



## KENAI PENINSULA BOROUGH

144 N. BINKLEY • SOLDOTNA, ALASKA • 99669-7599  
BUSINESS (907) 262-4441 FAX (907) 262-1892

DALE BAGLEY  
MAYOR

### MEMORANDUM

DATE: June 14, 2004

TO: Pete Sprague, 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 approved budget for fiscal year 2004-2005 (FY2005). It is submitted in accordance with the Borough Code and Alaska State Statutes. The budget includes operating and capital plans for FY2005 as well as projections for the Borough's operational funds through fiscal year 2008 and capital plans through fiscal year 2009.

#### **Budget Overview**

The Borough's major budgetary goals for FY2005 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 continued reduction in the historical variance between budget and actual revenues and expenditures.
- A budget supported by the current borough's areawide general fund tax rate.
- Maintenance of the borough's healthy financial condition including compliance with the borough's fund balance policy.

All borough budgets have been impacted by increased personnel costs resulting from increases in the employer contribution rates to the public employee retirement system, the rate for FY2004 is 7.81% while the rate for FY2005 will be 12.81%. Further increases amounting to 5% per year are expected in FY2006 and subsequent years until the maximum rate allowable under current regulations of 25%

## **General Fund**

A number of factors impacted the budget for FY2005. These include increased Borough contribution to education by \$2.3 million, loss of state revenues in the amount of \$1.2 million and a reduction of interest earnings in the amount of \$1.3 million. The FY2005 budget projects a use of fund balance of \$5,340,819, an amount equal to 1.24 mills. Per the borough's Unreserved Fund Balance Policy, the general fund unreserved balance should be between \$11,705,763 and \$22,330,096. The projected fund balance as of June 30, 2004 is \$20,379,476, \$8,673,713 higher than the minimum level but \$1,950,620 lower than the maximum level indicated by borough policy. Under the policy, the approved budget must bring fund balance into policy limits within a five-year period. The approved FY2005 budget complies with this requirement. At the end of the fiscal year, unreserved fund balance is projected to be \$15,038,657, \$3,332,894 higher than the minimum level but \$7,291,439 lower than the maximum level.

For future years, in order to support the current level of expenditures, additional revenues will be needed. Lacking alternative revenues, for FY2006, FY2007, and FY2008, the mill rate will need to be increased to 7.10 mills in order for the Borough to be in compliance with the Unreserved Fund Balance Policy.

The general fund budget of \$57,248,980 represents an increase of \$1,523,528, or 2.7% from the FY2004 assembly approved budget of \$55,725,452. Compared to the amended FY2004 budget, including carryovers for encumbrances and supplemental appropriations, the budget represents a decrease of \$36,282 or (.1)%. General fund financial and in-kind support for the school district operating budget is proposed to increase \$2,321,310 from the original FY2004 level. Local educational funding approved for FY2005 includes \$33,421,775 for school district operations, the projected maximum allowable under current Alaska Statutes, \$3,802,965 for school related debt service, and \$1,250,000 for school district capital projects. In total, the FY2005 general fund approved budget provides \$38,474,740 in local funding for education, an amount equal to 67.21% of the total general fund appropriation and equivalent to a tax rate of 8.95mills.

Revenues and other financing sources of \$51,908,161 support the FY2005 general fund budget. This total consists of \$29,752,647 in property tax revenue, \$14,808,155 in sales tax revenue, \$3,269,576 in state revenue, \$1,777,000 in federal revenue, and \$2,300,783 in other revenues and financing sources. Approved expenditures exceed projected revenues by \$5,340,819. An appropriation of fund balance in this amount is included in the approved general fund budget and is equivalent to a tax rate of 1.24 mills.

Property tax revenues are expected to decrease by \$35,339, with increases in residential values being offset by decreases in oil and gas property. Sales tax revenue is forecast to decrease by \$181,160, when compared to the FY2004 approved budget of \$14,989,315. However, when compared to the revised FY2004 amended budget of \$14,589,315, this represents an increase of \$218,840, or 1.5%. In FY2003, the Borough experienced its first year where sales tax decreased from the prior year. Much of this was attributed to the closing of the K-Mart store located in Kenai. The store was converted to a Home Depot store in December 2003. State revenues are decreasing \$1,231,518 to \$3,269,576. This amount consists of \$2,644,576 for school debt reimbursement, \$475,000 for fish tax and \$150,000 from distribution of co-op revenues. The Alaska legislature eliminated the Safe Community Program and Revenue Sharing Program, from which the Borough received

approximately \$1.0 million in FY2003. In FY2004 these funds were replaced with one-time state fiscal relief funds in the amount of \$1.2 million.

## **Service Areas**

Two new service areas were created in FY2004, Seward Bear Creek Flood Service Area and Lowell Point Emergency Service Area. As a whole, the FY2005 service area budgets have increased in comparison to FY2004. Individually, some have increased while others have decreased. The Nikiski Fire Service Area budget increased \$59,899 or 2.0%, Anchor Point Fire Service Area increased \$3,864 or 1.5%, Central Emergency Services increased \$160,644 or 4.4% and the Road Service Area increased \$97,747 or 2.2% primarily due to increased personnel cost. The Bear Creek Fire Service Area budget increased \$69,696 or 32.9% and the Kachemak Emergency Service Area increased \$44,572 or 15% in order to provide additional funding for their capital project funds.

The North Peninsula Recreational Service Area budget increased \$222,982 or 15.2%. This increase consists primarily of two items; a reduction in debt of \$379,250 and an increase in contribution to their capital project fund to pay for a fire suppression system at the proposed Nikiski Community Center estimated to cost \$815,000. Due to increase in projected cost, this project has been put on hold.

The Central Peninsula General Hospital (CPGH) service area budget is increasing by \$3,249,067, compared to the original FY2004 budget. The increase is associated with debt payments on the \$49.9 million expansion approved by the service area voters in October 2003. The increased expenditure will be funded by a 0.5 mill increase in the service area tax rate, and a contribution from Central Peninsula Hospital Inc.

The South Peninsula Hospital budget is increasing by \$535,655, when compared to their original FY2004 budget. This increase is primarily due to debt payments on \$10.5 million in bonds associated with a \$17.0 million expansion approved by the service area voters in July 2003.

The special revenue funds in total are projected to use \$2,570,255 in fund balance during FY2005. Central Emergency Services intends to use \$282,351 resulting in a draw down of their operating fund balance to a level consistent with the borough fund balance policy. The Post Secondary Education Fund anticipates using \$52,150 to provide additional funding for the Kenai Peninsula College. Central Peninsula Hospital Service Area intends to use \$1,272,251 in fund balance mainly to fund debt service associated with the \$49,900,000 expansion project approved by the voters in October 2003. North Peninsula Recreation Service Area intends to use \$234,839 in fund balance primarily to fund additional contribution to their capital project fund.

## **Mission Statement**

The Kenai Peninsula Borough is organized to execute the powers granted to it through legislative action or voter mandate in a manner, which provides the optimum level of service to the public, considering the resources available. These powers include areawide, non-areawide, and service area powers. Areawide powers are: education; assessment and collection of property and sales taxes for the Borough, service areas, and the cities within the Borough; planning and zoning; solid waste disposal; emergency management; senior citizen grant funding; post-secondary education funding; 911 communications; and general administrative services. Non-areawide powers include ports and

harbors, tourism promotion, special assessment authority for utility line extensions, and economic development. Voter approved service areas include: hospital (two service areas), fire and emergency medical (6 service areas), emergency medical (one service area), recreation (one service area), road maintenance, construction, and improvements (one service area), flood (one service area), and senior citizens (one service area).

## **Major Budget Issues**

Major issues either reflected in this budget, or with the potential to impact the execution of this budget include: funding for education and the valuation of taxable property including oil and gas property.

The FY2005 budget includes local funding for school district operations of \$33,421,775, the maximum level allowable under current Alaska Statutes. This is an increase of \$1,795,652 compared to the actual FY2004 level. This increase is a result of HB233 passed by the Alaska legislature, which increased per pupil funding from \$4,169 to \$4,576.

At the same time, state funding for school district operations is expected to decrease by \$720,274, compared to the actual FY2004 level. Borough assessed valuations are currently increasing faster than the district's student enrollment. Under the current state funding formula, this set of circumstances results in a shift of financial responsibility for the cost of school district operations from the state to the borough. This shift occurred consistently during the mid to late 1990's, but was temporarily reversed in FY1999 and FY2000. This historical trend was re-established in FY2001 and is likely to continue unless there is a change in the basic funding formula.

The assessed value of taxable property located within the borough is projected to increase overall by .6% in FY2005 from the original FY2004 budget and 3.2% from the FY2004 amended amount. This follows increases of 8.7% and 3.9% in FY2003 and FY2004 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, 10.2% in FY2003 and decreased 3.7% in FY2004. It is projected to decrease by \$37,697,000, or 5.7% in FY2005. The decrease is a result of changes in the quantity and value of oil and gas production facilities, however, projections vary widely as to expectations for either growth or continued 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.

## **State Funding**

State funding for municipal operations ended in FY2003. The decrease was driven by action of the state legislature in reducing the state budget in part by reducing funding for the Safe Communities Funding program (formally known as Municipal Assistance) and the State Revenue Sharing program. The remaining state funding the Borough receives is for school debt reimbursement, fish tax and co-op distribution.

## **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 and decreased for the tax equivalent of vehicle and boat taxes collected by means other than the ad valorem property tax. Fluctuations in the assessed value will affect the tax rate equivalents of any debt payments, or of vehicle or boat taxes. The maximum mill rate, which could be levied for FY2005, is 8.13 mills. The approved General Fund tax rate for FY2005 is 6.5 mills. All service area tax rates are remaining at their FY2004 levels with the following exceptions: Central Peninsula Hospital Service Area is increasing from 0.5 mills to 1.0 mills due to an increase in debt, Roads Service Area is decreasing from 1.5 mills to 1.4 mills, and Central Emergency Service Area is decreasing from 2.60 mill to 2.35 mills.

## **Capital Projects**

The FY2005 budget includes a transfer of \$1,250,000 from the General Fund supplemented by use of \$400,000 from the School Revenue Capital Projects fund balance for school district major maintenance projects. The projects include: \$275,000 for soffit replacement at the Nikolaevsk school, \$200,000 roofing replacement at Kenai High School; and \$1,175,000 for area-wide projects including: \$125,000 for flooring replacements, \$100,000 for asbestos abatement/build back, \$125,000 for electrical upgrades and ballast replacements, \$75,000 for HVAC/DDC system upgrades, \$75,000 for asphalt/sidewalk/curbing repair and replacement, \$450,000 for area wide water quality, \$100,000 for ADA handicap improvements, and \$125,000 for playground equipment upgrades.

General Fund is also providing \$40,000 for Solid Waste capital projects, and \$150,000 for General Government Capital Projects. Service area capital budgets include equipment purchases or major renovation/construction of \$38,000 at Nikiski Fire Service Area, \$150,000 at Bear Creek Fire Service Area, \$80,000 at Central Emergency Services, \$145,000 at Kachemak Emergency Service Area, \$100,000 at Anchor Point Fire and Emergency Service Area, \$510,985 at Roads Service Area, \$1,053,000 at Central Peninsula Hospital and \$794,461 at South Peninsula Hospital.

## **Governmental Functions**

The following schedule is a summary of the FY2005 estimated revenues for the General Fund, special revenue funds, debt service funds, capital projects funds, and internal service funds including the amount and percentage increases or decreases in relation to the original FY2004 budget.

REVENUES	FY2004	FY2005	Increase (Decrease)	Percent
	Original Revenue	Estimated Revenue		
General Property Taxes	\$ 46,870,372	\$ 47,808,938	\$ 938,566	2.00%
Sales Tax	14,989,315	14,808,155	(181,160)	-1.21%
Intergovernmental:				
Federal	1,568,500	1,777,000	208,500	13.29%
State	4,501,094	3,269,576	(1,231,518)	-27.36%
Other Revenue	9,028,048	8,213,004	(815,044)	-9.03%
Fund Balance Appropriated, net	1,852,967	7,610,196	5,757,229	310.70%
	<u>\$ 78,810,296</u>	<u>\$ 83,486,869</u>	<u>\$ 4,676,573</u>	<u>5.93%</u>

Total revenue is projected to increase by 5.9 %. Property and sales tax revenues are up by a combined 2.0% and represent approximately 75.0% of total revenues. Federal revenues are anticipated to be up approximately 13.3%, due to an increase in PILT payments. State revenues are projected to decrease 27.4%, mainly due to loss of the Revenue Sharing and Safe Community programs. Other revenues are expected to show a slight decrease due to a decrease in interest earnings. The Fund balance appropriated is up approximately 310.7%. The general fund is utilizing \$5,340,819 (versus \$1,238,003 in FY2004) of fund balance. This use of fund balance is offsetting the \$1.2 million loss in state revenue, the \$1.5 million increase in funding to the Kenai Peninsula Borough School District and the reduction of interest earnings. The Central Peninsula Hospital Service Area plans on using \$1,233,146 of its fund balance to help fund the \$3.7 million debt payment associated with the expansion project.

The following schedule presents a summary of General Fund, special revenue funds, debt service funds, capital project funds, and internal service funds appropriations for FY2005. Also included are the percentage increases and decreases in relation to prior year amounts. Please note the FY2004 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 FY2004	Approved Apropriation FY2005	Increase (Decrease)	Percent
General Government	\$ 13,708,724	\$ 13,982,134	\$ 273,410	1.99%
Solid Waste	5,697,097	5,254,735	(442,362)	-7.76%
Public Safety	8,687,337	8,740,992	53,655	0.62%
Recreation	1,471,176	1,144,158	(327,018)	-22.23%
Education	37,701,684	39,377,340	1,675,656	4.44%
Road Maintenance	4,375,546	3,670,470	(705,076)	-16.11%
Hospitals	3,392,316	7,177,037	3,784,721	111.57%
Internal Service	3,776,416	4,140,003	363,587	9.63%
	<u>\$ 78,810,296</u>	<u>\$ 83,486,869</u>	<u>\$ 4,676,573</u>	<u>5.93%</u>

Total appropriations are up 5.9% in comparison to the original FY2004 budget. The primary drivers of this increase are additional contributions to the Kenai Peninsula Borough School District, increased employer contributions to the public employee retirement system, increased risk management costs, and increased debt service associated with new debt for the Central Peninsula Hospital and South Peninsula Hospitals. These increases are offset by decreases in solid waste and road maintenance capital spending. The road department capital plan will not be appropriated until later in the fiscal year. Solid waste is currently working on major expansions at the Central Peninsula Landfill and Seldovia Landfill, which were appropriated in previous years.

### **Acknowledgment**

Credit is given to those who have participated in the preparation of the FY2005 budget. Service area boards, department heads, and their staffs have all worked hard to develop department/service area budgets providing 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 Craig Chapman, Financial Planning Manager Cathey Wallace, who coordinated this year's budget process, Accounting Supervisor Troy Tankersley; Auditor/Accountant Terry Eubank; Budget/Treasury Accountant Brandi Harbaugh; and Finance Department Administrative Assistant, Patricia Hartley. All have put in long hours preparing this document.

### **The Future**

The Borough continues to finance general fund operations through use of its fund balance. This is possible due to the establishment of an Unreserved Fund Balance Policy in FY01. Based upon this policy, fund balance was determined to be in excess of optimum amounts. In the last five years, the Borough's general fund mill rate has decreased from 8.3 mills to 6.5 mills. The reduction in mill rate was possible due to the planned draw down of fund balance to within the acceptable range as determined by the policy. For FY2006, in order for the Borough to stay in compliance with its fund balance policy, additional revenues will be needed or expenditures will need to be reduced. At the present time it is estimated that unless alternative revenue sources are identified, the mill rate in FY2006 and subsequent years will need to be increased to at least 7.10 mills.

In reviewing the department and service area budget requests, careful consideration was given to the concerns of management staff, service area boards, and the assembly and borough citizens. In the end, relatively few changes were made to the budgets as submitted. We believe the budget is consistent with the borough's budget priorities, which include:

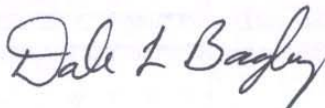
- The highest level of local educational funding borough residents can reasonably afford and sustain.
- A high quality capital and operational maintenance program ensuring the continued use and economic value of borough assets.
- Support for the needs of borough service areas as communicated by service area residents and their elected service area boards.
- A sufficient level of funding for Borough departments to ensure their continued ability to meet

In reviewing the department and service area budget requests, careful consideration was given to the concerns of management staff, service area boards, and the assembly and borough citizens. In the end, relatively few changes were made to the budgets as submitted. We believe the budget is consistent with the borough's budget priorities, which include:

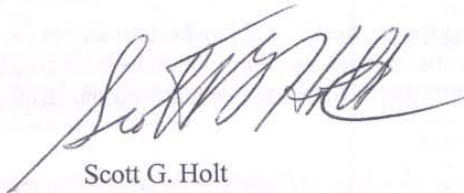
- The highest level of local educational funding borough residents can reasonably afford and sustain.
- A high quality capital and operational maintenance program ensuring the continued use and economic value of borough assets.
- Support for the needs of borough service areas as communicated by service 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 we serve.
- A reduction in the historical variance between budget and actual revenues and expenditures.
- A budget supported by the borough's current areawide general fund tax rate.
- Maintenance of the borough's healthy financial condition.

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,



Dale L. Bagley  
Mayor



Scott G. Holt  
Director of Finance



## **THE 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.

The departmental budgets are received by the finance department and entered into the computerized budgeting system. This information is shown in the budget document on the department budget pages in the "mayor proposed" column. The resulting computer reports are then routed to the department heads for their review. After adjustments are made, the Mayor, along with the Finance Director and the appropriate department head, reviews each departmental budget. As the Mayor makes changes to the department's proposed budget, his recommendations are entered into the computerized budget system under the "Mayor proposed" column for the preliminary budget document. The Borough Assembly makes the final adjustments to the budget, and the final budget amounts appear in the "Assembly adopted" column of the final budget document.

Developing the budget for estimated revenues is a dynamic process. The preliminary revenue projections may change due to the fact that virtually all of the revenues of the Borough depend on events that do not occur until after the preliminary budget is published. Examples of these events are the actions of the Alaska State Legislature regarding the setting of funding levels for local governments and the fact that the assessment roll is not finalized until June 1. The State Legislature is meeting on the State budget at the same time that the Borough budget is being developed. As the State budget solidifies, adjustments are made to the Borough estimates. The Borough School Board is required by Alaska Statute 14.14.060(c) to submit the school budget for the following year, including its request for local effort, to the Borough Assembly by May 1 for approval of the total amount. Within 30 days after receipt of the school budget, the Assembly must furnish a statement to the School Board of the amount to be made available to the School District from local sources. If the Assembly does not furnish the School Board with a statement of the amount to be made available within the 30 days, the amount requested in the budget is automatically approved. By June 30 the Assembly shall appropriate the amount to be made available from local sources. Fine tuning of the budget, both in terms of estimated revenues and appropriations, occurs until the final budget is passed by the Assembly.

A preliminary budget for the General Fund is provided to the Assembly during the first part of April. This allows the Assembly to see the Borough spending plan at the same time they are considering the School District budget. A second preliminary budget that includes the General Fund and all other funds is presented to the Assembly by the first Tuesday in May.

The Assembly has the option of holding work sessions on the budget throughout April and May. The mill rates must be established by June 15 in accordance with Alaska Statutes. The ordinance setting the level of appropriation for fiscal year 2004 is introduced at the first Assembly meeting in May; the resolution setting the mill rates for the General Fund and the service areas is presented at the first Assembly meeting in June. After holding public work sessions, the Borough establishes the budgets and tax rates for the General Fund and service areas by June 15.

After the budget has been established, the Assembly may transfer appropriations between major classifications or department by resolution; however, transfer of appropriations between funds must be done by ordinance. The Borough Mayor has the authority to transfer amounts within a department. Emergency appropriations may be done by Assembly ordinance without a public hearing, but are only effective for 60 days. Extensions of such appropriations must go through the public hearing process.

## FY 2004-2005 Budget Calendar

January 2004						
S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

### December 2003

- 01 Develop budget calendar-Coordinate Assembly/Mayor/Dept.'s/Service Areas
- 05 Update fund balance policy minimums/maximums for all funds
- 06 Meet with Assessor to get preliminary assessed value estimates.
- 15 Meet with Mayor regarding budget calendar and get his guidelines for new year.
- 17 Meet with Assembly President to get approval of budget calendar.
- 19 Draft Budget Preparation Instructions Memo and Budget Guidelines Memo.
- 22 Send memo to all Dept. heads and Service Area Administrators regarding budget kickoff meeting.
- 29 Develop forms to be used in submitting budget requests.

### January 2004

- 05 Send budget preparation instructions, Mayor's Guidelines Memo and budget forms to all department heads and administrators.
- 07 Budget kickoff Meeting – Mayor; Dept. heads and Service Area Administrators.
- 08 Budget development begins
- 08 Begin work on Salary and Benefits and Insurance calculations
- 26 Finance Director/Planning Manager begins attending Service Area Board meetings to provide results of operation and fund balance information.
- 29 Personnel requests submitted to Finance (early submittal appreciated).

### February 2004

- 03 Joint budget work session with the school district.
- 04 System Input training – Admin Assistants
- 12 Finalize Personnel/Benefits calculations – provide info to Service Areas.
- 12 Meet with all service areas and departments to determine 10 year CIP needs and projections.
- 12 Risk management to provide insurance costs to department and service areas.
- 13 Schedule budget review meetings: Mayor and Dept. Heads/Service Area Administrators.
- 17 Finalize Personnel/Benefits calculations – provide information to Departments.

### March 2004

- 01 Real Property assessment notices mailed.
- 01 Finance Director/Planning Manager complete attending Service Area Boards budget workshops.
- 01 Dept. budgets submitted to the Finance, including goals, objectives and accomplishments.
- 02 Review department budgets with Department heads.
- 08 Service Area Board approved budgets submitted to Finance Department.
- 08 Review service area budgets with service area administrators.
- 08 Complete input of budget into budgeting system.
- 11-12 Department/Service Areas budget review meetings with the Mayor
- 15-19 Department/Service Areas budget review meetings with the Mayor
- 22 Obtain most current projected revenue information from outside sources.
- 23 Input revenue and expenditure estimates into budget doc spreadsheets
- 30 No more changes to the preliminary budget document allowed.

### April 2004

- 01 Preliminary General government budget projection completed and printed.
- 02 Schedule budget presentations to the Assembly: Mayor, Department Heads, Service Area Administrators and outside agencies.
- 05 School Board meeting – Budget approval.
- 08 Resolution setting school local effort amount to Assembly packet
- 12 Preliminary Borough budget completed and goes to printer.
- 20 School District presents proposed budget to the Assembly.
- 20 Assembly determines local share for School budget by resolution.
- 20 FY2005 Appropriating Ordinance to assembly packet.
- 27 Final printing of Mayor approved proposed budget document

### May 2004

- 04 Proposed Mayor recommended budget document presented to the Assembly.
- 04 Assembly introduces appropriating ordinance for general government and Service areas.
- 17-18 Present proposed budgets to Assembly - Departments & Service Areas.
- 19-21 Board of Equalization hearing on main assessment roll.
- 20 Resolution setting the mill levy to assembly packet.

### June 2004

- 01 Assessor certifies final assessment roll
- 01 Present proposed budgets to Assembly - Departments & Service Areas.
- 01 Public hearing on FY2005 budget.
- 14 Public hearing and final adoption of general government and service area budgets.
- 14 Mill rate set.
- 16 Update budget document to reflect final adopted budget.
- 21 Roll FY04/05 budget into financial system.
- 29 Finalize budget document for publication.

### July 2004

- 13 Distribute published budget document.
- 29 Submit Published document to GFOA award program for review.

**August/September/October/November/December**  
Monitoring of all budgets

July 2004						
S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

August 2004						
S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

September 2004						
S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

October 2004						
S	M	T	W	T	F	S
				1	2	
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

November 2004						
S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			

December 2004						
S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

February 2004						
S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29						

March 2004						
S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

April 2004						
S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	

May 2004						
S	M	T	W	T	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

June 2004						
S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			

## FUND STRUCTURE

The accounts of the Borough are organized on the basis of funds and account groups, each of which is considered a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in this report into seven generic fund types and three broad fund categories as follows:

### **GOVERNMENTAL FUNDS**

**General Fund (100)**: The General Fund is the general operating fund of the Borough. This fund accounts for all transactions not recorded in other funds and receives financial support from such sources as general property taxes, sales taxes, fees and intergovernmental revenues. Expenditures are authorized in the general budget and include such areas as administration, assessing, emergency management, risk management, senior citizen funding, 911 communications, and planning and zoning.

**Special Revenue Funds (200-299, 600-601)**: Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. State grants, education, fire and emergency medical service areas, a road service area, two road improvement funds, the Land Trust Fund, the School Fund, the North Peninsula Recreation Service Area Fund, the Nikiski Senior Service Area Fund, Disaster Relief Fund, Solid Waste Fund, Kenai River Center Fund, Underground Storage Tank Removal and Upgrade Fund, Central Kenai Peninsula Hospital Service Area, and South Peninsula Hospital Service Area are included in the special revenue funds.

**Debt Service Funds (300-399)**: The debt service funds are used to account for the payment of principal and interest on general obligation debt incurred to finance construction. Each bond issue is accounted for in a separate general ledger fund, but these separate funds are included in the budget document as one fund since the appropriation is for the single purpose of debt service on general obligation bonds issued for construction.

**Capital Projects Funds (400-499)**: Capital projects funds account for financial resources used for the acquisition or construction of capital projects.

### **PROPRIETARY FUNDS**

**Internal Service Funds (700-799)**: The Borough's internal service funds (Insurance and Litigation Fund and Equipment Replacement Fund) are used to account for the financing of goods and services provided to other departments of the Borough. The Insurance and Litigation fund provides the insurance requirements of the Borough and is financed through interfund charges. The Equipment Replacement Fund is used to finance the major purchases of user departments. The departments are charged an annual fee over the expected life of the vehicle or piece of equipment. This manner of financing major purchases eliminates the substantial impact such purchases would otherwise have on annual operating budgets.

### **FIDUCIARY FUNDS**

**Agency Funds (800-899)**: The Borough maintains two Agency Funds. One of the funds, the Tax Agency Fund, is used to account for resources received by the Borough as an agent for other governmental units. The Borough is responsible for the collection and disbursement of taxes levied by the cities located within the Borough. These cash receipts and disbursements are recorded in the Tax Fund. The second agency fund, Special Assessment Agency Fund, was established to account for monies collected from property owners by the Borough for the construction of natural gas pipeline distribution systems and road improvements, which benefits these property owners.

## FINANCIAL POLICIES

The fiscal philosophy of the Borough incorporates the concept that the taxpayers in different areas or taxing districts pay only for those services, which they receive. The borough form of government is designed to provide maximum local self-government with a minimum of local governmental units and to prevent duplication of tax-levying jurisdictions. In Alaska, the borough is a political subdivision of the state, which corresponds generally to a county in other states.

The Kenai Peninsula Borough was incorporated as a second class Borough on January 1, 1964. State of Alaska law mandates that second class boroughs provide certain services on an areawide basis to all taxpayers (e.g., property assessment, tax collection, education and planning). All other services have to be voted on and approved by the taxpayers who are to receive the services. This gives the taxpayers control over the type and level of service for which they are willing to pay. The Kenai Peninsula Borough governmental unit is charged with providing a full range of community services that includes recreation, fire service, hospital, emergency medical service, flood control service area, road maintenance and construction, planning and zoning, solid waste disposal, emergency management, 911 emergency communication, assessment and collection of sales and property taxes, senior citizen funding, postsecondary education funding, economic development, tourism promotion, ports and harbors, and special assessment authority. Funding for the Borough, by order of importance, is provided from property tax, state revenue, sales tax, interest earnings, federal revenue, and other sources.

The Kenai Peninsula Borough Assembly has the responsibility to set the budget and establish mill rates of the Borough, the school district and the service areas. The school district is governed by an elected school board. The service areas have elected operating boards. The Borough has complete responsibility for the levy and collection of taxes supporting all of these entities, as well as providing administrative support for the service areas.

### **Basis of Accounting and Budgeting**

The need to demonstrate compliance with regulations governing the funding sources for those services requires a complex and advanced accounting system. To fulfill this need, the National Council on Governmental Accounting recommended the use of fund accounting by state and local governments. A description of the fund types is presented in the Fund Structure section of this document. Depending on the type of fund referred to, the basis of accounting may be different. The Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. The Proprietary fund types are accounted for on a flow of economic resources measurement and use the accrual basis of accounting. The basis of accounting determines when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Under the modified accrual basis of accounting revenues are recognized when they are measurable and available (measurable meaning the amount of the transaction can be determined and available means collectible within the current period or soon enough after to pay liabilities of the current period). Expenditures are recognized when the fund liability is incurred, if measurable. The exception to this is the principal and interest on general long term debt, which is recorded when due. Under the accrual basis of accounting revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. The Borough's budgets are prepared and adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP) for all governmental and proprietary funds except capital projects funds, which are adopted on a project length 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 the recognition of commitments that will subsequently become expenditures when the goods or services are received.

The Kenai Peninsula Borough's financial policies set forth the basic framework for the overall fiscal management of the Borough. The established long-range policies regarding financial management have been to take a conservative approach on forecasting revenues due to the uncertainty of the revenue source, particularly oil property tax revenues. This policy takes into consideration any changes in circumstances or conditions when evaluating both the current and long range goals, and has helped to maintain financial stability.

The following policies assist the decision-making process of the Borough Assembly:

**Prudent budgeting and effective budgetary control.**

Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, and capital projects funds through the use of an encumbrance accounting system, under which purchase orders, contracts, and other forms of legal commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget. At year-end, unencumbered amounts lapse, while outstanding encumbrances are reported as reservations of fund balances since they do not constitute expenditures. Although the appropriations lapse at year-end, the subsequent year's appropriations provide the authority to complete these prior year's obligations as the full amount encumbered is reappropriated.

In May 2001, the assembly established a policy for determining minimum and maximum levels of unreserved fund balance. Criteria was established for determining these levels and included operating contingencies, working capital requirements, capital expansion and contingencies. The fund balance range is presented to the assembly for approval as part of the annual budgeting process and any deviation from the policy shall be documented and presented at that time. If a fund balance is outside of the established range, the proposed budget must include a five-year plan of action to achieve compliance with the established range.

Budgetary control is at the fund level.

**Efficient safeguarding of Borough assets.**

Management of the Borough is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Borough are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Authorization, through purchase orders, is required for the encumbrance and expenditure of funds. An encumbrance is the reservation of the funds necessary to pay for the purchase. The proper account must have adequate appropriations available prior to approval of the purchase order. Formal bids are required for purchases exceeding \$15,000.

Several years ago the Borough and School District established an insurance and litigation fund. The purpose of the insurance and litigation fund is to pay for claims and losses of the Borough, School District and service areas that fall within the deductible and retention levels of the program. The Borough and School District's insurance program is a combination of deductibles and self-insured retention with excess and umbrella insurance coverage for transfer of risk above the desired levels of retention. Deductibles currently range from \$0 to \$5,000 depending on the line of coverage involved, with \$100,000 deductible for fire and extended coverage on buildings. Self-insured retention is currently \$250,000 on comprehensive general/auto liability. Effective in FY2003, the Borough became self-insured for workmen's compensation. Group health insurance is a modified program of self-insurance with monthly attachment levels. The Kenai Peninsula Borough currently maintains a risk management policy that provides for an on-site risk manager. The risk manager, in coordination with a risk management committee, is charged with the responsibility of developing and presenting a program of self-insurance and insurance to the Borough Assembly, as well as overseeing claims handling and settlement activity.

**Manageable debt administration.**

Debt administration procedures include the scheduling of bond payments spread over the life of the issue, producing a total debt service schedule that is manageable. Under state statutes, a municipality may incur general obligation bond debt only after a bond authorization ordinance is approved by a majority vote at an election. The Borough does not have a legal debt limit. Debt repayment is timed to correspond to expected cash inflows. The State of Alaska reimburses the Kenai Peninsula Borough for most expenditures incurred for school debt depending on the issue date of the debt. For bonds issued after April 30, 1993, the reimbursement rate is 70%. In addition to school debt that is reimbursable, the Kenai Peninsula Borough also has school debt that was used for the local share of a matching grant.

This debt is not reimbursable.

### **Equipment replacement.**

In fiscal year 1988-89, \$1 million of undesignated fund balance in the Borough building capital projects fund was used to set up the equipment replacement fund. This fund is operated much like a leasing agency. Amortization of the purchase price of equipment prevents annual operating fund budgets from being severely impacted by capital equipment purchases.

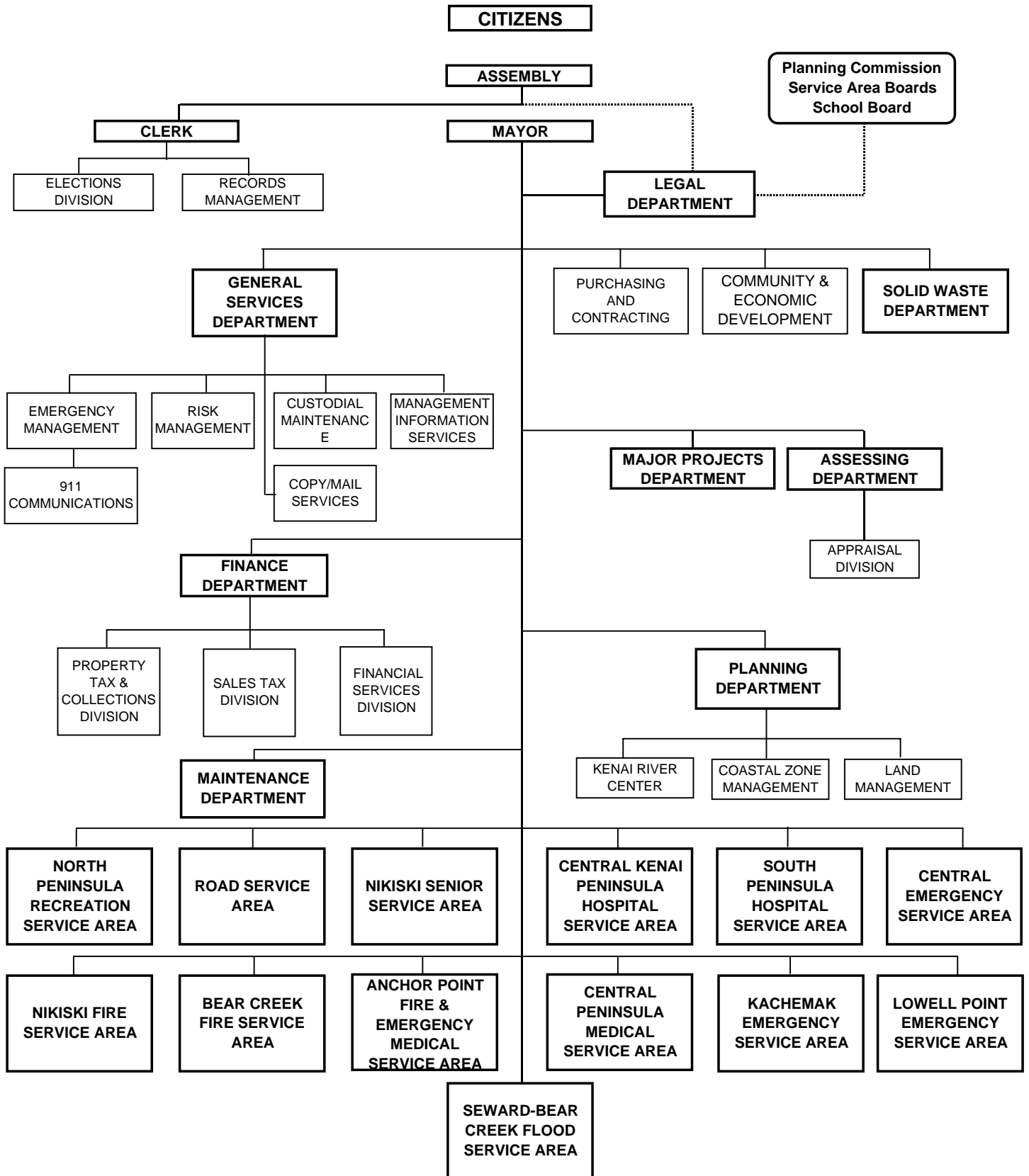
### **Maintenance of a sound investment policy of Borough monies.**

The Borough uses a Central Treasury whereby all cash of the general government, the school district, service areas and any other agency of the Borough is accumulated and invested. This procedure not only provides internal control but yields a higher rate of return on our investments because the amount available to invest is larger. The investment policies included in the Borough's Code of Ordinances include requirements for collateralization, diversification and safekeeping, as well as listing authorized investment instruments. The main objectives of this policy are the safeguarding of principal, maintaining sufficient liquidity to meet the Borough's cash flow requirements, and striving to achieve the highest rate of return on Borough investments and deposits, with due regard to the security of the investments and margins of risk. The Borough's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. The Borough's cash is fully invested at all times.

### **Striving to maintain the best possible rating on bonds.**

There are many elements taken into consideration by bond rating agencies when evaluating bond issues. One item looked at is the financial performance of the municipality or enterprise. The financial accounting and reporting of the Borough is in accordance with methods prescribed by the Government Finance Officers Association of the United States and Canada (GFOA). This practice has the benefits of ensuring conformity with today's complex and ever-changing reporting regulations and the safeguarding of Borough assets, as well as presenting a fair statement of the Borough's financial operations and position. A decrease in bond ratings would increase the cost of issuing bonds.

# KENAI PENINSULA BOROUGH ORGANIZATIONAL CHART



## KENAI PENINSULA BOROUGH STAFF

DALE BAGLEY  
MAYOR

Linda Murphy  
Borough Clerk

Ed Oberts  
Assistant to the Mayor

Colette Thompson  
Borough Attorney

---

### Borough Departments

Richard Campbell  
General Services Director

Scott Holt  
Finance Director

Shane Horan  
Assessing Director

Max Best  
Planning Director

Catherine Mayer  
Solid Waste Director

Dave Tressler  
Maintenance Director

Walter Robson  
Capital Projects Director

Mark Fowler  
Purchasing and  
Contracting Officer

---

### Borough Service Areas

Dan Gregory  
Fire Chief  
Nikiski Fire  
Service Area

Mark Beals  
Fire Chief  
Bear Creek Fire  
Service Area

Damon A. McMurray  
Fire Chief  
Anchor Point Fire &  
Emergency Medical

Jeffrey Tucker  
Fire Chief  
Central Emergency  
Services

Karen Kester  
Recreation Director  
North Peninsula  
Recreation Service  
Area

Gary Davis  
Roads Director  
Road Service  
Area

Patrick Johnson  
Chairman  
Kachemak Emergency  
Service Area

Lynda Paquette  
Chairman  
Lowell Point  
Emergency Service  
Area

David Hayes  
Chairman  
Seward Bear Creek  
Flood Service Area

David Gilbreath  
Administrator  
Central Peninsula  
Hospital

Charles Franz  
Administrator  
South Peninsula Hospital

Diana Summers  
Director  
Nikiski Senior  
Service Area

---



Introduced by: Mayor  
 Date: 05/04/04  
 Hearings: 05/18/04 & 06/01/04  
 Action: Postponed until 06/01/04  
 Action: Postponed until 06/14/04  
 Action: Enacted as Amended  
 Vote: 6 Yes, 2 No, 1 Absent  
 Date: 06/14/04

**KENAI PENINSULA BOROUGH  
 ORDINANCE 2004-19**

**AN ORDINANCE APPROPRIATING FUNDS FOR FISCAL YEAR 2004-2005**

**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,** Resolution 2003-047 approved a total school budget of \$95,056,368 and established that up to \$32,635,743 (\$25,679,587 local effort and \$6,956,156 in-kind services) be provided from local sources for school purposes; and

**WHEREAS,** The Alaska legislature approved HB233 which increased base student funding from \$4,169 to \$4,576 allowing for additional local support of \$786,032. The School Board at their June 7, 2004 board meeting approved the increase funding, increasing local sources to \$33,421,775 (26,465,619 local effort and \$6,956,156 in-kind services); and

**WHEREAS,** the Assembly is required by KP.B 5.04.021 to introduce an ordinance at the May 4, 2004 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 \$57,248,980 is appropriated in the General Fund for the fiscal year beginning July 1, 2004 and ending June 30, 2005 as follows:

General Government Operations	\$13,492,855
Transfer to School District for Operations and In-kind Services	33,421,775
Transfer to School Debt Service	3,802,965
Transfer to Solid Waste Debt Service	828,563
Transfer to Special Revenue Funds:	
Solid Waste	3,810,326
Kenai River Center	407,496
Disaster Relief Fund	14,800
Nikiski Senior Service Area	30,200
Transfer to Capital Projects Funds:	

School Revenue	1,250,000
Solid Waste	40,000
General Government	150,000

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

A. Local Effort	\$26,465,619
B. Maintenance	5,259,932
C. School District Utilities	47,338
D. School District Insurance	1,532,009
E. School District Audit	26,500
F. Custodial Services	<u>90,377</u>

Total Local Contribution per AS 14.17.410 \$33,421,775

**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, 2004 and ending June 30, 2005 are as follows:

Nikiski Fire Service Area	\$3,020,603
Bear Creek Fire Service Area	281,187
Anchor Point Fire and Emergency Medical Service Area	263,801
Central Emergency Service Area	3,841,032
Kachemak Emergency Service Area	341,654
Lowell Point Emergency Service Area	13,596
Central Peninsula Emergency Medical Service Area	192,536
North Peninsula Recreation Service Area	1,694,158
Kenai Peninsula Borough Road Service Area	4,544,485
Engineer's Estimate Fund	15,000
Post-Secondary Education	502,600
Land Trust	841,839
Kenai River Fund	459,295
Seward Bear Creek Flood Service Area	77,823
Disaster Relief	50,000
Nikiski Senior Service Area	204,724
Solid Waste	5,254,735
Central Peninsula Hospital	5,598,197
South Peninsula Hospital	1,578,840

**SECTION 5.** That \$3,802,965 is appropriated in the School Debt Service Fund for the fiscal year beginning July 1, 2004 and ending June 30, 2005.

**SECTION 6.** That \$828,563 is appropriated in the Solid Waste Debt Service Fund for the fiscal year beginning July 1, 2004 and ending June 30, 2005.

**SECTION 7.** That \$4,037,729 is appropriated in the Central Peninsula Hospital Service Area Debt Service Fund for the fiscal year beginning July 1, 2004 and ending June 30, 2005.

**SECTION 8.** That \$724,913 is appropriated in the South Peninsula Hospital Service Area Debt Service Fund for the fiscal year beginning July 1, 2004 and ending June 30, 2005.

**SECTION 9.** That appropriations for the Capital Projects Funds for the fiscal year beginning July 1, 2004 and ending June 30, 2005 are as follows:

School Revenue	\$1,650,000
General Government	150,000
Solid Waste	40,000
Service Areas:	
Nikiski Fire	38,000
Road	510,985
Bear Creek Fire	150,000
Central Emergency	80,000
Anchor Point Fire and Emergency Medical	100,000
Kachemak Emergency	145,000
North Peninsula Recreation	-0-
Central Peninsula Hospital	1,053,000
South Peninsula Hospital	794,461

**SECTION 10.** That appropriations for the Internal Service Funds for the fiscal year beginning July 1, 2004 and ending June 30, 2005 are as follows:

Insurance and Litigation	\$3,636,931
Equipment Replacement	503,072

**SECTION 11.** That the FY05 budget of the Kenai Peninsula Borough, as submitted to the Assembly on May 4, 2004, 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 12.** That funds reserved for outstanding encumbrances as of June 30, 2004 are reappropriated for the fiscal year beginning July 1, 2004 and ending June 30, 2005.

**SECTION 13.** That this ordinance takes effect at 12:01 a.m. on July 1, 2004.

**ENACTED BY THE KENAI PENINSULA BOROUGH ASSEMBLY THIS 14th DAY OF JUNE 2004.**