LAKE AND PENINSULA BOROUGH
ORDINANCE NO. 16-05

AN ORDINANCE ADOPTING THE LAKE AND PENINSULA BOROUGH OPERATING BUDGET FOR THE FISCAL YEAR BEGINNING JULY 1, 2016 AND ENDING JUNE 30, 2017 (FY-17).

BE IT ENACTED by the Assembly of the Lake and Peninsula Borough that:

Section 1. Classification.
This is a Non-Code Ordinance.

Section 2. General Provisions.
The Lake and Peninsula Borough is authorized to receive revenues, make expenditures, and make changes in cash balances for the period beginning July 1, 2016 and ending June 30, 2017, in accordance with the "FY 17 BUDGET" in the amount of $3,625,043 attached hereto as "Exhibit A" and incorporated herein by reference.

Section 3. Authorization and Appropriation.
The appropriations set forth in "Exhibit A" are adopted and authorized for the period beginning July 1, 2016 and ending June 30, 2017, and are the operating budget for that period.

The Manager is authorized to over expend or transfer funds between line items within functions or departments as needed provided that said transfers do not exceed 25% of the approved budget for that function or department. The manager is further authorized to exceed approved function or department budgets by up to 10% or a maximum of $10,000 to address unanticipated circumstances. In no case shall the manager expend more funds in a given fiscal year than the amount authorized for the overall Operating Budget unless approved by the Assembly. New expenditures for activities not authorized herein, transfers between functions or departments which exceed the above authorization, transfers between the General Fund and other funds, or any other modifications to the approved budget must be done by ordinance and the normal budget amendment process.

Section 4. Effective Date.
This ordinance shall become effective upon enactment by the Borough Assembly.

ENACTED by a duly constituted quorum of the Lake and Peninsula Borough Assembly this 20th day of May, 2016.

IT WITNESS THERETO:

Glen Alsworth Sr., Mayor

ATTEST:

Kate Conley, Borough Clerk

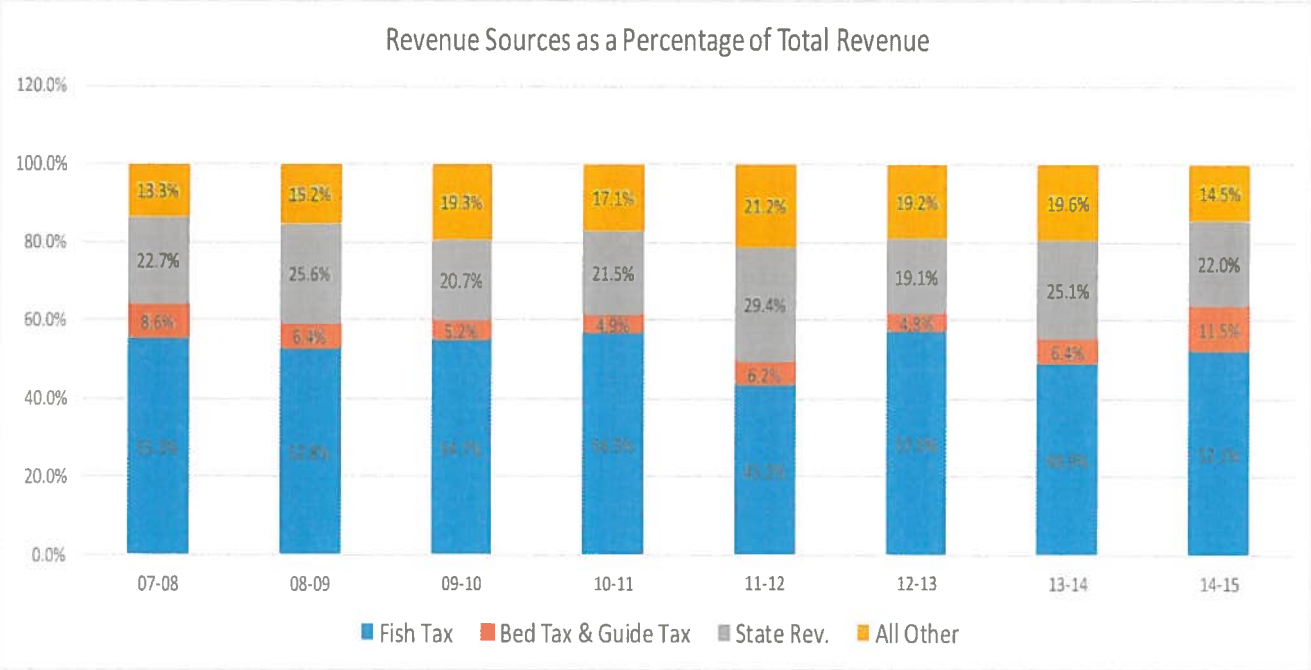
Introduced:	April 13, 2016
Public Hearing:	May 20, 2016
Enacted:	May 20, 2016
Ayes:	Alvarez, Anderson, Olsen, Pedersen
Nays:	none
Not Voting:	Alsworth
Absent:	Ravenmoon, Salmon

FY 17 BUDGET

The budget for the coming year faces a continuation of the fiscal challenges of a predicted second year of poor fish prices, further cut to the State's revenue sharing, as well as the continuing possible changes to State school funding. As the Legislature hasn't completed the State budget, State sources of revenue as well as possible increases in the request for school funding in the following budget are subject to revision.

Revenue Sources

- Community Revenue Sharing Community revenue sharing from the state has averaged 23% of the borough's yearly revenue. The State established this fund in 2008, and each year



on June 30, one-third of the amount available in the fund is withdrawn and distributed the following fiscal year with payments beginning in July. If the fund balance falls below $60 million, no payments may be made from the fund. Each fiscal year, the legislature may appropriate to the community revenue sharing fund money received by the state during the previous calendar year. The amount may not exceed $60 million or the amount that when added to the fund equals $180 million. However, this does not prevent the legislature from

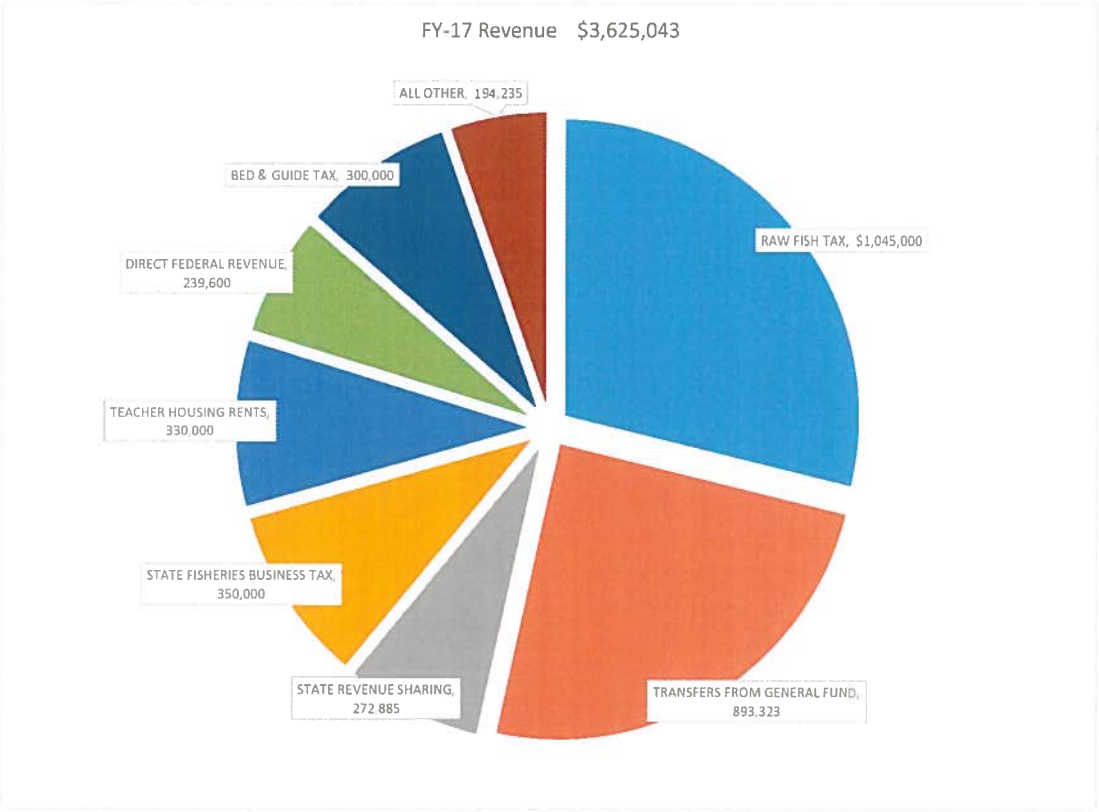
appropriating additional money for community revenue sharing payments. For example, the legislature appropriated an additional $20 million in FY12 and an additional $25 million in FY13 to help offset the rising cost of energy.

The State Community Revenue Sharing is currently in play in the Legislature, with the leading bill cutting revenue sharing by half this year and phasing it out completely by 2019. Current estimate by the State Department of Community and Economic Development for the borough's share is $272.882, a decrease of $290,505 down from 2016,

- Bed and Guide Tax Bed tax and Professional guide tax collections have increased as a percentage of total revenue from an average 6% to 11.5%, a significant increase but not sufficient in and of itself to make up shortfalls in other revenue streams. Additionally, because of how these taxes are structured, we cannot expect continued incremental growth in this tax revenue. I estimate that the maximum combined possible collection to average out to $300k - $325k annually.
- Fish Tax This is always the wild card when estimating revenue. While tourism can be estimated with in a statistical range, subject to the general economy of the lower 48, the salmon market is influenced by world economic factors. Demand for salmon in Asia, the size of the run, the additional world supply of salmon catches in foreign fisheries, the strength of the dollar, and so on. The conservative approach in budgeting for this revenue stream is to use the historical median.
- Other Revenues This is composed of Federal and other payments in lieu of taxes (PILT), State fisheries business tax sharing, land leasing, teacher housing rents, interest from investments, and other local revenue. A few notes about some of these revenues;
    - PILT Pebble payments have dropped from $350k per year to $100k last year, to nothing this year. Unless something completely untoward occurs in mining development, Pebble is no longer a factor as concerns borough revenue or expense.
    - Interest on investments Interest on investments is accounted for as revenue, this is not, per se, cash in the bank. Much of it is bond yield, so for example, we buy a $100k five year bond with a 2% yield. We would buy the bond for $82k, and over the life of the bond, would earn the $18k difference. We don't realize

the earnings until we redeem the bond. Up until recently, the borough hasn't needed to tap our investments and all the earnings have been reinvested.

- Transfers From General Fund The last piece of the revenue picture is transfers from General Fund. This is the amount we need to take from savings to cover the shortfall between expected revenue and projected expenses. Like all most all the numbers in a budget for a future period, it is a "best guess". If fish taxes are more than anticipated the transfer amount could go down, if there is an unanticipated expense, it could go up. What is certain is that we will need to draw on savings this year and barring any radical change to the economy, most likely to draw down on savings in future years as well.



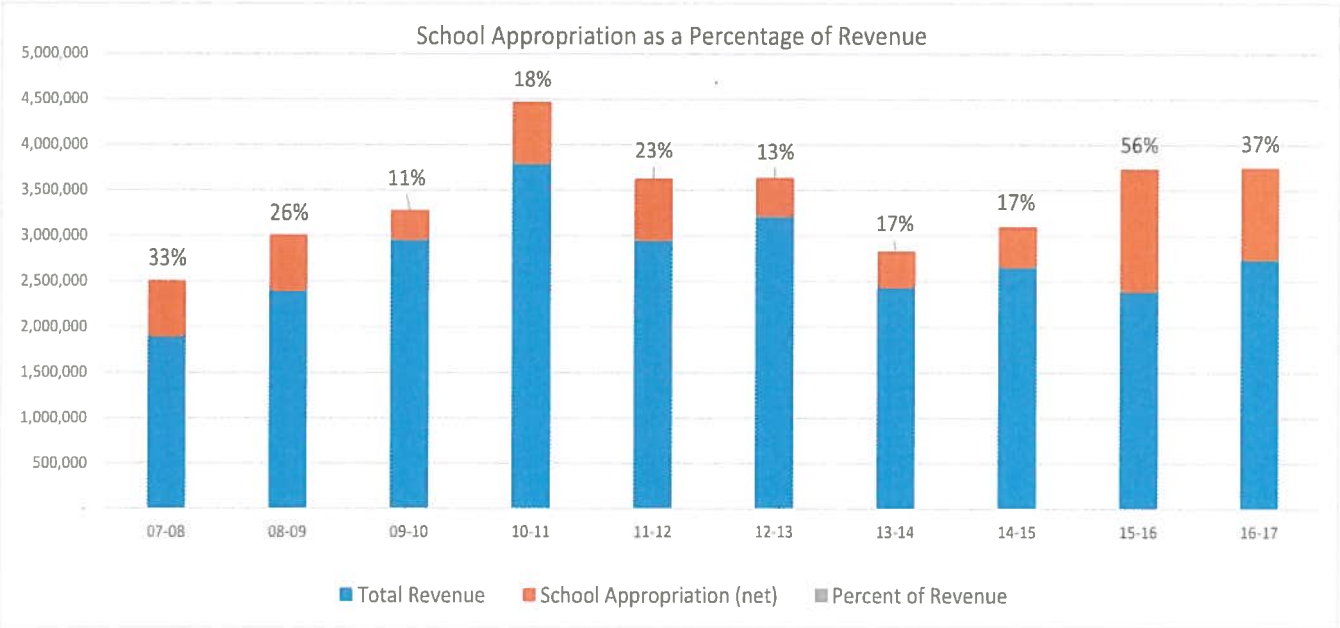
Savings and Fund Balances As was said above, the borough is fortunate to have saved for this rainy day and have substantial resources. That said, those resources are finite. Without a budget surplus, we are drawing down on out investments, lowering the earnings in our portfolio, and not reinvesting and taking advantage of higher yielding investments as the economy strengthens. Current balances are:

General Fund	$ 3,852,735
Permanent Fund	7,061,548
School Endowment fund	6,587,573
Total Reserve Funds	$17,501,856

The amount of savings allow the borough time to formulate in a thoughtful way how it wants to address uncertainties in revenues. One must, however, guard against complacency. The budgetary crisis that the state is experiencing is going to be with us for at least a decade and as we have seen, cuts to State support for schools and municipalities has a significant effect on borough finances. The FY-17 budget estimates a further $884 thousand draw down of the fund balance.

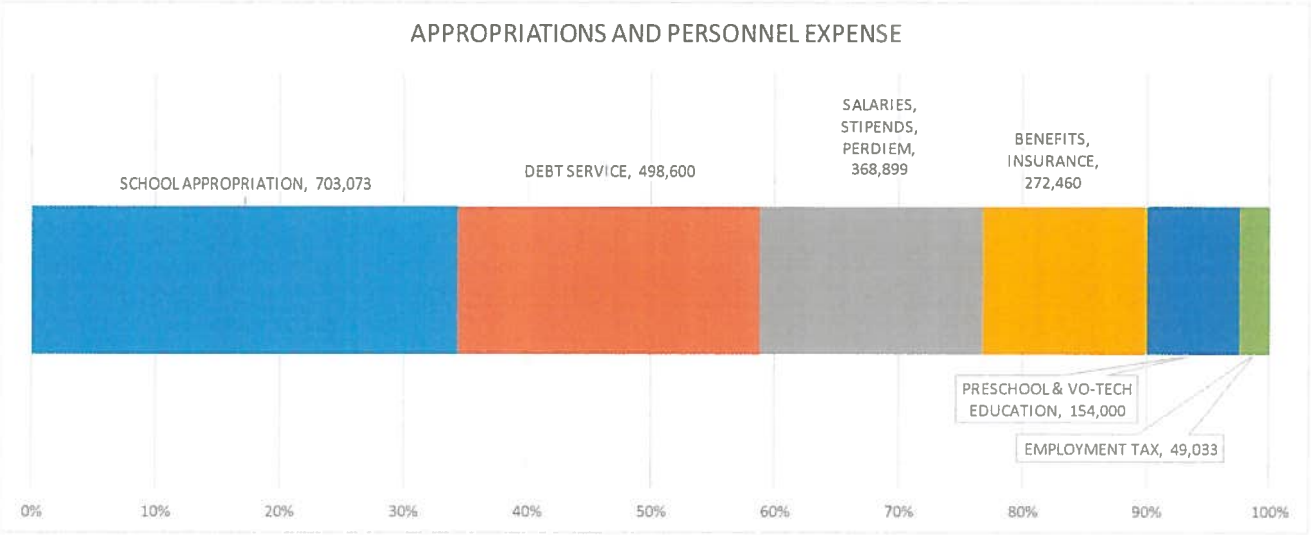
Outflows The budget expense consist of both obligated expenses and discretionary expenses. Of the obligated expenses, there are those that are set in their amount and timing such as debt service, and those for whom the amount of expense at the discretion of the Assembly, such as the appropriation for school support. The Assembly has complete discretionary control over appropriations and transfers to other funds such as the Capital Project Fund appropriation and Borough Revenue Sharing. Operating expenses are both obligatory and discretionary in that there is always going to be some expense in operational expense, the decision as to which are and are not priorities are up to Management and the Assembly. On the whole, the borough runs a pretty bare bones operation.

- School Appropriation. The single largest outflow of borough funds goes to support the school district. What has changed in the last year from prior budgets, and is expected to continue, is the proportion that outflow of funds is to total revenue. With cuts in State school support, the borough has stepped up its contribution in recognition of maintaining the ongoing progress and success in student achievement.



The effect of State budget cuts to educational support has meant that the proportion of the borough's income spent on education by 165%. This being an election year, the consensus is that the Legislature won't make further cuts to educational spending, but as one of the largest components of the State budget, it is going to be a likely target each legislative session for the foreseeable future.

- Debt Service This outflow of ~$490,000 is going to be a set cost each year until 2032. Debt payments was 21% of FY-15 revenue and will be of similar proportion for FY-16 and FY-17.
- Operational Expense Operational expenses of $1,330,804 include debt payments, staff salaries, elected officials stipends and per diem, employment taxes and benefits, and appropriations for direct school support and school fund contributions.



- Outflows of $937,911 are comprised of contractual expenses, legal fees, appropriations that are at the discretion of the Assembly, petty expenses, and contingency funds, expenses, and transfers.
    - Contractual expenses – this is expense includes consultants, contracted technical support and technology service and borough insurance. These are a combination of known and "per use costs." These contracts are at the pleasure of the Manager and may be modified or terminated. These items comprise 17 ½ % of the total budget.

PROFESSIONAL SERVICES	74,000
INSURANCE	18,000
LOBBYIST	55,000
CONSULTANTS	69,000
	216,000

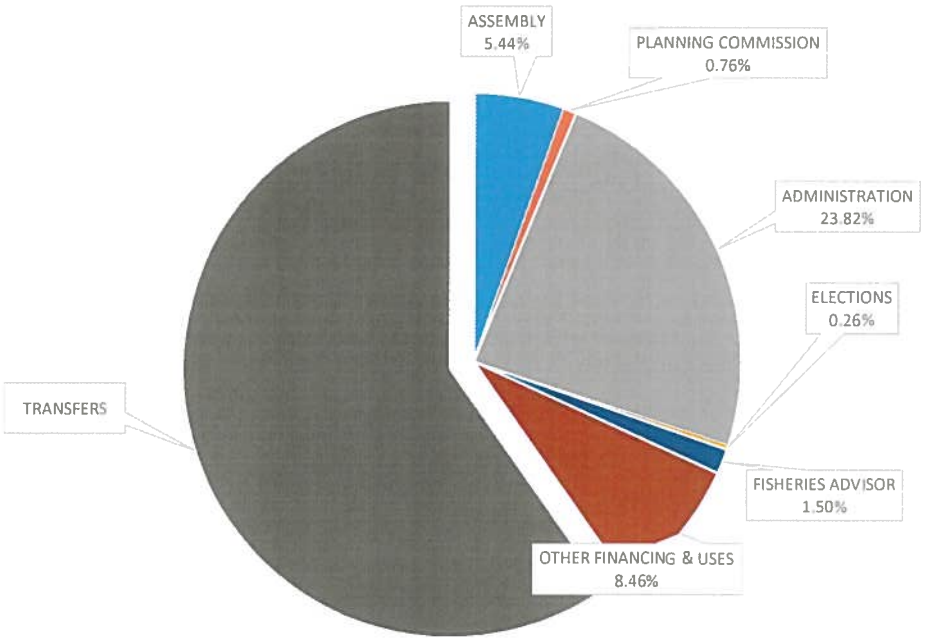
With the resolution of litigation surrounding Pebble, legal expenses are significantly reduced from prior years:

FY-14	FY-15	FY- 16 YTD
$ 114,819	$ 83,635	$ 18,166

    - Travel is a significant and necessary expense but is dependent upon the schedule of the Assembly and Planning Commission, and necessary staff travel. Significant changes have been made to control this expense. This budget line is 3.7% of total budgeted expense.

TRANSPORTATION	113,000
LODGING	21,250
	134,250

- Contingency funds are budgetary place holders for expenses that may or may not occur, the manager's contingency or donations, for example.
- Petty expense are all per use costs; postage, utilities, office supplies, food for meetings, dues, registrations, and fees.



FY-17 Expense $3,625,043

SUMMARY BUDGET FY-17

RAW FISH TAX	$ 1,045,000
TRANSFERS FROM GENERAL FUND	893,323
STATE REVENUE SHARING	272,885
STATE FISHERIES BUSINESS TAX	350,000
TEACHER HOUSING RENTS	330,000
DIRECT FEDERAL REVENUE	239,600
BED & GUIDE TAX	300,000
ALL OTHER	194,235
	$ 3,625,043

EXPENSE	
ASSEMBLY	$ 195,612
PLANNING COMMISSION	27,515
ADMINISTRATION	884,350
ELECTIONS	9,450
COMMUNITY/ECONOMIC DEVELOPMENT	-
PLANNER	-
FISHERIES ADVISOR	54,000
OTHER FINANCING & USES	304,188
TRANSFERS	2,150,023
	$ 3,625,138

Total Revenue from all sources	$ 2,731,720
Total budgeted expense	3,625,138
Net Incrase/(Decrease) in Fund Value	$ (893,418)

BUDGET DETAIL

REVENUE

REVENUE	
RAW FISH TAX	$ 1,045,000
BED TAX	150,000
PENALTIES & INTEREST	5,000
LICENSES AND PERMITS	5,000
PROFESSIONAL GUIDES	150,000
DEVELOPMENT PERMITS	1,500
LAND USE PERMITS	1,000
TEACHER HOUSING RENTS	330,000
LAND LEASE	50,000
INTEREST	40,000
MARKET GAIN/LOSS	40,000
OTHER LOCAL REVENUES	1,000
STATE REVENUE SHARING	272,885
STATE FISHERIES BUSINESS TAX	350,000
SOA SHARED FISH TAX	26,000
ELECTRIC AND TELEPHONE COOP	2,500
DIRECT FEDERAL REVENUE	239,600
OTHER FEDERAL	22,235
TRANSFERS FROM GENERAL FUND	893,323
	$ 3,625,043

BUDGET DETAIL

EXPENSE

ASSEMBLY		
INSURANCE - LIFE AND HEALTH	$	94,153
MEDICARE CONTRIBUTION		165
PERS RETIREMENT CONTRIBUTION		770
SBS CONTRIBUTION		674
COMMUNICATIONS		1,500
RENTALS		500
FOOD		8,500
TRANSPORTATION		55,000
REGISTRATION/TUITION		500
STIPENDS		11,000
PER DIEM		14,000
LODGING		8,750
DUES AND FEES		100
TOTAL - ASSEMBLY		195,612

PLANNING COMMISSION	
MEDICARE CONTRIBUTION	62
SBS CONTRIBUTION	253
FOOD	3,200
TRANSPORTATION	13,000
STIPENDS	3,500
PER DIEM	3,500
LODGING	4,000
TOTAL - PLANNING COMMISSION	27,515

BUDGET DETAIL

EXPENSE

ADMINISTRATION	
SALARIES - FULL TIME STAFF	327,627
INSURANCE - LIFE AND HEALTH	70,455
MEDICARE CONTRIBUTION	4,751
PERS RETIREMENT CONTRIBUTION	80,269
SBS CONTRIBUTION	20,084
PERS SALARY FLOOR CONTRIBUTION	44,000
OTHER EMPLOYEE BENEFITS	2,500
AUDITING AND ACCOUNTING	24,000
LEGAL SERVICES	50,000
ADVERTISING	500
LOBBYIST	55,000
TECHNICAL SUPPORT	15,250
CONSULTANTS	24,000
MAPPING	2,500
ELECTRICITY	8,690
WATER AND SEWAGE	350
COMMUNICATIONS	6,552
INTERNET SERVICES	27,450
RENTALS	5,472
OFFICE EQUIPMENT	1,500
SITE REPAIR AND MAINTENANCE	1,500
INSURANCE AND BOND PREMIUMS	18,000
OFFICE SUPPLIES	4,500
COMPUTER HARDWARE/SOFTWARE	7,500
OFFICE RENTAL	6,000
POSTAGE	4,500
VEHICLE EXPENSE	2,500
TRANSPORTATION	45,000
REGISTRATION/TUITION	2,000
PER DIEM	3,500
LODGING	8,500
DUES AND FEES	5,700
DONATIONS	-
BANK FEES/CHARGES	4,200
TOTAL - ADMINISTRATION	884,350

BUDGET DETAIL

EXPENSE

ELECTIONS	
ADVERTISING	750
OFFICE SUPPLIES	7,500
POSTAGE	1,200
TOTAL - ELECTIONS	9,450
FISHERIES ADVISOR	
ADVISORY/CONSULTANT	54,000
OTHER FINANCING & USES	
LEASE - KSVC	5,000
MANAGERS CONTINGENCY	10,000
STATE REVENUE SHARING	87,688
BOROUGH REVENUE SHARING	175,000
SHARED FISHERIES BUSINESS TAX	26,500
TOTAL - OTHER FINANCING & USES	304,188
TRANSFERS	
TRANSFER TO OTHER FUNDS	100,000
TRANSFER TO DEBT SERVICE	498,600
TRANSFER TO PERMANENT FUND	150,000
TRANSFER TO COMPONENT UNIT	1,347,423
TRANSFER TO VO-TECH PROGRAM	54,000
TOTAL - TRANSFERS	2,150,023
TOTAL - ALL EXPENSES	$ 3,625,138