

ANNUAL BUDGET
OF THE
KENAI PENINSULA BOROUGH
ALASKA
FOR THE FISCAL YEAR BEGINNING
JULY 1, 2008

JOHN J. WILLIAMS
BOROUGH MAYOR

PREPARED BY FINANCE DEPARTMENT

CRAIG C. CHAPMAN
DIRECTOR OF FINANCE

**KENAI PENINSULA BOROUGH
ANNUAL BUDGET FOR FISCAL YEAR 2009**

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THE KENAI PENINSULA BOROUGH ASSEMBLY

ASSEMBLY MEMBERS	DISTRICT	TERM EXPIRES
Gary Knopp	1 – Kalifornsky	2009
Margaret Gilman	2 – Kenai	2008
Gary Superman	3 – Nikiski	2010
Pete Sprague, Vice President	4 – Soldotna	2010
Grace Merkes, President	5 – Sterling/Funny River	2008
Ron Long	6 – East Peninsula	2009
Paul Fischer	7 – Central	2010
Bill Smith	8 – Homer	2008
Milli Martin	9 – South Peninsula	2009

The legislative power of the Kenai Peninsula Borough is vested in an assembly of nine members. This assembly meets in regular session every first and third Tuesday of the month in the Assembly Chambers located in the Borough Administration Building at 144 North Binkley Street, Soldotna, Alaska.



KENAI PENINSULA BOROUGH

144 North Binkley Street • Soldotna, Alaska 99669-8250
PHONE: (907) 714-2170 • **FAX:** (907) 714-2376

JOHN J. WILLIAMS
MAYOR

DATE: June 3, 2008

TO: Grace Merkes, Assembly President
Kenai Peninsula Borough Assembly
Residents of the Kenai Peninsula Borough
Other Users of Borough Financial Information

We are pleased to present the Kenai Peninsula Borough's budget for Fiscal Year 2009 (FY09). It is submitted in accordance with the Borough Code and Alaska State Statutes. The budget includes operating and capital plans for FY09 as well as projections for the Borough's operational funds through Fiscal Year 2012 and capital plans through Fiscal Year 2013.

There have been a number of changes to the budget document this year in hopes of making the process not as arduous as it has been in the past and to make the document more reader friendly. This includes expansion of each department's function page to include: mission statements, major long-term issues and concerns, budget objectives, accomplishments, significant budgetary changes and various amounts of measurement data. In addition there are numerous narrative pages that were added that will provide the reader of the document a better understanding of the budget process and the document. They include a user guide, descriptions on why funds were established and fiscal policies that guide the budget process.

Key Budget Principles

The FY09 budget is based on policies developed to maintain the stewardship of public funds and reflects the Borough's commitment to prudent financial planning. The overarching principles that guided development of the proposed budget are:

- Basic services will be maintained at current levels and will be adequately funded
- Program cost will be developed to reflect a true picture of the cost of operations
- Revenues will be estimated at realistic to guarded optimistic levels
- Fees for services will be adjusted based on the cost of service provision
- The recommended budget will comply with provisions of Alaska Statutes and Borough code

Goals & Objectives

The Borough's major budgetary goals for FY09 include:

- The highest level of local educational funding borough residents can reasonably afford and sustain
- A high quality capital and operational maintenance program ensuring the continued use and economic value of borough assets
- Support for the needs of Borough Service Areas as communicated by service area residents and their elected service area boards
- A sufficient level of funding for borough departments to ensure their continued ability to meet the needs of borough residents, visitors, and the communities served
- A balancing of revenue sources in the Borough's General Fund
- Stabilization of the borough's financial condition including compliance with the borough's fund balance policy

Major budget issues

- Public Employee Retirement System (PERS). Due to poor investment returns and incorrect actuarial assumptions regarding the cost of health insurance and life expectancies, the Borough has seen their PERS rate increased from 7.81% in FY04 to a projected rate of almost 38% for FY09. This increase was necessary to address an unfunded liability amount currently estimated at \$41,000,000. The State of Alaska provided funding in FY07, FY08, and FY09 to reduce the rate to approximately 22%. Until a long-term plan is approved to address this issue, the Borough could see rates approaching 40% in future years. If the State of Alaska does not provide this funding, the impact to the various funds would range from .02 mills to .23 mills.
- Continued operational funding for the School District at the maximum amount allowed by the State of Alaska, Department of Education. The amount included in the proposed FY09 budget is \$40,886,886, an amount equal to \$4,516 per student. The total amount appropriated for school purposes is \$44,471,624, of which \$40,886,886 is for operations, \$2,334,738 for school related debt, and \$1,550,000 for school district capital projects. The Borough continues to be one of the few communities within the State that funds at the maximum allowed by State law. For comparative purposes, the Borough budgeted \$37,712,068 in FY2008 for 9,250 students; the Fairbanks North Star Borough contributed \$42,222,700 for 14,103 students and the Mat-Su Borough contributed \$43,632,999 for 15,847 students. The Borough's contribution was \$4,076 per student; the Fairbanks North Star Borough contribution per student was \$2,994 and Mat-Su Borough contribution per student was \$2,753. The total amount of funding provided for school purposes of \$44,471,624 is equivalent to 7.47 mills. Sales tax revenue is expected to cover \$29,214,000, debt reimbursement from the State covers \$1,616,817; the balance of funding of \$13,637,807 (equivalent to 2.29 mills) comes from property taxes, federal revenue, and other sources. The total funding provided by the Borough represents an amount equal to 65.6% of the Borough's General Fund budget.
- Potential impact to the Borough's tax base brought about by the closure of the Agrium plant.
- Continued increase in request for services from emergency medical and fire service areas and road improvements.
- Increases in the cost of operating the Borough's Solid Waste Program. Due to both State and Federal requirements, the cost of operating the Borough's landfills has increased 59.5% in the last four years. The Borough's General Fund contribution to support these expenditures have increased 45.6%, during this period of time and now represents an amount equal to 10.0% of total General Fund expenditures.
- State funding for municipal operations. The former municipal revenue sharing program ended in FY2003; however, the State has been funding one-time appropriations for energy assistance for the last two years in amounts ranging from \$1,700,000 to \$3,700,000. The Alaska legislature passed legislation to fund State Revenue Sharing for FY2009 and the Borough has included \$2,150,000 in the current year budget.

Financial Condition Summary

The assessed value of taxable property located within the borough increased by 11.1% in FY2009. This follows increases of 8.8%, 9.9%, 5.5%, and 1.1% in FY2008, FY2007, FY2006, and FY2005 respectively. The last three years has seen consistent growth in the value of most categories of real property with the exception of oil and gas. Oil and gas property is subject to significant fluctuations in value. Oil and gas property assessed by the State of Alaska under AS 43.56, decreased 12.0% in FY2000, increased slightly in FY2001, increased 30.1% in FY2002, increased 10.2% in FY2003, increased 1.6% in FY2004, decreased 8.6% in FY2005, decreased 8.0% in FY2006, decreased 1.6% in FY2007, and increased 9.0% in FY2008. It is projected to increase by \$29,281,000, or 4.6% for FY2009. Future years indicate a slow decline. Projections vary widely as to expectations for either growth or further decline in Cook Inlet oil and gas activity. Short-term, the borough's property tax base will continue to be impacted both up and down by fluctuations in oil and gas property values. In the long-term, oil and gas development in Cook Inlet will have a major impact on the overall value and distribution of taxable property within the borough.

Financial Plans

General Fund

Revenues and other financing sources of \$65,969,603 support the FY2009 general fund budget. This total consists of \$28,557,233 in property tax revenue, \$29,214,000 in sales tax revenue, \$4,586,817 in state revenue, \$1,975,000 in federal revenue, and \$1,636,553 in other revenues and financing sources. Proposed expenditures exceed projected revenues by \$(2,307,613).

Overall expenditures are up \$5,144,474 when compared to the original FY2008 approved budget, but only \$4,258,407 (which includes carryover encumbrances and supplemental appropriations), when compared to the estimated final FY2008 budget. Factors impacting the budget for FY2009 are as follows:

- School funding increase of \$3,174,818 to maintain at the cap funding, an 8.4% increase when compared to the FY2008 original budget.
- Decrease in interest income of \$1,145,681 from the FY08 original budget and \$1,845,681 from the estimated FY08 budget due to fair value adjustment, which requires that interest to be recognized in FY08 even though it won't be earned until FY2009, FY2010 and FY2011. This fair value adjustment will keep interest low for the next few years.
- Solid waste increase of \$777,921, or 12.9%.
- Increase of \$250,000 for Borough funded capital projects.
- Pay table increase of 2.9% due to COLA adjustment.

The FY2009 budget proposes local funding for school district operations of \$40,886,886, the maximum level allowable under current Alaska Statutes. This is an increase of \$3,174,818 compared to the original approved FY2008 budget. Enrollment has decreased from a high of 10,396 in 1997 to a projected enrollment of 9,053 for FY2009.

The total amount appropriated for school purposes is \$44,771,624, and is at an amount equal to 65.6% of the Borough's General Fund budget. Local educational funding proposed for FY2009 includes \$40,886,886 for school district operations, the projected maximum allowable under current Alaska Statutes, \$2,334,738 for school related debt service, and \$1,550,000 for school district capital projects.

The FY2009 general fund tax rate is 4.5 mills, a decrease of 1.0 mills. This is due to an increase in taxable property values of approximately 11.1%, and a bigger increase in sales tax revenue than expected. Sales tax revenue for FY2009 is expected to increase to \$29,214,000; this is an increase of \$7,334,000 and is largely due to the increase in the rate from 2% to 3%, which went into effect January 1, 2008. Sales tax revenue generates the equivalent of 4.9 mills in property tax revenue.

State revenues are projected to increase \$560,343 to \$4,586,317; the majority of this increase is for revenue sharing. Total state revenues consist of \$2,150,000 for revenue sharing, \$1,651,921, for school debt reimbursement, \$650,000 for fish tax, and \$170,000 from co-op distributions.

Per the Borough's Unreserved Fund Balance Policy, the general fund unreserved balance should be between \$12,364,000 and \$23,567,000. The projected fund balance as of June 30, 2009 is \$17,777,926; \$5,413,926 higher than the minimum level but \$5,789,074 lower than the maximum level indicated by borough policy. The Borough's General Fund, fund balance has increased \$2,492,623 since FY2006. This increase in fund balance is largely attributable to payments received from the State Alaska for energy assistance totaling \$5,396,659.

Service Areas and Special Revenue Funds

As a whole, the FY2009 service area budgets have increased in comparison to FY2008. Individually, some have increased while others have decreased. Overall, the service areas and special revenue funds are projected to show an increase of \$3,896,025 in expenditures during FY2009, when compared to FY2008.

Selected individual funds are as follows:

The Nikiski Fire Service Area Service Area is faced with increasing cost of operations and minimal increases or as is the case for FY2009, a decrease in assessed values. To address this issue, the Service Area is reducing the number of authorized personnel by two. In addition, the service area is in need of increasing their contribution to their capital plan to fund replacement of their emergency response vehicles. By reducing staff, the service area is able to increase their contribution to their capital plan while at the same time reducing their operating budget by \$13,785. The service area and Borough administration are looking at various options for replacement of the emergency response vehicles, including grant and debt financing. Previously the service area forward funded the replacement cost of their equipment by making annual contributions to a capital project fund.

The Anchor Point Fire and Emergency Medical Service Area is decreasing their mill rate from 2.00 mill to 1.75 mills. This is due to an increase in assessed values of over 30% since FY2006. Future decreases in the mill rate are possible if the growth in assessed values continue at the current rate.

Central Emergency Services budget is increasing \$286,052 or 5.0%, primarily due to the cost of operating new stations at Funny River and Kasilof and standard wage increases per the negotiated agreement. The service area budget has increased 44.7% since FY2006, with staffing increasing from 26 to 33.5 during that period of time.

The Road Service Area budget is up \$896,244 or 18.3%; \$125,000 of this increase is for utility relocates that are being required in order to do road maintenance, \$405,217 for contracted road maintenance, and \$125,000 is for a new engineer/assistant director. Due to increased fuel prices, the service area is seeing an increase in rates from their road contractors.

The Land Trust Fund budget is up \$714,396 or 55.2%; due to costs associated with developing a subdivision in Hope, Alaska, of \$450,000 and Wood Drive Subdivision of \$650,000. The cost of developing these subdivisions should be offset in the future with revenue from the sale of the subdivision lots.

The Solid Waste Fund budget is up \$743,324 or 10.4%. This includes staffing increase of 1.5 FTE, an increase in closure cost of \$218,871, and an expected increase in contract services of \$119,338 for operational cost associated with increased contracting cost on the various transfer stations and hauling of waste to the Central Landfill.

The School Fund budget is up \$3,174,818 or 8.4%. As mentioned previously, this is the amount necessary to fund the School District at the cap.

The Central Kenai Peninsula Hospital Service Area budget has decreased \$3,306,936, largely due to a reduction of \$3,315,897 in the contribution to their Capital Project Fund.

Capital Projects

The FY2009 budget includes transfers of \$1,550,000 from the General Fund for school district major maintenance projects. The projects include: \$100,000 for HVAC upgrades, ADA compliance of \$80,000, and \$100,000 for auditorium seat replacement at Seward High School; \$70,000 for playground equipment; \$200,000 for bleacher replacement at SOHI and Homer Middle Schools; \$100,000 for outbuildings; \$100,000 for door replacements; \$100,000 for flooring replacements; \$100,000 for electrical upgrades and ballast replacements; \$100,000 for elevator upgrades; and \$200,000 for paving upgrades, \$300,000 for teacher housing is contingent on additional funding from the state.

Solid waste capital projects include \$451,000 for transfer site upgrades and \$190,000 for the junk vehicle removal program. General capital projects include \$100,000 for upgrades to borough conference rooms, \$100,000 for security upgrades, and \$250,000 for remodel and renovation of the major projects and solid waste facilities.

Service Area capital budgets include equipment purchases of \$30,000 at Nikiski Fire Service Area, \$160,000 at Bear Creek Fire Service Area, \$160,000 at Anchor Point Fire and Emergency Medical Service Area, \$2,018,007 at Central Emergency Services, \$70,000 at Kachemak Emergency Service Area, \$60,000 at North Peninsula Recreation Service Area, \$1,427,071 at Road Maintenance, \$2,559,400 at Central Peninsula General Hospital, and \$1,315,808 at South Peninsula Hospital.

Tax Rates

The Borough Code of Ordinances, section 5.12.010 (A), establishes a maximum 8.00 mill tax levy for operations of the Borough general government, including the local effort for education. Per the Code, the maximum is increased for the tax equivalent of the local payments for voter-approved debt, or to meet an emergency threatening the public peace, health, or safety. The maximum mill rate that could be levied for FY2009 is 8.27 mills. It is our goal to keep the general fund mill rate at or below the current level unless borough voters authorize significant additional debt.

The General Fund tax rate for FY2009 is 4.5 mills, a decrease of 1.0 mill. (see comments on page 13 regarding The Future)

All service area tax rates are staying at their FY2008 levels with the following exceptions: South Kenai Peninsula Hospital Service Area is increasing from 2.00 mills to 2.30 mills to pay for voter approved debt; Road Service Area is increasing from 1.3 mills to 1.4 mills to cover increasing cost of maintaining Borough roads; Central Kenai Peninsula Hospital Service Area is decreasing from 1.00 mill to .90 mill; CES is decreasing from 2.55 mills to 2.45 mills; and Anchor Point Fire and Emergency Medical Service Area is decreasing from 2.00 mills to 1.75 mills.

Summary Data - Governmental Functions

The following schedule is a summary of the FY2009 estimated revenues for the General Fund, special revenue funds, debt service funds, capital projects funds, and internal service funds including the amount and increases or decreases in relation to the original FY2008 budget.

Revenues:	FY2008 Original Revenue	FY2009 Proposed Revenue	Increase (Decrease)
General Property Taxes	\$ 53,768,158	\$ 53,249,741	\$ (518,417)
Sales Tax	21,880,000	29,214,000	7,334,000
Intergovernmental:			
Federal	1,925,000	1,975,000	50,000
State	4,026,474	5,375,317	1,348,843
Other Revenue	20,095,733	15,222,143	(4,873,590)
Fund Balance Appropriated, net	2,546,638	4,324,203	1,777,565
	<u>\$ 104,242,003</u>	<u>\$ 109,360,404</u>	<u>\$ 5,118,401</u>

Property and sales tax revenues are up by a combined 9.1% and represents approximately 75.4% of total revenues.

- Property taxes are projected to decrease. Increases of 11.1% in assessed values are offset a decrease in the General Fund tax revenues due to a reduction of 1.0 mills in the mill rate, an increase in tax revenues at South Peninsula Hospital Service Area due to voter approved increase of hospital expansion bonds that required a mill rate increase of .3 mills, an increase in the mill rate for roads of .10 mill.
- Sales tax is up due to a change in the sales tax rate from 2% to 3%, which was effective January 1, 2008.
- State revenues are projected to increase 29.5%, mainly due to funding for capital projects and revenue sharing.
- Other revenues are expected to show a decrease of 24.2% due to a decrease in contributions from Central Peninsula Hospital in the amount of \$3,480,490 for hospital capital projects.
- The use of fund balance as a revenue source is up 69.9%. Much of this is attributable to the General Fund, which proposes to use approximately \$1.9 million in fund balance. In the long run, continued use of the General Fund, fund balance as a revenue source is not sustainable. Future years budgets will either require additional revenues, a reduction in expenditures, or a combination of both. The Land Trust Fund is using \$.8 million in fund balance for one-time capital expenditures associated with subdivision development. Central Emergency Services Capital Project Fund and South Kenai Peninsula Hospital Capital Project Fund are using \$.5 million of their respective fund balances in accordance with their ten-year capital plans.

The following schedule presents a summary of General Fund, special revenue funds, debt service funds, capital project funds, and internal service funds appropriations for FY2009. Also included are the percentage increases and decreases in relation to prior year amounts. Please note that the FY2008 amounts are based on the original Assembly approved budget and do not include encumbrances and certain contingency balances carried forward from the prior year, or supplemental appropriations.

Expenditures:	Original Appropriation FY2008	Proposed Appropriation FY2009	Increase (Decrease)
General Government	\$ 14,824,097	\$ 16,450,944	\$ 1,626,847
Solid Waste	7,167,766	7,911,090	743,324
Public Safety	13,080,106	14,029,574	949,468
Recreation	1,520,136	1,436,567	(83,569)
Education	41,952,938	45,066,926	3,113,988
Road Maintenance	5,016,644	5,943,653	927,009
Hospitals	13,398,670	11,033,486	(2,365,184)
Internal Service	7,281,646	7,488,164	206,518
	<u>\$ 104,242,003</u>	<u>\$ 109,360,404</u>	<u>\$ 5,118,401</u>

Total appropriations are up 4.91% in comparison to the original FY2008 budget. The primary drivers of this increase include:

- Increased expenditures for education of \$3,113,988 and consists of the following: an increase of \$3,174,818 for the Kenai Peninsula Borough School District, an increase of \$70,000 for school capital projects, a decrease of (\$50,149) for Debt Service, and an increase of \$59,319 for Kenai Peninsula College.
- Increased expenditures for general government of \$1,626,847 consists largely of the following; \$745,000 for subdivision development by the Land Trust Fund, and a net increase in personnel cost for cost of living adjustments, and normal union and management longevity.
- Increase expenditures for road maintenance contracts and road capital projects.
- Increase expenditures in solid waste include a 1.5 FTE in staff, a \$218,871 increase in closure cost, and increased cost for managing and transferring waste for the various transfer sites.

The Future

In reviewing the department and service area budget requests, the Mayor considered carefully the thoughts of the management staff, service area boards, the assembly and borough citizens. In the end, relatively few changes were made to the budgets as submitted. We believe that this budget is consistent with the Mayor's budget priorities that include:

- Delivery of Borough services at a standard of excellence.
- The highest level of local educational funding borough residents can reasonably afford and sustain.
- A high quality capital and operational maintenance program that ensures the continued use and economic value of borough assets.
- Support for the needs of borough service areas as communicated by service area residents and their elected service area boards.
- A budget that can be supported by the borough's current area-wide general fund tax rate.
- Maintenance of the borough's financial condition.

This Borough's General Fund mill rate does not appear to be sufficient to fund government in the out-years and the out-year projections include a mill rate increase of .25 mills. Without this increase, the Borough's fund balance would fall below the minimum amount per the Borough's Fund Balance Policy.

Currently, there is a voter initiative being proposed that would exempt sales tax on food sales. It is estimated that the loss in sales revenue to the Borough's General Fund would be in the \$2,000,000 to \$2,500,000 range, an amount equivalent to approximately .4 mills. As proposed, the initiative would be effective January 1, 2009. The estimated impact FY2009 is in the range of \$700,000 to \$1,100,000.

Acknowledgment

Credit is given to those who have participated in the preparation of the FY2009 budget. Service area boards, department heads, and their staffs have all worked hard to develop department/service area budgets that will provide residents with a high level of service at a reasonable cost. It has been a challenging task. Finance Department staff deserving recognition include: Borough Controller Terry Eubank, Financial Planning Manager Cathey Wallace, who coordinated this year's budget process, Accounting Supervisor Brandi Harbaugh, Treasury/Budget Analyst Penny Carroll, Finance Department Administrative Assistant, Jerri Braun, and Jamie Riley from the Borough's print shop for designing the cover. All have put in long hours preparing this document.

We look forward to working with the borough assembly, the borough business community and all residents of the borough in making the Kenai Peninsula a great place to live, work, visit and conduct business.

Respectfully submitted,



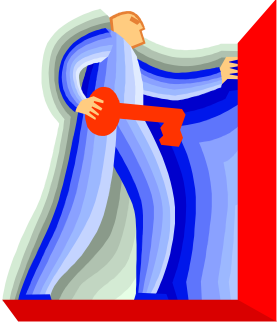
John J. Williams
Mayor



Craig C. Chapman, CPA
Director of Finance

Kenai Peninsula Borough FY2009 Budget

User Guide



This user guide is a tool to guide you through the budget document. It provides some basic information about the area and its government structure. It explains the formatting of individual departmental budget sections, and the process of creating and adopting the Borough's primary planning and policy tool - the annual budget.

The user guide has been developed to answer some of the more commonly asked questions regarding the Kenai Peninsula Borough's budget and other topics.

- Under what type of government structure does the Borough operate?
- What are the Borough's areas of responsibilities or powers?
- How does the Borough and School District interrelate?
- When is the budget prepared, and how does the budget cycle operate?
- What is the Borough's basis of budgeting?
- How is the budget data organized?

Structure

The Borough was incorporated in 1964 as a second-class borough. It occupies a geographic area of approximately 25,600 miles. The Borough is located in the south central part of the state of Alaska.

The Borough operates under an assembly-mayor form of government. Policy-making and legislative authority are vested in a governing assembly consisting of nine members. The assembly is responsible, among other things, for passing ordinances, adopting the budget, and appointing committees. The mayor is the Borough's executive officer and is responsible for carrying out the policies and ordinances of the Borough, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments. The assembly and mayor are elected on a non-partisan basis. Assembly members serve three-year staggered terms, with 3 members elected each year and are elected by district. The mayor is elected at large and serves a three-year term.

Powers/Areas of Responsibilities

State of Alaska law mandates that second-class boroughs provide certain services on an areawide basis to all taxpayers. All other services must be approved by a majority of voters who are to receive the services. This gives taxpayers control over the type and level of services they receive and pay for.

Currently, the Borough has the following powers:

- Areawide powers: assessment and collection of property taxes and sales tax collection for the Borough and cities within the Borough, planning, solid waste disposal, education, post secondary education, 911 emergency communications, emergency management and general administrative services.
- Non-areawide services provided by the Borough include fire protection, hospital services, emergency medical and ambulance services, recreation, senior citizen funding, road maintenance, economic development, tourism promotion, and special assessment authority for utility extensions and road improvement districts.
- The Borough also has non-areawide powers of port and harbor that are authorized but not exercised.

School District

The Kenai Peninsula Borough School District is a component unit of the Borough. The School District has its own elected board which is responsible for setting policy and expenditure appropriations. More information regarding the School District is available at their website, www.kpbsd.k12.ak.us or can be obtained from them at 148 North Binkley St., Soldotna, AK 99669.

The Borough does assume various funding responsibility for the School District. State of Alaska statutes require the Borough to contribute to the School District a minimum contribution in an amount equal to 4 mills of the real and true assessed value of property. The State has also established a maximum contribution, which is equal to the minimum contribution plus 23% of basic need. Basic need is defined as total of the adjusted average daily membership times the base student allocation. The Borough traditionally funds the School District at the maximum amount. For FY09, the maximum amount allowed is \$40,886,886. The Borough's sales tax revenue is estimated to fund \$29,214,000 of that amount; the balance of \$11,672,886 will come from other sources including property taxes and interest earnings.

The Borough is also responsible for the construction and capital improvement of all facilities used by the School District as well as the issuance and repayment of school construction debt.

Total funding for schools for FY09 is \$44,471,624, an amount equal to 66% of the Borough's General Fund budget.

Basis of Accounting & Budgeting

The basis of budgeting is explained here to assist readers of the budget document, and to provide a bridge between the budget presentation in this document and the accounting presentation in the Comprehensive Annual Financial Report (CAFR).

The Borough's governmental funds consist of the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Project Funds. Governmental fund budgets are developed using the modified accrual basis of accounting. Under this basis, revenues are estimated for the fiscal year if they are susceptible to accrual, e.g. amounts can be determined and will be collected within the current period. Principal and interest on general long-term debt are budgeted as expenditures when due, whereas other expenditures are budgeted for liabilities expected to be incurred during the current period.

The Borough's budgets are prepared and adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP) for all governmental funds and proprietary funds except capital project funds, which are adopted on a project length basis and the Solid Waste Special Revenue Fund, which is prepared on a budgetary basis. The Borough utilizes encumbrance accounting for its governmental fund types under which purchase orders, contracts and other commitments are recorded in order to set budget aside for that specific use. Encumbrances lapse and are automatically reappropriated and reencumbered as part of the subsequent year's budget. Encumbrances are recognition of commitments that will subsequently become expenditures when the goods or services are received.

The Proprietary Funds (Internal Service) budgets use a different budgetary basis from their accounting basis. Proprietary Funds use the accrual basis of accounting; however, their budgets more closely follow the modified accrual method used for governmental funds. For example, the proprietary fund budgets include capital outlay amounts for the initial purchase of fixed assets, but do not include budget amounts for depreciation of those fixed assets. For the CAFR, capital outlays are not recognized but depreciation is.

Budget Process

The budget process begins in January with a meeting of all department heads and service area representatives. The Mayor makes a presentation on the financial condition of the Borough and a projection for the coming year, considering the economy and the legislature. The Mayor outlines his general budget policies and goals at this time, and budget preparation packets are distributed to the departments.

Throughout the remainder of January and February, the Finance Director, Controller, or Financial Planning Manager attend the various service areas budget workshop meetings and present information on their particular service area. Completed department and capital budget requests are then submitted to the finance department in late February. After draft budgets are prepared, budget review meetings are held with the Mayor, the Finance Director, and the appropriate department head or service area. A proposed budget is then prepared and submitted to the assembly in April.

The Assembly holds work sessions on the proposed budget throughout April and May. The ordinance setting the level of appropriation for the fiscal year is introduced at the second Assembly meeting in April; the resolution setting the mill rates for the General Fund and the service areas is presented at the last meeting in May. After holding public work sessions, the Borough establishes the budgets and tax rates for the General Fund and service areas prior to June 15th.

Mill Levy

The mill rates must be established prior to June 15th in accordance with Alaska Statutes. The Borough voters have approved a tax cap of 8.0 mill not including the amount needed for debt service or to meet an emergency threatening public peace, health or safety. The maximum mill rate calculation for FY09 is 8.272 mills. The Assembly authorized the borough wide mill rate for FY09 to be 4.5 mills.

Budget Presentation

The budget document is divided into various sections: Introduction, Overview, Individual Fund detail, and the Appendix.

- The introduction section includes the table of contents, the transmittal letter, a user guide, major financial policies, a copy of the Distinguished Budget Presentation Award that was received for the FY08 budget, the budget calendar, an organizational chart, Kenai Peninsula Borough departmental staff chart, and the appropriating ordinance.
- The overview section includes data on the Borough as a whole
- The Fund section includes individual budgets for the General Fund, the Service Area Funds, Capital Project funds, Debt Service Funds, and Internal Service Funds.
 - Operating budgets for the General Fund, Service Area Funds, Debt Service Funds, and Internal Service Funds present detailed expenditure plans. These plans contain a mission/program description and objectives, current year objectives, significant program changes, and previous year accomplishments. Expenditure detail is provided for each division and in summary for each department. All detail pages contain historical data for the current year budget and two fiscal years.
 - Capital Project budgets include detailed expenditure plans that include general objectives, a description of the current year projects that have been authorized, prior authorized projects that were completed in the current year, and a five-year plan of expenditures.
- The appendix section includes data on salary schedules, full-time equivalent employees, a glossary of terms and abbreviations, and various analytical data.

Financial Policies

The financial policies establish the framework for overall fiscal planning and management and set forth guidelines for both current and long-term planning. These policies are reviewed annually to assure the highest standards of fiscal management. The Mayor and the Department Directors have the primary role of reviewing financial actions and providing guidance on financial issues to the Borough Assembly.

Overall Goals

The overall financial goals underlying these policies are:

1. **Fiscal Conservatism:** To ensure that the Borough is in a solid financial condition at all times. This can be defined as:
 - A. Cash Solvency – the ability to pay bills
 - B. Budgetary Solvency – the ability to balance the budget
 - C. Solvency – the ability to pay future costs
 - D. Service Level Solvency – the ability to provide needed and desired services
2. **Flexibility:** To ensure that the Borough is in a position to respond to changes in the economy or new service challenges without an undue amount of financial stress.
3. **Adherence to the Highest Accounting and Management Practices:** As set by the Government Finance Officers' Association (GFOA) standards for financial reporting and budgeting, the Governmental Accounting Standards Board, and other professional standards.

Based on the overall goals listed above the following Financial Policies are provided:

1. Operating Budget Policies

The budget is a plan for allocating resources. The objective is to enable service delivery with allocated resources. Services must be delivered to the citizens at a level that will meet real needs as efficiently and effectively as possible.

- The Borough's goal is to pay for all recurring expenditures with recurring revenues and to use non-recurring revenues for non-recurring expenditures.
- It is important that a positive undesignated fund balance and a positive cash balance be shown in all governmental funds at the end of each fiscal year.
- When deficits appear to be forthcoming within a fiscal year, spending during the fiscal year must be reduced sufficiently to create a positive undesignated fund balance and a positive cash balance.
- The budget must be structured so that the Assembly and the general public can readily establish the relationship between expenditures and the achievement of service objectives.
- The individual department budget submissions must be prepared with the basic assumption that the Assembly will always attempt to maintain the current tax rates.
- The budget will provide for adequate maintenance of capital plant and equipment and for its orderly replacement.
- The Borough will develop and annually update a long-range (three to five years) financial forecasting system, which will include projections of revenues, expenditures, and future costs and financing of capital improvements that are included in the capital budget.
- A balanced budget is defined as revenues including the use of fund balance as a revenue source equaling expenditures as long as fund balance remains within fund balance policy limits.

2. Debt Policies

- The Borough will not fund current operations from the proceeds of borrowed funds.
- The Borough will consider short-term borrowing or lease/purchase contracts for financing major operating capital equipment when the Finance Director, along with the Borough's Financial Advisor, determines that this is in the Borough's best financial interest. Lease/purchase decisions should have the concurrence of the appropriate operating Manager.
- When the Borough finances capital projects by issuing bonds, it will repay the debt within a period not to exceed the expected useful life of the project.
- The Borough will maintain good communication about its financial condition with bond and credit institutions.
- The Borough will follow a policy of full disclosure in every annual financial statement and bond official statement.
- The Borough will avoid borrowing on tax anticipation and maintain an adequate fund balance.
- The Borough will endeavor to maintain a minimum bond rating for all debt issues of A or better by Moody's and Standard & Poor's rating agencies. Credit enhancements will be used to achieve higher ratings when there is an economic benefit.

3. Revenue Policies

- The Borough will try to maintain a diversified and stable revenue structure to shelter it from short-run fluctuations in any one revenue source.
- The Borough will attempt to maintain a diversified and stable economic base by supporting policies that promote tourism, agriculture, commercial, and industrial employment.
- The Borough will estimate its annual revenues by an objective, analytical process.
- The Borough, where possible and reasonable, will institute user fees and charges for specialized programs and services. Rates will be established to recover operational, as well as capital or debt service costs.
- The Borough will regularly review user fee charges and related expenditures to determine if pre-established recovery goals are being met.
- The Borough should routinely identify governmental aid funding possibilities. However, before applying for and accepting intergovernmental aid, the Borough will assess the merits of a particular program as if it were funded with local tax dollars. Local tax dollars will not be used to make up for losses of intergovernmental aid without first reviewing the program and its merits as a budgetary increment.

4. Investment Policies

- The Borough will maintain an investment policy based on the Government Finance Officers Association (GFOA) model investment policy.
- The Borough will conduct an analysis of cash flow needs on an ongoing basis. Disbursements, collections, and deposits of all funds will be scheduled to ensure maximum cash availability and investment potential.
- The Borough will invest public funds in a manner that will best meet the objective specified in Chapter 5.10.010 of the Borough code of Ordinances. The relative order of importance is as follows: safety of

principal, maintaining sufficient liquidity to meet the borough's cash flow requirements, and achieving a reasonable market rate of return.

5. Accounting, Auditing and Reporting Policies

- The Borough will establish and maintain a high standard of accounting practices in conformance with Generally Accepted Accounting Principals (GAAP).
- The accounting system will maintain records on a basis consistent with accepted standards for government accounting according to the Government Accounting Standards Board (GASB).
- An independent firm of certified public accountants will perform an annual financial and compliance audit and will publicly issue an opinion, which will be incorporated into the Comprehensive Annual Financial Report (CAFR).
- The Borough will annually strive for the GFOA Certificate of Achievement for Excellence in Financial Reporting and the GFOA Distinguished Budget Presentation Award.

6. Capital Budget Policies

- The Borough will make all capital improvements in accordance with an adopted capital improvements program.
- The Borough will develop a multi-year plan for capital improvements that considers its development policies and links the development process with the capital plan.
- The Borough will enact an annual capital budget based on the multi-year capital improvements program.
- The Borough will coordinate development of the capital improvement budget with development of the operating budget. Future operating costs associated with new capital projects will be projected and included in operating budget forecasts.
- The Borough will maintain all its assets at a level adequate to protect its capital investments and to minimize future maintenance and replacement costs.

7. Fund Balance Policy

- The Borough will maintain the fund balances and retained earnings of the various Borough operating funds at levels sufficient to maintain the borough's creditworthiness, liquidity needs, and to provide financial resources for unforeseeable emergencies.
- The Borough will not approve an appropriation from the general fund that would cause the undesignated general fund balance to be less than the minimum undesignated fund balance, except in an emergency expenditure or a major capital purchase.

FY 2008-2009 Budget Calendar

November 2007						
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November 2007

- 26 Begin work on Personnel Salary and Benefits and Insurance calculations.
- 27 Load current year budget information into financial system and personnel budgeting system and worksheets.

December 2007

- 11 Develop budget calendar-Coordinate Assembly/Mayor/Departments and Service Areas.
- 12 Request information from departments on staffing changes for new year.
- 13 Meet with Mayor regarding budget calendar and his guidelines for the new year.
- 22 Send memo to all Departments and Service Areas regarding budget kickoff meeting.
- 27 Update budget preparation instructions and forms to be used in submitting budget requests.
- 28 Draft budget guidelines memo.

December 2007						
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30	31					

January 2008

- 02 Get approval of budget calendar from the Assembly President.
- 02-9 Update fund balance policy minimums/maximums ranges for all funds.
- 05 Send budget preparation instructions, preliminary personnel budgets, timetables, Mayor's Guidelines Memo and budget forms to all department heads and administrators.
- 09 Get preliminary assessed value estimates from Assessor.
- 09 Budget kickoff meeting-Mayor, Department heads and Service Area Administrators.
- 09 Provide Departments and Service Areas with preliminary personnel budgets.
- 09 Internal budget development process begins-Departments and Service Areas
- 09-31 Finance Director/Controller/Planning Manager meet with Service Area Boards to provide results of operation and fund balance information and to discuss their 10-year CIP needs and projections.
- 21 Provide final Personnel/Benefits and insurance costs to departments and Service Areas.
- 22 Assembly and Kenai Peninsula Borough School District budget worksession.
- 22 Obtain assembly member assignments for the budget process from the assembly president.
- 24 Schedule Mayor's budget review meetings: Departments and Service Areas.
- 31 Department budgets submitted to Finance, including goals, objectives and accomplishments and inventory of rolling stock.

January 2008						
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February 2008

- 01 Schedule budget presentations to the Assembly: Mayor, Department Heads, Service Area Administrators and outside agencies.
- 01-13 Review and get department budget requests ready for preliminary budget review meeting with the Mayor and Chief of Staff.
- 14-22 Department budget review meetings with Mayor, Finance and administrators.
- 20 Service Area Board approved budgets submitted to Finance Department.
- 20-24 Review and get Service Area budget requests ready for preliminary budget review meeting with the Mayor and Chief of Staff.
- 25-29 Service Area budget review meetings with Mayor, Finance and administrators.

February 2008						
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March 2008

- 01-12 Service Area budget review meetings continued.
- 01 Real Property assessment notices mailed.
- 13 Obtain most current projected revenue information from outside sources.
- 13 Preliminary General government budget projection to the Assembly.
- 14 No more changes to the preliminary budget document allowed
- 15 Conduct system input training for administrative assistants.
- 16 Complete input of budget into budgeting system.
- 16-31 Prepare preliminary budget document for printing.
- 31 FY2009 Appropriating Ordinance to assembly packet.

March 2008						
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April 2008

- 1-9 Review of preliminary budget document for errors and omissions.
- 10 Preliminary Borough budget completed and to the printer.
- 14 School Board meeting - budget approval
- 15 School district presents proposed budget to Assembly.
- 15 Mayor's proposed budget documents presented to the Assembly.
- 15 Introduce appropriating ordinance for the General government and service area budgets.
- 16 Discussion of the preliminary budget on the local radio station.
- 21 Resolution setting school local effort amount to Assembly packet

April 2008						
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May 2008

- 06 Assembly budget work session #1 - Departments & Service Areas.
- 06 Assembly determines local share for school budget by resolution.
- 06 Public hearing on FY2009 budget.
- 19-20 Assembly budget work session's #2 & #3 - Departments & Service Areas.
- 20 Public hearing on FY2009 budget.

June 2008

- 01 Assessor certifies final assessment roll
- 03 Assembly budget work session #4 - Departments & Service Areas.
- 03 Public hearing and final adoption budgets and setting of mill rates.
- 04-18 Update budget document to reflect final adopted budget.
- 18 Finalize budget document for publication.
- 20 Roll FY2008/2009 budget into financial system.
- 20 Public hearing on FY2009 budget.
- 30 Distribute published budget document.

July 2008

- 28 Submit Published document to GFOA award program for review.

May 2008						
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June 2008						
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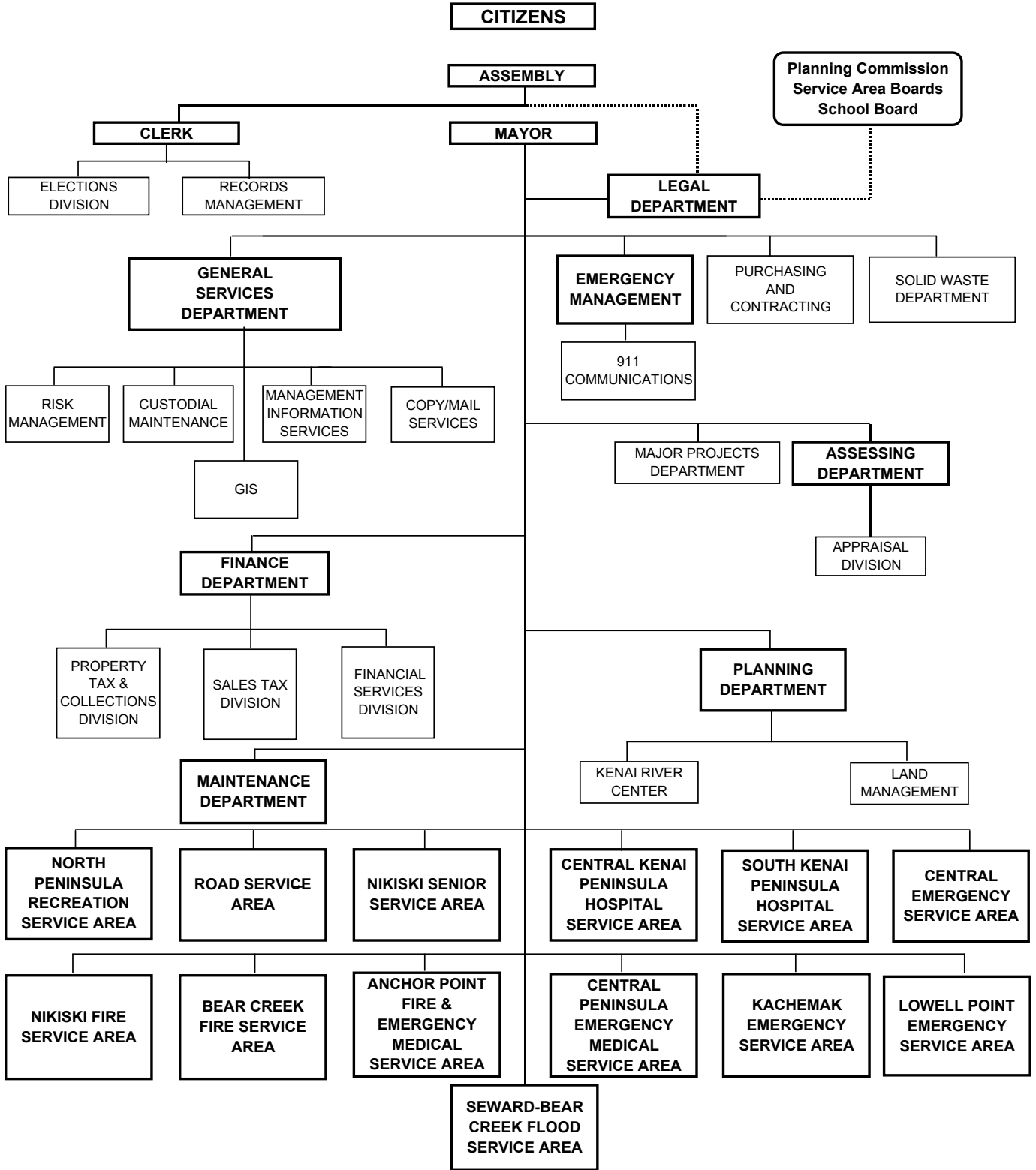
July 2008						
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August 2008						
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September 2008						
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October 2008						
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26	27	28	29	30	31	

KENAI PENINSULA BOROUGH ORGANIZATIONAL CHART



KENAI PENINSULA BOROUGH STAFF

JOHN J. WILLIAMS
MAYOR

Johni Blankenship
Acting Borough Clerk

Tim Navarre
Chief of Staff

Colette Thompson
Borough Attorney

Borough Departments

Richard Campbell
General Services
Director

Craig C. Chapman
Finance Director

Shane Horan
Assessing Director

Max Best
Planning Director

Robert Garlock
Solid Waste Director

Bill Kopecky
Maintenance Director

Kevin Lyon
Capital Projects Director

Mark Fowler
Purchasing and
Contracting Officer

Borough Service Areas

James Baisden
Fire Chief
Nikiski Fire
Service Area

Mark Beals
Fire Chief
Bear Creek Fire
Service Area

Keith Sullivan
Fire Chief
Anchor Point Fire
& Emergency
Medical

Chris Mokracek
Fire Chief
Central Emergency
Services

Pat Johnson
Fire Chief
Kachemak Emergency
Service Area

John Gage
Fire Chief
Lowell Point
Emergency Service
Area

Rachel Parra
Recreation Director
North Peninsula
Recreation Service
Area

Gary Davis
Roads Director
Road Service
Area

Bill Williamson
Chairman
Seward Bear Creek
Flood Service Area

Neal DuPerron
Chairman
Central Kenai
Peninsula Hospital

John E. Fenske
Chairman
South Kenai
Peninsula Hospital

Jim Evenson
Chairman
Nikiski Senior
Service Area



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

Kenai Peninsula Borough

Alaska

For the Fiscal Year Beginning

July 1, 2007

President

Executive Director

DISTINGUISHED BUDGET PRESENTATION AWARD

The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to the Kenai Peninsula Borough, Alaska, for its annual budget for the fiscal year beginning July 1, 2007.

In order to receive this award, a government unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications medium.

The award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.

Introduced by:	Mayor
Date:	04/15/08
Hearings:	05/06/08, 05/20/08 & 06/03/08
Action:	Postponed until 05/20/08
Action:	Postponed until 06/03/08
Action:	Enacted as Amended
Vote:	9 Yes, 0 No, 0 Absent

**KENAI PENINSULA BOROUGH
ORDINANCE 2008-19**

AN ORDINANCE APPROPRIATING FUNDS FOR FISCAL YEAR 2008-2009

- WHEREAS,** Alaska Statutes 29.35.100 and the Borough Code of Ordinances 05.04.020 require that the Mayor present a budget proposal to the Assembly for the next fiscal year during or prior to the eighth week preceding the first day of the fiscal year; and
- WHEREAS,** the Assembly is empowered with making appropriations for the General Fund, the Special Revenue Funds, the Debt Service Funds, the Capital Projects Funds, the Enterprise Funds, and the Internal Service Funds of the Borough; and
- WHEREAS,** the Assembly is required by KP.B 5.04.021 to introduce an ordinance on or before the May 6, 2008 meeting appropriating the amount to be made available from local sources for school purposes, and by AS 14.14.060 to enact such ordinance by June 30;

NOW, THEREFORE, BE IT ORDAINED BY THE ASSEMBLY OF THE KENAI PENINSULA BOROUGH:

SECTION 1. That \$68,277,216 is appropriated in the General Fund for the fiscal year beginning July 1, 2008 and ending June 30, 2009 as follows:

General Government Operations	\$14,814,103
Transfer to School District for Operations and In-kind Services	40,886,886
Transfer to School Debt Service	2,334,738
Transfer to Special Revenue Funds:	
Solid Waste	6,812,194
Post Secondary Education	595,302
Kenai River Center	547,451
Nikiski Senior Service Area	36,542
Transfer to Capital Projects Funds:	
General Government	450,000
School Revenue	1,550,000
Central Emergency Services	250,000

SECTION 2. The following is appropriated to the school fund from local sources for operations purposes and in-kind services:

A.	Local Effort	\$32,456,264
B.	Maintenance	6,182,830
C.	School District Utilities	63,745
D.	School District Insurance	2,038,234
E.	School District Audit	42,000
F.	Custodial Services	<u>103,813</u>
	Total Local Contribution per AS 14.17.410	<u>\$ 40,886,886</u>

SECTION 3. Disbursements from Section 2 item (A) shall be made monthly, and only as needed to supplement other revenues available and received by the school district to fund the operations portion of the school district budget. Any available balance remaining at the end of the fiscal year shall then be disbursed to the school district, provided that the total amount disbursed shall not exceed the amount allowed under AS 14.17.410 as determined after actual enrollment numbers are known.

SECTION 4. That the appropriations for the Special Revenue Funds for the fiscal year beginning July 1, 2008 and ending June 30, 2009 are as follows:

Nikiski Fire Service Area	\$3,725,886
Bear Creek Fire Service Area	303,858
Anchor Point Fire and Emergency Medical Service Area	382,530
Central Emergency Service Area	6,002,722
Central Peninsula Emergency Medical Service Area	13,872
Kachemak Emergency Service Area	613,392
Seward Bear Creek Flood Service Area	126,656
Lowell Point Emergency Service Area	12,014
Kenai Peninsula Borough Road Service Area	5,788,755
North Peninsula Recreation Service Area	1,576,567
Post-Secondary Education	595,302
Land Trust	1,934,386
Kenai River Fund	678,198
Disaster Relief	50,000
Nikiski Senior Service Area	250,000
Solid Waste	7,911,090
Central Kenai Peninsula Hospital	6,774,990
South Kenai Peninsula Hospital	3,583,288

SECTION 5. That \$2,334,738 is appropriated in the School Debt Service Fund for the fiscal year beginning July 1, 2008 and ending June 30, 2009.

SECTION 6. That \$830,244 is appropriated in the Solid Waste Debt Service Fund for the fiscal year beginning July 1, 2008 and ending June 30, 2009.

SECTION 7. That \$192,578 is appropriated in the Central Emergency Services Debt Service Fund for the fiscal year beginning July 1, 2008 and ending June 30, 2009.

SECTION 8. That \$3,767,125 is appropriated in the Central Kenai Peninsula Hospital Service Area Debt Service Fund for the fiscal year beginning July 1, 2008 and ending June 30, 2009.

SECTION 9. That \$2,319,328 is appropriated in the South Kenai Peninsula Hospital Service Area Debt Service Fund for the fiscal year beginning July 1, 2008 and ending June 30, 2009.

SECTION 10. That appropriations for the Capital Projects Funds for the fiscal year beginning July 1, 2008 and ending June 30, 2009 are as follows:

School Revenue	\$1,250,000
General Government	450,000
Solid Waste	641,000
Service Areas:	
Nikiski Fire	30,000
Bear Creek Fire	160,000
Anchor Point Fire and Emergency	160,000
Central Emergency	2,018,007
Kachemak Emergency	70,000
North Peninsula Recreation	60,000
Road	1,427,071
Central Kenai Peninsula Hospital	2,559,400
South Kenai Peninsula Hospital	1,315,808

SECTION 11. That appropriations for the Internal Service Funds for the fiscal year beginning July 1, 2008 and ending June 30, 2009 are as follows:

Insurance and Litigation	\$3,388,903
Health Insurance Reserve	3,663,740
Equipment Replacement	435,521

SECTION 12. That the FY09 budget of the Kenai Peninsula Borough, as submitted to the Assembly on April 15, 2008, is incorporated as a part of this ordinance to establish the appropriations assigned to the various departments and accounts and the positions authorized therein.

SECTION 13. That funds reserved for outstanding encumbrances as of June 30, 2008 are reappropriated for the fiscal year beginning July 1, 2008 and ending June 30, 2009.

SECTION 14. That this ordinance takes effect at 12:01 a.m. on July 1, 2008.

ENACTED BY THE ASSEMBLY OF THE KENAI PENINSULA BOROUGH THIS 3RD DAY OF JUNE, 2008.

Grace Merkes
Grace Merkes, Assembly President

ATTEST:



John Blankenship
John Blankenship, Acting Borough Clerk

- Yes: Fischer, Gilman, Knopp, Long, Martin, Smith, Sprague, Superman, Merkes
- No: None
- Absent: None