



Kenai City Council - Work Session

FY2026 Budget Goals

December 04, 2024 – 4:30 PM

Kenai City Council Chambers

210 Fidalgo Avenue, Kenai, Alaska

****Telephonic/Virtual Information Below****

www.kenai.city

Agenda

- A. CALL TO ORDER
- B. INTRODUCTION - Vice Mayor Knackstedt
- C. PRESENTATION
 - [1.](#) Fiscal Year 2026 Budget Development Goals (City Manager, Finance Director)
- D. COUNCIL COMMENTS
- E. PUBLIC COMMENTS *(limited to 3 minutes per individual)*
- F. ADJOURNMENT

Registration is required to join the meeting remotely through Zoom. Please use the following link to register:

<https://us02web.zoom.us/meeting/register/tZ0lcu2opzkiH9XHEorgOBukjduqWm8G2f0K>



KENAI

City of Kenai | 210 Fidalgo Ave, Kenai, AK 99611-7794 | 907.283.7535 | www.kenai.city

MEMORANDUM

TO: Mayor Gabriel and Council Members

FROM: Terry Eubank, City Manager

DATE: November 26, 2024

SUBJECT: **Proposed Fiscal Year 2026 Budget Development Goals**

Annually the Council adopts budget preparation goals which guide the administration in the development of the City's proposed budget. The proposed goals are intended to foster discussion by the Council as it finalizes its FY2026 Budget Goals that will be prepared for adoption by Resolution at the January 15, 2025 regular City Council Meeting.

A summary of the presented goals and an analysis of their key components follow:

Broad Statement of Purpose

This statement outlines a balanced approach to municipal budgeting, emphasizing fiscal responsibility and community-focused planning. It highlights two key objectives:

1. Revenue Collection Fiscal Responsibility

Ensuring that revenues, taxes, and fees are sufficient but not excessive. Revenues should be sufficient but not excessive to sustain current operations and support long-term infrastructure maintenance.

2. Community Needs and Priorities

The budget should balance essential services (e.g., public safety, utilities) with non-essential services. These non-essential, yet significant services (e.g., parks, libraries) contribute to enhancing the quality of life and attracting residents and businesses to the City.

Goal 1 – Fiscally Responsible Taxation

The goal provides a structured yet adaptable framework for tax assessment, balancing the aim of tax stability with the revenue requirements to provide City services and maintain its infrastructure. The goal highlights three key objectives:

1. Priority on Maintaining Current Tax Rates

This goal emphasizes the desire to avoid tax increases maintaining predictability for residents and businesses. This goal demonstrates fiscal restraint and a commitment to efficient resource management.

2. Flexibility for Adjustments

The goal acknowledges that rigid adherence to current tax rates might be impractical under certain economic or financial pressures and provides a safeguard, allowing adjustments when necessary to sustain financial health and meet legal or policy requirements (e.g., Fund Balance Policy in KMC 7.25).

3. Sound Fiscal Governance and Commitment to Operational and Long-Term Obligations

The goal balances the short-term goal of maintaining tax rates with the need to invest in infrastructure, services, and other long-term priorities and recognizes the importance of planning for future needs while maintaining current operations.

Goal 2 – Employee Compensation

The goal reflects a strategic approach to employee compensation, balancing fiscal responsibility with the need to attract and retain a skilled workforce. Here's an analysis of its key elements:

1. Connection to Inflation

Linking the maximum salary increases to the 2024 Alaska Consumer Price Index (CPI) ensures that adjustments reflect changes in the cost of living and provides a cap on potential increases establishes a fiscal constraint, demonstrating prudence.

2. Comparison to Other Public Employers

Aims to preserve adequate compensation, ensuring employees continue to receive comparable pay to that offered by other public employers. Comparing employee pay against those in similar roles ensures alignment with market norms.

Goal 3 – Employee Health, Dental and Life Insurance

The goal balances sustainability, fairness, and competitiveness. The clear structure—benchmarking, capped increases, and maintenance of quality—creates a solid framework for managing benefits. Here's an analysis of its key components:

1. Review of Insurance Benefits

Ensure that the City's health, dental, and life insurance programs remain financially viable and are following industry best practices in offerings and administration.

2. Comparison to Other Public Employers

Aims to preserve adequate coverage, ensuring employees continue to receive comparable benefits to those offered by other public employers. Comparing employee costs against those in similar roles ensure alignment with market norms.

3. Employee Cost Share Adjustment

Capping the employee contribution increase to 1% of the program's total costs provides a level of predictability to employees. Gradual adjustments minimize financial strain on employees while addressing rising program expenses.

Goal 4 – Efficient Operations

The goal outlines a thoughtful and well-rounded approach to budgeting that emphasizes efficiency, transparency, and long-term sustainability. It highlights the importance of balancing cost-saving initiatives with the need to maintain quality services. However, successful implementation will require careful planning, data collection, and departmental management to



ensure the goals are achieved without compromising essential functions or public trust. Here's an analysis of its key components:

1. **Focus on Cost Savings and Efficiencies**
The goal seeks to identify opportunities to reduce costs and improve operational efficiency by maximizing limited resources without compromising service delivery.
2. **Maintaining Operational Effectiveness and Service Quality**
The goal is not simply to cut costs, but to ensure that essential services are maintained at the current standard.
3. **Inclusion of Performance Measures**
The use of performance measures ensures that the City can evaluate whether cost-saving efforts lead to actual improvements in service efficiency and quality.
4. **Review of Past Expenditures, Future Needs, and Priorities**
The goal suggests a comprehensive approach that includes reviewing historical spending and aligning resources with future needs and priorities.
5. **Informed Decision-Making and Responsible Resource Allocation**
The overall aim is to make well-supported decisions based on evidence, history, and projected needs.

Goal 5 – Capital Project Prioritization and Investment

This goal provides a structured, accountable framework for managing capital projects and infrastructure maintenance. It ensures that the City is investing enough in maintaining assets to avoid future deterioration while promoting long-term financial sustainability. Here's an analysis of its key components:

1. **Definition of a Capital Project**
Defining a capital project as any project that costs \$35,000 or more. This threshold establishes a clear boundary for what constitutes a significant investment in City infrastructure and services.
2. **Minimum Investment Equal to Depreciation**
Depreciation refers to the accounting process where the cost of an asset (e.g., infrastructure or capital assets) is spread over its useful life. The statement sets a goal that the minimum investment in infrastructure maintenance should, over time, equal the amount of depreciation recorded each year for the City's assets.
3. **Council Adoption of Capital Projects**
The directive requires a formal list of capital projects for Council adoption. This ensures oversight and transparency in capital planning, as the City Council will approve which projects are prioritized for funding.

Goal 6 – Rates, Charges and Fee Adjustment

This goal represents a balanced approach to adjusting City fees and rents, using inflation as the basis for increases while also protecting existing tenants at Vintage Pointe from significant rent hikes. Here's an analysis of its key components:



1. Adjusting Rates, Charges, and Fees for Inflation

The rates, charges, and fees across all City funds will be adjusted based on the Annual Alaska Consumer Price Index (CPI) for All Urban Consumers. This ensures that the City's pricing remains consistent with inflation trends in the economy. By using the same measure of inflation (CPI for All Urban Consumers), this approach applies uniform adjustments across all City funds. This provides a consistent and equitable method for managing the City's revenue generation while aligning with economic realities.

2. Rent Increase Cap for Vintage Pointe Tenants

Rent for existing tenants at Vintage Pointe will be capped at no more than \$50.00 per month above the existing rent rates as of June 30, 2025. This provides predictability and protection for tenants by limiting how much rent can increase at a time. It ensures that the rent increase remains manageable for tenants and prevents sudden financial hardship.

3. Balancing Financial Sustainability with Affordability

The goal is to maintain a balance between keeping the City's rates and rents in line with inflation, and ensuring that these increases do not overburden residents or create financial difficulties.

4. Transparency and Predictability

The goal is clear in how it adjusts rates and rents, making it easy for residents and businesses to understand the basis for the changes.

Goal 7 – Operating Fund Reserves

This goal establishes a strong and structured approach to managing the fund balances for key City funds. It ensures that each fund has sufficient reserves (50% of budgeted expenditures) to cover unexpected costs or revenue fluctuations. By also restricting fund balance use to one-time or capital purchases, the City is safeguarding its long-term financial health and preventing the depletion of reserves for ongoing operational expenses. Maintaining these balances will require careful financial management and discipline, but the approach is designed to ensure sustainability and resilience in the City's finances. Here's an analysis of its key components:

1. Projecting Fund Balance/Retained Earnings

The goal directs that the ending fund balance or retained earnings for the Airport, Water & Sewer, Personal Use Fishery, and Congregate Housing Funds should be at least 50% of the FY2025 budgeted expenditures, after accounting for any projected lapse (unused funds) to provide a clear and specific target for each fund to ensure that each has a sufficient reserve, contributing to long-term financial stability and reducing the risk of running deficits. A target of 50% serves as a buffer for unexpected costs or revenue shortfalls.

2. Ensuring Use of Fund Balance Is for One-Time or Capital Purchases

The goal states that any use of the fund balance or retained earnings should be for one-time or capital purchases rather than for recurring expenditures/expenses. This restriction helps preserve the fund balance for future contingencies and long-term projects rather than depleting it for ongoing operational costs. Using reserves for capital purchases ensures funds are used strategically to maintain or improve infrastructure without undermining the fiscal stability of the funds.



3. **Financial Planning and Risk Mitigation**

Maintaining a fund balance equal to 50% of the budgeted expenditures provides a financial cushion to absorb fluctuations in revenue or unexpected expenses. This is particularly important for funds like the Airport and Water & Sewer, which may experience unpredictable income streams or maintenance needs.

In summary, these goals seek to outline a comprehensive approach to municipal budgeting, balancing fiscal responsibility with community needs. It emphasizes maintaining sufficient revenues, taxes, and fees without overburdening residents while ensuring long-term infrastructure sustainability. The approach prioritizes essential services such as public safety and utilities while recognizing the value of non-essential services like parks and cultural offerings to enhance community quality of life. Key goals include maintaining tax stability with flexibility for necessary adjustments, aligning employee compensation with inflation while controlling costs, ensuring competitive and sustainable insurance benefits, and promoting cost savings through transparent budgeting. Additionally, it focuses on responsible capital project planning, adjusting rates to match inflation, safeguarding fund balances for long-term sustainability, and ensuring any use of reserves is limited to one-time or capital purchases. This strategy seeks to balance the City's financial health with its operational and community priorities, fostering a resilient, thriving city.



Proposed Fiscal Year 2026 Budget Development Goals

Broad Statement of Purpose

The goal of the City is to prepare and adopt a fiscally responsible budget that meets the needs and priorities of the community it serves. A fiscally responsible budget ensures revenues, taxes, and fees are sufficient but not excessive to fund current operations and contribute to the long-term maintenance of City infrastructure used to provide services. Meeting the needs and priorities of the community means prioritizing essential services while being mindful that non-essential services such as parks, recreation, arts, library, and senior services have significant importance in creating a vibrant, well-balanced community in which individuals desire to live and businesses seek to locate. Council's adoption of these goals is intended to guide the Administration through its preparation of the FY2026 annual budget.

Specific Goals

1. The goal is to avoid a tax increase while meeting the City's operational and long-term financial obligations. Prepare a budget for consideration that prioritizes maintaining the City's current mill and sales tax rates while allowing for flexibility to adjust rates only if necessary to ensure fiscal stability and compliance with the General Fund, Fund Balance Policy codified in KMC 7.25.
2. Complete a review of the City's salary schedule and pay plan. Ensure the plan offers competitive compensation comparable to other public employers, enabling the City to recruit and retain competent employees while safeguarding critical services and infrastructure support. Incorporate a salary increase not to exceed inflation, as measured by the 2024 Alaska Consumer Price Index, second half over second half, if necessary to maintain competitive compensation with other public employers.
3. Complete a review of the City's health, dental, and life insurance benefits to ensure they remain sustainable while maintaining the same quality of coverage. Ensure the insurance provides adequate benefits that are comparable to those offered by other public employers. Ensure employee costs for these benefits are comparable with those of other public employers, and if the comparison shows that an increase in the employee cost share is warranted, limit the increase to no more than 1% of the total program costs. For FY2026, this would result in an employee cost share of no more than 14% of the program's total costs.
4. Seek opportunities to achieve cost savings and efficiencies while maintaining operational effectiveness and service quality, through a transparent budget development process. This process will include performance measures and a thorough review of past expenditures, future needs, and priorities to ensure informed decision-making and responsible resource allocation.
5. Compile a list of capital projects, which are projects that cost \$35,000 or more, for Council adoption and ensure that the minimum investment in maintaining City infrastructure over time equals 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. The City's FY2024 depreciation by fund and function were:

General Fund:	
General Government	\$ 105,679
Public Safety	271,787
Public Works	839,780
Parks, Recreation & Culture	346,213
Social Welfare Services	<u>68,189</u>
	\$1,631,648
 Airport Fund:	 \$2,314,695
Water & Sewer Fund	<u>1,004,227</u>
Total All Funds	<u>\$4,950,570</u>

6. Adjust rates, charges, and fees across all funds in line with inflation, as measured by the Annual Alaska Consumer Price Index for All Urban Consumers. Any increase in the monthly rents at Vintage Pointe for existing tenants as of June 30, 2025, shall be capped at no more than \$50.00 per month.
7. Project ending fund balance/retained earnings of at least 50% of the FY2025 budgeted expenditures net of any projected lapse for the Airport, Water & Sewer, Personal Use Fishery, and Congregate Housing Funds. Ensure any use of fund balance is for one-time or capital purchases and not for reoccurring expenditures/expenses so that the ending fund balance for each fund is not less than:

Airport Fund	\$1,842,073
Water & Sewer Fund	1,562,025
Personal Use Fishery Fund	268,898
Congregate Housing Fund	321,263