

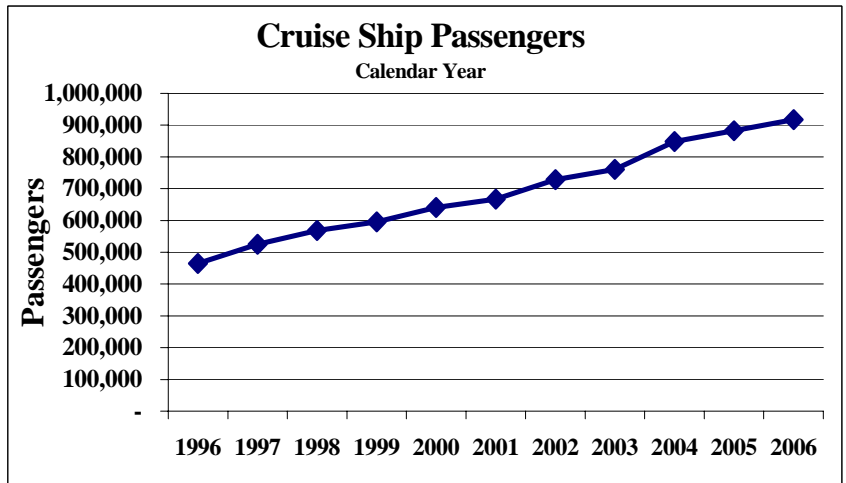
# BUDGET HISTORY AND OVERVIEW

## BUDGET HISTORY

The City's economic growth increased in the summer of 2004 after 7 years of relatively slow growth. The specific reasons for this sudden shift is unclear. The general consensus is the economic growth was due in large part to, 1) improvements in the general economic climate 2) the economic impacts from this past summer's exceptionally nice weather, and 3) a strong summer tourism season. Much of the flattening in our economic growth in the previous years can be attributed to state and national economic issues. The CBJ continues to rely heavily on State employment for our economic base. State employment comprises just over one quarter (26%, based on 2003 Alaska Department of Labor information) of our total employment. The Governor and the State Legislature have been struggling with developing an acceptable long-range economic plan that will meet the State's future financial needs. The State has been operating in a deficit position for a number of years and, as of last year, projected that they would exhaust the Constitutional Budget Reserve's (CBR) surplus within three years. A surge in oil prices starting in early 2004, has extended the CBR exhaustion date and relieved a significant part of the State's funding shortfalls. In responding to the current budgetary funding improvements, the Governor and the Legislature have proposed some additional funding support for education and local government general operations. However, in the long run, we do expect that there will continue to be state budgetary pressures until the State identifies and implements a long-term budget solution. Over most of the past 17 years, the State's budget balancing process has included shifting costs to local governments, reducing state support and/or intercepting pass-through funds.

Offsetting the past 10 years of negative economic pressures from the State's budget problems, has been very strong growth in tourism. Juneau has experienced significant growth in cruise ship passenger visits. Initial projections indicate that over 900,000 cruise ship passengers may visit Juneau during the 2005 cruise season.

Juneau also continues to benefit from large-scale mining. Mining was Juneau's first basic industry and the backbone of the local economy until World War II. The largest operating mine in the Juneau area, Greens Creek, is located on Admiralty Island, 18 miles west of downtown Juneau, and within the CBJ boundaries. Currently the Greens Creek Mine employs approximately 265 individuals. Based on exploration information the Greens Creek Mine's life expectancy may run until the mid 2020's. Juneau has another large-scale mine project under development, the Kensington Gold Project. The Kensington Gold Project is located 45 miles north of Juneau and inside the CBJ borough boundaries. This mine project is in the final permitting phases and is expected that construction will start within the next year. The Kensington mine developers, Coeur Alaska, have indicated that they will permanently employ approximately 225, plus additional employees during the construction phase. The mine will produce some 2,000 tons of ore per day for at least 10 years.



## MAJOR REVENUE TRENDS

Approximately 80% of our general governmental operations (including general support to education, but excluding the education function and debt service) are funded from property and sale tax revenues. During the early to mid 1980's the percentage of local taxation funding general operations was approximately 70%. This percent has gradually increased over time as the state reduced support and shifted costs. Changes in these revenue sources represent the greatest impacts to our operational budget. While these revenues tend to be stable, they can and are impacted by actual and perceived economic changes. This is especially true with sales tax in that perceived economic concern can result in significant and immediate increases or decreases in local buying. Property assessments, on the other hand, tend to be volatile due to the

# BUDGET HISTORY AND OVERVIEW

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timing and nature of how property is valued. Over the past two years, we have seen some significant increases in property values. The City Assessor attributes these increases to record low interest rates that increased the demand for housing. This resulted in increases in home values (supply-demand) and the construction of new homes and home improvements. However, actual tax revenues depend upon a combination of the assessed values and the mill levy set by the Assembly.

The CBJ is required by state law to assess real property at its full and true (market) value. Property assessments grew on average from FY90 (calendar 1989 assessments) through FY97 (calendar 1996 assessments) at a rate of 6% to 10% per year. This growth was due to a combination of property valuation increases and new construction. After FY97 (calendar 1996 assessments) the growth in property assessments dropped dramatically. This was due to a significant slowdown in new construction and a flattening in property value growth. Total assessments for FY06 (calendar 2005) increased by more than 16%. If we exclude the estimated increase due to new construction, the actual value growth estimate drops to approximately 13%. The City Assessor attributes much of this jump in assessed value growth to record low mortgage interest rates. This assessed value growth matches reasonably well with the national average and the Pacific States' average over the past 2 years.

It should be noted that increases in property values also come with a direct negative expenditure impact. The State's educational funding formula includes a provision that requires local governments to contribute 4 mills of Full and True Value (what we could tax, not what we choose to tax) to education. Any increase in property value results in a direct increase in local support to education and a dollar for dollar offsetting reduction in state support to education. The 2005 assessed value growth will result in a \$920,000 increase in the required local support to education. *A more detailed explanation of property assessment and taxation is presented in the "Property Assessment and Taxation" section.*

Sales tax revenues grew on average from FY90 through FY96 and into early FY97 at a rate between 5% and 9% per year. In May 1997, we started to experience a significant flattening in our sales tax growth rate. Between FY98 and FY02, the summer sales tax growth rate dropped to between 2% and 4% and winter was flat to slightly negative. The summer quarter growth has been largely supported by increases in tourism. For FY04, we projected sales tax growth in the area of 1.0%. Actual growth for FY04 jumped to nearly 6%. The increase in sales tax (starting in the summer 2004) is believed to be due, in large part to –

- Improvements in the economic climate,
- Significant increases in the purchase of home improvements and construction materials as a result of this past summer's unusually nice weather, and
- A strong summer tourism season.

We are not projecting that sales tax growth will continue at this rate for the FY05 and FY06 years. We are assuming that the FY04 increase represents a permanent economic activity adjustment and the economy growth rate will drop to about 3% per year for the next few years.

Another significant revenue impact was the elimination of the State Revenue Sharing and Safe Communities programs by the Governor in FY04. The Governor did provide, in FY04, one-time transitional funds of \$560,000. Starting with FY05, there are no State Revenue Sharing, Safe Communities or similar state programs. There have been discussions by the Governor and Legislature of providing some state support to local governments over the next two years. This would be targeted at assisting local governments in funding the projected increases in employer benefits (PERS). So far, no funding program has been approved by the Legislature. The lack of state support for these programs has been an issue for the past 15 years. In the early to mid 1980's, the State provided a significant amount of support to local government. During this period, the CBJ was receiving up to \$10 million in operating support annually. However, funding for these programs has been a state funding reduction target since FY87. The FY06 Revised Budget includes no anticipated funding for these programs. *Additional information on state revenues can be found in the "Major Revenue Analysis" section.*

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## FUNDING FOR EDUCATION

Funding for education is an important responsibility of local government and required by State law. The Assembly must evaluate our education funding needs equally with other essential governmental functions. Safe streets, parks and recreation programs, effective law enforcement, good libraries, the swimming pool, and well-maintained school buildings all contribute to the well being of our children. The Governor and Legislature have proposed increases in the educational funding formula (basic need). There are a number of proposals currently being considered with various pupil funding levels. The School Board has requested local support for a per pupil funding level of \$4,880. This is a 6.6% increase over the current per pupil amount of \$4,576. The final funding level approved by the State Legislature may be more or less than this amount. The Association of Alaska School Boards has indicated that they feel the mostly likely amount will be \$4,919, with an outside maximum of \$4,995.

In responding to the District's FY06 funding request, this budget includes general operating support equal to the maximum allowed at a per pupil formula rate of \$4,880. If the formula is approved at \$4,919 or \$4,995, we could increase our local funding support by \$70,000 or \$200,000 respectively. In addition to the funding support for the District's general operations, the FY06 Biennial Budget includes \$65,000 for school sports field maintenance (through Parks and Recreation), \$123,000 in funding for Community Schools and \$190,000 for student activities. This budget contains many components that support children in addition to the direct financial support provided to the School District.

The tables presented below compare the School District's FY06 funding request with the adopted budgets for FY03 through the revised budget for FY06.

| <b>School District's Funding Request:</b> | <b>FY03</b>           | <b>FY04</b>           | <b>FY05</b>           | <b>FY06</b>           | <b>FY06</b>           |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|   | <b><u>Request</u></b> | <b><u>Request</u></b> | <b><u>Request</u></b> | <b><u>Request</u></b> | <b><u>Revised</u></b> |
| Requested Funding – General Operations    | \$17,731,200          | 17,865,300            | 18,870,000            | 19,045,300            | 19,745,900            |
| Requested Funding – Outside General Oper. | <u>835,500</u>        | <u>292,100</u>        | -                     | -                     | -                     |
| Total Funding Requested                   | <u>18,566,700</u>     | <u>18,157,400</u>     | <u>18,870,000</u>     | <u>19,045,300</u>     | <u>19,745,300</u>     |

| <b>Funding Levels Approved:</b>               | <b>FY03</b>           | <b>FY04</b>           | <b>FY05</b>           | <b>FY06</b>            | <b>FY06</b>           |
|---|-----------------------|-----------------------|-----------------------|------------------------|-----------------------|
|   | <b><u>Adopted</u></b> | <b><u>Adopted</u></b> | <b><u>Adopted</u></b> | <b><u>Approved</u></b> | <b><u>Revised</u></b> |
| Funding within the State funding cap          | \$17,731,200          | 18,171,200            | 18,835,000            | 19,015,700             | 19,745,900            |
| Additional funding, outside State funding cap | <u>261,800</u>        | <u>110,000</u>        | -                     | -                      | -                     |
| Total   | <u>\$17,993,000</u>   | <u>18,281,200</u>     | <u>18,835,000</u>     | <u>19,015,700</u>      | <u>19,745,900</u>     |
| Budget Difference from Request                | <u>\$ (573,700)</u>   | <u>\$ 123,800</u>     | <u>\$ (35,000)</u>    | <u>\$ (29,600)</u>     | <u>\$ 0</u>           |
| Percentage Funding of Request                 | <u>96.9%</u>          | <u>100.7%</u>         | <u>99.8%</u>          | <u>99.8%</u>           | <u>100.0%</u>         |
| Percent Change from the Previous Year         | <u>4.1%</u>           | <u>1.6%</u>           | <u>3.0%</u>           | <u>1.0%</u>            | <u>4.8%</u>           |

*Note 1:* Basic need is the minimum amount of funding provided to a school district from the State and the local municipality. It is based on the number of students adjusted for items such as special and intensive needs students, number of students per school building and correspondence students.

*Note 2:* The "cap" is the maximum funding a municipality is allowed to contribute to the local school district. A municipality is allowed to contribute up to 23% of basic need.

The State's education funding formula has resulted in a gradual increase in the percentage and amount of general school district operations funded from local tax dollars. The State's education funding formula places a "basic need" cap on the total funding in which the State shares. The State funds the amount between "basic need" and four mills of local full and true property value (full and true property value is the total assessed and optionally exempted real and personal property).

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Since the value of property changes with growth as well as inflation, this tends to increase the proportional share of local government support while reducing, on a dollar-for-dollar basis, the State's share. In FY86, the CBJ provided the School District with \$7,350,000, or 28% of its total operational support (excluding the District's special revenue funds and the CBJ's bond debt service). The revised FY06 operating budget includes \$19,745,900 in local funding support for the School District's general operations. This \$12,395,900 or 169% increase in funding has resulted in the CBJ share of educational support climbing to more than 43% of the School District's general operations. This growth has had a direct impact on the relationship between the mill levy used for education and used for all other government purposes. The amount proposed for educational support in FY06 is equal to an areawide mill levy of 6.1, or more than 56% of the general operating property tax levy.

## ASSESSMENTS, MILL LEVIES AND THE TAXPAYER IMPACTS

One of the more important issues driving development of the budget is the financial impact to property owners. The CBJ's mill levy consists of two parts, a levy for operations and a levy for debt service. The Charter to a maximum of 12 mills restricts the mill levy for operations. Shown below is a comparison of mill levies for FY03 through FY05 and the approved and revised mill levies for FY06.

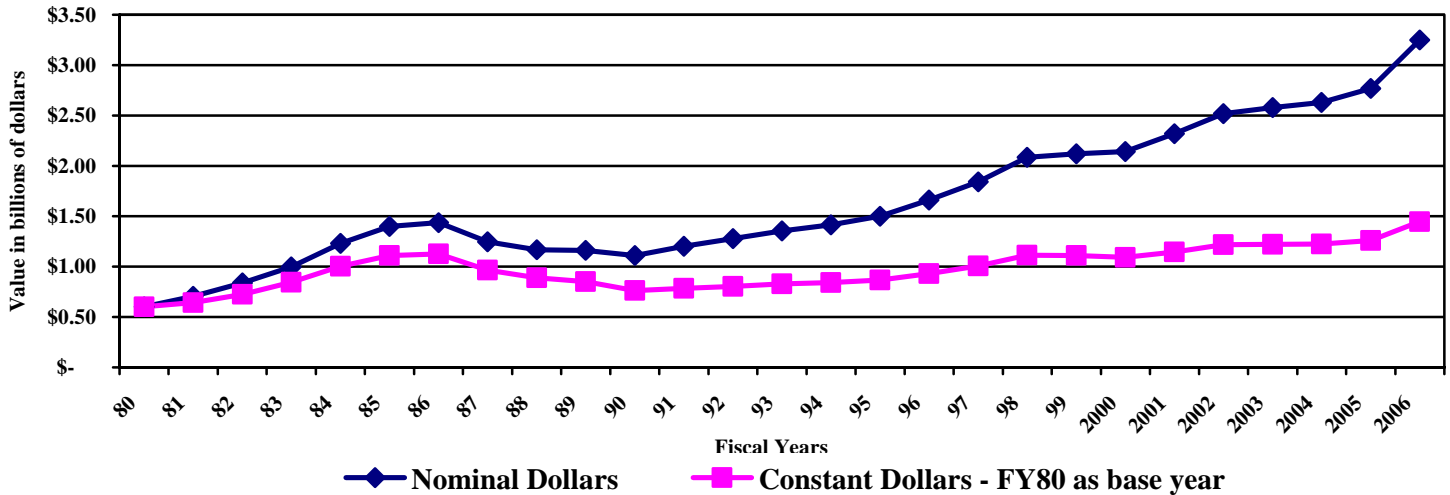
|                                 | <b>FY03</b>    | <b>FY04</b>    | <b>FY05</b>    | <b>FY06</b>     | <b>FY06</b>    |
|---------------------------------|----------------|----------------|----------------|-----------------|----------------|
|                                 | <u>Adopted</u> | <u>Adopted</u> | <u>Adopted</u> | <u>Approved</u> | <u>Revised</u> |
| Operational Mill Levy           | 10.44          | 10.44          | 10.94          | 10.80           | 10.80          |
| Debt Service Mill Levy          | <u>1.03</u>    | <u>1.20</u>    | <u>1.06</u>    | <u>1.61</u>     | <u>1.20</u>    |
| Total Levy                      | <u>11.47</u>   | <u>11.64</u>   | <u>12.00</u>   | <u>12.41</u>    | <u>12.00</u>   |
| Percent Change, from Prior Year | <u>-%</u>      | <u>1.4%</u>    | <u>3.1%</u>    | <u>3.4%</u>     | <u>0%</u>      |

The revised budget for FY06 contains no change in the proposed total mill levy from FY05 and a decrease of 0.41 mills from the FY06 approved budget mill levy. While there are no changes in the overall mill levy from FY05 to FY06, there is a reduction of 0.14 in the operational mill levy and an increase of 0.14 in the debt service mill levy. The FY06 revised debt mill levy increase over FY05 is necessary to fund anticipated increases in general obligation school construction bond debt service. However, the debt service mill levy has been reduced by 0.41 mills from the approved budget due to changes in the percentage rate of state reimbursement for the new high school bond debt (from 60% to 70%) and increases in the total value of assessed property.

Property tax levies are a combination of assessed or taxable values times the adopted mill levy. State law requires the Assessor to value real property at its full market value. Mill levies are set by Assembly action at a level required to fund governmental operations. The assessed value for the 2005 assessment year (the FY06 budget year) is estimated to increase by 16.5% or \$458.7 million over the 2004 assessment. This increase is due to a combination of increases in assessed values and new construction.

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## Assessed Values



Excluded from the 2003 through 2006 property values, shown above, is a 2001 change in the taxation of aircraft. The Assembly elected to shift the taxation of aircraft from an ad valorem property tax to a flat rate property tax. This action decreased property assessment rolls by an estimated at \$26 million. *(A more detailed explanation of current and past property assessments and mill levies are contained in the "Property Assessment and Taxation" section of this document.)*

## CAPITAL PROJECTS BUDGET

The CBJ has historically placed significant emphasis on funding needed improvements to community facilities and infrastructure. The FY06 revised budget continues the policy by including more than \$11.5 million for capital improvement projects. The majority of our capital project funding has historically come from temporary sales tax levies and voter approved general obligation bonding. Voters have consistently supported temporary sales tax levies to fund local improvements. On October 3, 2000, voters approved two temporary sales tax levies for capital projects. In addition,

- On October 5, 1999, voters approved \$62.9 million in general obligation bonds to fund renovations to the Juneau Douglas High School (\$13 million) and the construction of a second high school in the valley (\$49.9 million). On May 25, 2004, in a special election, the voters decided to not proceed with construction of the second high school. On October 5, 2004, voter approval a revised new high school construction project for \$54 million.
- On October 3, 2000, voters approved –
  - Extending a 3% temporary sales tax levy for an additional 5 years. This temporary sales tax includes 1% for roads, drainage, retaining walls, sidewalks, stairs, and other capital improvements, 1% for general operations and 1% allocated annually by the Assembly.
  - Extending a 1% temporary sales tax levy for an additional 5 years. This temporary sales tax is to provide partial funding for school facility repairs, an ice rink and an expansion and improvement to the Bartlett Regional Hospital.
  - \$7.7 million in general obligation bonds to fund renovation to various school facilities.
- On October 1, 2002, voters approved \$15 million in general obligation bonds to fund the cost of acquiring, constructing and equipping various harbor, utility and recreation capital improvement projects.
- On June 3, 2003, voters approved –
  - \$12.5 million in general obligation bonds to fund the cost of renovating the Juneau Douglas High School.

# BUDGET HISTORY AND OVERVIEW

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- \$12.6 million in general obligation bonds to fund a portion of the cost of constructing a new valley high school. (Due to voter approval, on October 5, 2004, of a revised new high school, these bonds will not be needed or issued.)
- On October 7, 2003, voters approved \$6.9 million in general obligation bonds to fund the cost of renovations, upgrades and improvements to the Floyd Dryden Middle School and the Harborview Elementary School.
- On October 5, 2004, voters approved redirection \$18 million in bond proceeds from the 1999 new high school authorization to major capital maintenance projects.

*(A more detailed explanation of capital projects is contained in the "Capital Projects" section of this document.)*

## GROWTH MANAGEMENT

When discussing growth management, it is important to distinguish between the various types of services provided by the CBJ and how these services are funded. While all of the services we provide require operational revenues, the sources vary greatly. General governmental functions and local support for education are largely supported through property and sales tax levies while other functions such as the hospital, utilities, airport, and harbor services are funded through user fees. In addition, there has been some shift in who provides the service. Due to budget constraints, the state has stopped providing some required local services. Local governments have assumed many of the more critical services. One of the most visible examples of this shift was the elimination of State Trooper law enforcement services in Juneau. By default, the Juneau Police Department ultimately assumed this public safety service. Service shifting has resulted in a significant operational impact to the CBJ that continues to show in the budget. In FY93, the total operating budget for the Juneau Police Department (JPD) was \$5.16 million. The FY06 revised budget includes \$10.0 million in proposed funding for the JPD. A large portion of this 94% increase can be attributed to services previously provided by the State.

In responding to concerns of growth in local government, the CBJ's Assembly and management have shown leadership and responsibility in budgetary control. After adjustments for inflation, the CBJ's general government FY06 proposed budget is approximately 1.2% less than the FY96 budget. The following table (adjusted for inflation using an average of the Seattle and Anchorage CPI) summarizes the overall budgetary changes that have occurred during the past 10 years.

**Budgetary Comparison FY96 to FY06**  
In Constant Dollars (in millions)

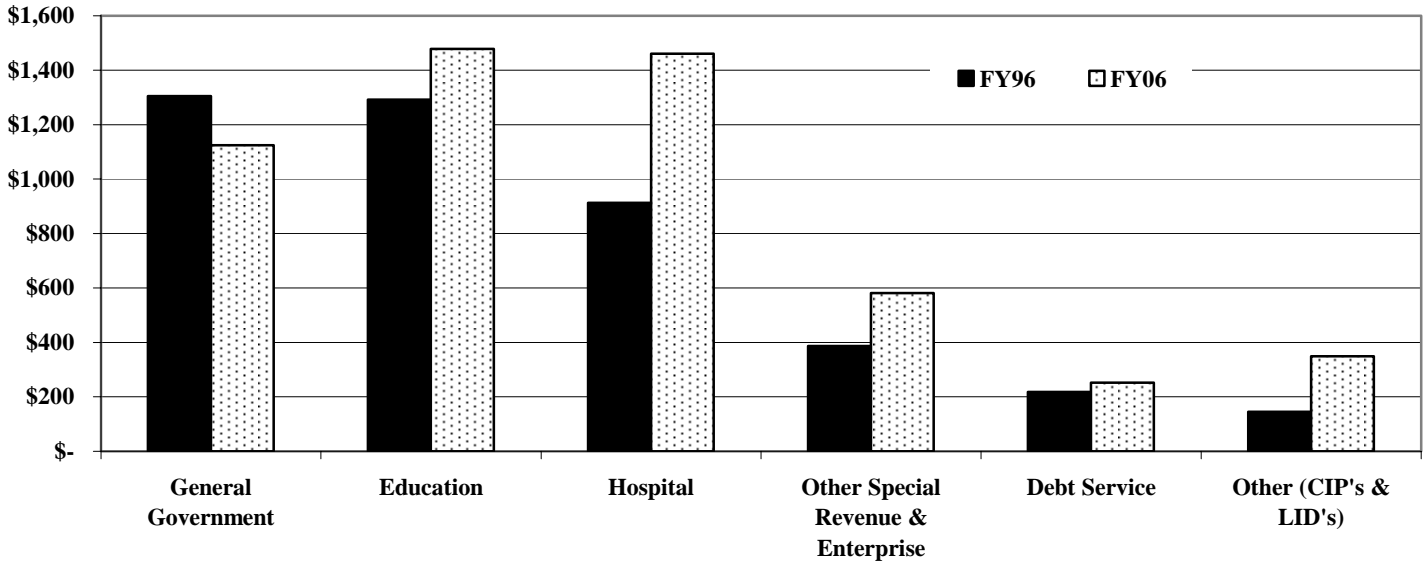
| <u>Service Category</u>                    | <u>FY96</u> | <u>FY06</u> | <u>% Change</u> |
|--|-------------|-------------|-----------------|
| General Government                         | \$ 36.5     | \$ 34.8     | (5.0%)          |
| Education, including Special Revenue Funds | 39.0        | 45.8        | 17.4%           |
| Bartlett Regional Hospital                 | 27.6        | 45.2        | 63.7%           |
| Other Special Revenue and Enterprise Funds | 11.7        | 18.0        | 53.8%           |
| Debt Service                               | 6.6         | 7.8         | 18.2%           |
| Other (CIP's and LID's)                    | 4.4         | 10.8        | 145.5%          |

While the numbers above show the change in constant dollars, it is important to take into consideration community growth. During the same period, population has grown from 30,209 in 1996 to 30,966 in 2004, a 2.5% increase for this 10-year period. The per capita general governmental services graph, shown on the following page, takes into consideration the impacts of population changes by displaying, in constant dollars, the per capita actual expenditures for FY96 next to the revised FY06 budget.

# BUDGET HISTORY AND OVERVIEW

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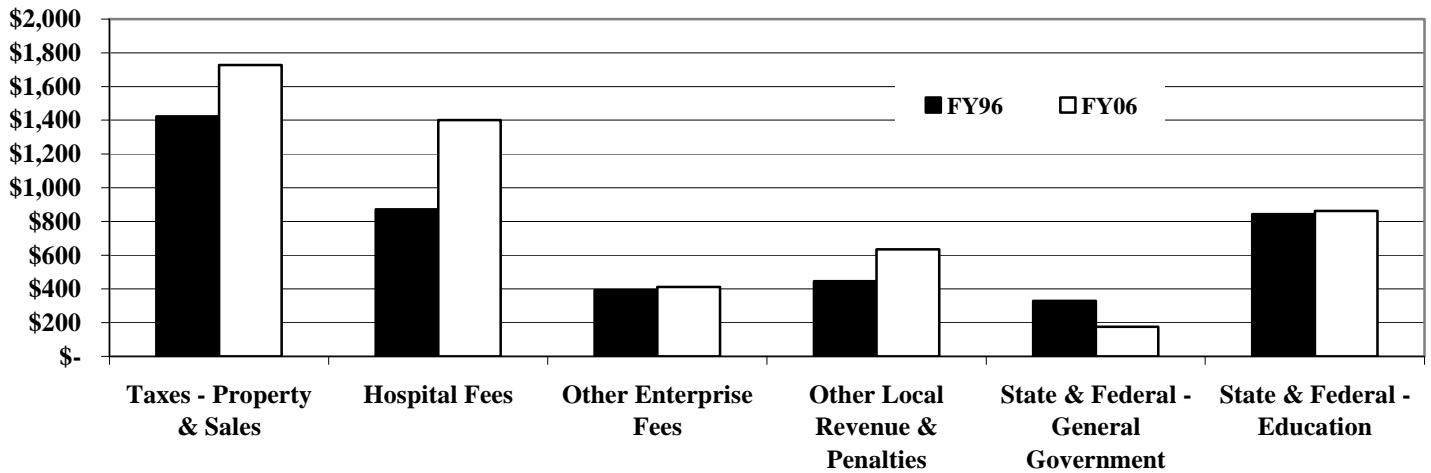
## FY96-FY06 Expenditure Comparison Per Capita in Constant Dollars



As previously noted, we have seen a cyclical shift in the revenue sources funding the CBJ's core governmental functions. In the late 1970s through the early 1980s, property tax mill levies were decreased as State support increased. Support from the State grew rapidly through the early 1980s. This increase resulted in growth in CBJ's services and budgets while allowing for reductions in the property tax mill levies. In 1986, State support to local governments started declining as the State struggled with sharp reductions in revenues. The State addressed its revenue shortfalls in various ways, one of which was to sharply reduce the amounts appropriated for general local government support (these revenue reductions were in addition to the shifts in services previously noted). The CBJ received approximately \$10 million dollars in funding in FY86. In FY06, funding for these programs has been completely eliminated from the State's budget. This reduction is equivalent to approximately 3.1 mills or 29% of the total FY06 proposed general operating property tax levy. The per capita revenue comparison graph, shown on the next page, takes into consideration the impacts of population changes by displaying, in constant dollars, the CBJ's per capita revenues for FY96 next to the FY06 revised budget.

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## FY96-FY06 Revenue Comparison Per Capita in Constant Dollars



The constant dollar per capita revenue graph, shown above, provides a representation of how our operating revenue sources, including local support for education, has shifted during the past 10 years.

### LONG RANGE OUTLOOK

The health of the State's economy is one of the greatest issues facing Juneau. The State legislature has been struggling with the development of a long-range fiscal plan and their failure to adopt one leaves a degree of uncertainty for Juneau's future. The State's economy relies heavily on oil royalties and taxes and with the price of oil at recent high levels, the desire and need for a long-range fiscal plan has dwindled. In an attempt to move a long-range budget funding plan ahead, last year, the Governor called a special session following the regular 2004 legislative session. However, this effort met with little results. Due to significant increases in oil prices, the state will receive additional revenues in FY05 and is projecting even greater revenues for FY06. This has reduced the State's financial deficits and removed some of the pressures to develop a long-range financial plan. In addition, there is discussion by the Governor and Legislature to provide additional school funding and possibly some unrestricted general governmental funding support in FY06.

The public sector employment has declined (as a percentage of total employment) over the past 10 years while the private sector employment has increased. However, public sector employment continues to represent only 44% of the workforce. Any reduction in State employment has a trickle down affect on private sector employment. The CBJ continues to encourage investments in mining, manufacturing, tourism and regional merchandising to provide for economic diversity and to reduce our reliance on State government.

Mining was Juneau's first basic industry and continues to provide well paying private sector employment. The Greens Creek Mine, a silver, gold and zinc mine, employees approximately 265 individuals with an annual payroll of about \$26 million. In 1996, Congress passed and the President signed into law, a land exchange with the U.S. Forest Service that provides Greens Creek with access and mineral rights to an additional 7,500 acres surrounding the property. This land, which was previously closed to exploration, has excellent mineral potential and may extend Greens Creek's reserves and mine life substantially. In addition to the Greens Creek Mine, Coeur Alaska, Inc. is completing the permitting process to allow it to open a gold mine that would employ 225 workers during its 10 to 15-year life. Construction of the mine facility may begin as early as 2005.

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The cruise ship industry has been steadily growing for the past 10 years. The increase has and will continue to impact the local community. The number of cruise ship passengers anticipated for the 2005 season (May through September) is in excess of 900,000. On certain days, the City may have as many as 5 ships (4 docking and 1 lightering) in port with a potential of 9,000 to 10,000 passengers and crew. This number of passengers increases the total population of Juneau by one-third, with the vast majority of these individuals either walking in the downtown core or traveling by tour bus. Congestion and noise are the issues that have generated a significant amount of concern. In response to these concerns, citizens approved a \$5 per passenger fee to mitigate the impacts of large-scale tourism. These fees have been used for construction and maintenance of additional public restroom facilities, road and sidewalk improvements, harbor and dock improvements, increased public transportation service, noise abatement programs, acquisition of waterfront open space, public trail maintenance and security improvements. In addition to the \$5 per passenger fee, sales tax revenues from tourism spending have allowed for a steady increase in this funding source. Projections indicate the number of cruise ship passenger will continue to grow at a steady pace for the next 10 to 15 years.

While the number of cruise ship passengers has increased, the number of independent travelers has declined. This reduction along with changes in State travel has resulted in inconsistent hotel tax revenues. The Juneau Convention and Visitors Bureau (JCVB), a private, nonprofit organization, receives 57% (4% of the 7% charged) and the city-owned convention center receives 43% of hotel tax revenues. The JCVB is continuing its efforts to market Juneau as a year round visitor destination in the hopes of reversing this trend.

While Juneau's economic indicators show modest annual growth, the dominance of state government to the local economy make long-term economic stability less certain.

## GOALS

Each year we strive to improve the process of reviewing and adopting the budget. The comprehensive manner in which the CBJ develops and reviews its budget has allowed it to effectively and proactively respond to fiscal issues. Development of the biennial budget format has greatly helped with the budget and funding process. The biennial format provides for more consistent year-to-year planning, smoother and faster adjustment to fiscal changes, and more discipline in planning and budget control at the department level.

We continue to work to improve our service level accountability. Starting in FY04 we have moved to performance measures that quantify “outcomes” based on a “core service” concept. We worked with staff to identify departmental core services and outcome measures. Our efforts included working on procedures to obtain the data necessary to report the outcome measures. We have carried this new performance measure methodology forward in the FY06 Revised Budget document.

We will continue to look further into the future for budgetary planning in an attempt to anticipate and respond to fiscal changes as quickly as possible. We are also working to identify and quantify the operational and maintenance requirements of proposed capital improvement projects. These impacts, once quantified, will be integrated into our Six-Year Capital Improvement Project Plans, Operating Budget documents and our long-range planning.