

Readers' Guide

READERS' GUIDE OVERVIEW

Welcome to the Fairbanks North Star Borough's Budget for Fiscal Year 2006

This READERS' GUIDE is a tool to guide you through this document. Its primary goal is to enhance the readability of the budget document, thereby increasing its usefulness as a communications device. It provides some basic information about the area and its governmental structure. It explains the formatting of individual departmental budget sections, and the process of creating and adopting the Borough's primary planning and policy tool—the annual budget.

The READERS' GUIDE has been designed to answer some of the more commonly asked questions regarding the Fairbanks North Star Borough budget and other topics.

- Under what type of government structure does the Borough operate?
- What are the Borough's areas of responsibilities or "powers?"
- How does the School District and the Borough interrelate?
- When is the budget prepared, and how does the budget cycle operate?
- What is contained in the department sections?
- How is the departmental budget data organized?
- What is fund accounting?
- What are the Borough's basis of accounting and basis of budget?

Readers, who are primarily interested in the "bottom line" of expenditures, personnel, or the approved mill levies, can find these items in the "Budget Summary" section.

Copies of the Recommended and Approved Borough Budget are available for viewing at the Noel Wien and North Pole Public Libraries as well as at the Financial Services Department and Borough Clerk's Office located in the Borough Administrative Center, 809 Pioneer Road. Electronic copies of the Recommended and Approved Borough Budget (as well as past budgets) are available on the Fairbanks North Star Borough Website, <http://co.fairbanks.ak.us/FinancialServices/>.

MISSIONS, MEASURES AND STATISTICAL ACCOMPLISHMENTS:

The Narrative pages, part of the expenditure part of the budget, are composed of three components: the Mission Statement, the Measures, and the Statistical Accomplishments. The Mission Statement (the first page) defines the purpose or reason for the existence of a division or section. The Measures, listed at the top of the Statistical Accomplishment page, are intended to tie together and integrate the Mission with the past, present, and future assessments and expectations, based upon the listed quantifiable accomplishment data. The Measures are intended to aid in answering the question—"How well are we meeting our Mission?" Readers will find that this information provides further explanations to departmental and funding descriptions. These performance indicators assist Directors and Managers as a basis for budgeting, an area to highlight significant accomplishments, and to examine potential areas of problems in terms of inefficiencies and resource allocation.

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THE FAIRBANKS NORTH STAR BOROUGH

BOROUGH GOVERNMENT STRUCTURE:

Brief Introduction to the Borough

The Fairbanks North Star Borough is a second-class Borough incorporated on January 1, 1964 under the provisions of the State of Alaska Borough Act (1963), as amended. The Borough covers 7,361 square miles within the Tanana River Valley of the interior region of Alaska.

Per the State of Alaska, Department of Commerce, Community, and Economic Development, Division of Community Advocacy, the 2004 Borough population is 84,979 and the two first-class cities located within the Borough's boundaries North Pole and Fairbanks, have 2004 populations of 1,532, and 29,954, respectively. North Pole was incorporated in 1953. E. T. Barnette incorporated Fairbanks in 1903 following the nearby discovery of gold by Felix Pedro. There are also two large military installations within the Borough, Fort Wainwright Army Post and Eielson Air Force Base. These installations account for over one-fifth of the Borough's population. Fort Wainwright has a current population of 10,093 (active military personnel—4,751 family members—5,342). Eielson Air Force Base has a current population of 6,500 (active military personnel—2,953 and family members—3,547).

Further information regarding the demographics of the Fairbanks North Star Borough can be found in the Appendices section.

Economics

The "health" of the Fairbanks North Star Borough community is good. Service-providing industries are predicted to be the most stable, as well as those with the most future growth potential while the largest increases and decreases will occur within the goods-producing sectors. Total civilian employment was up 1 percent with goods-producing industries increasing 5.3 percent and service-producing industries increasing 0.5 percent from last year (2nd Qtr. CY 2004). During this period, the greatest industry gains occurred in the following areas: financial activities (11.5%), professional and business services (10.5%), education and health services (9.3%), and construction (8.5%). The following are the top five employers in the Borough: (1) The University of Alaska (3,341), (2) military-related employment (2,203), (3) Fairbanks North Star Borough School District (1,950), (4) State (1,779) and (5) Federal government (1,147). The largest private employer is the Banner Health System (Fairbanks Memorial Hospital and Denali Center) employing 1,147. (Information from the *Fairbanks Community Research Quarterly*, Fall 2004.)

Government Structure

The Borough operates under a Mayor-Assembly form of government. This is the strong mayor form of government, as the mayor is the chief executive officer. The mayor can introduce legislation, has veto power, and manages the everyday operations of the Borough.

The legislative powers are vested in an Assembly. The Assembly is composed of nine elected officials, each elected at-large for three-year, staggered terms. Initially, the Borough exercised three mandatory

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powers: assessment and tax collection, schools, and planning and zoning. Voters have approved, and State statutes have added additional powers. Currently, the Borough has the following powers:

Areawide powers: property assessment and tax collection, public schools, planning and zoning, animal control, flood control, hospital (not exercised), library, air pollution control, disaster and civil defense, enhanced 911, solid waste disposal, parks and recreation, transportation system, child care assistance, and limited health and social services powers.

Non-areawide powers: fireworks control, emergency medical services, solid waste bonds, and economic development. These powers are exercised in the area of the Borough outside the cities of Fairbanks and North Pole.

Special district powers: Solid Waste Collection powers are exercised in a special district created in 1991 that includes the area outside the City of Fairbanks.

Service area powers: road maintenance and construction, fire protection, water supply, sewage disposal, and streetlights in specific service areas. These services are exercised in specific areas upon petition and adoption by vote of the residents of the specific service area. Currently there are 112 active service areas in the Borough outside the cities of Fairbanks and North Pole in which one or more of these services are provided.

SCHOOL DISTRICT:

The Fairbanks North Star Borough School District is a component unit of the Borough. The School District has its own elected board which is responsible for setting policy and expenditure appropriations.

The Borough does assume various funding responsibilities for the School District. The Borough is responsible for the construction and capital improvement of all facilities used by the School District as well as the issuance and repayment of school construction debt. The Borough also determines the amount of local funding the School District will receive in excess of the state mandated minimum contribution of 4 mills of property tax. Additional information about School District funding can be found in the Education section of the Expenditure budget.

THE BUDGET PROCESS

BUDGET APPROPRIATIONS:

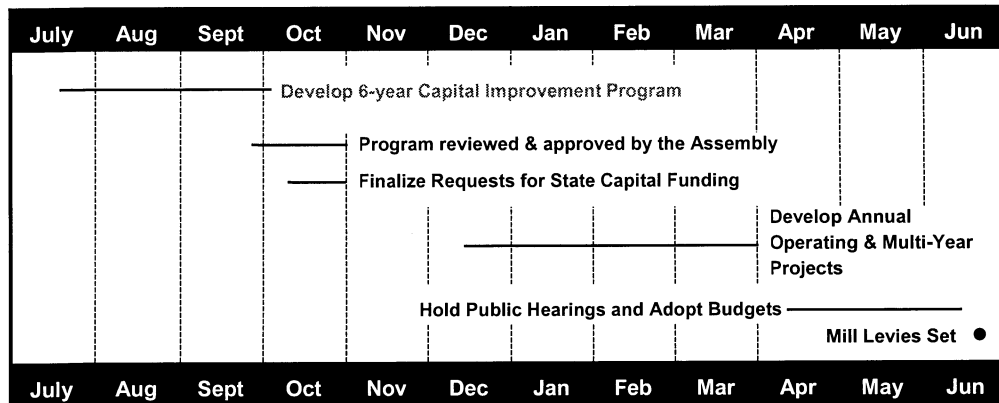
The annual budget is the vehicle through which the Borough Assembly establishes the appropriations for the Borough. The budget is a policy document, financial plan, operations guide, and communications device that reflects the allocation of limited revenue among competing uses. The allocation is accomplished through passage of an annual appropriation ordinance.

This appropriation ordinance authorizes spending during the fiscal year based on estimates of the financial resources required to support these expenditures. The appropriation level is by "fund" and by "department"; therefore, the budget is developed and presented to facilitate both.

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BUDGET CYCLE:

Annual Budget Cycle – The annual budget cycle begins with the development of the Six-Year Capital Improvement Program in July and is completed with the appropriation for the budget in the following May, for the fiscal year beginning on July 1st.



Annual Budget Cycle

CAPITAL IMPROVEMENT PROGRAM:

Developing the annual budget begins in July, with updates to the six-year Capital Improvement (CIP) and Major Maintenance Programs. Borough Departments and the School District are asked for their input regarding the capital improvement and major maintenance project data compiled the previous year. These submittals result in the deletion of projects completed, addition of new projects, changes in requested year, changes in project descriptions and project modifications.

The Public Works Department assists the Capital Improvements Committee in prioritization, cost estimating, and project scoping. The Mayor presents an information copy of the Six-Year Program to the Assembly in late September. Hearings are held and the capital requests for State capital funding are finalized and a capital funding request is submitted in November to the Interior Delegation of the legislature.

Capital improvement projects identified for local funding become part of the Multi-Year Projects Budget for the following fiscal year. The Multi-Year Projects Budget is presented to the Assembly in April with the annual operating budget for appropriation of local funds.

ANNUAL OPERATING BUDGET GUIDELINES:

During December and January the Mayor and Department Directors assess the financial environment and prepare documentation about needed changes in doing business for the following budget year. Given revenue constraints, the Mayor evaluates these recommendations for changes in existing programs and/or new programs, and prepares a program and funding authorization level for each department.

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OPERATING AND MULTI-YEAR PROJECTS DEVELOPMENT:

Departments prepare their budget detail within the Mayor's authorization level. The Mayor reviews the submittals and makes final adjustments. The Mayor's Recommended Budget is presented to the Assembly on the first Thursday following the 1st of April. The Assembly Finance Committee holds work sessions with the Departments and makes recommendations to the full Assembly.

The School Board presents its request for local funding for education on April 1st. The Assembly must determine the minimum local effort for education on or before May 1, or the School Board's request becomes final. The Assembly often passes a resolution specifying the local effort prior to the end of April, and includes the appropriation of the local effort in the annual operating budget appropriation.

PUBLIC HEARINGS AND ADOPTION:

The Assembly holds budget hearings and accepts the budget, with or without amendment, prior to the end of May for the budget year beginning the following July 1st. For a minimum of thirty days prior to the public hearing, reference copies of the entire budget document are available at key public locations throughout the Borough. According to Alaska Statutes, the appropriation for local support of education must be adopted by May 31. Funds are appropriated by ordinance. Appropriations are made for each department and each fund in the annual operating and Multi-Year Projects budgets. Supplemental appropriations and transfers of appropriations are also approved by ordinance.

MILL LEVIES:

A resolution establishing mill levies is presented by the Mayor. Alaska Statutes provides that the mill levy must be established by June 15th. The voter-approved tax limitation is recomputed prior to the setting of mill levies. These tax caps limit the amount of taxes that can be levied one year to the same amount as was levied the previous year, with exceptions for debt service, judgments, new construction and property improvements, and voter-approved special services. The maximum tax that can be levied this fiscal year for each taxing jurisdiction is detailed in the Appendices section of this budget.

BUDGET AMENDMENT:

As provided by Alaska Statutes and the FNSB Code of Ordinances, the Borough Assembly must adopt any amendments to the budget, made throughout the fiscal year, by ordinance. Advance public notice and a public hearing are required prior to adoption of an ordinance.

<p style="text-align: center;">ADDITIONAL STATISTICAL INFORMATION REGARDING THE FAIRBANKS NORTH STAR BOROUGH</p>

Statistical information that is updated annually can be found in the Borough's Comprehensive Annual Financial Report (CAFR). Accordingly, we would like to direct the reader to the supplemental information that can be found there. The CAFR is available online at <http://www.co.fairbanks.ak.us/financialServices>.

In addition to the annual financial report, another comprehensive source of statistical information that the Borough is especially proud of is its publication titled: Fairbanks Community Research Quarterly. This document, approximately 50 pages in length, is updated and published quarterly by the Community

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Research Center, a division of the Community Planning Department. There the reader will find a broad range of very current information under the major category headings of: Fairbanks Economy at a Glance, Economic Indicators, Employment, Housing, Cost of Living, and Population & Social Conditions. The reader may request this document at: Community Research Center, P.O. Box 71267, Fairbanks, Alaska, 99707-1267, or by calling: (907) 459-1212.

BUDGET PRESENTATION/LAYOUT

The budget document is divided into several tabbed sections. The contents of each section are summarized below.

The **Table of Contents** section is the beginning of the document. This section contains the Table of Contents for the budget document as well as the Borough's Distinguished Budget Presentation Award.

The **Mayor's Message** section contains the Mayor's transmittal letter to the Assembly and Borough residents.

The **Appropriation Ordinance** section contains the budget ordinance, and the mill levy resolution.

The **Introduction** section contains the FNSB organization chart, Assemblymember and key personnel lists, a map of the Borough, and this Readers' Guide, all of which contain statistical information about the Borough.

The **Budget Summary** section of the document contains budget highlights, charts, graphs, and schedules giving an overview of the revenues, expenditures, and position counts.

The **Revenue Budget** section presents assessed valuation and tax rate information for the taxing jurisdictions. It also includes the revenue side of the annual budget in detail and in summary form. All revenue assumptions are explained.

The **Budget by Funds** section contains the details of the appropriations at the fund level. The appropriation level is by "fund" and by "department". This section presents the "crosswalk" between the appropriations at the "fund" level and the departmental appropriations. It also provides a brief description of each fund for which expenditure detail is contained in the budget document. All changes in the structure of funds, from FY 2004 to FY 2005, are noted. Each fund budget contains a three-year history of fund activity, revenues, and expenditures.

The **Expenditure Budget** section presents each department's detailed expenditure plan. A department or division budget contains a mission/program description, major long-term issues and concerns, objectives for the fiscal year, significant budget changes, and previous year's accomplishments. Expenditure detail (at line-item level) is provided for each division and in summary for each department. All detail pages contain historical data for the current budget year and two prior fiscal years. In addition, each division provides a page of statistical accomplishments that provide data specific to the division for the last four years and a projection of expected results for the future budget year. The full funding sources and revenues generated for the budgets are shown in the Revenue Budget section and the Budget by Funds section of the budget. Program revenues and/or fees directly related to services

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provided by a division are also shown at the bottom of the expenditure detail pages of each division, where applicable.

Additionally, contained in the Expenditure section is the budget detail for Education, Debt Service, Non-Departmental, Multi-Year Projects, Facilities Major Maintenance, Grants, Interfund Charges, and Service Areas.

Education: Is fully explained in the Readers' Guide under School District.

Debt Service: Accounts for the payment of principal and interest on areawide general obligation debt for education and general government construction, and prior to FY 2005, non-areawide general obligation debt for solid waste transfer station improvements.

Non-Departmental: Contains funding for valuation of specialty properties, unanticipated job reclassifications, excess health care costs up to five percent over the budgeted amount and other benefit overages, and areawide local matching funds for anticipated grants.

Multi-Year Programs/Capital Projects: Contains the projects identified for local funding in the first year of the Six-Year Capital Improvement Program; projects identified as Other Capital Expenditures, which include large dollar item capital requirements for facilities improvements and upgrades; major computer requirements; other capital equipment replacements; and non-capital multi-year projects and programs.

Facilities Major Maintenance and Six-Year Plan: Shows funding needs for the Facilities Maintenance Reserve Fund as detailed in the Six-Year Capital Improvement Program for the current year and prior years. In establishing the Facilities Maintenance Reserve Fund, the Borough recognized that their major investment in public assets requires regular, ongoing care and maintenance to allow uninterrupted services to the community and to prevent premature aging of the facilities. The Facilities Maintenance Reserve Fund will accumulate local funds, when available, and other revenues, as they become available, for major facilities maintenance, repairs, and upgrade costs. Some projects could result in energy efficiency savings and life/safety improvements. The Facilities Major Maintenance section includes a list of all major Borough-owned school facilities, Borough facilities, and fire stations, with insured building values, square feet, calculated replacement values, calculated major maintenance funding recommendations, and projects included in the Six-Year Capital Improvement Program, both new projects and projects deferred from prior years.

Grants: Shows operating grants for current year and prior years. The Borough receives recurring operating grants in predictable amounts each year. These subsidize the funding of general, ongoing Borough operations such as transportation, community and economic development, and library services. These operating grants, because of their yearly occurrence as well as predictable amounts, are appropriated in the estimated funding of the annual operating budget.

Interfund Charges: Presents the calculation of the intragovernmental cost pools and their allocations for both revenues and expenditures, at the budgetary unit level. Those amounts/calculations that cross funds (as opposed to calculations which are for services between

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budgetary units within the same fund) are appropriated. These interfund charges are the mechanism used to redistribute direct costs incurred in one budgetary unit to the benefiting unit.

Service Areas: Covers road, fire, and other service areas established to provide road maintenance and construction, fire protection, water supply, sewage disposal, and streetlights to Borough residents in specific areas. Revenue for these services is provided by local taxation, specific grants, and interest earnings (accrued from their share of the Central Treasury cash balances).

The **Appendices** section contains salary schedules, personnel detail, benefit rate detail, the maximum tax computation schedule, user fees, Borough demographics, and a glossary..

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BASIS OF ACCOUNTING/BUDGETING

FUND ACCOUNTING

The accounts of the Borough are organized on the basis of funds and account groups; each is considered a separate accounting entity. Fund accounting is designed to demonstrate legal compliance and to aid in financial management by segregating transactions of various Borough functions and activities. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to, and accounted for, in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped into three generic fund types: governmental, proprietary, and fiduciary. In addition, the School District is classified as a component unit of the Borough. More detailed information about the funds of the Borough can be found at the beginning of the Budget By Funds section of this budget.

BASIS OF ACCOUNTING

Basis of accounting refers to the method by which revenues and expenditures are recognized in the accounts and reported in the financial records of the Borough.

Modified Accrual

For financial reporting at the fund level, in accordance with generally accepted accounting principles (GAAP), all governmental funds of the Borough use the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. A revenue is "measurable" when the amount of the transaction can be reasonably determined. "Available" means the revenues are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For the Borough, revenues collected within 45 days of the end of the fiscal year are available for that fiscal year. Property tax revenues are accounted for (accrued) when they are levied and available to finance expenditures of the current period. Hotel-motel room taxes are accounted for (accrued) in the period they are both due and collected. Delinquent sales tax revenues are accrued when collected. Certain grant revenues are dependent upon expenditures, and revenues from these grants are recognized when the expenditures are made; revenues from other grants are recognized on the cash basis. Charges for services and miscellaneous revenues are recognized on the cash basis. Interest income is accrued when earned. For investments with maturities greater than one year, unrealized gains and losses are recorded at the end of the reporting period. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, principal and interest on general long-term debt and employee annual leave are recognized when due.

Accrual

The proprietary funds are accounted for using the accrual basis of accounting for financial reporting in accordance with GAAP. Revenues are recognized when earned, except for revenues from land disposals, which are recognized on the installment method. Expenses are recognized when they are incurred, except for estimated landfill closure and postclosure care costs which are recognized based on landfill usage.

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Operating Transfers

Transactions between funds are reflected as operating transfers in this budget document. Transfers from the General Fund exceed transfers in from other funds because taxes and state revenues are collected in the general fund and transferred to other funds to cover expenditures/expenses. Education, debt service, capital projects, transit, and Carlson Activity Center are the usual funds that receive operating transfers from revenues collected in the general fund. The expenditures/expenses for these services are accounted for in their own funds, rather than in the general fund, in order to demonstrate legal compliance and to aid in financial management by segregating transactions of these Borough functions and activities.

BASIS OF BUDGETING

For the governmental funds, the Borough recognizes revenues and expenditures for budgetary purposes on a basis most similar to the modified accrual basis of accounting described above. The proprietary funds (enterprise and internal service), however, use a budgetary basis very different from their accounting basis. Only one budgetary basis is used for the entire Borough. Therefore, the budgetary basis of the proprietary funds is the same as for the governmental funds.

Although proprietary funds use the accrual basis of accounting, their budgets more closely follow the modified accrual method used for other funds. For example, the proprietary fund budgets include capital outlay amounts for the initial purchase of fixed assets, but do not include budget amounts for depreciation of those fixed assets. Conversely, the proprietary fund statements in the Borough's Comprehensive Annual Financial Report do not reflect capital outlay expenditures but do include depreciation expense. In addition, the Solid Waste Disposal Enterprise Fund budget does not include an amount for recognition of increases and decreases in the landfill closure and postclosure care cost liability; when landfill closure and postclosure care activity is ready to begin, those amounts will be budgeted.

There are three primary differences between the modified accrual basis of accounting and the budgetary basis used by the Borough: encumbrances, intragovernmental cost allocations (IGCP), and employee annual leave.

Encumbrances. Encumbrances represent commitments related to unperformed contracts for goods or services and are recognized as expenditures under the Borough's budgetary basis. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is utilized as an extension of formal budgetary control. Encumbrances outstanding at year-end and related budgets are carried forward to the new fiscal year for budgetary purposes in the Borough's financial records. The budgets presented in this document, however, do not include budget increases related to carried-forward encumbrances. For GAAP financial reporting purposes, outstanding encumbrances at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent fiscal year.

Intragovernmental Cost Allocations (IGCP). For budgetary purposes, the intragovernmental allocations of overhead costs among funds are treated as revenues and expenditures/expenses. However, for GAAP financial reporting, intragovernmental allocations are considered reimbursements and are treated as an adjustment to expenditures/expenses; that is, an increase in expenditures/expenses in the reimbursing fund and a corresponding decrease in expenditures/expenses in the reimbursed fund.

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The Borough's budgetary basis allows for the appropriation of the full cost of providing support functions, rather than the net cost after the other funds reimburse the support functions.

Employee Annual Leave. Annual leave (paid time off) is earned by employees as they work. Any unused leave must be paid to terminating employees. Under the modified accrual basis of accounting, the Borough's liability for annual leave is only recorded when it becomes due and payable to an employee. However, the Borough budgets for annual leave as it is earned by employees. This ensures that the Borough has the resources to pay its obligations to employees when they come due.

Lapsing of Appropriations. Annual operating appropriations lapse at year-end, except for that portion related to encumbered amounts. Encumbrances and encumbrance accounting are described above. Appropriations for those special revenue, capital projects, and enterprise projects funds with multi-year budgets do not lapse until the purpose of the appropriation has been accomplished.