

## Utility/Enterprise Budget Process and Procedures

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### Utility/Enterprise Departments

Anchorage Water and Wastewater (AWWU), Municipal Light & Power (ML&P), and Solid Waste Services (SWS) are utility departments; Merrill Field Airport and the Port of Anchorage are enterprise departments. Many of the basic services Anchorage residents rely on daily: safe water, reliable electricity, safe and efficient delivery of goods, come from municipal-owned utilities and enterprise departments.

The goal of the utilities is to continue to provide quality service at reasonable rates. The utilities continue to meet debt service requirements, prudently increase equity, adequately maintain cash reserves, and generate sufficient revenue to maintain their plants in good working condition. The primary source of revenue required to support the operating and capital budget comes from rate payers or users of their respective services. The budget is presented for a calendar year, in line with the Municipality's fiscal year.

### Governance

The authority for operation and management of the utility/enterprise departments is under the control of the Mayor.

ML&P, Port, and SWS established a commission to provide guidance to the Mayor and Assembly in regards to each entity's strategic plan, budget, policies, economical impacts, expansions, and improvements. (AMC 4.70.10).

AWWU established a Board of Directors to provide guidance to the Mayor and Assembly in regards to AWWU's strategic plan, long term fiscal plan, budget, tariff rates, and fees. (AMC 4.80.020).

Merrill Field Airport established Municipal Airports Aviation Advisory Commission to provide recommendations to the Mayor and Assembly on all matters pertaining to the annual operating budget, rules, regulations, and administrative guidelines (AMC 4.60.160).

The Regulatory Commission of Alaska (RCA) regulates AWWU and ML&P by approving all rates and tariffs prior to implementation. They also regulate service areas and quality.

### Utility/Enterprise Accounting

The accrual basis of accounting is used for utility/enterprise funds. Revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recognized in the period incurred, if measurable.

The direct cost budget allocates spending among several categories: labor (salaries and benefits); non-labor (supplies, travel, contracts, etc); contributions; debt service; and non-cash accounts such as depreciation and amortization, which are not appropriated. Each department is responsible for managing and monitoring their respective budget at these category levels. The function cost budget includes interfund charges for general government services to the total direct cost budget. Actual expenses may not exceed function cost budget appropriations at the enterprise and utility fund levels (AMC 6.10.036).

The Assembly may, by resolution, reduce or increase appropriations during the course of the fiscal year. A resolution reducing or increasing appropriations by an amount in excess of \$100,000 shall be subject to a public hearing (AMC 6.10.085).

The Budget Office is authorized to transfer budget amounts within the appropriated departments and funds. Revisions that change the total expenditures of any department or fund must be approved by the Assembly. Operating appropriations that are not expended, encumbered, or designated to be carried over, lapse at the end of the fiscal year.

### **Municipal Utility/Enterprise Service Assessment (MUSA/MESA)**

Each year, payments-in-lieu of taxes are included in the operating budgets for the utility/enterprise departments to cover the cost of tax supported services they receive, other than services received on a contract or interfund basis. It is the public policy to require the utilities (AWWU, ML&P, and SWS) to pay a municipal utility service assessment (MUSA). Merrill Field and the Port are required to pay a municipal enterprise service assessment (MESA). Payment must be made on or before July 15<sup>th</sup> of each calendar year. In addition, depending on the entity, a percentage of 1.25 may be applied to the actual gross operating revenues presented in the prior year's annual financial report (AMC 26.10.025, 11.50.280).

The following is the formula to calculate MUSA/MESA:

$$\frac{(2015 \text{ net book value of plant in service} \times 2015 \text{ mill rate}) + (1.25\% \times \text{actual gross operating revenues 2015})}{= 2016 \text{ MUSA}}$$

$$\frac{(2014 \text{ adjusted plant in service} \times 2015 \text{ mill rate}) + (1.25\% \times \text{actual gross operating revenues 2015})}{= 2016 \text{ MESA}}$$

### **Utility/Enterprise Revenues**

Utility/enterprise departments are operated in a manner as to provide a reasonable profit in accordance with applicable regulatory provisions and law. Surplus revenues from operations are to be reinvested in the department. Although, if there is a surplus in revenues, a portion (not to exceed 5% of the gross revenues of prior year) of those surplus revenues, may be pledged to general government (AMC 26.10.065).

Operating revenues are collected from rate payers for operating activities and services provided. Examples of some of the services provided from rate collections include: electricity, clean water, airport tie-downs, recycling collections, and dock revenue. Non Operating revenues are earned from activities such as: operating grants, interest income, and unrealized gains/losses.

### **Utility/Enterprise Capital**

The Municipality has two documents that govern planning and funding of capital projects:

- Capital Improvement Budget (CIB) – identifies projects and funding sources for the upcoming fiscal year; and
- Capital Improvement Program (CIP) – a longer-term outlook that identifies projects for the next six years, including the upcoming fiscal year.

Once approved by the Assembly, the amount of specific appropriations, project descriptions, and budget years for individual projects within the CIB/CIP are considered permanent legislative

actions of the Assembly and may be altered in subsequent years only by majority vote of the Assembly (AMC 6.10.045).

The funding sources that are obtained for the capital projects could be: debt, State/Federal grants, and/or equity. Most utility/enterprise department capital projects are funded by equity, but can be funded by multiple sources.

### **Budget Planning and Timeline**

The Mayor is required to submit the proposed enterprise/utilities operating and capital budgets to the Assembly 90 days prior to the end of the fiscal year (October 2<sup>st</sup>) (AMC 13.03).

Prior to that (120 days prior to the end of the fiscal year), the Administration is required to provide preliminary information on the capital budget/capital program, business plans, update to utility/enterprise strategic plans, and major reorganizations (AMC 6.10.040).

<b>Key Dates in Budget Process</b>	
Summer	Preliminary budget information gathered
September 2	Preliminary budget information to Assembly
October 2	Mayor proposed budgets
October, November	Assembly deliberates, holds public hearings
December	Deadline for Assembly approval
April	First Quarter budget revisions

Preparation of the budget starts much earlier. A preliminary planning phase gets underway in the summer. The Office of Management & Budget (OMB) works with departments in reviewing their programs and responsibilities, assessing what is being done during the current year, and assisting in making plans for the next budget year in line with Administration goals. Some considerations during this phase are:

- Contractually obligated increases, such as labor contracts and health insurance premiums;
- New facilities that will open during the next fiscal year that will require staff, supplies, and other operating expenses;
- New responsibilities or programs required by Federal, State, or local laws;
- New or changed programs to meet community needs or interests;
- Programs that can be eliminated because they are ineffective, no longer required, or desired; and/or
- Efficiencies and savings that can be achieved through organizational management.

During this period of time, OMB also reviews projected revenue information in order to get an early indication of the Municipality's ability to afford current spending levels and/or the potential need for reductions.

### **Mayor Proposes/Assembly Appropriates**

The Mayor submits the proposed operating and capital budgets to the Assembly in early October, the Assembly holds public work sessions at which the Administration and department directors discuss the Mayor's proposal.

### **Public Comment**

The budget books are available on the Office and Management and Budget's website, as well as the Mayor's website, for the public to view. The Assembly is required to hold two public hearings on the Mayor's proposed budget, which is the official opportunity for the public to comment and for the Assembly to consider amendments. These are usually held during

October and November. The Anchorage Charter requires that the Assembly approve the budget 21 days before the end of the year (by December 10). But if for some reason they still have not reached agreement, the Charter was amended to allow the Assembly and Mayor to continue to work. Once agreement is reached, that budget is known as the “Approved Budget.”

### **Veto Process**

The Mayor has the ability to strike or reduce an appropriation in the operating or capital budget within 7 days from Assembly action. The Assembly then has 21 days from the Mayor’s veto to override his/her action and must have a super-majority of 8 Assembly members to be successful. If a veto is sustained, the Mayor’s action is implemented (AMC 5.02.c).

### **First Quarter Budget Amendments**

During the spring following the budget’s approval, the Administration finalizes the prior year’s spending numbers and firms up revenues available to support the current year budget. This process, called “First Quarter Budget Amendments,” takes place in April and May and results in the Assembly’s approval of a “Revised Budget.”

Unlike the proposed budget process in the fall that requires two public hearings, the first quarter amendment process only requires one public hearing and usually is at the Assembly meeting that follows the Mayor’s introduction of the proposed amendments.

Based on these final spending decisions for general government, the Assembly then sets the tax rates for each service area.

### **Budget Monitoring, Controls, and Reporting**

Each utility/enterprise department is responsible for managing and monitoring their respective budget at the spending category levels. Department managers also monitor their program performance measures throughout the year to ascertain if goals are being met.

Actual expenditures in a fiscal year that consume operating budgets may not exceed the function level budget appropriations by fund; which is all spending categories within a fund. At the end of the fiscal year, actual expenditures less revenues fall to fund balance. Some of the fund balance (equity) is transferred to the capital fund to support capital projects. There are also other requirements on minimum fund balance reserves that are defined in the annual financial statements. The capital budget is controlled by fund, division, and project.

P.V.R. – Performance.Values.Results. Performance measures and corresponding data for each program, as identified by each department, are reported quarterly to communicate and demonstrate the results and effectiveness of the program in achieving its stated purpose and to accurately capture the costs to deliver the intended results (AMC 6.40.016).

The last assembly meeting prior to June 30 of each year, the Mayor provides a memorandum to the assembly identifying the frequency, data, and format of the reporting requirements (AMC 6.40.015).

Currently, spending reports are provided quarterly to the assembly by spending category; labor, overtime, non labor expenditures, and revenues compared to budget. A budget to actuals report for travel and the contributions to non profit organizations are provided to the Assembly, separately (AMC 6.10.034).

The accounting records at AWWU must conform to the Uniform System of Accounts prescribed by the National Association of Regulatory Utility Commissioners (NARUC). ML&P is responsible for financial analysis and reporting in the manner prescribed by Federal Energy Regulatory Commission (FERC).