

DENALI BOROUGH FISCAL YEAR 2022 BUDGET



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FY 2022

Budget Message



DENALI BOROUGH

2022 Budget Message

Introduction

Denali Borough Code (DBC) Section 3.10.030 requires that the mayor prepare and submit to the assembly a proposed budget for the following fiscal year, together with a budget message, no later than May 1st of each year. The intent of this budget message is to summarize the Fiscal Year (FY) 2022 budget proposal and address budgetary considerations.

Forward funding, as described in DBC 3.05.020(C), requires that general fund budgeted expenditures do not exceed “the total available reserves and the revenues collected but not expended or allocated at the time the proposed budget is adopted.” Because the forward funding amount is tied to the time of budget adoption, this number changes with the ebb and flow of government transactions and is not finalized until adoption has occurred.

Other requirements include the minimum assembly budgetary reserve (DBC 3.05.040(C)), a limit on funding for nonprofit and community organizations (DBC 3.05.040(E)), and a limit on funding for municipal assistance (DBC 3.21.075(B)).

The focus of the budgeting process is on the powers of the government endowed by the people of the Denali Borough and laws of the State of Alaska. The Denali Borough has endowed its government with powers to impose taxes on overnight accommodations, severance operations, and marijuana and alcohol sales. The State of Alaska requires the borough to hold education powers, as well as powers over the platting, planning, and land use regulations of land within the borough. Additionally, the Denali Borough has assumed solid waste powers and operates a landfill and two transfer stations.

DBC 5.05.070 requires the Denali Borough School District to submit an annual budget to the assembly no later than April 1st for the following school year. This budget includes an amount of funding requested from the borough.

A public hearing on the proposed budget is to be held no later than May 15th per DBC 3.10.040, with adoption and appropriation of the budget to be accomplished by June 15th per DBC 3.10.050.

To develop a budget proposal, the mayor meets with staff to discuss budget needs, considers available and projected revenues, and draws up a budget with the input and assistance of the Borough Clerk and Borough Treasurer.

The year 2020 saw a dramatic decline in overnight accommodations tax revenue due to the COVID-19 pandemic. Throughout Fiscal Year 2021, the Denali Borough strove to utilize federal CARES funding to address the “necessary and allowable” impacts through the Denali Borough communities. These funds helped keep our businesses and non-profits healthy through a difficult year. CARES funds, though, could not be used to account for lost borough tax revenue – which amounted to about \$4 million in 2020.

A fiscal strategy employed in FY 21 of retaining general fund dollars as much as possible for future use by constraining expenditures and limiting transfers to fund accounts will be carried forward into the FY22 budget cycle. The borough will also continue to pursue federal funding to both meet our COVID-19 response needs and, hopefully, account for a sizable portion of the lost tax revenue.

The overarching goals of the FY 2022 budget are to meet our commitment in funding the school district's request (which this year was lowered considerably from the maximum allowable request), to provide grant funding to emergency service providers at a healthy but reasonable level, and to maintain operational capacity to respond to further challenges and opportunities. At the same time, the budget proposal also seeks to limit expenditures to better prepare for further fiscal constraints.

General Fund Revenue

The Denali Borough General Fund currently has a healthy balance, but as tax revenue declines caused deficit budget cycles for FY20, FY21 and are projected for FY22, concerns that general fund forward funding will be able to meet today's funding goals in the future persist.

The FY 2022 budget contains revenue projections that we consider to be hopefully realistic. The 2021 visitor season is expected to start sluggishly, but as vaccinations rates grow and travel increases, summer visitation is expected to grow in July and August. Absent cruise ship travel, visitor numbers will still be well below 2019 levels.

The new alcohol and marijuana tax went into effect January 1, 2021. The overnight accommodations tax also increased from 7% to 7.5% on January 1, 2021. Overnight accommodations tax projections are reduced from a high of \$4.2M in FY19 to \$2.1M in FY 2022. This projection includes improved visitor numbers for May and June of 2022.

Payment In Lieu of Taxes from the Department of Interior and Community Assistance from the State of Alaska are both important sources of revenue (totaling near \$740,000) which have been steady the past couple years.

The projected total borough revenue for FY 2022 is \$3,100,239.

General Fund – Expenses

The borough uses the zero-based budgeting method, where fully justified budget items are identified, regardless of previous allocations, from a base of zero dollars.

The largest single expense for the Denali Borough is the support provided to the Denali Borough School District (DBSD). This support is made up of two components: The Required Local Contribution (RLC) and the additional allowable contribution. The RLC is based upon the Full Value Determination (FVD), wherein the State Assessor assesses all real and personal property in the borough. Currently, the State calculates the RLC to be 2.6 mills of the FVD. The additional allowable contribution is calculated as 23% of the basic need of the school district. Any potential reduction in state funding reduces the additional allowable contribution, per statute. The Denali Borough's required local contribution toward school funding as described in Alaska Statute 14.17.500, is an estimated \$1,020,174 in FY 2022. The additional allowable request for FY2022 is \$972,826. Total school funding proposed for FY 2022 is \$1,993,000. This is the full amount requested by the Denali Borough School District.

The amount of the budgetary reserve for FY2022 is \$848,002. This reserve was created as a budgetary safety device in the event of financial need. This amount has often been zeroed out in budget amendments approved near the end of past fiscal years.

The FY 2022 budget includes employee salary schedule that is in line with current wages of similar positions in other municipalities in the State of Alaska. The mayor is elected, and mayor's compensation is set by the assembly. Assembly members are elected and receive compensation at the rate of \$200 monthly per DBC 2.05.050. The Borough Clerk and Treasurer positions are appointed by the mayor and approved by the assembly.

Full time employees receive health insurance benefits for themselves and their families, with the full premium for that coverage paid by the borough. This coverage accounts for a large majority of the expense related to benefit expenses. At the time of budget formulation, the cost of premiums for FY 2022 is unavailable. Projections are made based upon current insurance rates. Some years the borough is granted a premium holiday with health coverage causing the health benefit expenses to be drastically different than originally budgeted.

Governmental Expenses, staff salaries, and staff benefits, when combined, make up \$760,000 of budgeted expenses for FY 2022. The budgeted mayor's salary and mayor's benefits for FY 2022 is \$179,663. Assembly stipends and benefits combine to total \$25,300.

DBC 3.05.040(E) allows up to nine percent of the funds available for budgetary purposes to be allocated for the funding of nonprofit and community organizations, including fire departments and libraries. To this end, provisions in code have been adopted for grant programs including the nonprofit grant program, matching grant program, emergency services and public safety grant program, and public safety per capita funding program. In FY 2022, the maximum level of nonprofit funding is \$508,801 with proposed funding for the nonprofit and per capita funding programs totaling \$406,558.59. Matching Grants are not recommended to be funded for FY 2022. All grant funding is reviewed and determined by the grant review committee; the assembly shall function as the grant review committee. The assembly shall call a special meeting no later than the April assembly regular meeting. If the grant review committee fails to meet prior to the April regular meeting, the grant award recommendations provided by the mayor will be included in the budget as recommended.

The municipal assistance program was developed to assist incorporated municipalities in the Denali Borough by providing funds for the delivery of basic public services. Per DBC 3.21.075(B), the amount of municipal assistance is capped at one percent of the funds available for budgetary purposes. Currently, there is only one incorporated municipality in the Denali Borough – the City of Anderson. In FY 2022, \$40,000 has been designated for municipal assistance.

General Fund – Deposits to Borough Fund Accounts

Deposits to fund accounts may direct unrestricted revenues in the general fund for programs accounted for in other funds, in accordance with budgetary authorizations. Due to revenue declines, fund account transfers have been reduced to a minimum. To ensure sufficient operational funds, the land enterprise fund requires a transfer from the general fund of \$60,000. Deposit to the landfill closure fund in FY2022 of \$73,000 is calculated to meet the closure cost needs. Deposits to parks and recreation fund will be \$10,000. The proposed contributions to all other fund accounts, including the major school maintenance reserve fund and the capital improvements funds, are zero. Considering the existing fund balances, these accounts are adequately funded for the foreseen needs of the coming fiscal year. To fully

implement the borough's Six Year Capital Improvement Program, future transfers to the fund accounts will be necessary.

Deposits to fund accounts may also be used to show the transfer of funds for purposes of grants received and expended, such as grant funds. In FY 2022, \$12,000 is budgeted for expenses related to an anticipated Emergency Management Program Grant. Deposits to fund accounts in the FY 2020 budget total \$155,000. The FY 21 budget and the FY22 budget proposal include minimal transfers, which will impact the ability of the borough to carry out planned future projects.

Total general fund expenses in FY 2022, as described above, equal \$4,682,933. If the Assembly budgetary reserve, which is not expected to be expended, is subtracted, expected expenditures total \$3,834,931.

Enterprise Funds

The Denali Borough operates two enterprise activities that are accounted for separately from the general fund. These funds are financed and operated in a manner similar to a private business enterprise, where the intent of the borough is that costs of providing goods or services to the general public be financed or recovered primarily through user charges or where the assembly has decided that the calculation of annual net income is necessary for management accountability. These enterprise funds are Land Management and Solid Waste.

Enterprise Fund – Land Management

The land management fund is the operating fund for all activities that concern the acquisition, management, development, sale, or administration of borough real property. This fund also has a sub-account, the land management capital fund, for capital costs relating to land management and development. The inclusion of the land management budget in this document allows the assembly, the managing authority for borough lands, to establish the annual operating budget for land management activities. Land management operations are often subsidized by a deposit to the fund account from the general fund. FY 2022 we are transferring within the land management enterprise from land sales fund to the land management fund in the amount of \$150,000 to reduce the amount needed from the general fund.

Enterprise Fund – Solid Waste

The solid waste fund is used to account separately for the provision of solid waste services by the borough to solid waste customers. The inclusion of the solid waste budget in this document allows the assembly to appropriate funds for the administration and operation of the borough solid waste program, as well as to fund the established subaccounts of the solid waste fund, namely the landfill closure fund and the solid waste equipment reserve fund. Solid waste operations had been nearly self-supporting for the past several years, but the decline in tonnage fees in FY 21 resulted in a deficit operating year. Solid waste operating funds and deposits to fund accounts will not self-support in FY 2022, meaning a transfer from the general fund is necessary. Solid waste revenues, chiefly from tipping fees, are expected to be reduced with less visitation and a reduced construction season. Staffing levels and hours of operation have been reviewed and adjusted.

The budgeted deposit to the landfill closure fund in FY 2022 of \$73,000 is calculated to meet the closure cost needs, this will be funded out of the general fund budget. The equipment reserve fund will not receive additional funding in FY2022. The equipment reserve fund is intended to reflect depreciated

value of current equipment and future replacement needs. The equipment reserve currently has an adequate balance to take care of equipment needs and repairs, but insufficient for replacement needs.

