



Homer City Hall

491 E. Pioneer Avenue

Homer, Alaska 99603

www.cityofhomer-ak.gov

City of Homer Agenda

City Council Worksession

Monday, August 24, 2020 at 4:00 PM

City Hall Cowles Council Chambers via Zoom Webinar

Dial: (669) 900 6833 or (253) 215 8782 or Toll Free (888) 788 0099 or (877) 853 5247

Webinar ID: 965 8631 4135 Password: 792566

CALL TO ORDER, 4:00 P.M.

AGENDA APPROVAL (Only those matters on the noticed agenda may be considered, pursuant to City Council's Operating Manual, pg. 6)

DISCUSSION TOPIC(S)

- a. Memorandum 20-128 from Finance Director re: Water Sewer Rate Model and Depreciation Fund
- b. Resolution 20-077, A Resolution of the City Council of Homer, Alaska Adopting a Reserve Fund Policy for the Collection and Use of Water and Sewer Depreciation Reserve Funds. Lord/Aderhold.
- c. Resolution 20-078, A Resolution of the City Council of Homer, Alaska Amending the Homer Accelerated Water and Sewer Program (HAWSP) Policy Manual to Modernize the Language and Clarify Qualifying Criteria for using HAWSP Funds. Lord/Aderhold.

COMMENTS OF THE AUDIENCE (3 minutes)

ADJOURNMENT NO LATER THAN 4:50 P.M.

Next Regular Meeting is Monday, September 14, 2020 at 6:00 p.m., Worksession at 4:00 p.m. Committee of the Whole at 5:00 p.m. All meetings scheduled to be held in the City Hall Cowles Council Chambers located at 491 E. Pioneer Avenue, Homer, Alaska.



City of Homer

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Finance Department

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Memorandum 20-128

TO: Mayor Castner and Homer City Council
THROUGH: Rob Dumouchel, City Manager
FROM: Elizabeth Walton, Finance Director
DATE: August 19, 2020
SUBJECT: Water and Sewer Rate Model and Depreciation Reserves Fund

The purpose of this memo is to address outstanding council questions regarding the adopted Water and Sewer Rate Model and to provide some context to the upcoming depreciation reserves policy discussion.

Outstanding Questions:

- 1) Timeline for Water/Sewer Rate Passage
 - a. As long as the rate structure remains the same, it is fairly easy to accommodate any changes in usage rates. Therefore, the timeline is very flexible towards when the rates need to be adopted. The rates are in effect the first billing period of the subsequent year, so rates would need to be adopted by end of year. I am not familiar with any code language that stipulates when the rates have to be adopted.
- 2) What is the purpose of the \$5 per unit surcharge?
 - a. The primary purpose of this additional fee is to collect revenue to help offset costs that are associated with maintaining infrastructure. One other option to this additional fee was to install meters in each individual unit. This would allow for each unit to be responsible for billing and usage. My recollection of previous conversations is that this was not a viable option, as most multi-unit buildings would have to undergo extensive repairs to accommodate such a system. The City would also have to purchase additional equipment to make the necessary fixes.
 - b. According to recommendations presented by the Water & Sewer Rate Task Force, the reason this model was selected was to help equalize the cost of the system amongst all users. To that effect, it is reasonable to suspect this fee was included to help offset some of the cost burden to those single households. If this additional \$5 was backed out of the model, the rate per gallon would increase.
 - c. Per our fee schedule on what constitutes a multi-unit:
 - i. Multi-Units: An additional \$5 monthly charge shall apply to each of the units of a building or lot occupied by more than one household or commercial entity contained within one building or several buildings within one complex. Exam

plexes and up, apartments, condominiums, co-housing projects, and multiple structures on one lot (where units are normally rented or occupied for longer than one month at a time). Examples of units not considered as multi-family include hotels, motels, and B&B's seasonal rooms/cabins (where units are routinely rented or occupied for less than one month at a time.) This fee applies to all multi-unit structures defined in the sewer section of this for apartments, rental units or multi-unit buildings where each unit would have one or more restrooms and are intended to be rented on a monthly basis where there is only one meter installed, excluding a rental building restroom used for shared or public use.

3) 15% Reserve Requirement

- a. While I don't have more information to share on why this component was incorporated into our model, I do have some insight into how this connects with our budget.
 - i. The current practice is to balance the operating budget with a transfer to depreciation reserves to ensure sufficient funding was set aside for known future deferred maintenance items. The rate model utilizes this requirement to ensure there is sufficient revenue to support this transfer to reserves, otherwise the Utility Operations Fund Fund Balance would take a draw to fund the transfer to reserves.

Depreciation Reserve Policy:

One thing to consider is that any revenue that is generated in excess of expenditures remains in the Utility Operations Fund until Council makes the determination to address the surplus. The same goes for any deficit that is incurred by expenditures exceeding revenue generated. Therefore, it is worth considering having a financial fiscal year closeout discussion to determine whether or not an additional transfer is warranted.

A huge motivator for administration in the past has been to diligently scrutinize any proposed projects out of the depreciation reserves fund in an effort to establish a sufficient fund balance to address outstanding deferred maintenance items. It would be worth revisiting the list of deferred maintenance items for water and sewer infrastructure prior to depleting the reserve balance for new projects.

**CITY OF HOMER
HOMER, ALASKA**

Lord/Aderhold

RESOLUTION 20-077

A RESOLUTION OF THE CITY COUNCIL OF HOMER, ALASKA
ADOPTING A RESERVE FUND POLICY FOR THE COLLECTION AND
USE OF WATER AND SEWER DEPRECIATION RESERVE FUNDS.

WHEREAS, Homer City Council instituted a two-year budget in December 2019 (Ordinance 19-51(A)); and

WHEREAS, As part of that budgeting process, Homer City Council discussed and initiated the process of establishing reserve fund policies; and

WHEREAS, Water and Sewer Depreciation Reserve funds are collected by Homer water and sewer rate payers; and

WHEREAS, Per Homer City Code 9.16.010(b), the City of Homer collects a three-quarters percent tax to fund the Homer Accelerated Water and Sewer Program (HAWSP); and

WHEREAS, Concurrently with developing a policy for Water and Sewer Depreciation Reserve funds, Homer City Council is revising the HAWSP policy manual to modernize the language and clarify qualifying criteria for using HAWSP funds; and

WHEREAS, The City of Homer Public Works Department is developing Capital Improvement Plans for water and sewer infrastructure; and

WHEREAS, Having clear policies regarding the use of Water and Sewer Depreciation Reserve funds and HAWSP funds supports the development and implementation of the Capital Improvement Plans.

NOW, THEREFORE, BE IT RESOLVED that the City Council of Homer, Alaska adopts the Reserve Fund Policy for the Collection and Use of Water and Sewer Reserve Funds.

PASSED AND ADOPTED by the Homer City Council on this _____ day of _____ 2020.

CITY OF HOMER

KEN CASTNER, MAYOR

43 ATTEST:

44

45 _____

46 MELISSA JACOBSEN, MMC, CITY CLERK

47

48 Fiscal Note: N/A

CITY of HOMER WATER and SEWER DEPRECIATION RESERVES POLICY MANUAL

Table of Contents

- I. Purpose
- II. Definitions
- III. Qualifying Project Criteria
- IV. Financing
- V. Special Provisions
- VI. History

I. PURPOSE

The intent of the City of Homer Water and Sewer Depreciation Reserves is to fund improvements, repairs, and replacements to the City's existing water system and sewer system.

In addition to the Water and Sewer Depreciation Reserve funds, the City has a Homer Accelerated Water and Sewer Program (HAWSP). The intent of the Water and Sewer Reserve is to fund projects associated with the existing water and sewer system. HAWSP is intended to fund new water and sewer projects (see HAWSP policy manual for more information).

II. DEFINITIONS

- a. **Capital Improvement Plan (CIP)** – A multi-year document that lays out priorities for capital projects, including descriptions of each project, rationale for why each project is needed, schedule and progress to date, and estimated total cost
- b. **Fund Balance** – The balance within the water and sewer reserve funds that are not allocated to a project
- c. **HART** – Homer Accelerated Roads and Trails program, a fund established by the voters of the City of Homer and funded by a voter-approved dedicated sales tax, intended to improve roads, sidewalks, and trails within the City of Homer, thereby improving property values and quality of life
- d. **HAWSP** – Homer Accelerated Water and Sewer Program, a fund established by the voters of the City of Homer and funded by a voter-approved dedicated sales tax, intended to improve the health and welfare of the Citizens of Homer by connecting residences to City water and/or sewer, thereby increasing the number of users on the system, increasing property values, and improving the quality of life; the funds may also be used on other water and sewer infrastructure that expand the systems

- e. Water and Sewer System Improvements** – Any work, such as planning, design or construction, etc., which improves the City’s water and sewer infrastructure, including, but not limited to, the extension, expansion, repair or rehabilitation of
- i. The City’s water supply, raw water transmission lines, water treatment facilities, water storage facilities, water distribution lines, fire-fighting devices, and related or similar appurtenances.
 - ii. The City’s sewer collection lines, sewer lift stations, RV Dump Stations, waste water treatment facilities, discharge outfall and related or similar appurtenances.
 - iii. Other facilities related to providing public access to clean water and the sanitary disposal of human wastes to protect public health.

III. QUALIFYING PROJECT CRITERIA

Criteria for Qualifying Water and Sewer System Improvements: Water and Sewer Reserve funds may be used for projects, which meet ### of the criteria below are met:

- A. The project must be located within City limits.
- B. The project is listed on the citywide CIP, Water or Sewer CIPs, or Water/Sewer Master Plan.
- C. The project addresses exigent issues related to public health and safety as well as actual or imminent regulatory changes.
- D. The project repairs, rehabilitates, or corrects deficiencies in existing water or sewer systems.
- E. The project would reduce maintenance costs.
- F. Other factors deemed appropriate by the City Council.

G. FINANCING

- Water and sewer reserve expenditures are subject to the availability of funds.
- Projects may be funded through the reserve fund, bonds, grants, or a combination of these or other funding mechanism that may be identified by the City.
- Depending on the nature of the project, reserve and HAWSP funds may be used to fund a project. Reserve funds should be used for portions of the project that improve, repair, or replace existing water or sewer infrastructure while HAWSP funds should be used for portions of the project that result in new water or sewer infrastructure.

H. SPECIAL PROVISIONS

- The City Council shall review the Water and Sewer Reserve funds biannually during the budget process.
- The Public Works Department will maintain CIPs for Water and Sewer that are presented to City Council for review annually. The Public Works Department may nominate projects from the Water and Sewer CIPs to the Citywide CIP

I. HISTORY

Listing of Ordinances & Resolutions

1 **CITY OF HOMER**
2 **HOMER, ALASKA**

3 Lord/Aderhold

4 **RESOLUTION 20-078**

5
6 A RESOLUTION OF THE CITY COUNCIL OF HOMER, ALASKA
7 AMENDING THE HOMER ACCELERATED WATER AND SEWER
8 PROGRAM (HAWSP) POLICY MANUAL TO MODERNIZE THE
9 LANGUAGE AND CLARIFY QUALIFYING CRITERIA FOR USING
10 HAWSP FUNDS.

11
12 WHEREAS, The Homer Accelerated Water and Sewer Program (HAWSP) was authorized
13 June 28, 1999 by Resolution 99-53 and most recently updated May 9, 2016 by Resolution 16-
14 041(S-2)(A); and

15
16 WHEREAS, Per Homer City Code 9.16.010, HAWSP is funded by a "... consumer's sales
17 tax in the amount of three-quarters percent is hereby levied by the City of Homer on all sales,
18 rents and services within the City except as the same may be otherwise exempted by law, for
19 the purpose of funding debt retirement of the sewer treatment plant improvements, and to the
20 extent revenues from such tax exceed such debt retirement obligations, for the purpose of
21 funding water and sewer systems"; and

22
23 WHEREAS, The current revision of the HAWSP manual is unclear, not user friendly, and
24 leads to confusion regarding the use of HAWSP funds for new water and sewer infrastructure
25 versus maintenance, repairs, and upgrades to existing water and sewer infrastructure; and

26
27 WHEREAS, Homer City Council is in process of establishing policies for reserve funds,
28 including the Water and Sewer Depreciation Reserves, and clarifying how and when HAWSP
29 funds and Water and Sewer Depreciation Reserve funds should be used for water and sewer
30 infrastructure; and

31
32 WHEREAS, In revising the HAWSP manual, Homer City Council reviewed the history of
33 legislation associated with the program.

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35 NOW, THEREFORE, BE IT RESOLVED that the City Council of Homer, Alaska amends the
36 HAWSP Policy Manual

37
38 PASSED AND ADOPTED by the Homer City Council on this _____ day of _____, 2020.

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40 CITY OF HOMER
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ATTEST:

MELISSA JACOBSEN, MMC, CITY CLERK

Fiscal Note: N/A

KEN CASTNER, MAYOR

H.A.W.S.P. POLICY MANUAL

(Homer Accelerated Water and Sewer Program)

Table of Contents

- I. Purpose
- II. Definitions
- III. Qualifying Project Criteria
- IV. Financing and Assessments
- V. Special Provisions
- VI. History

I. PURPOSE

The intent of the Homer Accelerated Water and Sewer Program (HAWSP) as established by the voters of the City of Homer is to improve the health and welfare of the Citizens of Homer **by connecting residences to City water and/or sewer**, thereby increasing the number of users on the system, increasing property values and improving the quality of life. The HAWSP is funded by a voter-approved dedicated sales tax, and assessments levied on adjacent benefited properties (HCC 9.16.010(b)).

The intention of the HAWSP has been since its inception, as defined through adopted legislation and the original voter initiative, is to:

- “provide for utility improvements without the heavy financial burden placed on individual property owner(sic) and will increase users to the system(s), thereby increasing revenues to the Water and Sewer Enterprise Funds.” Resolution 99-53
- “to promote construction of additional improvements to the City water and sewer systems” Ordinance 99-14(S)(A)
- “Shall the entire amount of the ¾ of 1 percent sales tax levy be dedicated **to water and sewer system improvements?**” Excerpt from the proposition approved by voters on October 5, 1999 and adopted within Ordinance 99-14(S)(A)

In addition to HAWSP, the City of Homer has a Water and Sewer Depreciation Reserve fund. HAWSP is intended to fund water and sewer projects that are in the best interest of the public at large, such as extending water and sewer infrastructure. The intent of the Water and Sewer Depreciation Reserve Fund is to fund projects that benefit existing ratepayers, such as upgrades and repairs to the existing water and sewer treatment systems.

II. DEFINITIONS

- a. **Fund Balance** – The unreserved balance within the HAWSP fund that is not allocated to pay the City portion of a project
- b. **HART** – Homer Accelerated Roads and Trails program

Commented [JK1]: Was this the only stated intent? It seems to say we can't use HAWSP for projects that don't involve extensions of the system to new residences. Do we want to expand this intent?

Commented [DA2R1]: Language in city code states: for the purpose of funding debt retirement of the sewer treatment plant improvements, and to the extent revenues from such tax exceed such debt retirement obligations, for the purpose of funding water and sewer systems.

I suggest changing this language to “by funding water and sewer systems,”

Commented [JK3]: This language suggests we can use HAWSP for projects not related to an “extension”. Do we need to get the voters to ratify this idea?

Commented [JK4]: This language is much broader than limiting HAWSP to projects that “connect [new] residences”

Commented [DA5]: Suggested language to differentiate the 2 funds. Rerword as appropriate.

Commented [DA6]: Or depreciation funds?

Commented [JK7]: I suggest we define “water and sewer system improvement”. **See proposed language.**

Commented [DA8R7]: Do we also want to define reserve and depreciation funds? Or is that getting too far in the weeds?

Commented [RL9R7]: I think the paragraph above helps to flesh out the difference.

- c. **Special Assessment District** –Created for the purpose of acquiring, installing or constructing a capital improvement that primarily benefits real property in the district, in contrast to capital improvements that benefit the entire community and are paid for with general government resources or improvements that benefit a specific individual parcel
- d. **Water and Sewer System Improvements** – Any work, such as planning, design or construction, etc., which improves the City’s water and sewer infrastructure, including, but not limited to, the extension, expansion, repair or rehabilitation of
 - i. The City’s water supply, raw water transmission lines, water treatment facilities, water storage facilities, water distribution lines, fire-fighting devices, and related or similar appurtenances.
 - ii. The City’s sewer collection lines, sewer lift stations, RV Dump Stations, waste water treatment facilities, discharge outfall and related or similar appurtenances.
 - iii. Other facilities related to providing public access to clean water and the sanitary disposal of human wastes to protect public health.

Commented [RL10]: I read this definition as working to a liberal use of HAWSP to fund “improvements” that

Commented [JK11]:

Commented [JK12R11]: I want to propose the use of HAWSP to rebuild/upgrade public restrooms. What do you think about this idea?

Commented [DA13R11]: I feel like this would be outside the original intention of HAWSP and it could be appropriate to ask the voters that question. It is worth discussion at the council table to get a sense from the body. The restrooms definitely benefit the public at large and we have many needs in this regard.

Commented [RL14R11]: I agree with Donna – restrooms would be beyond the original intent of this tax. I would argue that public restrooms (and their maintenance) should NOT be payed out of any part of the utility fund.

III. QUALIFYING PROJECT CRITERIA

All projects will be authorized only after a public hearing to assure public participation in the process pursuant to HCC 17.

- A. **Criteria for Qualifying Water and Sewer System Improvements:** HAWSP funds may be used for projects, which meet the following criteria:
 - a. The project must be located within City limits.
 - b. If the proposed improvement involves the extension of water/sewer lines to private residences via a special assessment district (SAD) process, the resulting assessment district must have been approved by property owners in accordance with HCC Title 17. HAWSP funds are available for 25% of a qualifying project.
 - c. If the proposed improvement is for existing infrastructure:
 - i. the project repairs, rehabilitates, or corrects deficiencies in existing systems that benefit the health and safety of Homer residents in general;
 - ii. would reduce maintenance costs
 - iii. The project is listed in the City’s Water or Sewer Capital Improvement Plan or Water/Sewer Master Plan.
 - d. If involving privately built systems, the systems must have been built to City standards.
 - e. HAWSP funds may be used in accordance with Title 17 to pay a developer for the costs of providing excess capacity at the City’s request.
 - f. Other factors deemed appropriate by the City Council, which may include: system-wide vs. localized issues, economic development, public health and safety, actual or imminent regulatory changes.
- B. All HAWSP projects and connections to the water/sewer system will be to City standards.

Commented [DA15]: How would we differentiate what comes from HAWSP and what comes from reserves?

C. FINANCING AND ASSESSMENTS

- All HAWSP projects must follow all provisions within HCC Title 17.

DRAFT 2020 HAWSP Policy Re-write (v. 8/19/2020)

- All water and/or sewer projects and utility connections must follow all provisions within HCC Title 14.
- Expenditures under HAWSP are subject to the availability of funds.
- HAWSP-eligible assessment districts may be initiated by citizens or City Council on a rolling basis (i.e. first-come first-served). City Council shall assess the health of the HAWSP fund prior to approving a new assessment district (see Special Provisions).
- The City may attempt to secure long-term financing for up to ten years for the private share of funding.
- Interest, if any, generated from the program will remain with program funds.
- The City will pay all costs, with HAWSP funds, for any additional improvements required when deemed necessary by the City and subject to approval by City Council.
- Non-existing water and sewer assessment districts shall be encouraged whenever possible, including lots immediately adjacent to the water and/or sewer main lines within the project boundaries as defined by Public Works.
- Certain water and sewer utility relocations and extensions in conjunction with roads projects may be paid for with HART funds (see the HART policy manual).

- Commented [JK16]: What's a "rolling basis"?
- Commented [DA17R16]: On a first come, first served basis?
- Commented [JK18]: Are you sure you want to use the word "will"?
- Commented [DA19R18]: I agree! Will is a bad word! But what's a better one?
- Commented [DA20]: How would reserve or depreciation funds play in this arena?
- Commented [JK21]: What's this "catch all" sentence for?
- Commented [RL22R21]: I don't really know. It's in the current policy.
- Commented [JK23]: What does this refer to?
- Commented [RL24R23]: Also don't really know. Also in the current policy.

D. SPECIAL PROVISIONS

- The City Council shall review the HAWSP fund bi-annually during the budget process. All efforts shall be made to ensure the assessment payments levied on benefited properties cover the annual debt service of the fund.
- When financing a HAWSP project, the City shall provide cash for its required percentage whenever possible. Alternatives must be approved by the City Council.
- Whenever and wherever practical, road improvements shall be done in conjunction with water and/or sewer projects but not before.
- Certain lands that will not be developed due to Conservation Easements or owned by organizations that conserve land for public purpose and/or habitat protection may be exempted from HAWSP-funded assessment district assessments on a case by case basis (Resolution 05-50).
- All SADs are governed by the provisions of Homer City Code and the HAWSP Policy Manual at their time of inception.
- *A comment from Heath at the March 9 worksession that I'm not sure how/where to work in: HAWSP funds may be used to pay off HAWSP-project debt, subject to Council approval.*
- When the balance of the HAWSP fund exceeds \$3 million, the City Manager shall propose projects from the Water and Sewer Capital Improvement plans that utilize the funds to the Homer City Council for consideration. The City Manager must include at least two alternative projects meeting project criteria above for consideration by City Council. (Resolution 13-078(S)(A))
- To ensure that funds remain in place for the development of SADs, the debt service ratio of the HAWSP fund should be maintained above 1.25. If the fund balance results in a debt service ratio below 1.25, the City Council will evaluate a moratorium on use of the fund until the debt service ratio rises above 1.25.

- Commented [DA25]: Biannually?
- Commented [JK26]: Does this mean if there is no water/sewer line in a road, a Road Assessment District will not be considered?
- Commented [DA27R26]: I believe the intent is that we don't redo road work when a water/sewer project is planned for a road that also requires road work. But this could be worded much better.
- Commented [RL28R26]: I'm open to suggestions for wording. This is copied from the current policy, and there is sister-policy within HART policy. This came up recently (past couple of years) for a proposed HART district off East Hill.
- Commented [JK29]: Please clarify – what do you mean by this? What about smaller projects?
- Commented [RL30R29]: This language is from the 2013 resolution
- Commented [JK31]: What does this mean?
- Commented [RL32R31]: This is all from the 2013 resolution
- Commented [DA33]: This is a really interesting resolution. I revised the paragraph to provide context from the whereas clauses. I think this is a good resolution to present to council to determine whether it continues to meet our intent. How does it relate to our intent of maintaining a debt service ratio above 1.25? What if we are planning for a large project in the future?2
- Also, I'm pretty sure HART does not make such a reference and may not be in compliance with this resolution. But I'll have to review HART again.
- Commented [DA34]: I added this language because it feels like the debt service ratio conversations we've had are at odds with the paragraph above. It's also highlighted below in text by Rachel. I have no druthers where it goes, but we need to make sure our policies are consistent and work together.

- Insert here (or somewhere else in the policy) criteria for assessing the health of the fund and forecasting for budgeting and giving a green light to projects. Resolution 16-041(S-2)(A) sets the 1.25 debt-service coverage ratio, however it's not defined and we've had extensive conversations about metrics. Consider clearly describing what needs to be presented to Council from Finance Dept. and PW for their consideration of this question. Notes from March 9th → *Mayor: No debt service ratio/no forward funding. Make sure that our projected tax revenue is never less than the debt service. Keep it simple. 1:1 ratio if we only look at tax revenue. Look at ability to repay debt and the fund balance. When looking at 'forward funding' the debt service, consider a 'floor' of the coming year's debt service payments. Heath: consider restricting 6 months of debt payments. Joey: maybe 8 months. Hedging the risks.*

E. HISTORY

Listing of Ordinances & Resolutions