

**KENAI CITY COUNCIL WORK SESSION
FY2023 BUDGET GOALS
JANUARY 10, 2022 – 5:00 P.M.
KENAI CITY COUNCIL CHAMBERS
210 FIDALGO AVE., KENAI, AK 99611
MAYOR GABRIEL, PRESIDING**

NOTES

Council present: B. Gabriel, H. Knackstedt, J. Baisden, T. Winger, J. Glendening, G. Pettey, D. Sounart

Others present: City Manager P. Ostrander, Finance Director T. Eubank, City Clerk S. Saner, Fire Chief T. Prior, Police Chief D. Ross, City Attorney S. Bloom, Senior Center Director K. Romain

A. Call to Order

Mayor Gabriel called the work session to order at 5:00 p.m.

B. Introduction – Mayor Gabriel

Mayor Gabriel noted the purpose of the work session was to review, discuss and provide guidance to the administration regarding goals for the development of the FY2023 budget.

C. Public Comment

There was no one wishing to be heard.

D. FY2023 Budget Adoption Goals

City Manager Ostrander noted that the administration established goals annually for the development of the budget and including the Council to develop the goals would ensure the FY 2023 budget development is in alignment with the goals of the Council; and this process was an additional opportunity for the budget process to be transparent to the public.

Finance Director Eubank stated the goals included a broad statement of purpose which identified the intent of the City to produce a fiscally responsible budget; the importance of considering the needs and priorities of the community; and ensure that fees and tax rates are sufficient to provide services without resulting in excessive reserves.

Goals #1: Submit a budget for consideration which maintains the City's current mill and sales tax rates which is also compliant with the General Fund, Fund Balance Policy as codified in KMC 7.25.

Finance Director Eubank outlined the importance of maintaining the current mill and sales tax rate, stating the use of reserve funds for one-time expenditures is good; however, use of the reserve funds for ongoing expenses is not a sustainable process.

There was discussion on revenue streams; the fund balance policy as a best practice to ensure the City maintained sufficient funds; and establishing a fiscally responsible budget without increasing the mill or sales tax rates.

Goal #2: Propose salary schedule adjustments commensurate with inflation as measured by the Alaska Consumer Price Index for All Urban Consumers, second half over second half to the extent possible while meeting the City's Fund Balance Policy/Goals with no increase in the rates of taxation or reduction in services.

Finance Director Eubank identified the most significant costs to the City is personnel noting that traditionally the City has matched the Consumer Price Index (CPI); and, stated the administration is looking for direction from the Council regarding the salary schedule.

There was discussion regarding the compounding effect of inflation, costs for benefits, health care, and increased costs for goods resulting in a possible increase in sales tax revenues; there was consensus for the administration drafting a budget as close as possible to include the CPI without a mill or sales tax increase.

Goal #3: Improve the sustainability of and maintain the quality of employee medical, dental and life insurance while continuing toward an employee cost share of 15%; a process that began in FY2021 and continued in FY2022 by increasing the employee cost share 1% per year. A 1% increase in the employee cost share for FY2023 would bring the employee's share to 13%.

Finance Director Eubank stated that the City is incurring 88% of employee healthcare costs and those costs are escalating at a far faster pace than inflation; the City is in its third year of increasing the cost to employees at 1% each year to bring it up to 15%; however, there is need to develop a more sustainable option.

There was discussion regarding the cost to the City per employee; pooling with other municipalities; the need to remain in a full insured plan; higher deductibles and health savings accounts; and establishing goals related to a commitment from the City to work with employees to reduce costs for healthcare.

Goal #4: Seek opportunities for efficiency by striving to reduce the cost of goods and services without negatively impacting operations.

Finance Director Eubank noted this would be reaffirming the commitment from the City employees that we are always looking for ways to reduce costs through efficiency initiatives.

There was discussion regarding the local vendor preference and how it did not apply to grant funding; and examples of efficiency initiatives recently administered by City staff.

Goal #5: Compile a list of capital projects, projects costing \$35,000 or more, for Council adoption. The investment in maintaining infrastructure over time should at a minimum equal the depreciation, an accounting process by which the cost of an asset is spread over its useful life, recorded annually on City capital assets and infrastructure.

Finance Director Eubank stated the investment into infrastructure over time should be a minimum equal to depreciation, an accounting process by which the cost of an asset is spread over the use of its life.

There was discussion regarding how this goal supported the capital plan process; established the amount of funds the Council should be looking to spend in certain areas; and the option of taking bonding issues to the voters.

Goal #6: Adjust rates, charges and fees in all funds commensurate with inflation as measured by the Alaska Consumer Price Index for All Urban Consumers, second half over second half. The monthly rents at Vintage Pointe should not increase more than \$35.00 per month over FY2022 rates for existing tenants as of June 30, 2022.

Finance Director Eubank stated this goal addresses other rates, charges and fees that are not contractually driven.

There was discussion regarding the consequences in future years if the cost of living increase was not applied in the current year; support for the \$35.00 per month Vintage Pointe rental increase to ensure the rentals are at market value; and the administration bringing forward an updated fee schedule.

Goal #7: For the Airport, Water & Sewer, Personal Use Fishery, and Congregate Housing Funds, the proposed budget should project ending fund balance/retained earnings of at least 50% of the FY2022 budgeted expenditures net of any projected lapse and any use of fund balance should be for one-time or capital purchases and not for reoccurring expenditures/expenses.

Finance Director Eubank noted that there is a formalized fund policy for the general fund; however, there was no formalized fund policy for the airport, water and sewer, personal fishery or congregate housing. This goal would establish similar standards for use of reserves within these funds limiting deficit spending to one time or capital expenditures.

There was consensus that the application of this standards was a responsible way to manage the funds.

Goal #8: Senior Citizen Fund fees and rates should be adjusted to a level sufficient to limit the increase in required transfer from the General Fund to no more than a 10% increase, \$22,052, over FY2022 amounts.

Finance Director Eubank clarified that the Senior Citizen Fund is for activities at the Senior Center and is separate from the operations of Vintage Pointe; although significant funds were received from the State and Federal Government for the Senior Center, the general fund is used for any shortfalls. This goal would establish an overall transfer of not more than 10% (\$22,000).

There was discussion related to what action would be needed if the goal was insufficient; increased meal counts; and a possible change in funding from the Kenai Peninsula Borough based on census data regarding the senior population.

Public Comment

Suzie Smalley spoke in favor adjusting residential water and sewer rated based on the square footage of a home; and that she would be in support of bonding efforts to improve the City even if she were to move away.

E. Council Discussion

Council Member Winger stated her appreciation for the goals brought forward and thanked the administration for their hard work.

Council Member Glendening stated his appreciation for looking at infrastructure depreciation and involving the Council early in the budget process.

Council Member Baisden stated the goals were a good place to start considering the difficulties related to all of the increases coming in the long term; and it would be good if the City were able to handle the increases without needing to increasing revenues.

Council Member Knackstedt stated any budget has unknowns, inflation is an additional unknown; the vehicle replacement program has worked well and the same is true with other equipment and infrastructure.

Council Member Sounart thanked the administration for their work, and thanked Mrs. Smalley for her comments.

Council Member Pettey stated the work session was very informative; we as a community are facing challenges with the consumer price index and rising medical costs; and noted her appreciation for this being brought forward.

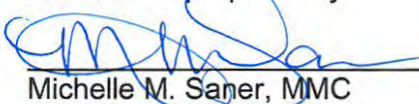
Mayor Gabriel stated he liked the idea of the administration taking a lead on this process, some of the goals maybe challenging; however, having goals provides a context and when those goals are not met it provides an opportunity to identify why they were not met.

F. Public Comment

G. Adjournment

The work session adjourned approximately at 7:20 p.m.

Notes were prepared by:



Michelle M. Saner, MMC
City Clerk

