 shows the change in fund balance each fiscal year or the use of fund balance per fiscal year. The City has budgeted the use of \$3,421,981 from the fund balance in fiscal year 2012. In fiscal year 2011 the return of fund balance was \$2,299,546. The Fund Balance is made up of the assets of a fund less the liabilities, as determined at the end of each fiscal year. The year end fund balance is recorded in categories that describe the use of the funds. These categories are invested in capital assets, and the unrestricted balance that can be used. The fiscal year 2012 fund balance that is available for use in the fiscal year 2013 budget is estimated at \$3,921,110. This is based on an ending fund balance of \$39,874,637 for fiscal year 2011 less the budgeted use of fund balance in the fiscal year 2012 budget of \$3,421,981, depreciation added in the amount of \$1,776,000, less invested in capital in the amount of \$31,486,042, debt payments in the amount of \$256,097, and capital projects obligations in the amount of \$2,497,207.

Figure 11: Water & Sewer Funds – Total Fund Balance each Fiscal Year

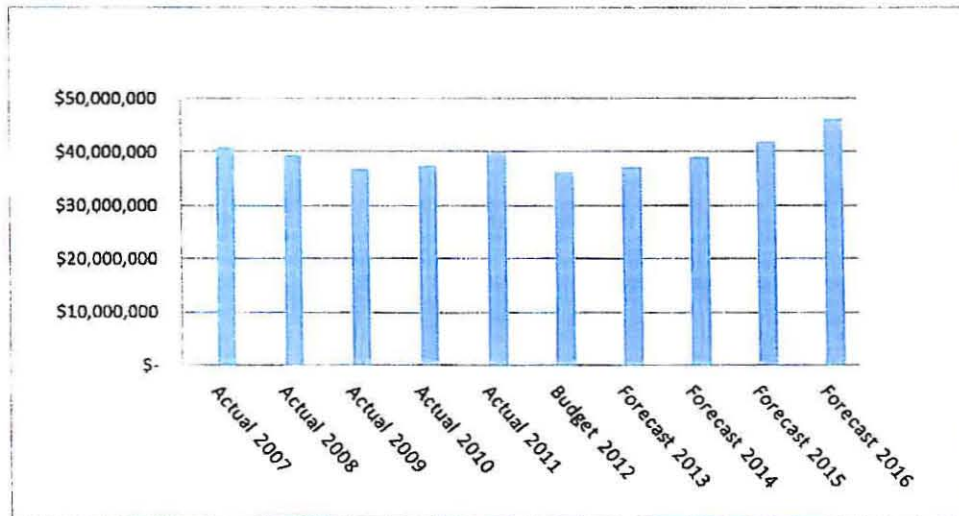
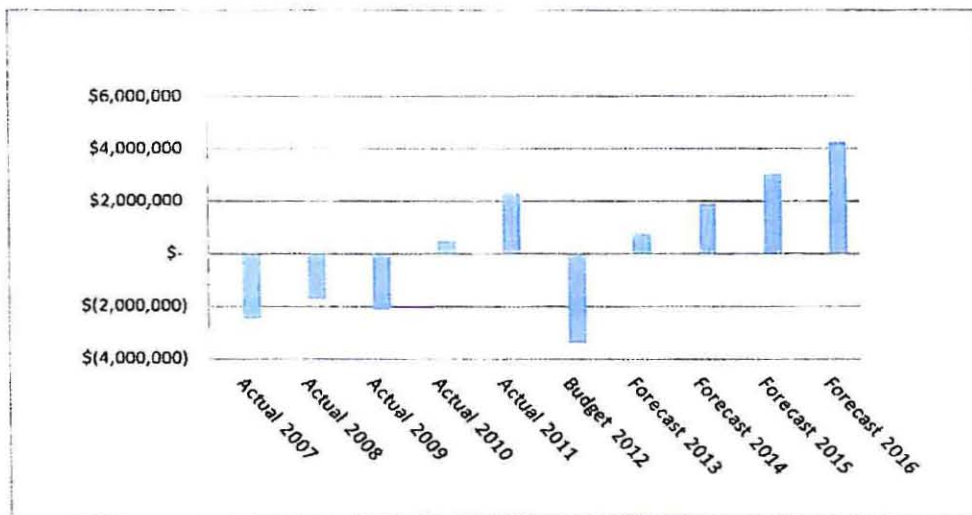


Figure 12: General Fund – Change in Fund Balance each Fiscal Year



HARBOR FUNDS

The Harbor Funds are also an Enterprise Funds, and as such, account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the Council is that the costs of providing goods and services to the public on a continuing basis be financed or recovered primarily through user charges; or where the City Council has decided that periodic determination of net income is appropriate for accountability purposes. The General Fund transfers \$500,000 each fiscal year to the Harbor Capital Project fund based on the Sales Tax Code allocation. The following is a list of the harbor enterprise funds:

Cargo Terminal Fund

This fund accounts for all activity of the city owned and operated cargo terminal, which includes a warehouse and piers.

Boat Harbor Fund

This fund accounts for all activity for the Port of Kodiak, which is city owned and operated and includes two harbors.

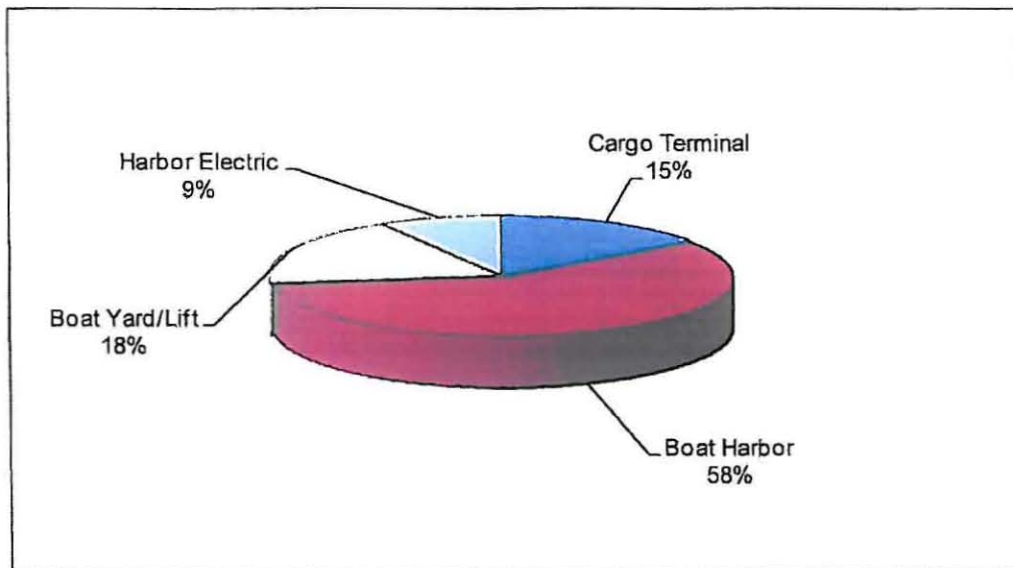
Boatyard/ Vessel Lift Fund

This fund accounts for all activity for the Boat Yard / Vessel Lift Facility which is city owned and operated.

Harbor Electric Fund

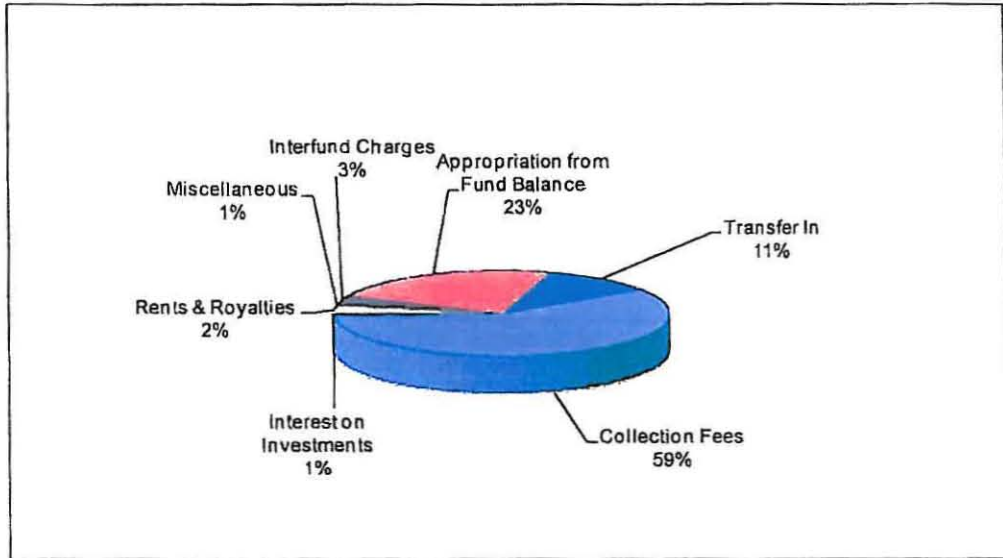
This fund accounts for the use of electrical power for the Boat Harbor, which is city owned and operated and includes two harbors.

Figure 13: Harbor Funds – FY 2012 Budgeted Revenues by Function



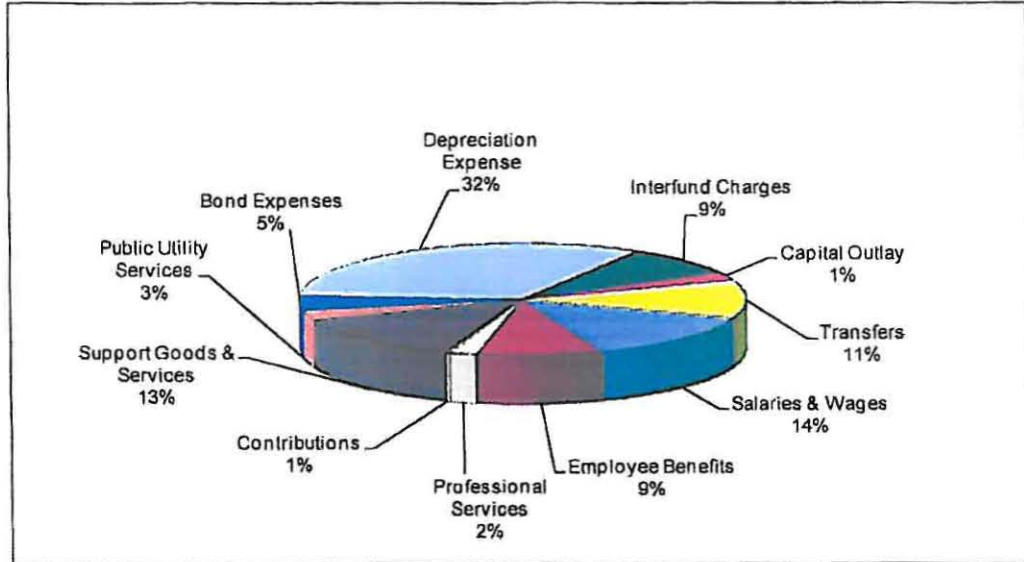
The Cargo Fund generates 15% of total revenues, the Harbor Fund 58% (Fig.13), the Boat Yard/Lift 18% and the Harbor Electric Fund 9%. The Harbor Funds are responsible for maintaining the City's Harbors while keeping rates to the fishing fleet reasonable.

Figure 14: Harbor Funds - FY 2012 Budgeted Revenues



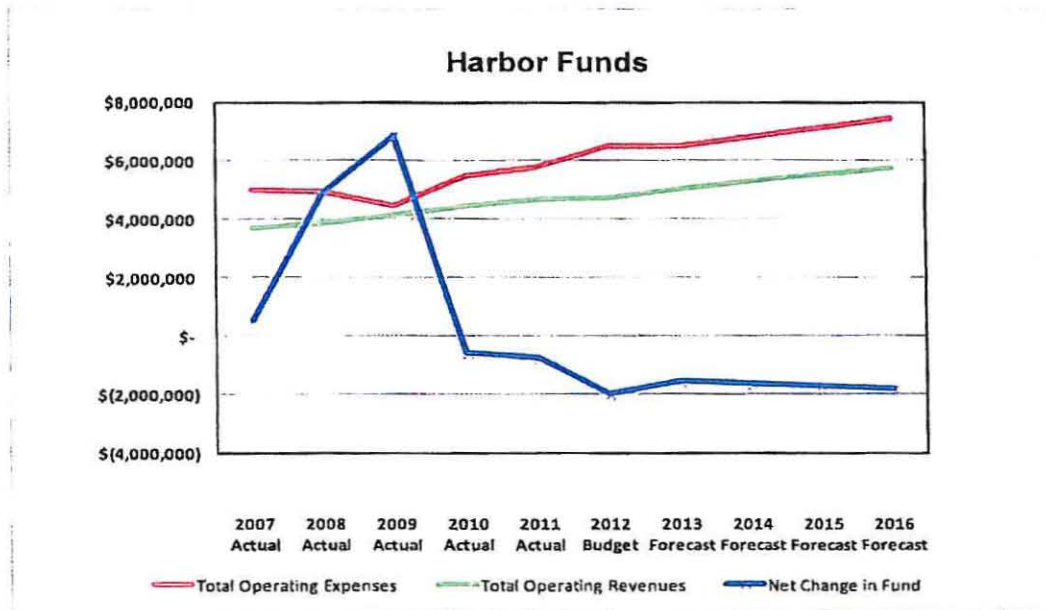
The main source of revenues is collection of fees for services or 59% (Fig.14), of total revenues. The Harbor Funds use Fund Balance to make transfers to capital project funds and for operations.

Figure 15: Harbor Funds – FY 2012 Budgeted Expenditures by Account Classification



The largest expenses in the Harbor Funds are depreciation at 32% (Fig.15), of total expenses, salaries and benefits at 23%, support goods and services at 13%.

Figure 16: Harbor Funds Forecast - Actual 2007-2011, Budgeted 2012, Forecast 2013-2016



As a result of a recommendation from the Harbor Advisory Board, a rate increase was implemented in fiscal year 2004 for four years and the rates were again adjusted in fiscal year 2011. The chart below shows the increase in moorage rates. Moorage rates are the largest category of fees in the Harbor Funds. In the future continued operating losses may necessitate additional transfers from the General Fund.

Annual Moorage Rates

Fiscal Year	Annual Moorage Per Foot		% Increase	
	Low	High	Low	High
2004	23.00	37.00		
2005	25.00	60.00	9%	62%
2006	27.00	73.00	8%	22%
2007	28.00	88.00	4%	21%
2008	29.00	98.00	4%	11%
2009	29.00	98.00	0%	0%
2010	29.00	98.00	0%	0%
2011	30.00	100.00	3%	2%

Low Range = 0 to 20 feet
 High Range = 151 feet and higher

Table 3 below shows the detail for the actual, budget and forecasted fiscal years. These forecasts do not include future capital projects.

TABLE 3: Forecast Analysis - Income Statement with forecast values along a linear trend using existing values 2007-2012										
Harbor	Actual	Actual	Actual	Actual	Actual	Budget	Forecast	Forecast	Forecast	Forecast
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Fund Revenues										
Collection Fees	3,185,666	3,630,335	3,897,970	3,976,024	4,123,339	4,308,500	4,570,763	4,775,655	4,980,548	5,185,440
Other	528,121	245,038	259,501	484,122	553,936	442,218	491,003	511,626	532,248	552,871
Total Operating Revenues	3,713,787	3,875,373	4,157,471	4,460,146	4,677,275	4,750,718	5,061,765	5,287,281	5,512,796	5,738,311
Fund Operating Expenses										
Salaries & Benefits	1,253,198	1,235,064	1,265,554	1,343,916	1,451,235	1,671,680	1,652,037	1,732,588	1,813,140	1,893,691
Professional Services	56,284	69,724	74,827	105,112	228,564	144,500	207,957	235,039	282,122	289,204
Support Goods & Services	984,576	948,816	958,980	1,044,714	1,032,885	994,100	1,032,568	1,043,584	1,054,600	1,065,616
Utility Services	145,062	158,479	147,649	140,960	162,895	205,250	190,799	199,585	208,370	217,156
Capital Outlays	78,515	38,427	108,022	97,113	46,869	176,300	141,209	155,590	169,971	184,352
Interfund Charges	337,180	402,600	378,940	391,579	391,309	632,951	568,189	609,835	651,481	693,128
Repairs & Maintenance	729,990	563,344	-	568,055	167,021	332,000	132,315	57,719	(16,877)	(91,473)
Depreciation	1,391,452	1,547,454	1,538,885	1,787,423	2,302,339	2,368,990	2,562,845	2,774,299	2,985,753	3,197,207
Total Operating Expenses	4,976,255	4,963,908	4,472,857	5,478,872	5,783,117	6,525,771	6,487,919	6,808,239	7,128,560	7,448,881
Earnings (loss) from Operations	(1,262,468)	(1,088,535)	(315,386)	(1,018,726)	(1,105,842)	(1,775,053)	(1,426,154)	(1,520,959)	(1,615,764)	(1,710,570)
Nonoperating Revenue (Expenses)										
Investment Income	339,028	409,005	166,172	38,239	39,610	43,000	50,000	50,000	50,000	50,000
Interest Expense	-	-	(24,405)	(306,322)	(334,588)	(333,100)	(340,000)	(340,000)	(340,000)	(340,000)
State PERS Relief	38,400	111,606	94,559	43,076	67,880	63,160	63,894	62,212	60,531	58,849
Other	-	1,600	24,778	201,751	112,736	-	107,849	122,431	137,014	151,596
Net Nonoperating Revenue (Expenses)	377,428	522,211	261,104	(23,256)	(114,362)	(226,940)	(118,257)	(105,356)	(92,456)	(79,555)
Earning (loss) Before Transfers	(885,040)	(566,324)	(54,282)	(1,041,982)	(1,220,204)	(2,001,993)	(1,544,411)	(1,626,315)	(1,708,220)	(1,790,125)
Other Financing Sources (Uses)										
Capital Contributions	940,373	4,161,622	6,292,418	-	-	-	-	-	-	-
Transfers In	1,000,000	1,350,000	645,784	4,945,260	2,283,431	800,000	-	-	-	-
Transfers Out	(500,000)	(50,000)	-	(4,470,260)	(1,803,431)	(800,000)	-	-	-	-
Net Change in Fund	555,333	4,895,298	6,883,920	(566,982)	(740,204)	(2,001,993)	(1,544,411)	(1,626,315)	(1,708,220)	(1,790,125)
Net Assets at Beginning of Year	28,009,606	28,564,939	33,460,237	40,344,157	39,777,175	39,036,971	37,034,978	35,490,567	33,864,252	32,156,032
Net Assets at End of Year	28,564,939	33,460,237	40,344,157	39,777,175	39,036,971	37,034,978	35,490,567	33,864,252	32,156,032	30,365,907

Harbor Funds – Fund Balance

Figure 17 below shows the total fund balance each fiscal year and Figure 18 shows the change in fund balance each fiscal year or the use of fund balance per fiscal year. The City has budgeted the use of \$2,001,993 of fund balance in fiscal year 2012. In fiscal year 2011 the use of fund balance was \$740,204. The Fund Balance is made up of the assets of a fund less the liabilities, as determined at the end of each fiscal year. The year end fund balance is recorded in categories that describe the use of the funds. These categories are invested in capital assets, and the unrestricted balance that can be used. The fiscal year 2012 fund balance that is available for use in the fiscal year 2013 budget is estimated at \$4,674,536. This is based on an ending fiscal year 2011 fund balance of \$39,036,971, less the budgeted use of fund balance in the fiscal year 2012 budget of \$2,001,993, depreciation added in the amount of \$2,365,628 less invested in capital in the amount of \$33,383,596, debt payments in the amount of \$338,681, and capital projects obligations in the amount of \$1,007,155.

Figure 17: Harbor Funds – Total Fund Balances each Fiscal Year

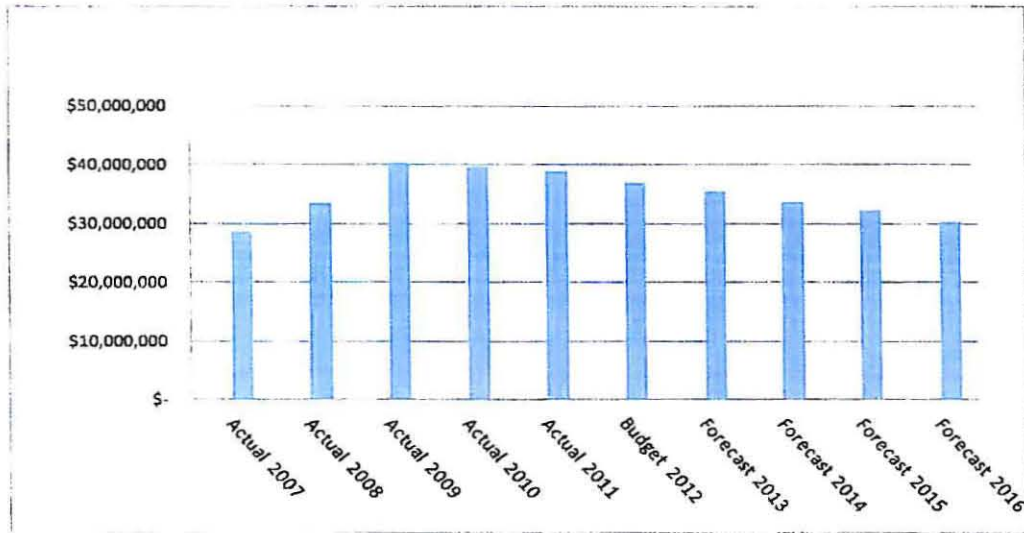
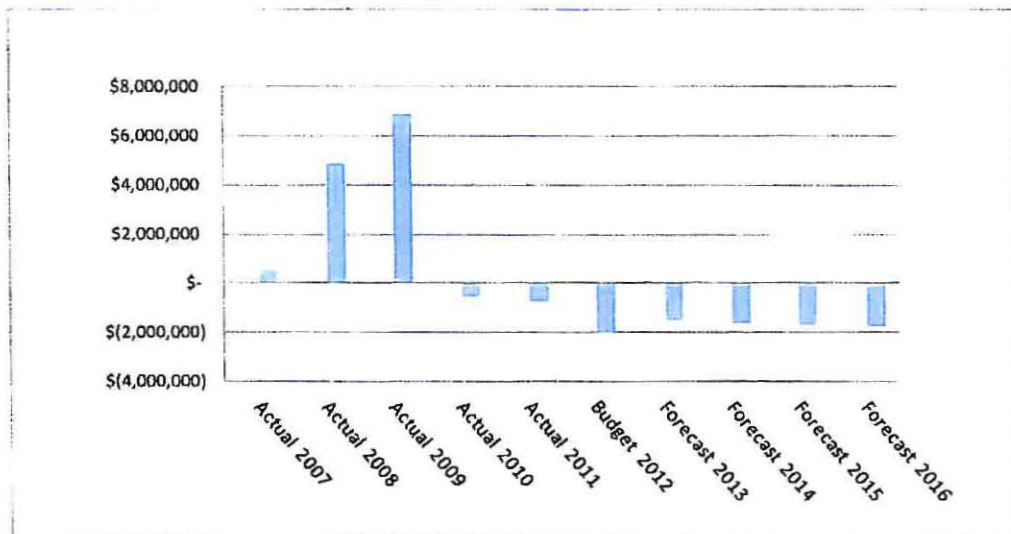


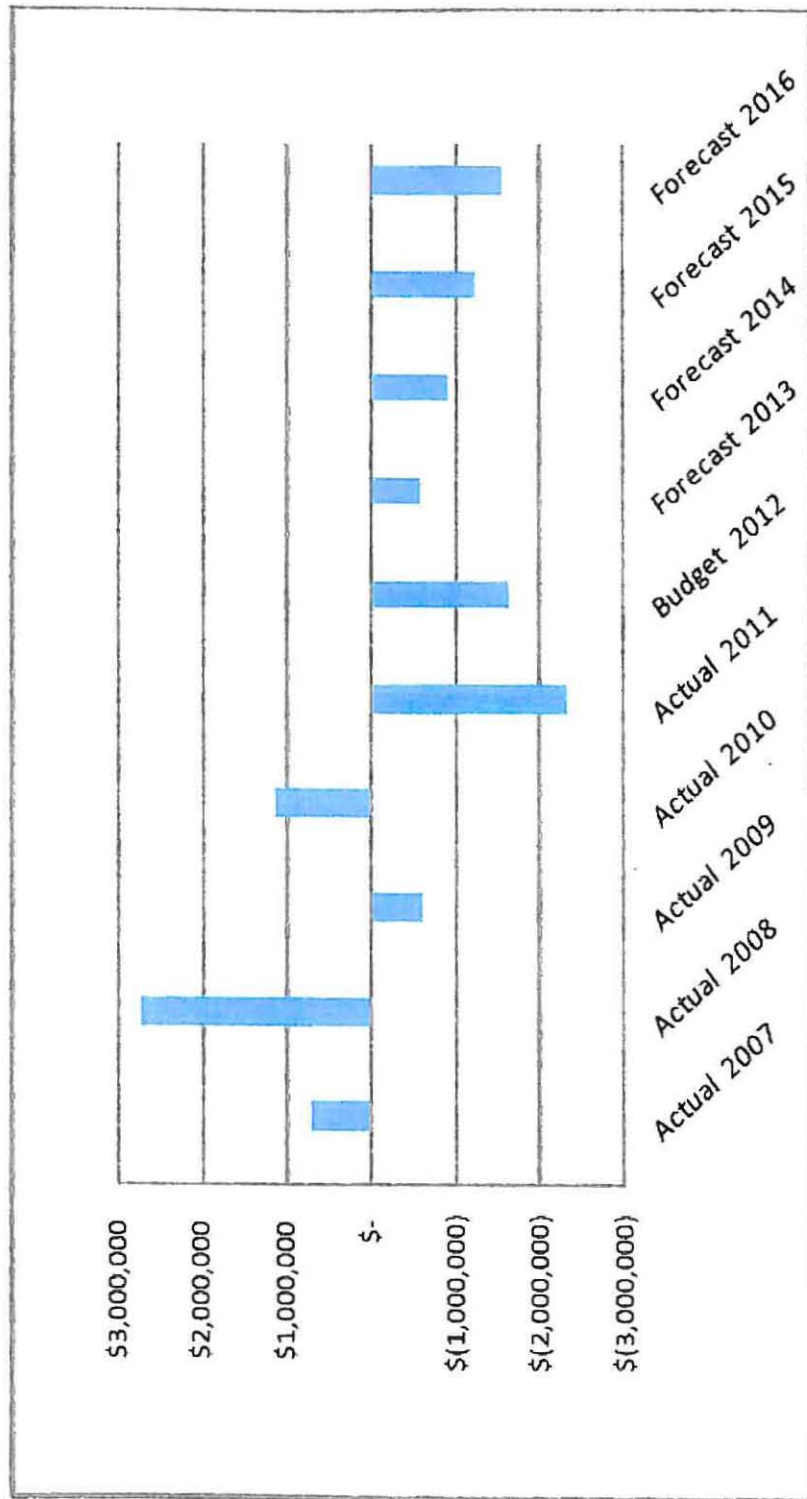
Figure 18: Harbor Funds – Change in Fund Balance each Fiscal Year



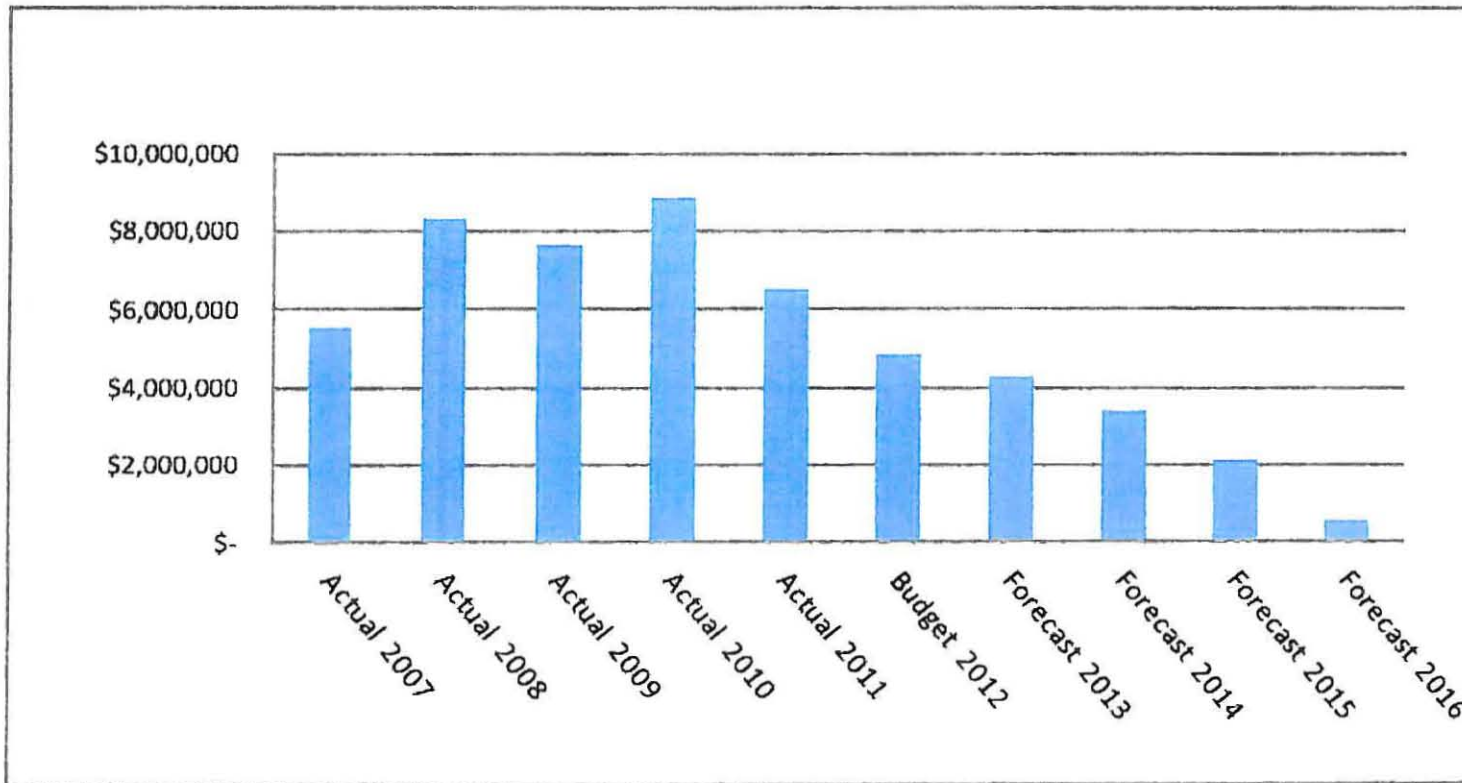
SETTING THE COURSE FOR THE FUTURE

City of Kodiak Council Worksession, 1.14.2012

Net Change of General Fund



Drawdown of General Fund Balance



By 2014, the fund balance will decline to a point that will no longer support the recommended practice of reserving two month's operating expenses.



The Dilemma

How to respond?

What if...



The future looked like
this...?

Scenario 1: No Action, Continue As Is

- ❑ Insufficient working capital (less than 2 months reserve in General Fund) by 2014.
- ❑ GF is not replenished and City will not be able to operate.
- ❑ Staff continues to refine City spending but the efficiencies are insufficient to counter the trend in revenues.
- ❑ Things deteriorate: physically, financially, socially. People move out of the City. Frustration, etc.
- ❑ Long-term consequences could be severe.
- ❑ Other pros? Cons?

Scenario 2: The Tart, Smaller Pie

- Operating cuts to City services
- Enterprises: delete GF support, sell off or break even or balance budget through ratepayers/users
- Capital-no new building
 - ▣ Pro-Could begin to replenish General Fund
 - ▣ Con-loss of quality of life
- **Bottom line:** It would take significant reductions in order to replenish General Fund, your working capital.

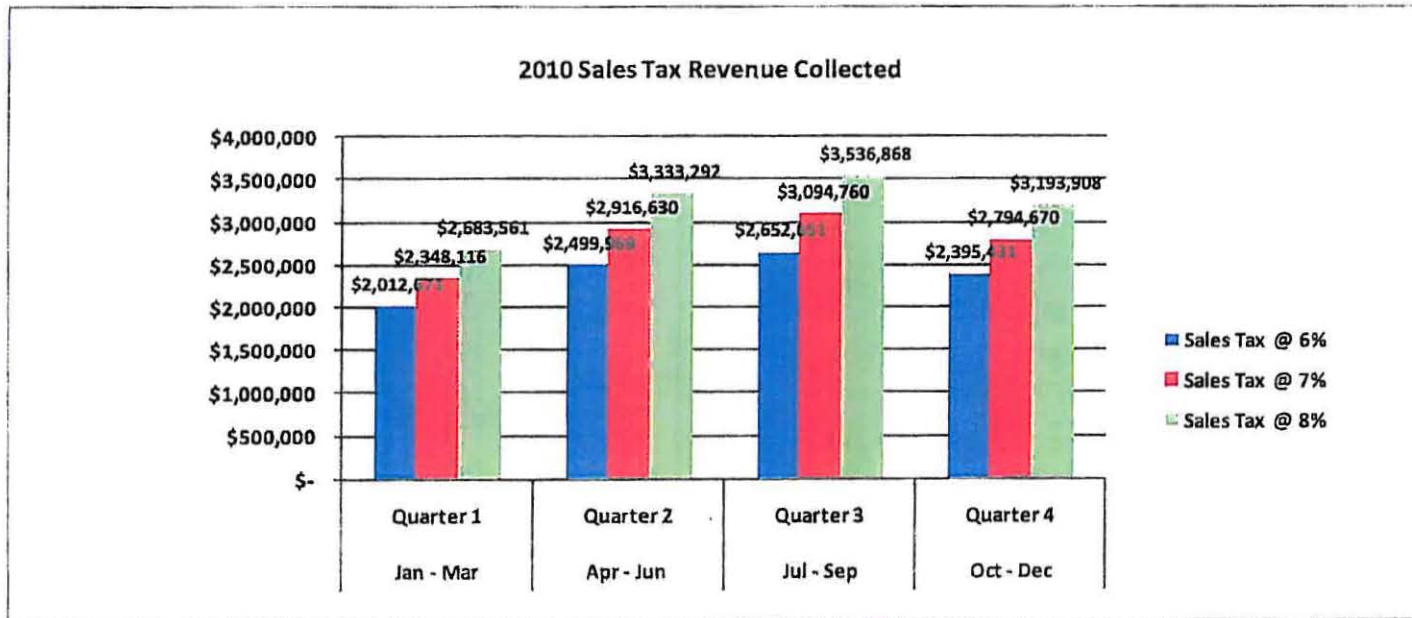
Scenario 3: Increase Revenue, Bigger Pie



1. Increase City Sales Tax
2. Eliminate/Reduce Existing Sales Tax Exemptions
3. Remove/Raise the Sales Tax Cap
4. Increase Mill Rate

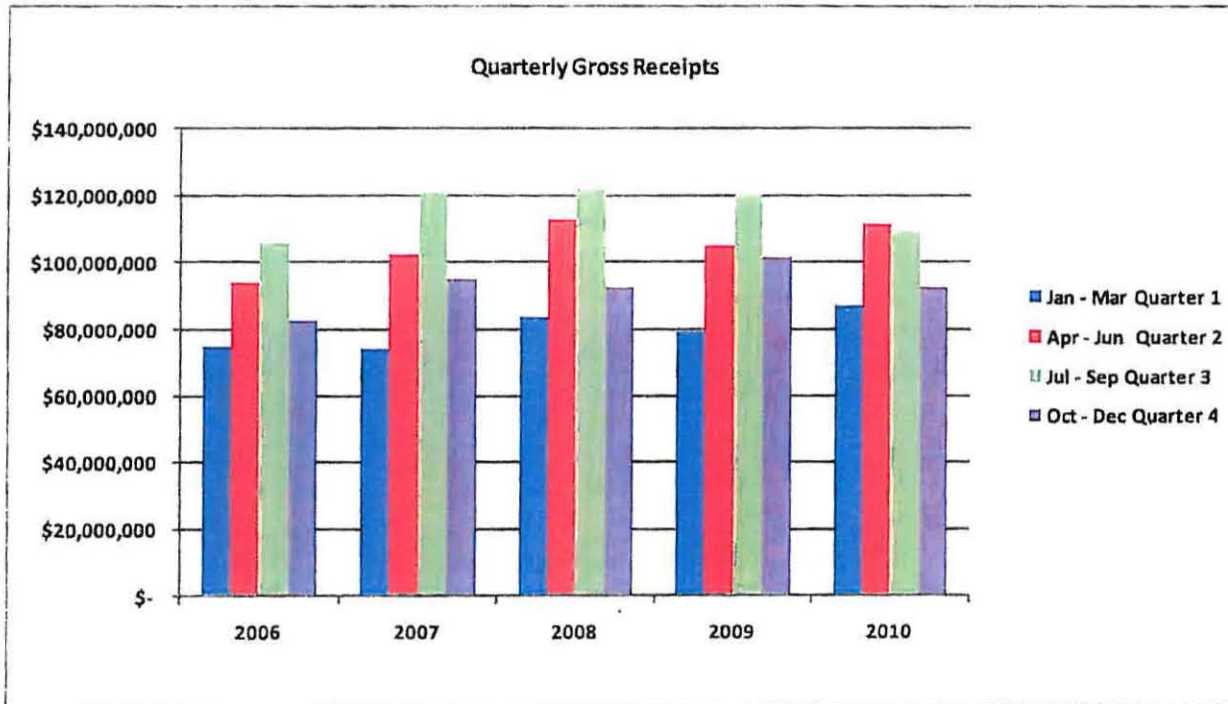
Increase City Sales Tax – permanent and year round

2010 Sales Tax Rates							
		Total Receipts	Total Deductions	Taxable Receipts	Sales Tax @ 6%	Sales Tax @ 7%	Sales Tax @ 8%
Jan - Mar	Quarter 1	\$ 87,000,526	\$ 53,456,016	\$ 33,544,510	\$ 2,012,671	\$ 2,348,116	\$ 2,683,561
Apr - Jun	Quarter 2	\$ 111,196,543	\$ 69,530,398	\$ 41,666,145	\$ 2,499,969	\$ 2,916,630	\$ 3,333,292
Jul - Sep	Quarter 3	\$ 109,130,949	\$ 64,920,098	\$ 44,210,851	\$ 2,652,651	\$ 3,094,760	\$ 3,536,868
Oct - Dec	Quarter 4	\$ 92,754,147	\$ 52,830,294	\$ 39,923,852	\$ 2,395,431	\$ 2,794,670	\$ 3,193,908
	Total	\$ 400,082,165	\$ 240,736,806	\$ 159,345,358	\$ 9,560,722	\$ 11,154,175	\$ 12,747,629



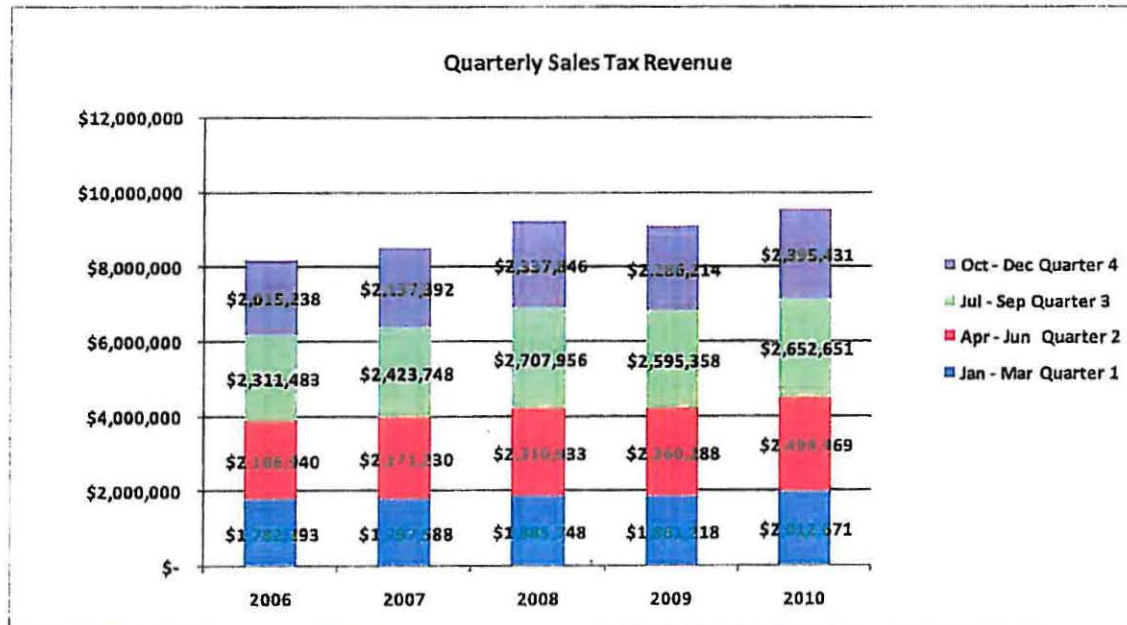
Increase Sales Tax – seasonally, gross receipts

Quarterly Gross Receipts						
		2006	2007	2008	2009	2010
Jan - Mar	Quarter 1	\$ 74,829,001	\$ 74,549,976	\$ 83,526,812	\$ 79,211,938	\$ 87,000,526
Apr - Jun	Quarter 2	\$ 94,057,681	\$ 102,403,603	\$ 112,723,167	\$ 105,094,462	\$ 111,196,543
Jul - Sep	Quarter 3	\$ 105,896,642	\$ 121,063,437	\$ 122,024,665	\$ 120,301,385	\$ 109,130,949
Oct - Dec	Quarter 4	\$ 82,738,562	\$ 95,108,149	\$ 92,663,119	\$ 101,702,238	\$ 92,754,147



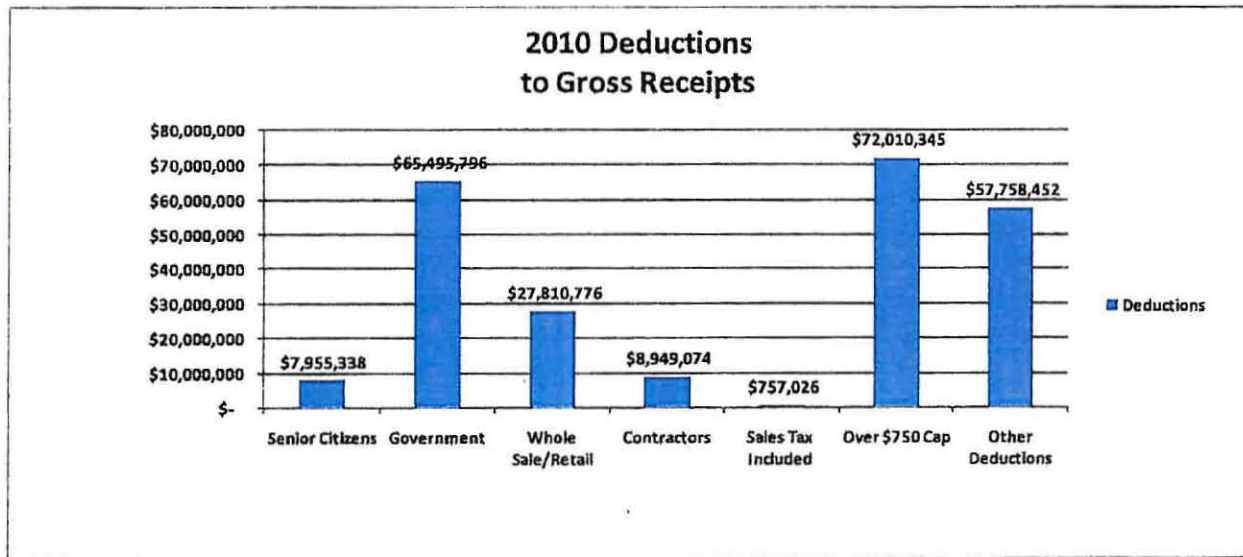
Increase Sales Tax – seasonally, sales tax revenues

Quarterly Sales Tax Revenues						
		2006	2007	2008	2009	2010
Jan - Mar	Quarter 1	\$ 1,782,293	\$ 1,797,588	\$ 1,885,748	\$ 1,861,218	\$ 2,012,671
Apr - Jun	Quarter 2	\$ 2,106,940	\$ 2,171,230	\$ 2,310,933	\$ 2,360,288	\$ 2,499,969
Jul - Sep	Quarter 3	\$ 2,311,483	\$ 2,423,748	\$ 2,707,956	\$ 2,595,358	\$ 2,652,651
Oct - Dec	Quarter 4	\$ 2,015,238	\$ 2,137,392	\$ 2,337,846	\$ 2,286,214	\$ 2,395,431
Total Tax		\$ 8,217,960	\$ 8,531,965	\$ 9,244,491	\$ 9,105,086	\$ 9,562,732



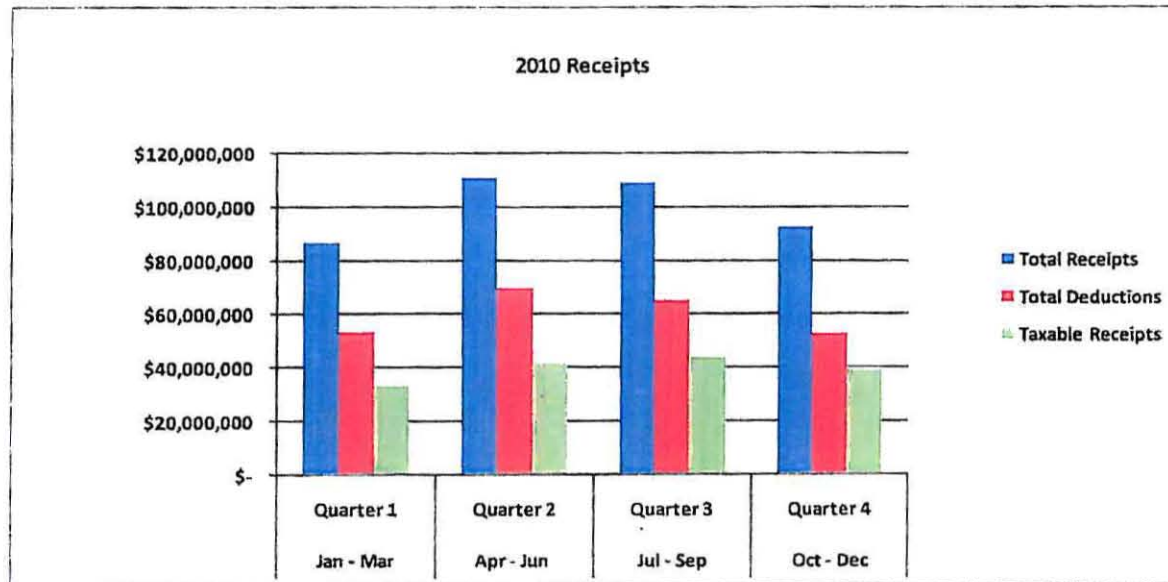
Reduce or Eliminate Sales Tax Exemptions/Deductions

		2010 Deductions to Gross Receipts						
		Senior Citizens	Government	Whole Sale/Retail	Contractors	Sales Tax Included	Over \$750 Cap	Other Deductions
Jan - Mar	Quarter 1	2,080,330	14,476,412	5,808,922	1,322,997	145,175	17,241,172	12,381,008
Apr - Jun	Quarter 2	1,720,264	23,784,415	7,336,062	1,768,930	214,800	18,465,757	16,240,170
Jul - Sep	Quarter 3	1,841,515	16,661,437	7,891,674	3,426,486	202,290	20,695,515	14,201,181
Oct - Dec	Quarter 4	2,313,228	10,573,531	6,774,118	2,430,661	194,762	15,607,900	14,936,093
	Deductions	\$ 7,955,338	\$ 65,495,796	\$ 27,810,776	\$ 8,949,074	\$ 757,026	\$ 72,010,345	\$ 57,758,452
	6% of Deductions	\$ 477,320	\$ 3,929,748	\$ 1,668,647	\$ 536,944	\$ 45,422	\$ 4,320,621	\$ 3,465,507



Reduce or Eliminate Sales Tax Exemptions/Deductions – 2010 Receipts

		2010 Receipts					
		Total Receipts	Total Deductions	Taxable Receipts	Sales Tax @ 6%	Sales Tax @ 7%	Sales Tax @ 8%
Jan - Mar	Quarter 1	\$ 87,000,526	\$ 53,456,016	\$ 33,544,510	\$ 2,012,671	\$ 2,348,116	\$ 2,683,561
Apr - Jun	Quarter 2	\$ 111,196,543	\$ 69,530,398	\$ 41,666,145	\$ 2,499,969	\$ 2,916,630	\$ 3,333,292
Jul - Sep	Quarter 3	\$ 109,130,949	\$ 64,920,098	\$ 44,210,851	\$ 2,652,651	\$ 3,094,760	\$ 3,536,868
Oct - Dec	Quarter 4	\$ 92,754,147	\$ 52,830,294	\$ 39,923,852	\$ 2,395,431	\$ 2,794,670	\$ 3,193,908
	Total	\$ 400,082,165	\$ 240,736,806	\$ 159,345,358	\$ 9,560,722	\$ 11,154,175	\$ 12,747,629

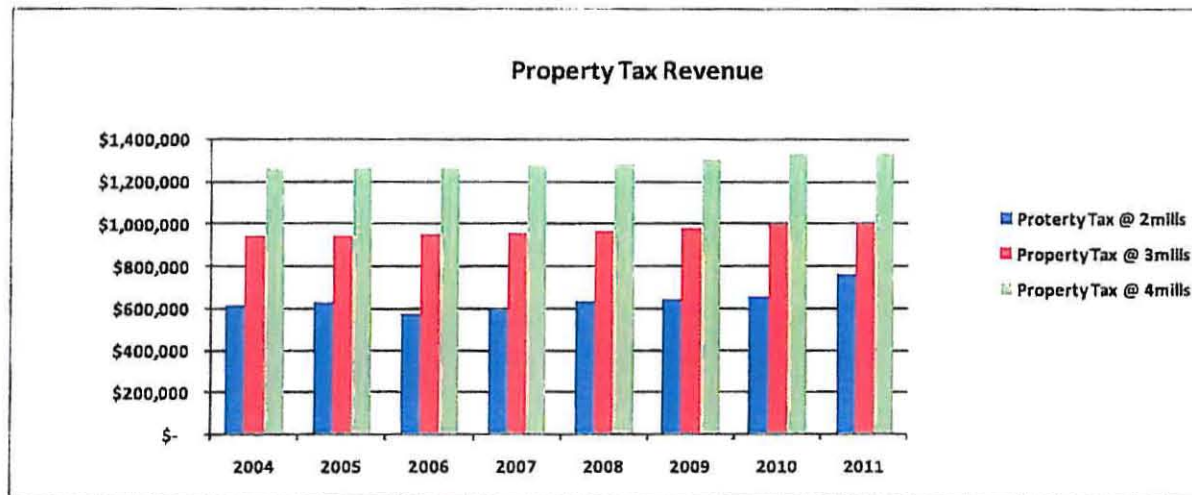


Remove or Raise Sales Tax Cap

- ❑ Code caps sales tax on purchase over \$750.
- ❑ Max sales tax receipt on sale over \$750=\$45.
- ❑ City did not collect \$72M in sales in CY2010 due to tax cap.
- ❑ Removing sales tax cap would generate \$2-3M annually, even at the current 6% level
- ❑ You could raise a lesser amount by adjustment in the cap.

Increase Mill Rate

Property Tax								
	2004	2005	2006	2007	2008	2009	2010	2011
Property Tax @ 2mills	\$ 616,172	\$ 628,516	\$ 573,763	\$ 599,261	\$ 640,435	\$ 644,857	\$ 656,852	\$ 765,539
Property Tax @ 3mills	\$ 947,304	\$ 945,488	\$ 948,776	\$ 960,771	\$ 964,190	\$ 978,944	\$ 997,975	\$ 997,975
Property Tax @ 4mills	\$ 1,263,073	\$ 1,260,650	\$ 1,265,034	\$ 1,281,028	\$ 1,285,586	\$ 1,305,259	\$ 1,330,633	\$ 1,330,633
Taxable Assessed Value	\$ 315,768,131	\$ 315,162,532	\$ 316,258,532	\$ 320,256,932	\$ 321,396,532	\$ 326,314,738	\$ 332,658,365	\$ 332,658,365



Property Tax								
	2004	2005	2006	2007	2008	2009	2010	2011
1 mill Increase	\$ 315,768	\$ 315,163	\$ 316,259	\$ 320,257	\$ 321,397	\$ 326,315	\$ 332,658	\$ 332,658
Taxable Assessed Value	\$ 315,768,131	\$ 315,162,532	\$ 316,258,532	\$ 320,256,932	\$ 321,396,532	\$ 326,314,738	\$ 332,658,365	\$ 332,658,365

Business Types	Current - 2010			Scenario Template		
	Tax @ 6.0% Tax Cap \$750			Tax @ XX% Tax Cap \$X,XXX		
	Total Receipts	Rate	Sales Tax Revenue	Total Receipts	Rate	Sales Tax Revenue
Retail Sales	\$ 293,591,984	6.0%	\$ 17,615,519	\$ 293,591,984	7.0%	\$ 20,551,439
Services	\$ 85,267,748	6.0%	\$ 5,116,065	\$ 85,267,748	7.0%	\$ 5,968,742
Real Estate Rentals	\$ 9,287,109	6.0%	\$ 557,227	\$ 9,287,109	7.0%	\$ 650,098
Rentals	\$ 4,194,725	6.0%	\$ 251,684	\$ 4,194,725	7.0%	\$ 293,631
Other	\$ 9,069,873	6.0%	\$ 544,192	\$ 9,069,873	7.0%	\$ 634,891
Total Receipts	\$401,411,439		\$ 24,084,686	\$ 401,411,439		\$ 28,098,801
Deductions						
Senior Citizens	\$ 7,955,338			\$ 7,955,338		
Government	\$ 65,495,796			\$ 65,495,796		
Whole Sale/Retail	\$ 27,810,776			\$ 27,810,776		
Contractors	\$ 8,949,074			\$ 8,949,074		
Sales Tax Included	\$ 757,026			\$ 757,026		
Amount Over Cap	\$ 72,010,547	\$750		\$ 50,000,000	\$3,500	
Other Deductions	\$ 57,657,617			\$ 57,657,617		
Total Reduction of Receipts	\$240,636,173	6.0%	\$ 14,438,170	\$ 218,625,625	7.0%	\$ 15,303,794
Taxable Receipts	\$160,775,266	6.0%		\$ 182,785,814	7.0%	
Sales Tax Generated			\$ 9,646,516			\$ 12,795,007
Additional Revenue Generated			\$ -			\$ 3,148,490.96
Maximum Tax Paid	\$ 750	6.0%	\$ 45.00	\$ 3,500	7.0%	\$ 245.00
Sales Tax Per Capita			\$ 1,456			\$ 1,931
Red indicates undocumented estimate						

CITY OF KODIAK COUNCIL WORKSESSION SUMMARY
"Setting the Course for the Future"
1.14.12

ATTENDING

Mayor Pat Branson; Council members: Charlie Davidson, Terry Haines, John Whiddon; City staff: Aimee Kniazowski, Mary Munk, Debra Marlar; and Consultant/Facilitator: Sarah Barton

MATERIALS

"Setting the Course for the Future", Council workbook for 1.14.12

PURPOSE

This worksession was organized to respond to the Council's request to develop a Capital Improvement/Assets Management Program for the City of Kodiak. The focus was to review the financial preconditions and the initial list of capital investments required to take care of what the City already has, and to prepare for new facilities to support a thriving future. The agenda included generation and evaluation of different future scenarios, resulting in the setting of policy directions.

DISCUSSION

The City's role and responsibility for the future

The Council began with a discussion of what it would take for the City of Kodiak to thrive in the future. Key to this was clarification of the City's role to provide public safety and infrastructure for residents and businesses. Resident and Council expectations are not always aligned with the City's role and responsibilities, partly due to the situation of dual City and Borough governments. The Council views its role as leadership to balance the quality of life and economic growth for the future. This requires action and policy addressing both quantitative and qualitative issues, balancing budgets to support the quality of life, and the real assets of the community: the people, the place, the economy and the future.

The City is holding the same discussion as the rest of the country and the globe.

The budget dilemma of rising costs exceeding revenues is true at all scales, from local governments to the US deficit-spending budget, the collapse of the Euro and depreciation of the US dollar. Government at all levels is called to respond to this gap. No action is one of the riskiest responses. Kodiak is in the same challenging position of balancing budgets, changing demographics, the need for succession planning and diversification of the economy. Global understanding plays a role, as seen in the role of China as fish market for Kodiak. With the growth of the Chinese middle class, the location of low labor costs will be shifting.

The Budget for the City of Kodiak

The Council reviewed a high level picture of the current organization of the budget, noting the categories of fund sources and fund uses. Operating costs are rising due to city salaries and health insurance, as well as fuel and utility costs, rising interest and the aging fleet of vehicles, equipment and infrastructure. Operating costs are about running the city and taking care of what we have. Capital costs are also rising with the requests to upgrade infrastructure and support community projects like the new library and Baranof Park improvements. The City staff has generated a draft list of required capital investment over the next 5 years. Capital funds are the source of funding for new projects. They come primarily from outside sources like grants, loans and state appropriations, but they have a cost to the City in terms of matching funds, loan repayment and increased operating costs.

The precondition to a working Capital Improvement Program is a sufficient General Fund Balance. That is how this worksession came about. The Council recognized the need for a plan to be able to be responsive to the community regarding a rational assets management plan: the need for new facilities, the need to replace aging infrastructure, and the need to take care of what we have.

The General Fund plays a particular role in the City's budget. It is the basic operating fund for the City. There is some flexibility in how these funds can be used as they are not entirely dedicated to specific uses. The General Fund mitigates risks and provides backup for revenue shortfalls, like the Trident Basin and 911. It also holds the operating reserves of 2-6 months operating funds to ensure stable cash flow and continuity of services. It also supports the City in case of natural disaster. The General Fund represents 43.68% of the overall budget. 54% comes from sales taxes. It is the funding that runs the City.

The Dilemma

General Fund expenses are expected to exceed revenues this year. Typically, the gap has been covered by the General Fund Balance. This is not sustainable as evidenced by the significant drawdown in the capacity of the General Fund. The issue is not just this year, as review of the data from 2007 to 2016 reveals that the trend is not sustainable.

The Water and Sewer Funds do not exhibit the same story, as rates were addressed in the recent rate study, and adjusted to be sustainable. This enterprise supports itself as intended. The Harbor Fund continues to spend more than is generated and will be the subject of an upcoming Council worksession. No funds are being generated to support future infrastructure investment; no rate study has been done; moorage rates have not been increased for about 8 years.

In recognition of the dilemma of rapidly diminishing General Funds, and forecasted increases in operating and capital costs, the Council generated scenarios to evaluate possible future directions.

Future Scenario 1: No Action, Continue As Is

This scenario would result in insufficient working capital (2 month minimum reserves) by 2014. As the General Fund would not be replenished, the City would not be able to operate. The staff continues to refine efficiencies, but this is insufficient to counter the trend in revenues. Things would deteriorate if this scenario were followed: physically, financially, socially. People would leave the city and those who stayed would be frustrated at the diminished quality of life. Long-term consequences would be severe. This is comparable to not paying the rent or mortgage that results in eviction. The bottom line for the City: by 2015, people could no longer count on flushing their toilets.

The Council determined that this is not the direction to go, "No Action is not viable". The provision of basic services and infrastructure is essential for the economy and the quality of life. It is not possible to run a household or a City without a predictable fund balance for operations and contingencies. Letting the status quo continue is like saying: "Don't tax me, tax my children."

Future Scenario 2: The Tart, A Smaller Pie

Council looked at how to reduce City services and expenditures in a way to balance the budget. This direction would maintain a focus on taking care of what the City has already and not building anything new. It could mean selling the enterprises (travel lift, water utility, etc.) or increasing rates to make them sustainable so that the General Fund is not providing a subsidy. If we look at the Household metaphor, it would mean eating oatmeal and pilot bread so that more money could go to the rent/mortgage. This would have a big impact in quality of life, without being of the right scale to provide financial relief. It is the same with the City: cuts cannot be sufficient to balance the budget, without radically affecting the quality of life. The City needs public safety, water and sewer and port infrastructure to thrive. These are not optional services.

The Council determined that this direction would not solve the problem, though continued attention to efficient delivery of services will continue to be needed.

Future Scenario 3: Increase Revenues, A Bigger Pie

Review of the first two scenarios, and the budget forecasts and trends resulted in the Council conclusion that an additional \$3-4M in annual revenues is required to balance the budget, and continue to provide basic services with some investment in capital improvements.

There are four primary tools for increasing revenues at this scale. Council reviewed the pros and cons for each of these tools: increasing sales tax (year round/seasonal); reduction or elimination of the sales tax exemptions; removal or raising of the sales tax cap; and increasing the mill rate.

CITY OF KODIAK COUNCIL WORKSESSION SUMMARY
“Setting the Course for the Future”
1.14.12

COUNCIL DIRECTION

After extensive discussion, Council directed staff to develop a plan to both decrease costs and increase revenues. The plan will address increasing revenues by about \$4M annually with a hybrid approach of sales tax increase, adjustment to the sales tax cap, and reduction in sales tax exemptions.

This direction recognizes that:

- the Council role is leadership for the future of the City;
- revenues must be increased in order to balance the budget;
- sales tax has not increased in over 20 years;
- the mill rate is the primary Borough revenue source used to fund the Borough school district;
- some cities have no tax exemptions except health care (Unalaska, for example); that this issue affects everyone and should be a shared burden;
- all possibilities need to be on the table at this time;
- unification or annexation are not the solution to this problem;
- a formal rate study is needed for the Harbor so that it does not require significant ongoing subsidy through the City’s General Fund;
- Council will pursue the potential for boat lift sale along with other options;
- Council and staff will develop a rational and prioritized process for ongoing capital investments;
- Council will work toward 6-month reserves target;
- course-correction is needed now to continue to give the message that “The City of Kodiak is open for business;”
- this is the direction to “get the house in order” and secure a thriving future for the community;
- that without these measures, no one will be able to flush their toilets in 2015.

CITY OF KODIAK COUNCIL WORKSESSION SUMMARY
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NEXT STEPS

1. Council members will brief their colleagues on the worksession and its outcomes.
2. Sarah will prepare a summary of the worksession for use in future communications and planning.
3. Mary Munk and Aimee Kniazowski will prepare a hybrid approach to increasing revenues and decreasing costs. This will provide the basis of future Council discussions and action, and will be presented at the 28 January Annual Planning Session.
4. The Council's Annual Planning Session effort will include development of a timeline for communications to advise and educate the public of this direction to respond responsibly to the need for a balanced budget in light of the impending deficits with the reality of no flushing toilets by 2015.
5. Aimee Kniazowski will research the necessary changes in ordinance and code required to implement changes as determined by the Council. These changes will become part of the FY2013 budget process.
6. The Harbor worksession on 2 February will build on this worksession and the outcomes of the Annual Planning Session of 28 January.
7. Aimee and Mary will continue to develop the procedures and content for the Capital Improvement Program, linking it to the annual budget.
8. Council will take the leadership role in presentations to Rotary, Chamber and other community groups. Terry Haines has the opportunity for radio coverage.
9. Public communications will include a balanced message about cutting costs **and** adding revenues, as well as a clear picture of what the City provides now in terms of services and infrastructure, and a clarification of the City/Borough differences. This might be sent out with the utility bills, or sent home with the kids at school.
10. Public communications will support a core issue: Buy Local, as a means of demonstrating pride in the community and intentionally personally investing in the future.
11. Public messages and community introduction to the proposed changes will acknowledge the personal efforts of the Council meeting in weekend worksessions to do the hard work required for informed policy; that the changes affect everyone in the community; that we do not want to tax our children due to our lack of foresight; that this is a proactive measure led by the Council; that this is what it takes to be a well-planned City open for business; that this is doing the right thing; that the City will have flush toilets in 2015.