



Homer City Hall
491 E. Pioneer Avenue
Homer, Alaska 99603
www.cityofhomer-ak.gov

City of Homer Agenda

**City Council Committee of the Whole
Monday, August 12, 2019 at 5:00 PM
City Hall Cowles Council Chambers**

CALL TO ORDER, 5:00 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. Budget Priorities

Memorandum from City Manager Re: Budget Priorities for 2020-2021 Budget

b. Ordinance 19-35, An Ordinance of the City Council of Homer, Alaska, Amending Homer City Code Chapter 3.05, Budget to Institute a Biennial Budget; Repealing Homer City Code 3.05.040, Equipment Replacement Reserve, Homer City Code 3.05.042, Alternative Funding For Depreciation, And Homer City Code 3.05.043, Health Insurance Reserve Fund; Amending Homer City Code 3.05.045, Balanced Budget Requirements; and Enacting Homer City Code 3.05.046, Emergency Operations Fund; 3.05.047, Capital Asset Repair And Maintenance Account; 3.05.048, Capital Improvement Fund; 3.05.049, General Fund - Fund Balance; And 3.05.050, Prioritization of Funding. Mayor.

Ordinance 19-35(S), An Ordinance of the City Council of Homer, Alaska, Amending Homer City Code Chapter 3.05, Budget to Institute a Biennial Budget; Repealing Homer City Code 3.05.040, Equipment Replacement Reserve, Homer City Code 3.05.042, Alternative Funding For Depreciation, And Homer City Code 3.05.043, Health Insurance Reserve Fund; Amending Homer City Code 3.05.045, Balanced Budget Requirements; and Enacting Homer City Code 3.05.046, Emergency Operations Fund; 3.05.047, Capital Asset Repair And Maintenance Account; 3.05.048, Capital Improvement Fund; 3.05.049, General Fund - Fund Balance; And 3.05.050, Prioritization of Funding. Mayor.

Policy Discussion Points from Mayor
Memorandum 19-097 from City Manager as backup

CONSENT AGENDA

REGULAR MEETING AGENDA

COMMENTS OF THE AUDIENCE

ADJOURNMENT NO LATER THAN 5:50

Next Regular Meeting is Monday, August 26, 2019 at 6:00 p.m., Worksession 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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Memorandum

TO: Mayor Castner and Homer City Council
FROM: Katie Koester, Homer City Manager
DATE: August 7, 2019
SUBJECT: Budget Priorities Memo for 2020-2021 Budget

The purpose of this memo is to stimulate Council discussion on budget priorities for the 2020-2021 proposed budget. According to the budget schedule adopted by Council, the first meeting in August the City Council directs the Manager on budget priorities for the following year during Committee of the Whole and the public provides direction under Public Hearing. Some of the things I am thinking about as I work on the 2020-2021 draft budget include:

Biennial Budget

Discussion on a biennial budget, the mechanisms of it, and how to create a budget that has both flexibility and accountability for a 2 year period have dominated staff conversation and work as we look ahead.

State Budget Crisis

While the City of Homer's bottom line has been largely spared under the current state budget, the same cannot be said for the rest of our community. The state budget shifts cost to municipalities and the Governor has promised additional cuts to follow; we must be cognizant that cuts in community jails, PERS and other programs that directly affect the City's budget may occur during this budget cycle.

Deferred Maintenance and 5 year Look Ahead

I have been working with department heads to come up with a list of repair and replacement items that need to be funded in the near future. This list included deferred items and a look ahead for the next 5 years (though I am sure there will be many more projects on the look ahead list as this becomes a more useful and meaningful tool for departments). This is living document and will be updated and refined as we work with it. In many ways its value will be directly related to the value Council places on it. If Council funds projects from this list and can anticipate upcoming needs it will provide greater stability to our budget cycle. It is my intention to include this document as part of the projects section of the budget.

The 2020-2021 capital budget will propose a number of needed projects to catch up on years of underfunding major maintenance and equipment replacement. The attached spreadsheet reflects \$1.2 million in deferred maintenance in the general fund. Keep in mind this list is not exhaustive and does not include items that are on the Capital Improvement Plan. The number also excludes anticipated needs in derelict/unoccupied city facilities as there are a number of policy decisions for council before making continued investment.

In addition to a list of capital budget requests from department heads, I will be including a fleet replacement plan as a regular component of the budget document. Note that in 2020 we have over \$1.5 million in fleet replacement needs, primarily from the Fire Department and Tanker 1 and Tanker 2 are beyond their lifespan.

Facilities

The 2020-21 draft budget will take into consideration the new station coming online. Building maintenance has been staffed to accommodate this. Janitorial services will need to be increased and we don't know yet what the utilities or other expenses will be with the new facility. I have asked Public works to look into issuing a RFP for a couple of public facilities to help with the workload; a part time janitorial position is difficult to fill. The good news is that Council planned for this and included a small component for operational costs in the ballot measure. I will budget to keep the current police station in warm status, anticipating Council will be able to give direction on this facility in the near future. I am hopeful that the future of the HERC is another item Council and the community will be able to come to a consensus on during this next budget period, which will have an impact on the operating and capital budget. It is unlikely the future of the HERC will be resolved by October when I present Council with a draft budget; nevertheless during the budget period I think we can expect some movement on this long overdue topic.

Port and Harbor

The Large Vessel Harbor has made exciting progress in the last few years; the next step is the General Investigation Study. The Corps is prioritizing this project for its 2020 work plan and hopes to get the green light for funding in 2020/2021. The study is \$3 million and funded 50% through federal dollars and 50% non-federal match; this means we need to be working on coming up with \$1.5 million in nonfederal match in this upcoming budget period. We have reached out to ADOT as a partner in the first study and are hopeful despite the state budget situation we will be able to revitalize this partnership. It is important to note that the Large Vessel Harbor is a regional economic development project; as such its reach and impact will span far beyond the Enterprise. A similar analysis of Port and Harbor is forthcoming given the large extent of the enterprise fund and assets.

Water and Sewer

Although the next two years for Water and Sewer total just under \$240,000, in the very near future we will see the costs of maintaining 50 miles of pipe, a sewer treatment plant that is over 30 years old, and a state of the art water treatment facility, which come in at just over \$1.7 million.

In summary, I look at the upcoming budget period to be a time of great growth and transition for the City of Homer. We are growing up to a more sophisticated town that takes care of its facilities, equipment and people. This means a more systematic approach to funding and preparing for quantifiable increases such as deferred maintenance and inflation. It is an exciting time to be City Manager and on City Council in Homer.

Enc:

Deferred Maintenance and 5 year Look Ahead Spreadsheet for General Fund and Water Sewer

City of Homer Derelict Building Maintenance Needs (2020-2025)

Division	Project Title	Consequence if not funded?	Requested Amount
Parks & Recreation	HERC Gym floor refinishing	Deterioration of the HERC floor	\$20,000
Public Works Building Maintenance-HERC1	Roof Replacement	Damage to structure and facilities inside the building. The way damage has occurred due to high winds, it could be that a very large portion of the roof comes off at one time creating an expensive immediate repair to an already aged roof. That money would be better spent on a new roof system rather than a repair.	\$250,000
Public Works Building Maintenance-HERC2	HERC Demolition Study	Prolongs action on HERC.	\$35,000
Public Works Building Maintenance-HERC2	Roof Replacement	Leaks in the building and associated damage to the inside of the facility (electrical, sheetrock, items in the building)	\$55,000
Public Works Building Maintenance-Old HPD Building	Replace Metal Roof - Shingles or Metal	If not replaced, leaks will continue to occur and band-aid patches made. Damage could occur to the structure, such as more damaged sheetrock, and rotting wood materials, such as trusses and the rood decking which makes the cost of replacement extremely higher.	\$50,000
Public Works Building Maintenance-Old HPD Building	Exterior Painting/Staining	Damage to the exterior material	\$15,000
Public Works Building Maintenance-Old HPD Building	Downstairs Boiler	Regular repairs will continue to be required and down times for heat in the building. And, with a potentially cracked burner chamber, it may have to be removed from service at a moment's notice.	\$25,000

Division	Project Title	Consequence if not funded?	Requested Amount
Public Works Building Maintenance- Old HPD Building	Computer/Radio Room Air Conditioner	Damage to computer and radio equipment, effecting emergency services.	\$15,000
Public Works Building Maintenance- Port and Harbor	Old Ferry Office Roof	Damage to the structure (decking, trusses, sheetrock)	\$21,000
Public Works Building Maintenance- Port and Harbor	Old Ferry Office Exterior Paint	Looks bad and leaves the wood siding vulnerable to rot	\$9,100
Parks & Recreation	Skateboard Park Rehab	--	\$5,000
Public Works Building Maintenance - HERC1	HERC 1 Miscellaneous Project - Large List of ADA items, Sprinkler System, Water Line (Should the building be opened up to expanded use) - Costs TBD	--	
Public Works Building Maintenance - HERC2	Building Maintenance Boiler Replacement	Expensive repairs on a very old system that runs on oil.	\$30,000
		Total:	\$530,100

2019 General Fund-Supported Department Fleet Reserve Budget & Account Balance

Account	Dept.	Approved 2019 Budget	Est. 2019 Balance
152-0380	Admin (City Hall)	\$41,929	\$41,929
152-0383	Public Works (GF)	\$141, 959	\$141, 959
152-0382	Police	\$296,853	\$208,853
152-0381	Fire	\$355,433	\$355,433
Total GF \$		Total: \$836,174	Total: \$748,174

**Updated as of 6/10/2019*

City of Homer Reserve Requests (2022-2025)

Division	Project Title	Consequence if not funded?	Requested Amount
Clerk's Office	Conference Microphones for City Council Chambers	According to IT the current microphones are no longer available and there are no replacement microphones on hand.	\$8,000
Fire	Repaint Fire Training Facility	This project will help preserve the facility and will save money by intervening before the cost mounts as the rust spreads. Every years delay will add to the cost.	\$15,000
HPD	Virtual Law Enforcement Training System	It would be ideal to purchase this system as soon as possible so it's installation can be coordinated during the construction of our new building.	\$74,500
HPD	Cell Phone Replacement	Our phones are starting to have problems causing various transmission and texting failures. IT often has to be involved to restore full operability. Failing to replace these phones soon could cause serious disruptions to critical communications during emergencies.	\$12,320
HPD	Tuff Book Replacement	Costs to be determined	
IT	Email Servers	The HPD will be unable to use the City email system. The rest of the City would be at extremely elevated cyber-security risk as the email system would no longer be receiving security fixes and mitigations. The City email carries Criminal Justice information (CJIS) to other State Agencies. Using vendor supported software is a requirement.	\$25,000
IT	Server Room AC unit for Library	Premature Failure/aging of servers and network hardware. Frequent outages that are publicly visible.	\$17,500
IT	Network Access Switches	These are the devices that connect all the computers to together and aggregate the connections for routing between departments and buildings. CJIS network security.	\$26,000
Library	Furnishings - Carpentry	--	\$80,000
Library	Furnishings - Chairs	--	\$7,000
Library	Furnishings - Chairs	--	\$6,500
Library	Furnishings - Tables	--	\$6,950
Parks & Recreation	Hickerson Cemetery-Deferred Maintenance	--	
Parks & Recreation	Cemetery Management Software	--	\$20,000
Parks & Recreation	Parks Software	--	\$6,000
Parks & Recreation	Jack Gist Ballfield Maintenance (#3 of 6)	--	\$20,000
Parks & Recreation	Park Benches	--	
Parks & Recreation	T2 Camp Fee Station at Mariner Park	Lost revenue.	\$15,000
Parks & Recreation	Jack Gist Ballfield Maintenance (#4 of 6)	--	\$20,000
Parks & Recreation	Jack Gist Ballfield Maintenance (#5 of 6)	--	\$20,000
Parks & Recreation	Jack Gist Ballfield Maintenance (#6 of 6)	--	\$20,000
Public Works Building Maintenance - Airport Terminal	Public Seating and Leased Counters/Cabinetry	Further disrepair, possible injury, poor representation	\$50,000
Public Works Building Maintenance - Airport Terminal	Front Automatic Doors	--	\$25,000

Division	Project Title	Consequence if not funded?	Requested Amount
Public Works Building Maintenance - Fire	Rolled Shingle Roof Replacement	--	\$44,000
Public Works Building Maintenance- Library	Library Computer Room Air Conditioner	Various computer systems at the library will have a shortened operating lifespan, and important operating systems can fail prematurely.	\$15,000
Public Works Building Maintenance- Parks	Baycrest Park Restroom Renovation/Replacement	Poor representation and further rot of the structure.	\$50,000
Public Works Building Maintenance- Parks	Hornaday Park Snack Shack Replacement or Demo	Poor representation and further rot of the structure.	\$100,000
Public Works Building Maintenance- Parks	Ben Walters Park Restroom Renovations	--	\$48,000
Public Works Building Maintenance- Public Works Building	Prep/ Paint drying bed structural steel	An expensive replacement of the entire structure.	\$225,000
Public Works Building Maintenance - MISC.	ADA Report Projects - Citywide parking regrading/paving, accessible ramp modifications, restroom modifications, elevator replace.	Potential harm, lawsuits. Costs TBD.	
Public Works- Sewer	Back Up portable Gen Set	Sewage back ups into buildings or the environment putting public health at risk. EPA violations for SSO (Sanitary Sewer Overflow). Section 3: Response Actions of the City of Homer Emergency Ops Plan, generators are listed under Vital Services and Facilities Restoration Sequence as Priority 1 equipment.	\$58,000
Public Works- Sewer	Digesstor Blowers,2 ea.	Increased electric and maintenance cost, Hearing damage to operators. Upgrading older equipment.	\$94,500
Public Works- Sewer	STP Ceiling Replacement	Increased damage to ceiling, roof and equipment in treatment Plant	\$65,000.00
Public Works- Sewer	Repair STP Pond Liner	Undercutting of the pond causing damage to pond and leakage which would result in a lack of capacity. Lower capacity would effect the ponds ability to further digest solids resulting in increased cast of solids removal.	\$25,000
Public Works - Sewer	Pavement at STP	Damage to floor drain, flooring, and site flooding.	\$20,000
Public Works- Sewer	Upgrade SCADA in 7 Lift Stations	Sewage back ups into buildings or the environment putting public health at risk. EPA violations for SSO (Sanitary Sewer Overflow)	\$210,000
Public Works- Water	Tesoro Vault upgrade	Reduced fire flows and lower ISO rating.	\$100,000
Public Works- Water	Millon Gallon Tank Aeration	Protection of public health. Drop Dead Date of 2025 per EPA Stage 2 Disinfection By Products Rule.	\$180,000
Public Works- Water	Pavement at WTP	Damage to floor drain, flooring, over loaded septic and site flooding.	\$40,000
Public Works- Water	PRV Valve replacement, West Trunk	Damage to West Trunk water main, inability to provide domestic water and fire protection to the upper west side of town.	\$25,000
Public Works - Water	Residential water meter replacement	Inaccurate readings resulting in a loss of accountability and revenue.	\$135,000

Division	Project Title	Consequence if not funded?	Requested Amount
Public Works - Water	SCADA upgrade for Kachemak Dr. PR Station	Inability to serve Spit for businesses and fire protection.	\$39,030
Public Works Water/Sewer	Replace 30 year shaft air compressor	Increase electric cost, possible equipment failure due to age.	\$85,000
Total			\$1,904,980
			Water/Sewer \$1,011,530
			General Fund \$893,450

City of Homer Deferred Maintenance (2020-2021)

Division	Project Title	Consequence if not funded?	Requested Amount
Clerk's Office	Metal Security Rolling Counter Door	Access to the City Clerk's office when the people are in the building after hours and reduced fire protection.	\$3,000
Clerk's Office	Records Storage Space/Document Management System	Continued accumulation of paper records and reduction of storage space.	\$8,000
Fire	Light Pole	Less safe emergency scenes.	\$25,000
Fire	Back Up Generator	The Fire Dept. will be without a generator.	\$105,000
Fire	Self Contained Breathing Apparatus (SCBA) Replacement	Significant improvements have been made in current SCBA technology that improves firefighter safety. An SCBA failure in a fire is life threatening. DOT regulations prohibit the refilling of SCBA cylinders when they reach 15 years. Drop Dead Date per NFPA Standard 1981 for SCBA, which has been updated in 2018 with new standards for SCBA.	\$170,000
HPD	Microwave Link Replacement	Old links would have to be moved to the new station and then replaced at a later date. The old link to the Skyline site does not support enough data flow to enable full functionality of the repeaters. Some useful features of the new repeaters cannot be used without upgrading the microwave links.	\$40,000
HPD	Cell Phone Replacement	Our phones are starting to have problems causing various transmission and texting failures. IT often has to be involved to restore full operability. Failing to replace these phones soon could cause serious disruptions to critical communications during emergencies.	\$12,320
HPD	Replace 2 Dispatch Workstations		\$49,409
IT	Departmental Servers	City data and productivity at risk due to increasing chance of critical workflow systems being unavailable due to aging hardware that is past service life an more prone to failure	\$50,000
IT	Building Wireless network refresh (all Departments except library and HPD)	No definitive dates set for Payment Card Industry (PCI) compliance. City can mitigate by only using hardwired Ethernet for PCI devices	\$10,000
Parks & Recreation	Ballfield Maintenance	--	\$10,000

Division	Project Title	Consequence if not funded?	Requested Amount
Parks & Recreation	Jack Gist Baseball Dugout Upgrades	--	\$10,000
Parks & Recreation	Pioneer Avenue Banners - Summer, Winter, Holiday	City may stop putting up winter/holiday decorations. Reduced beautification of Pioneer Avenue	\$15,000
Parks & Recreation	Fire Rings	--	
Parks & Recreation	Ballfield Maintenance		\$20,000
Planning	Transportation Plan	We will be working with an outdated plan that may not reflect transportation policies in the best interests of the City. Many projects have been completed and several project no longer have the support that they once had. The traffic and population estimates of the current plan have not progressed as projected.	\$120,000
Planning	Spit Plan	The consequences are related to addition erosion due to storm event and the possible effect to infrastructure. The need increase every year.	\$50,000
Public Works Building Maintenance-Airport Terminal	Roof Replacement	More expected shingles will disappear and the chance for damage to the structure and facilities within the building.	\$100,000
Public Works Building Maintenance - Airport Terminal	Sidwalk Repair/Replacement	Injury/Lawsuit	\$40,000
Public Works Building Maintenance-Airport Terminal	Backup Generator	Continued periodic outages that take most of the terminals lights and outlets out of service, including the tenants and their operations.	\$75,000
Public Works Building Maintenance - Airport	Terminal Exterior Paint	Damage to siding material and poor representation to community and visitors.	\$21,000
Public Works Building Maintenance - Library	Library Stainless Steel Employee Entrance Handrail Replacement	If not repaired, we would be out of compliance with ADA regulations, and though the likelihood of someone getting hurt as the system is, there is liability. This rail system has gotten a bit worse every year for the past couple of years.	\$7,000

Division	Project Title	Consequence if not funded?	Requested Amount
Public Works Building Maintenance- Parks	Hornaday Park Main Restroom Replacement	Poor representation in parks, continued rotting of the facility.	\$200,000
Public Works Building Maintenance- Parks	Bishops Beach SST Restrooms Replacment	Poor representation in parks, and only one of the two facilities is functional.	\$50,000
Public Works Building Maintenance- Parks	Hornaday Campground SST Restroom Replacement	Poor representation in parks, and only one of the two facilities is functional.	\$50,000
Public Works Building Maintenance- Public Works Building	Fuel Island Replacement	Ongoing failures of the dispensing system and costly emergency repairs (may find that it can't be repaired due to old technology), potential for contaminated soils and the likelihood of being required to replace the cathodic protection system in two years due to the report from our last testing in 2018. There is no drop dead date. It may limp along for a while, or could be an emergency situation at any time.	\$65,000
Public Works- Sewer	Comercial Meter Replacement	Inaccurate readings resulting in a loss of accountability and revenue.	\$80,000
Public Works- Sewer	Launch Ramp Lift Station enclosure	Sewage back ups into buildings or the environment putting public health at risk due to damage of high voltage equipment. Possible death or injury to operators. EPA violations for SSO (Sanitary Sewer Overflow).	\$17,500
Public Works- Sewer	STP On-line and lab meters	Helps us monitor for compliance. Violations and possible fines for non compliance with EPA Clean Water Act.	\$39,800
Public Works- Sewer	T2 Pay Station for PW RV Dump Site.	Lost revenues	\$15,000
Public Works- Water	WTP On-line and lab meters	Violations and possible fines for non-compliance. EPA Safe Drinking Water act, Total Coliform Rule, Stage 2 Disinfection By Products Rule Lead and Copper Rule	\$49,258
Public Works- Water	Gas detection system	Non Compliance for confined space entry, possible fines, death or injury to operators. Drop dead date 2020 per OSHA CFR 1910.146	\$8,000
Public Works- Water	Data Loggers for leak detection	Lack of water accountability, excessive damage to infrastructure and private property. Interruption of service for domestic use and fire protection	\$18,000

Division	Project Title	Consequence if not funded?	Requested Amount
Public Works- Water	Dredge for WTP	Filter failure due to lack of cleaning because the pond is overload with solids.	\$10,000
Total			\$1,490,967
			Water/Sewer \$237,558
			General Fund \$1,253,409

2019-2020 Fleet Replacement Schedule

DEPT	Year	DESCRIPTION	CURRENT AGE	TOTAL EXPECTED LIFE	YEARS OF LIFE REMAINING	NEEDS TO BE REPLACED IN THIS YEAR	REPLACEMENT COST	FUNDING SOURCE	ALREADY FUNDED BY BUDGET	
2019 PWHDE	1992	International Vacuum Truck	27	Years	25	-2	2017	N/A	GF/W/S	
PWHDEA	1995	Patchman Asphalt Mixer	25	Years	25	0	2019	\$ 40,000	GF/W/S	
PWLTV	1989	1989 GMC 3/4 TON	29	Years	29	0	2019	N/A	GF/W/S	
PWLTV	1987	1987 CHEVY FLAT BED - PAINT TRUCK	32	Years	32	0	2019	N/A	GF	
PWLTV	1999	1999 FORD E250 VAN	20	Years	20	0	2019	\$40,000	GF	
FDHDE	2002	2002 POLARIS 6-WHEELER	17	Years	17	0	2019	N/A	GF	
PWLTV	1994	1994 FORD 4X4 F-150 P/U	25	Years	25	0	2019	\$30,000	W/S	
PWLTV	1997	1997 FORD F-350 4x4 UTILITY TRUCK	22	Years	22	0	2019	\$52,250	W/S	X
PWLTV	2000	2000 K2500 4X4 W/SERVICE BODY	19	Years	19	0	2019	\$46,350	W/S	X
PHLV	1994	HV-1 - 1994 FORD F-150 PU	25	Years	25	0	2019	\$30,000	PH	
PHHDE	1995	1995 Grove Manlift MV11	24	Years	24	0	2019	\$30,000	PH	
PHHDE	1999	1999 20' Skiff with 90 HP Honda Motor	20	Years	20	0	2019	\$50,000	PH	

2019 GF Deferred Total	\$53,333
2019 PH Enterprise Deferred Total	\$110,000
2019 W/S Enterprise Deferred Total	\$155,267
	-\$98,600
	\$56,667

N/A = will not be replaced

2020 PWHDE	1995	410D John Deere Backhoe	24	Years	25	1	2020	\$ 120,000	GF/W/S	
HPDLV	2009	2009 CHEV IMPALA	10	Years	11	1	2020	\$40,000	GF	
HPDLV	2009	2009 CHEV IMPALA	10	Years	11	1	2020	\$40,000	GF	
FDLV	1990	BRUSH 1 - 1990 FORD	29	Years	30	1	2020	\$95,000	GF	
FDHDE	1987	1987 Tanker 1 Huri	32	Years	33	1	2020	\$650,000	GF	
FDHDE	1989	1989 Tanker 2 E-One	30	Years	31	1	2020	\$650,000	GF	
PHHDE	1995	1995 T2 Fish Carcass Dump Trailer	24	Years	25	1	2020	\$12,000	PH	

2020 GF Total	\$1,515,000
2020 PH Enterprise Total	\$12,000
2020 W/S Enterprise Total	\$80,000

Key

PWHDEA = Public Works Heavy Duty & Equipment Attachments
 PWLV = Public Works Light Vehicles
 PWHDE = Public Works Heavy Duty Equipment
 PHLV = Port/Harbor Light Vehicles
 CH = City Hall

PHHDE = Port/Harbor Heavy Duty & Equipment
 HPDLV = HPD Light Vehicles
 FDLV = Fire Department Light Vehicles
 FDHDE = Fire Department Heavy Duty & Equipment

2021-2044 Fleet Replacement Schedule

Supplemental Information: 2021-2044

DEPT	Year	DESCRIPTION	CURRENT AGE	TOTAL EXPECTED LIFE	YEARS OF LIFE REMAINING	NEEDS TO BE REPLACED IN THIS YEAR	REPLACEMENT COST	FUNDING SOURCE	
PWLV	2001	2001 CHEV S-10 EXTEND CAB	18	Years	20	2	2021	\$30,000	GF
PWLV	2006	2006 FORD F-350 4X4	13	Years	15	2	2021	\$45,000	GF
PWLV	2013	2013 FORD F-550 2-TON 4X4 Truck/Sander	6	Years	8	2	2021	\$48,000	GF
PWHDE	1986	140G Cat Grader	33	Years	35	2	2021	\$200,000	GF
PHLV	1995	MV1 - 1995 CHEV S-10 4X4 PU	24	Years	26	2	2021	\$30,000	PH
HPDLV	2009	2009 CHEV IMPALA	10	Years	12	2	2021	\$40,000	GF
FDLV	1997	MEDIC 1 (1997 FORD 4X4 F350)	22	Years	24	2	2021	\$200,000	GF
FDLV	2006	2006 FORD EXPEDITION - COMMAND VEHICLE	13	Years	15	2	2021	\$75,000	GF
PWHDEA		Grader Wing x3	22	+ Years	25	3	2022	\$60,000	GF
PWHDEA		Grader Snow Gate x3	22	+ Years	25	3	2022	\$30,000	GF
PWLV	1992	1992 FORD RANGER	27	Years	30	3	2022	\$30,000	W/S
PWLV	1994	1994 FORD PU	25	Years	28	3	2022	\$30,000	GF
PWLV	1994	1994 CHEV SVC TRK	25	Years	28	3	2022	\$40,000	GF/W/S
PWLV	1997	1997 FORD RANGER XLT 4X4	22	Years	25	3	2022	\$30,000	GF/W/S
PWHDE	1987	950 Cat Loader	32	Years	35	3	2022	\$210,000	GF/W/S
HPDLV	2007	2007 FORD EXPEDITION	12	Years	15	3	2022	\$40,000	GF
HPDLV	2007	2007 FORD EXPEDITION	12	Years	15	3	2022	\$40,000	GF
FDLV	2003	UTILITY 1 - 2003 FORD F-350, CREW CAB	16	Years	19	3	2022	\$75,000	GF
PWLV	1995	1995 FORD F-150 4X4	24	Years	28	4	2023	\$30,000	GF
PWLV	1998	1998 FORD EXPEDITION XLT - 4X4	21	Years	25	4	2023	\$40,000	GF
PWLV	2003	2003 FORD F-550 2-TON 4X4	16	Years	20	4	2023	\$40,000	GF
PWHDE	2003	Toolcat 5600	16	Years	20	4	2023	\$60,000	GF
PHLV	1993	1993 CHEV STEP-SIDE VAN	26	Years	30	4	2023	\$30,000	PH
PHLV	2003	2003 FORD F-250 4X4 Plow Truck Ice Plant	16	Years	20	4	2023	\$40,000	PH

Key

PWHDEA = Public Works Heavy Duty & Equipment Attachments
 PWLV = Public Works Light Vehicles
 PWHDE = Public Works Heavy Duty Equipment
 PHLV = Port/Harbor Light Vehicles
 CH = City Hall

PHHDE = Port/Harbor Heavy Duty & Equipment
 HPDLV = HPD Light Vehicles
 FDLV = Fire Department Light Vehicles
 FDHDE = Fire Department Heavy Duty & Equipment

PHLV	2003	2003 FORD F-250 4X4 Plow Truck Maintenance	16	Years	20	4	2023	\$40,000	PH
HPDLV	2008	2008 CHEV VAN (JAIL VAN)	11	Years	15	4	2023	\$40,000	GF
FDLV	2001	UTILITY 3 - 2001 F-550 FORD	18	Years	22	4	2023	\$95,000	GF
FDHDE	2008	2008 Polaris 6x6 Wheeler ATV	11	Years	15	4	2023	\$15,000	GF
PWLTV	1999	1999 RANGER	20	Years	25	5	2024	\$30,000	GF
PWLTV	1999	1999 RANGER TRUCK	20	Years	25	5	2024	\$30,000	W/S
PWLTV	1999	1999 FORD F-550 2 TON 4X4	20	Years	25	5	2024	\$30,000	GF
PWLTV	2016	2016 FORD F-550 2-TON 4x4 Truck/Sander	3	Years	8	5	2024	\$48,000	GF
PWHDE	1984	Ford Steam Truck 4x6	35	Years	40	5	2024	\$80,000	GF/W/S
PWHDE	1989	Ford F800 Bucket Truck	30	Years	35	5	2024	\$50,000	GF
PWHDE	1994	720A Champion Grader	25	Years	30	5	2024	\$240,000	GF
FDHDE	1983	1983 Engine 4 Spartan	35	Years	40	5	2024	\$650,000	GF
FDHDE	2009	2009 Achilles Inflatable Boat	10	Years	15	5	2024	\$17,500	GF
PWLTV	2000	2000 K2500 4X4 W/SERVICE BODY	19	Years	25	6	2025	\$34,000	W/S
PWLTV	2000	2000 DODGE DURANGO	19	Years	25	6	2025	\$30,000	GF/W/S
PWHDE	1980	12G Cat Grader	39	Years	45	6	2025	\$250,000	GF
PWHDE	2000	Freightliner End Dump Truck	19	Years	25	6	2025	\$187,000	GF/W/S
PHLV	2010	2010 F-350 4X4 Plow Truck	9	Years	15	6	2025	\$40,000	PH
PHHDE	2000	2000 Fish Carcass Trailer	19	Years	25	6	2025	\$12,000	PH
PWHDEA		Bomag Gravel Compactor	23	Years	30	7	2026	\$15,000	GF/W/S
PWLTV	2006	2006 FORD F-150 4X4	13	Years	20	7	2026	\$30,000	W/S
PWLTV	2006	2006 FORD F-150 4X4	13	Years	20	7	2026	\$30,000	GF/W/S
PWLTV	2006	2006 FORD F-150 4X4	13	Years	20	7	2026	\$38,000	W/S
PHLV	2001	2001 F550 USED OIL VAC TRUCK	18	Years	25	7	2026	\$60,000	PH
PWHDEA	1987	Faire Snow Blower for Loader - backup	32	Years	40	8	2027	\$80,000	GF
PWLTV	2002	2002 JEEP WRANGLER	17	Years	25	8	2027	\$30,000	GF/W/S
PWLTV	2007	2007 FORD F-150 4X4	12	Years	20	8	2027	\$30,000	W/S
FDLV	2002	MEDIC 2 (2002 FORD F350)	17	Years	25	8	2027	\$200,000	GF
FDHDE	2002	2002 Utility Trailer for 6 Wheeler	17	Years	25	8	2027		GF

Key

PWHDEA = Public Works Heavy Duty & Equipment Attachments

PWLTV = Public Works Light Vehicles

PWHDE = Public Works Heavy Duty Equipment

PHLV = Port/Harbor Light Vehicles

CH = City Hall

PHHDE = Port/Harbor Heavy Duty & Equipment

HPDLV = HPD Light Vehicles

FDLV = Fire Department Light Vehicles

FDHDE = Fire Department Heavy Duty & Equipment

PWLV	2008	2008 FORD F-250 4X4 FLATBED	11	Years	20	9	2028	\$38,000	GF
PHLV	2008	2008 FORD F-350 4X4 Plow Truck	11	Years	20	9	2028	\$40,000	PH
HPDLV	2003	2003 FORD EXCURSION	16	Years	25	9	2028	\$40,000	GF
HPDLV	2013	2013 FORD EXPEDITION	6	Years	15	9	2028	\$40,000	GF
FDLV	2013	UTILITY 2 2013 FORD EXPEDITION	6	Years	15	9	2028	\$95,000	GF
PWHDE	2004	EW 180B Volvo Wheeled Excavator	15	Years	25	10	2029	\$250,000	GF/W/S
PHHDE	2004	2004 Fish Carcass Trailer	15	Years	25	10	2029	\$12,000	PH
HPDLV	2014	2014 FORD EXPLORER	5	Years	15	10	2029	\$40,000	GF
PHLV	2005	2005 FORD F-150 2WD	14	Years	25	11	2030	\$30,000	PH
HPDLV	2015	2015 FORD EXPLORER	4	Years	15	11	2030	\$40,000	GF
HPDLV	2015	2015 FORD EXPLORER	4	Years	15	11	2030	\$40,000	GF
FDHDE	1999	1999 Rescue 1 Freightliner Truck	30	Years	41	11	2030	\$650,000	GF
PHLV	2011	2011 FORD ESCAPE HYBRID	8	Years	20	12	2031	\$30,000	PH
PHHDE	2006	2006 Komatsu Loader WA100M-5	13	Years	25	12	2031	\$70,000	PH
CH	2006	2006 FORD FREESTYLE AWD	13	Years	25	12	2031	\$32,000	GF
PWHDEA		OJK 125 Meleter - Asphalt Crack Sealer	17	Years	30	13	2032	\$35,000	GF
PWLV	2012	2012 CHEVY COLORADO EXT CAB	7	Years	20	13	2032	\$30,000	GF/W/S
PWLV	2012	2012 CHEVY COLORADO CREW CAB	7	Years	20	13	2032	\$30,000	GF
PWHDE	2002	163H Cat Grader	17	Years	30	13	2032	\$225,000	GF
PWHDE	2007	D37 Komatsu Dozer	12	Years	25	13	2032	\$100,000	GF
PHHDE	2002	2002 25' Peregrine Harbor Tug w Twin 150 HP	17	Years	30	13	2032	\$130,000	PH
HPDLV	2017	2017 FORD EXPLORER INTERCEPTOR	2	Years	15	13	2032	\$40,000	GF
HPDLV	2017	2017 FORD EXPLORER INTERCEPTOR	2	Years	15	13	2032	\$40,000	GF
FDLV	2016	MEDIC 3 (2016 FORD F3HZ)	3	Years	16	13	2032	\$200,000	GF
FDHDE	2017	2017 Argo Model 8x8 Frontier-S	2	Years	15	13	2032	\$25,000	GF
PWHDEA	2018	Diamond Brush Cutter for Loader	1	Years	15	14	2033	\$82,000	GF
PWHDEA	2003	Trailmax Heavy Equipment Trailer	16	Years	30	14	2033	\$25,000	GF/W/S
PWLV	2008	2008 FORD F-350 SD FLATBED	11	Years	25	14	2033	\$45,000	GF/W/S
PHHDE	2008	Genie Z-45/25 Articulating Boom Lift	11	Years	25	14	2033	\$65,000	PH

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HPDLV	2018	2018 FORD EXPLORER AWD 4DR K8AT	1	Years	15	14	2033	\$40,000	GF
PWHDEA	2004	Tex Steamer Unit for Truck E160	15	Years	30	15	2034	\$30,000	GF/W/S
PWLTV	2014	2014 F-150	5	Years	20	15	2034	\$30,000	W/S
PWLTV	2014	2014 F-150	5	Years	20	15	2034	\$30,000	GF
PWHDE	2009	Isuzu Sweeper Truck Vacuum	10	Years	25	15	2034	\$200,000	GF
PHLV	2009	2009 CHEV COLORADO	10	Years	25	15	2034	\$30,000	PH
FDHDE	2008	2008 Engine 2 KME Custom Pumper	12	Years	27	15	2034	\$650,000	GF
PHLV	2010	2010 FORD F-150 NEW TO CREW 2014	9	Years	25	16	2035	\$30,000	PH
FDHDE	2005	2005 Mako Air Compressor at HVFD	14	Years	30	16	2035	\$65,000	GF
PWHDEA	2011	Larue Snow Blower for Loader	8	Years	25	17	2036	\$150,000	GF
PWLTV	2016	2016 CHEVY EXPRESS 2500 VAN	3	Years	20	17	2036	\$40,000	GF
PWHDE	2006	PC160LC-7 Track Excavator	13	Years	30	17	2036	\$175,000	GF/W/S
PWHDE	2006	Freightliner Steam Truck 2x4	13	Years	30	17	2036	\$80,000	GF/W/S
PHLV	2016	2016 F-SERIES SD F350 4X4 Sander	3	Years	20	17	2036	\$40,000	PH
PHHDE	2011	Bobcat Versa Handler	8	Years	25	17	2036	\$70,000	PH
PHLV	2012	2012 CHEVROLET SILVERADO 1500 1/2 TON	7	Years	25	18	2037	\$30,000	PH
PWHDE	2003	644H JD Loader	16	Years	35	19	2038	\$200,000	GF/W/S
PHLV	2013	2013 F-150 PICKUP	6	Years	25	19	2038	\$30,000	PH
FDHDE	2008	2008 Utility Trailer for 6 Wheeler	11	Years	30	19	2038	\$4,500	GF
PWHDEA		Wacker Plate Compactor	0	Years	20	20	2039	\$4,000	GF/W/S
PWHDE	2014	Pelican Sweeper	5	Years	25	20	2039	\$237,000	GF
PWHDE	2015	Mac End Dump Truck	4	Years	25	21	2040	\$187,000	GF/W/S
PWHDEA	2016	Light Duty Car Hauler Trailer	3	Years	25	22	2041	\$8,000	GF
PWHDEA	2012	Steamer Unit for Truck E176	7	Years	30	23	2042	\$30,000	GF/W/S
FDHDE	2017	Big Tex Utility Trailer	2	Years	25	23	2043	\$4,500	GF
PWHDE	2018	Sewer Vac Truck	1	Years	25	24	2044	\$500,000	GF/W/S

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FDHDE = Fire Department Heavy Duty & Equipment

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2 **CITY OF HOMER**
3 **HOMER, ALASKA**

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Mayor

ORDINANCE 19-35

AN ORDINANCE OF THE CITY COUNCIL OF HOMER, ALASKA, AMENDING HOMER CITY CODE CHAPTER 3.05, BUDGET TO INSTITUTE A TRADITIONAL BIENNIAL BUDGET; REPEALING HOMER CITY CODE 3.05.040, EQUIPMENT REPLACEMENT RESERVE, HOMER CITY CODE 3.05.042, ALTERNATIVE FUNDING FOR DEPRECIATION, AND HOMER CITY CODE 3.05.043, HEALTH INSURANCE RESERVE FUND; AMENDING HOMER CITY CODE 3.05.045, BALANCED BUDGET REQUIREMENTS; AND ENACTING HOMER CITY CODE; 3.05.047, CAPITAL ASSET REPAIR AND MAINTENANCE ALLOWANCE FUND; 3.05.048, CAPITAL IMPROVEMENT FUND; 3.05.049, GENERAL FUND - FUND BALANCE; AND 3.05.050, PRIORITIZATION OF FUNDING.

WHEREAS; It is the intent of the City to budget in a fair and transparent manner and provide adequate oversight by the City Council; and

WHEREAS; The City Manager is required to prepare and present a budget proposal for the following budget period by the third Friday in October; and

WHEREAS; It is imperative that the budget process provide the City Council adequate opportunities to fulfill their appropriation and oversight duties; and

WHEREAS; Establishing funds and fund balance and reserve policies will provide better fiscal accuracy and a more informed budget process; and

WHEREAS; It is in the best interest of the City to set aside funds for maintenance and repairs to ensure the City is funding the highest city-wide priorities; and

WHEREAS; The unique location of the City next to the North Pacific Ocean and subject to frequent earthquakes, volcanic eruptions, flooded rivers, and high fire danger, requires that the City maintain an emergency reserve sufficient to carry out its municipal duties at a time of disaster; and

WHEREAS; The City Council may supplement, or further delineate designations.

NOW, THEREFORE, THE CITY OF HOMER ORDAINS:

44 Section 1. Homer City Code 3.05.005 through 3.05.035 of Homer City Code Chapter
45 3.05, Budget are amended to read as follows:

46

47 **3.05.005 Budget assumptions.**

48 The City of Homer operates on a traditional biennial budget. The budget shall be adopted
49 every second year of a mayoral term. By the third Friday in September the City Manager shall
50 present to the Council an overview of preliminary budget assumptions for a budget period
51 containing the next two fiscal years. These preliminary assumptions will address, by fund,
52 revenue projections, tax and utility rates, program additions or deletions, wages and
53 benefits, or other issues with potential effects upon the City's overall financial condition.

54

55 **3.05.010 Budget submission - Contents.**

56 By the third Friday in October the City Manager shall present to the Council a budget proposal
57 covering each of the next two fiscal years of the City.

58

59 **3.05.011 City Manager's budget message.**

60 The City Manager's budget message shall explain the budget in fiscal terms and in terms of
61 work programs. It shall contain an outline of the proposed financial policies of the City for the
62 ensuing two fiscal years, describe the important features of the budget, indicate any major
63 changes from the prior budget period and from current financial policies, expenditures, and
64 revenues, together with the reasons for such changes, summarize the City's debt position and
65 include other material as deemed desirable.

66

67 **3.05.012 Complete financial plan.**

68 a. The budget shall provide a complete financial plan of all City funds and activities for
69 the next two fiscal years. In organizing the budget, the City Manager shall utilize the most
70 feasible combination of expenditure classification by fund, organizational unit, program,
71 purpose or activity and objective.

72 b. The budget shall begin with a clear general summary of its contents, which
73 summary shall show principal sources of anticipated revenue, stating separately the amount
74 to be raised by property taxes, and by department the kinds of expenditures in such a
75 manner as to present to the public a clear and simple estimate of budget detail.

76 c. The budget shall show in detail all estimated income, including the proposed
77 property tax levy, but shall exclude State revenue sharing, which will be appropriated when
78 received. The budget also shall show in detail all proposed expenditures, including debt
79 service, for the ensuing budget period.

80 d. The budget shall be prepared on a modified accrual basis and subsequent reporting
81 shall recognize revenues when they become available and measurable and recognize
82 expenditures when liabilities are incurred.

83 e. The budget shall include in separate sections:

84 1. Proposed expenditures for each current fund operation during the ensuing budget
85 period detailed by offices, departments and agencies in terms of their respective work
86 programs, and the method of financing such expenditures;

87 2. Anticipated net surplus or deficit (fund balance) for the ensuing budget period of
88 each fund owned or operated by the City and the proposed method of its disposition;
89 subsidiary budgets for each such fund, giving detailed income and expenditures
90 information, shall be presented in the budget;

91 3. Proposed capital budget will be presented as a separate section of the biennial
92 budget. The capital budget shall show capital expenditures during the ensuing budget
93 period, detailed by offices, departments and agencies, when practicable, and the
94 proposed method of financing each such capital expenditure.

95 f. Comparative data for the previous and ensuing budget periods shall be provided in a
96 format for ease of comparison of previous with proposed revenues and expenditures.

97

98 **3.05.015 Review - Hearing - Adoption - Appropriations.**

99 a. At a Council meeting held not less than 10 days prior to the end of the current
100 budget period, the Council shall, by ordinance, appropriate the money needed for the
101 ensuing budget period.

102 b. The budget proposal of the City Manager shall be reviewed by the Council and shall
103 be available for public inspection in the office of the City Clerk and posted on the City's
104 website.

105 c. A public hearing on the appropriation ordinance shall be held in accordance with
106 provisions for adoption of an ordinance. All interested parties shall be given an opportunity
107 to be heard on matters relative to the budget.

108 d. A separate appropriation shall be made to each of the various funds of the City.
109 From the effective date of the budget, the amounts stated therein as expenditures shall be
110 and become appropriated to the objects and purposes therein named. The City Council may
111 make supplemental and emergency appropriations, but payment may not be authorized or
112 made and an obligation may not be incurred except in accordance with approved
113 appropriations.

114

115 **3.05.020 Amendments.**

116 The Council may, by ordinance, increase or decrease appropriations during the course of the
117 budget period, and may also amend the budget using the same method used for its initial
118 adoption.

119

120 **3.05.025 System of accounts.**

121 All City accounts shall be organized in a manner consistent with the approved budget. The
122 City Council may supplement or further delineate designations.

123

124 **3.05.030 Unencumbered balances of appropriations - Transfers.**

125 a. The necessary accounting records shall be maintained to reflect the unencumbered
126 balances of all appropriations. The Finance Director/Treasurer shall submit to the City
127 Council a quarterly report reflecting operating activity and anticipated expenditures.

128

129 b. Unencumbered appropriation balances may be transferred from one budget line item to
130 another within the same department by the City Manager at any time. Transfer of
131 appropriations within departments which would permanently amend the approved staffing
132 level or level of service delivery shall require Council approval.

133
134 c. At the request of the City Manager, or on its own initiative, the Council may, by resolution,
135 transfer unencumbered appropriation balances from one department to another within the
136 same fund.

137
138 d. Nothing allowed in this section shall violate the requirements of presenting a balanced
139 budget (HCC3.05.045).

140
141 **3.05.035 Lapse of appropriation at end of fiscal year.**

142 a. Except as provided in this section and in HCC 3.05.047 – 3.05.049, appropriations
143 shall lapse at the end of the fiscal year to the extent that they have not been fully expended or
144 fully encumbered. Any earnings from investment of monies accumulated in a fund shall
145 accrue to the fund.

146 b. An appropriation for a capital expenditure shall continue in force until the purpose
147 for which it is made has been accomplished or abandoned; the purpose of such
148 appropriation shall be deemed abandoned if three years pass without disbursement or
149 encumbrance of the appropriation.

150
151 Section 2. Homer City Code 3.05.040, Equipment replacement reserve fund, is repealed.

152
153 Section 3. Homer City Code 3.05.042, Alternative funding for depreciation, is repealed.

154
155 Section 4. Homer City Code 3.05.043, Health insurance reserve fund, is repealed.

156
157 Section 5. Homer City Code 3.05.045, Balanced budget requirements, is amended to read as
158 follows:

159
160 **3.05.045 Balanced budget requirements.**

161 Projected expenditures shall not exceed projected revenues in the operating budget. Any
162 action to reconsider, rescind, or veto the budget which would affect a balanced budget must
163 be accompanied by action which maintains a balanced budget.

164
165 Section 6. Homer City Code 3.05.047, Capital asset repair and maintenance account, is
166 enacted to read as follows:

167
168 **3.05.047 Capital Asset Repair and Maintenance Allowance Fund.**

169 a. There is established in the general fund a Capital Asset Repair and Maintenance
170 Allowance Fund (CARMA). The amount of the fund shall be established by City Council in the
171 biennial budget based on the projected maintenance and repair needs of the City.

172 b. Purpose. Capital asset management is essential to extending the life and use of
173 taxpayer funded assets, facilities and infrastructure.

174 c. Funds in the Capital Asset Repair and Maintenance Account shall be available for
175 appropriation and expenditure for equipment replacement, fleet replacement, engineering
176 or planning services, major maintenance of city facilities, or any other purpose as identified
177 and recommended by the City Manager and authorized by the City Council.

178

179 Section 7. Homer City Code 3.05.048, Capital improvement fund, is enacted to read as
180 follows:

181

182 **3.05.048 Capital Improvement Fund**

183 a. There is established in the General Fund a General Fund Capital Improvement Fund
184 (CIF). The fund shall be comprised of various Council appropriations for capital projects
185 which shall not be limited to only the current budget period.

186 b. Purpose. The purpose of the Capital Improvement Fund is to help fund major
187 capital projects, new infrastructure or equipment replacement for the City of Homer.

188 c. Monies in the Capital Improvement Fund shall be designated for major capital
189 projects or initiatives, as identified and authorized by the City Council.

190

191 Section 8. Homer City Code 3.05.049, General fund – Fund balance, is enacted to read as
192 follows:

193

194 **3.05.049. General Fund – Fund Balance.**

195 a. Purpose. General Fund – Fund Balance represents the net assets of the general fund
196 and serves as a measure of financial resources. The purpose of the General Fund – Fund
197 balance is twofold:

198 1. Restricted fund balance shall not fall below six months operating revenue
199 and is intended to help the City of Homer provide quick response to weather
200 economic uncertainty and unexpected situations such as natural disasters so
201 as to avoid the need for short-term borrowing.

202 2. Unrestricted fund balance shall be available for appropriation by City
203 Council

204

205 b. Any General Fund budget surplus at the end of a fiscal year will lapse into the
206 General Fund – Fund Balance.

207

208 Section 9. Homer City Code 3.05.050, Priority of funding, is enacted to read as follows:

209

210 **3.05.050 Priority of Funding**

211 Within the General Fund during the biennial budget process available revenue will be
212 budgeted in the following priority order in order to meet the financial obligations of the City
213 of Homer:

214 i. Operating budget

- 215 ii. General Fund – Fund Balance Restricted
- 216 iii. Capital Asset Repair and Maintenance Allowance Fund
- 217 iv. General Fund – Fund Balance Unrestricted

218
219

220 Section 10. Section 1 of this ordinance shall take effect immediately

221

222 Section 11. Sections 2-9 shall take effect January 1, 2020.

223

224 Section 12. This ordinance is of a permanent and general character and shall be included in
225 Homer City Code.

226

227 ENACTED BY THE CITY COUNCIL OF HOMER, ALASKA, this ____ day of _____,
228 2019.

229

CITY OF HOMER

230

KEN CASTNER, MAYOR

231

232

233

234 ATTEST:

235

236

MELISSA JACOBSEN, MMC, CITY CLERK

237

238

239 YES:

240

240 NO:

241

241 ABSTAIN:

242

242 ABSENT:

243

244

244 First Reading:

245

245 Public Hearing:

246

246 Second Reading:

247

247 Effective Date:

248

248

249

249 Reviewed and approved as to form.

250

251

Mary K. Koester, City Manager

252

Holly C. Wells, City Attorney

1 CITY OF HOMER
2 HOMER, ALASKA

3 Mayor

4 ORDINANCE 19-35(S)
5

6 AN ORDINANCE OF THE CITY COUNCIL OF HOMER, ALASKA,
7 AMENDING HOMER CITY CODE CHAPTER 3.05, BUDGET TO
8 INSTITUTE A TRADITIONAL BIENNIAL BUDGET; REPEALING
9 HOMER CITY CODE 3.05.040, EQUIPMENT REPLACEMENT
10 RESERVE, HOMER CITY CODE 3.05.042, ALTERNATIVE FUNDING
11 FOR DEPRECIATION, AND HOMER CITY CODE 3.05.043, HEALTH
12 INSURANCE RESERVE FUND; AMENDING HOMER CITY CODE
13 3.05.045, BALANCED BUDGET REQUIREMENTS; AND ENACTING
14 HOMER CITY CODE 3.05.047, CAPITAL ASSET REPAIR AND
15 MAINTENANCE ALLOWANCE FUND; 3.05.048, CAPITAL
16 IMPROVEMENT FUND; 3.05.049, GENERAL FUND - FUND
17 BALANCE; AND 3.05.050, PRIORITIZATION OF FUNDING.
18

19 **WHEREAS, Biennial budgeting will provide an opportunity to streamline**
20 **government services through better long range and strategic financial planning, a**
21 **longer perspective on program planning, and consolidation of the effort invested in the**
22 **budget development and approval process, thereby improving services to the citizens of**
23 **Homer; and**
24

25 WHEREAS, It is the intent of the City to budget in a fair and transparent manner and
26 provide adequate oversight by the City Council; and
27

28 WHEREAS, The City Manager is required to prepare and present a budget proposal for
29 the following budget period by the third Friday in October; and
30

31 WHEREAS, It is imperative that the budget process provide the City Council adequate
32 opportunities to fulfill their appropriation and oversight duties; and
33

34 WHEREAS, Establishing funds and fund balance and reserve policies will provide
35 better fiscal accuracy and a more informed budget process; and
36

37 WHEREAS, It is in the best interest of the City to set aside funds for maintenance and
38 repairs to ensure the City is funding the highest city-wide priorities; and
39

40 WHEREAS, The unique location of the City next to the North Pacific Ocean and subject
41 to frequent earthquakes, volcanic eruptions, flooded rivers, and high fire danger, requires

42 that the City maintain an emergency reserve sufficient **fund balance** to carry out its
43 municipal duties at a time of disaster; and.

44
45 ~~WHEREAS, The City Council may supplement, or further delineate designations.~~

46
47 NOW, THEREFORE, THE CITY OF HOMER ORDAINS:

48
49 Section 1. Homer City Code 3.05.005 through 3.05.035 of Homer City Code Chapter
50 3.05, Budget are amended to read as follows:

51
52 **3.05.005 Budget assumptions.**

53 **The City of Homer operates on a traditional biennial budget beginning with the two-**
54 **year biennium commencing January 1, 2020. The 2020-21 biennial budget and all**
55 **subsequent budgets shall be prepared, considered and adopted under the provisions of**
56 **this chapter. The budget shall be adopted every second year of a mayoral term.** By the
57 third Friday in September the City Manager shall present to the Council an overview of
58 preliminary budget assumptions for the next fiscal year of the City **a budget period**
59 **containing the next two fiscal years.** These preliminary assumptions will address, by fund,
60 revenue projections, tax and utility rates, program additions or deletions, wages and
61 benefits, or other issues with potential effects upon the City's overall financial condition.

62
63 **3.05.010 Budget submission – Contents.**

64 By the third Friday in October **of a budget year,** the City Manager shall present to the Council
65 a budget proposal for the next **covering each of the next two fiscal years** of the City.

66
67 **3.05.011 City Manager's budget message.**

68 The City Manager's budget message shall explain the budget in fiscal terms and in terms of
69 work programs. It shall contain an outline of the proposed financial policies of the City for the
70 ensuing **two** fiscal years, describe the important features of the budget, indicate any major
71 changes from the current year **prior budget period** and from current financial policies,
72 expenditures, and revenues, together with the reasons for such changes, summarize the
73 City's debt position and include other material as deemed desirable.

74
75 **3.05.012 Complete financial plan.**

76 a. The budget shall provide a complete financial plan of all City funds and activities for
77 the next **two** fiscal years. In organizing the budget, the City Manager shall utilize the most
78 feasible combination of expenditure classification by fund, organizational unit, program,
79 purpose or activity and objective.

80
81 b. The budget shall begin with a clear general summary of its contents, which
82 summary shall show principal sources of anticipated revenue, stating separately the amount

83 to be raised by property taxes, and by department the kinds of expenditures in such a
84 manner as to present to the public a clear and simple estimate of budget detail.

85
86 c. The budget shall show in detail all estimated income, including the proposed
87 property tax levy, but shall exclude State revenue sharing, which will be appropriated when
88 received. The budget also shall show in detail all proposed expenditures, including debt
89 service, for the ensuing ~~fiscal year~~ budget period.

90 d. The budget shall be prepared on a modified accrual basis and subsequent reporting
91 ~~and auditing shall reflect this basis of goods and services are received, and revenues are~~
92 ~~recorded when payment is received; except for material or available revenue which should be~~
93 ~~accrued to reflect properly the taxes levied and the revenues earned~~ **shall recognize**
94 **revenues when they become available and measurable and recognize expenditures**
95 **when liabilities are incurred.**

96
97 e. The budget shall include in separate sections:

98
99 1. Proposed expenditures for each current **fund** operations during the ensuing
100 ~~fiscal year~~ **budget period** detailed by offices, departments and agencies in
101 terms of their respective work programs, and the method of financing such
102 expenditures;

103
104 2. Anticipated net surplus or deficit (fund balance) for the ensuing ~~fiscal year~~
105 **budget period** of each ~~enterprise fund~~ owned or operated by the City and the
106 proposed method of its disposition; subsidiary budgets for each such
107 ~~enterprise fund~~, giving detailed income and expenditures information, shall be
108 presented in the budget;

109
110 3. Proposed capital budget will be presented ~~under as~~ a separate **section**
111 ~~document of the biennial budget. The capital budget shall show capital~~
112 expenditures during the ensuing ~~fiscal year~~ **budget period**, detailed by offices,
113 departments and agencies, when practicable, and the proposed method of
114 financing each such capital expenditure.

115
116 f. Comparative data for the previous and ~~current fiscal years~~ **ensuing budget periods**
117 shall be provided in a format for ease of comparison **of previous** ~~with the proposed revenues~~
118 and expenditures.

119
120 g. ~~Data for the current fiscal year shall include the total of the amounts actually received~~
121 ~~or encumbered to the time of preparing the budget, plus anticipated receipts and~~
122 ~~expenditures for the remainder of the current year.~~

123
124 **3.05.015 Review – Hearing – Adoption – Appropriations.**

125 a. ~~The budget proposal of the City Manager shall be reviewed by the Council and shall~~
126 ~~be available for public inspection in the office of the City Clerk and the budget summary shall~~
127 ~~be posted in three public places and published at least once in one or more newspapers of~~
128 ~~general circulation in the city.~~ **At a Council meeting held not less than 10 days prior to the**
129 **end of the current budget period, the Council shall, by ordinance, appropriate the**
130 **money needed for the ensuing budget period.**

131
132 b. ~~A public hearing on the appropriation ordinance shall be held in accordance with~~
133 ~~provisions for adoption of an ordinance. All interested parties shall be given an opportunity~~
134 ~~to be heard on matters relative to the budget.~~ **The budget proposal of the City Manager**
135 **shall be reviewed by the Council and shall be available for public inspection in the office**
136 **of the City Clerk and posted on the City's website.**

137
138 c. ~~At a Council meeting held not less than 10 days prior to the end of the fiscal year,~~
139 ~~the Council shall, by ordinance make appropriation of the money needed for the following~~
140 ~~year.~~ **A public hearing on the appropriation ordinance shall be held in accordance with**
141 **provisions for adoption of an ordinance. All interested parties shall be given an**
142 **opportunity to be heard on matters relative to the budget.**

143
144 d. A separate appropriation shall be made to each of the various funds of the City.
145 From the effective date of the budget, the amounts stated therein as expenditures shall be
146 and become appropriated to the objects and purposes therein named. The City Council may
147 make supplemental and emergency appropriations, but payment may not be authorized or
148 made and an obligation may not be incurred except in accordance with approved
149 appropriations.

150
151 **e. The City Council shall provide for a midbiennium review, and any modification**
152 **shall occur no sooner than eight (8) months after the start, but no later than the**
153 **conclusion of the first year of the biennium. The City Manager shall prepare a proposed**
154 **budget modification and the City shall provide for publication of notice of hearings**
155 **consistent with publication of notices for adoption of other City ordinances. Such**
156 **proposal shall be submitted to the City Council and shall be a public record and be**
157 **available to the public. A public hearing shall be advertised at least once and shall be**
158 **held no later than the first regular Council meeting in December and may be considered**
159 **from time to time. At such a hearing or thereafter, the Council may consider a proposed**
160 **ordinance to carry out such modifications.**

161
162
163 **3.05.020 Amendments.**

164 The Council may, by ordinance, increase or decrease appropriations during the course of the
165 budget period, and may also amend the budget using the same method used for its initial
166 adoption.

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3.05.025 System of accounts.

All City accounts shall be organized in a manner consistent with the approved budget. ~~For purposes of appropriations under HCC3.05.15, the funds of the City are those established by the Finance Director/Treasurer, recommended by the City Manager and approved by the City Council.~~ **The City Council may supplement or further delineate designations.**

3.05.030 Unencumbered balances of appropriations – Transfers.

a. The necessary accounting records shall be maintained to reflect the unencumbered balances of all appropriations. ~~In determining the unencumbered balances of appropriations, the estimated amounts of commitments for goods or services ordered but not paid for shall be taken into consideration, and t~~ **The Finance Director/Treasurer shall submit to the City Manager City Council a quarterly monthly report of all unencumbered balances reflecting operating activity and anticipated expenditures.**

b. Unencumbered appropriation balances may be transferred from one budget line item to another within the same department by the City Manager at any time. Transfer of appropriations within departments which would permanently amend the approved staffing level or level of service delivery shall require Council approval.

c. At the request of the City Manager, or on its own initiative, the Council may, by resolution, transfer unencumbered appropriation balances from one department to another within the same fund.

~~d. Nothing allowed in this section shall violate the requirements of presenting a balanced budget (HCC3.05.045).~~

3.05.035 Lapse of appropriation at end of fiscal year.

a. Except as provided in this section and in HCC ~~3.05.040 and 3.05.043~~ **3.05.047 – 3.05.049**, appropriations shall lapse at the end of the fiscal year to the extent that they have not been fully expended or fully encumbered. **Any earnings from investment of monies accumulated in a fund shall accrue to the fund.**

b. An appropriation for a capital expenditure shall continue in force until the purpose for which it is made has been accomplished or abandoned; the purpose of such appropriation shall be deemed abandoned if three years pass without disbursement or encumbrance of the appropriation.

Section 2. Homer City Code 3.05.017, Minimum annual transfer for Homer Accelerated Roads and Trails capital accounts is repealed.

208 Section 3. Homer City Code 3.05.040, Equipment replacement reserve fund, is
209 repealed.

210
211 Section 4. Homer City Code 3.05.042, Alternative funding for depreciation, is repealed.

212
213 Section 5. Homer City Code 3.05.043, Health insurance reserve fund, is repealed.

214
215 Section 5 **6**. Homer City Code 3.05.045, Balanced budget requirements, is amended to
216 read as follows:

217
218 **3.05.045 Balanced budget requirements.**

219 ~~The budget which is adopted shall be balanced considering all sources of funds.~~

220
221 ~~a. Any action to reconsider, rescind or veto the budget which creates an “imbalance” shall be~~
222 ~~in violation of this section.~~

223
224 **Projected expenditures shall not exceed projected revenues in the operating budget.**

225 ~~b.~~ Any action to reconsider, rescind, or veto the budget which would affect a balanced budget
226 must be accompanied by action which maintains a balanced budget.

227
228 Section 6 **7**. Homer City Code 3.05.047, Capital asset repair and maintenance account,
229 is enacted to read as follows:

230 **3.05.047 Capital Asset Repair and Maintenance Allowance Fund.**

231 **a. There is established in the general fund a Capital Asset Repair and**
232 **Maintenance Allowance Fund (CARMA). The amount of the fund shall be established by**
233 **City Council in the biennial budget based on the projected maintenance and repair**
234 **needs of the City.**

235
236 **b. Purpose. Capital asset management is essential to extending the life and use of**
237 **taxpayer funded assets, facilities and infrastructure.**

238
239 **c. Funds in the Capital Asset Repair and Maintenance Allowance Fund shall be**
240 **available for appropriation and expenditure for equipment replacement, fleet**
241 **replacement, engineering, or planning services, major maintenance of city facilities, or**
242 **any other purpose as identified and recommended by the City Manager and authorized**
243 **by the City Council.**

244

245 Section 7 8. Homer City Code 3.05.048, Capital improvement fund, is enacted to read
246 as follows:

247

248 **3.05.048 Capital Improvement Fund**

249 **a. There is established a Capital Improvement Fund (CIF). The fund shall be**
250 **comprised of various Council appropriations for capital projects, acquisitions or**
251 **initiatives as identified and authorized by the City Council which shall not be limited to**
252 **only the current budget period.**

253

254 Section 8 9. Homer City Code 3.05.049, General fund – Fund balance, is enacted to
255 read as follows:

256

257 **3.05.049. General Fund – Fund Balance.**

258 **a. Purpose. General Fund – The fund balance of the general fund represents the**
259 **net assets of the general fund and serves as a measure of financial resources.**

260

261 **b. There is established within the fund balance of the general fund an amount**
262 **equal to six months revenue for the current fiscal year that is restricted to emergency**
263 **use only. Emergency restricted fund balance shall only be spent to help the City of**
264 **Homer provide quick response to weather economic uncertainty and unexpected**
265 **situations such as natural disasters so as to avoid the need for short-term borrowing.**

266

267 **c. Unassigned fund balance shall be available for appropriation by City**
268 **Council**

269

270 **b. Any General Fund budget surplus at the end of a fiscal year will lapse into the**
271 **General Fund – Fund Balance.**

272

273 Section 9 10. Homer City Code 3.05.050, Priority of funding, is enacted to read as
274 follows:

275

276 **3.05.050 Priority of Funding**

277 **Within the General Fund during the biennial budget process available revenue will be**
278 **budgeted in the following priority order in order to meet the financial obligations of the**
279 **City of Homer:**

280

i. Operating budget

281

ii. General Fund – Fund Balance Restricted

282

iii. Capital Asset Repair and Maintenance Allowance Fund

283

iv. General Fund – Fund Balance Unrestricted

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286 Section ~~10~~ 11. Section 1 of this ordinance shall take effect immediately

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Section ~~11~~ **12**. Sections 2-9 shall take effect January 1, 2020.

Section ~~12~~ **13**. This ordinance is of a permanent and general character and shall be included in Homer City Code.

ENACTED BY THE CITY COUNCIL OF HOMER, ALASKA, this ___ day of _____, 2019.

CITY OF HOMER

KEN CASTNER, MAYOR

ATTEST:

MELISSA JACOBSEN, MMC, CITY CLERK

YES:

NO:

ABSTAIN:

ABSENT:

First Reading:

Public Hearing:

Second Reading:

Effective Date:

Reviewed and approved as to form.

Katie Koester, City Manager

Holly C. Wells, City Attorney

Policy Discussion Point #1 General Fund – Fund Balance Emergency Fund Component

The General Fund – Fund Balance has three components:

1. An emergency fund component
2. A funds in transition component
3. A small component to cover the day-to-day obligations

The Emergency Fund component is targeted to equal 50% of the budgeted GF *income*. (2018 GF income = \$12,247,111. \$2018 expenditures = \$11,243,492.)

Consideration was given to break this component out of the GF-Fund Balance, but it seems advisable that there should be continuity to past financial statements.

Policy Decisions:

- How large a fund should be maintained?
- Does it get adjusted annually?
- How is the fund tapped?
 - As a revenue replacement?
 - As an additional source for expenditure?
 - Limitations and reimbursable expenditures?
- How much of the fund should be made available for any single event?

Policy Discussion Point #2 General Fund – Fund Balance Funds in Transition Component

The General Fund – Fund Balance has three components:

1. An emergency fund component
2. A funds in transition component
3. A small component to cover the day-to-day obligations

The Funds in Transition component contains money that is available to the Council for appropriation. Appropriations (expenditures) include: budgetary shortfalls, capital improvement projects, unanticipated obligations, and any other funding needs the Council may determine that fall outside of the budgetary process. The revenue for this component is derived from GF budget surpluses, prior year income in excess of projected (budgeted) income, and prior year savings of budgeted expenses.

Policy Decisions:

- Since these funds are entirely available to be appropriated at the will of the Council, it would seem the funds are of a transitory nature – funds that are destined to either end up in a capital project account or included in some other “funds available” project. However this is parsed, this money needs to be clearly identified, enumerated and reported.
- At what point can lapsed income in excess of budgeted amount be appropriated?
- At what point can lapsed expenses in deficit of budgeted amount be appropriated? (Following the audit?)
- Is there a priority of funding decisions?
- Should the fund be annually depleted?

Policy Discussion Point #3 General Fund – Fund Balance Cash on Hand Component

The General Fund – Fund Balance has three components:

1. An emergency fund component
2. A funds in transition component
3. A small component to cover the day-to-day obligations

A Cash on Hand component might contains money that is available to cover the day-to-day checking and credit accounts obligations. However it has not proved necessary to tap these funds as fiscal management and liquidity measures are in place that meet the needs of meeting GF and other Funds obligations. It is included as a topic only because of Council' concerns.

Policy Decisions:

- Given the liquidity and fungibility of the City's cash positions, is there a necessity to reserve a portion of this fund for ordinary budgeted expenses?

Policy Discussion Point #4
CARMA Fund
Capital Asset Repairs and Maintenance Allowances
(Replaces Depreciation Reserve Funds 152 and 156)

The CARMA Fund will provide a better dedicated platform for annual expenditures that cover the wear, tear and depreciated value of the City's equipment. The fund should be large enough to do advanced planning and scheduling, and receive annual fund injections to maintain a minimum balance.

For discussion purposes, the average annual expenditure from GF-Fleet (152) has been ~\$250,000 and GF-Reserves (156) has been ~\$350,000. As a starting point, and given there is a list of "deferred" maintenance items, a fund of between \$1,200,000 (two years of "normal" funding) and \$2,400,000 (accelerated funding) would seem prudent. The two funds, at the close of 2018, held \$2,988,184.

Policy Decisions:

- Does the City need to supplement its workforce to move into a better planning and budgeting program – especially when it comes to depreciable assets?
- What differentiates the purpose of this fund (for maintenance and scheduled replacements) and the Capital Improvements Fund? (See Discussion Point #5 concerning multiple appropriations for more expensive equipment purchases.)
- Over the course of time can the fund balance become more finely tuned as better schedules of maintenance and replacement are developed?
- Is the Council comfortable in allowing Management to allocate these funds amongst the departments? OR
- Should the Council, as part of its budget reviews, approve the City's schedule of replacements?

Depreciation Reserves Analysis

GF - Fleet (152)	Transfers in	Expenditures	Revenue	Balance
12/31/2006				813,619
12/31/2007	426,680	549,456	20,477	711,320
12/31/2008	556,221	515,123	14,163	766,582
12/31/2009	80,000	95,594	5,780	756,768
12/31/2010	30,000	103,545	941	684,164
12/31/2011	30,000	194,797	4,877	524,244
12/31/2012	246,420	-	2,599	773,263
12/31/2013	82,140	285,459	7,537	577,481
12/31/2014	-	46,661	18,343	549,163
12/31/2015	-	53,884	2,992	498,272
12/31/2016	307,000	310,028	6,264	501,508
12/31/2017	305,500	274,109	2,501	535,400
*11/30/2018	600,000	269,012	4,990	871,378
*12/31/2019	304,421			1,175,799

PH - Fleet (452)	Transfers in	Expenditures	Revenue	Balance
12/31/2006				-
12/31/2007				-
12/31/2008				-
12/31/2009				-
12/31/2010	103,545	34,749	-	68,796
12/31/2011	30,000	30,163	-	68,634
12/31/2012	30,000	11,440	-	87,194
12/31/2013	30,000	26,999	-	90,195
12/31/2014	30,000	17,303	-	102,892
12/31/2015	30,000	2,157	-	130,735
12/31/2016	30,000	39,521	-	121,214
12/31/2017	30,000	-	-	151,214
*11/30/2018	30,000	18,611	-	162,603
*12/31/2019	30,000			192,603

GF - Reserves (156)	Transfers in	Expenditures	Revenue	Balance
12/31/2006				610,600
12/31/2007	1,181,313	982,635	32,644	841,922
12/31/2008	1,237,134	234,262	119,310	1,964,105
12/31/2009	179,425	406,184	16,253	1,753,598
12/31/2010	31,015	397,434	3,553	1,390,733
12/31/2011	303,004	329,318	10,568	1,374,987
12/31/2012	740,713	438,174	6,817	1,684,343
12/31/2013	20,000	442,962	118,394	1,379,775
12/31/2014	45,000	156,877	9,977	1,277,875
12/31/2015	28,051	451,628	8,960	863,258
12/31/2016	436,731	155,835	7,874	1,152,028
12/31/2017	590,243	172,252	14,518	1,584,538
*11/30/2018	544,033	34,180	22,415	2,116,806
*12/31/2019	422,000	80,912		2,457,894

PH Reserves (456)	Transfers in	Expenditures	Revenue	Balance
12/31/2006				-
12/31/2007	1,296,772	220,380	32,317	1,108,709
12/31/2008	384,530	294,515	20,541	1,219,264
12/31/2009	324,530	171,008	11,050	1,383,836
12/31/2010	324,530	91,302	35,752	1,652,816
12/31/2011	500,000	360,757	-	1,792,059
12/31/2012	954,252	662,787	-	2,083,525
12/31/2013	1,156,593	651,344	-	2,588,774
12/31/2014	2,295,938	3,600,411	-	1,284,301
12/31/2015	3,551,500	1,916,913	-	2,918,888
12/31/2016	870,188	147,911	-	3,352,765
12/31/2017	852,763	22,834	4,000	3,896,745
*11/30/2018	798,420	267,148	190	3,896,745
*12/31/2019	586,875	20,727		3,896,745

W/S Reserves (256)	Transfers in	Expenditures	Revenue	Balance
12/31/2006				-
12/31/2007	4,249,069	101,324	82,161	4,229,906
12/31/2008	230,000	446,297	73,023	4,086,632
12/31/2009	224,115	270,266	29,271	4,069,753
12/31/2010	500,000	324,245	4,035	4,249,543
12/31/2011	500,000	411,905	-	4,337,639
12/31/2012	213,181	255,372	10,900	4,306,348
12/31/2013	300,000	623,850	-	3,982,499
12/31/2014	213,184	115,352	-	4,080,331
12/31/2015	233,484	201,665	-	4,112,150
12/31/2016	452,114	117,689	-	4,446,576
12/31/2017	599,966	169,310	-	4,877,232
*11/30/2018	590,241	644,104	-	4,823,368
*12/31/2019	279,258	19,268		5,083,358

*11/30/18 Transfers in, expenditures, revenue as of 11/30/18
 *12/31/19 Budgeted transfers in and expenditures (draft 2019 budget)

Policy Discussion Point #5 Capital Improvements Fund

The Capital Improvements Fund is comprised of various project accounts that are waiting for additional funding from:

1. Subsequent Council appropriation; and/or
2. Grants; and/or
3. Proceeds from a loan; and/or
4. Proceeds from a bond; and/or
5. Any other source of project funding.

These projects would be representative of the larger capital expenditures the City might take on outside of HART, HAWSP and Port projects.

The Council might decide to establish project accounts within this fund to make major equipment purchases.

Policy Decisions:

- The draft ordinance reflects current policy of “sun setting” a project after three years. Is this something to be kept in the ordinance? IF NOT:
- How often should the City Council revisit the purposes of the projects and the likelihood of fulfilling the funding requirement for acquisition or construction?
- Should there be some consideration of some continuing contributions in determining viability?
- Should there be a priority of funding fulfillments that keep a project going?
 - The promise of a matching grant?
 - The availability of a low interest loan?
 - Support from the issuance of a municipal bond?
 - Proceeds from a dedicated tax?
 - The willingness of the Council to make annual appropriations?
 - The likelihood of cost sharing through partnership?
- How will this fund interact with the City’s Capital Improvement Projects list??

Policy Discussion Point #6

Funding Growth and Maintaining Infrastructure

The Homer City Council has tackled the problem of the necessity for identifying the source of revenue that will support new employees, growing costs of doing business, and maintaining and replacing the City's equipment, buildings and infrastructure.

In the case of the new police station, the citizen's approved a 5 basis point addition to the sales tax structure. It might be argued that the expansive growth of income derived from the property and sale tax regimes will mirror spending growth. This requires some thoughtful evaluation which might follow the 2018 audit.

Re-examination will also be required given the current political shifting of costs from the state and borough governments to the cities.

Policy Decisions:

- Sustainability: Who pays? How are things paid for?
- Are the audited statements, in their current form, helpful to the Council in understanding the City's cost centers?



City of Homer

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(f) 907-235-3148

Memorandum 19-097

TO: Mayor Castner and Homer City Council
FROM: Katie Koester, City Manager
DATE: August 7, 2019
SUBJECT: Staff responses to questions on Ordinance 19-35

The purpose of this memo is to answer questions that Councilmembers asked since the introduction of Ordinance 19-35.

1. The Finance Director stated at introduction that we would no longer be able to track spending by project and would like to learn more about that (I know I'm oversimplifying). Is there a way we can establish our new reserve funds and also be able to track projects?

Finance Director Walton's statement was in reference to consolidating the General Fund Depreciation Reserve fund (156). Currently, we have a "bucket" assigned with specific purposes (typically by department). If we restructured the reserve fund into the CARMA fund and eliminated these "buckets" it would be much more difficult for us to keep track of expenditures. To help explain, let's use the City Hall Roof repair/replacement project. Currently, there is a "bucket" assigned for City Hall (156-0384) and all invoices associated with this project would get assigned here. If we chose to consolidate and eliminate those "buckets", we would simply code all invoices to the CARMA fund (156) and they would be mixed in with all other invoices that impact that fund. So, we would lose the quick ability to give current balances on reserve projects. The only solution I can see to combat this is to create a spreadsheet that a staff member would have to manually update every time an invoice processes through (this would be in addition to the data entry that is necessary to actually pay the vendor). Part of the challenge is in the way our chart of accounts is structured and how that interfaces with the software. If Council decides to consolidate the funds we will explore purchasing an expanded package through Caselle and the cost of associated staff training.

I will point out, Ordinance 19-35 does not dictate the consolidation of funds; you could still maintain CARMA as structured in the ordinance and have individual reserve accounts. (For example, existing code just establishes depreciation reserves, we have designated reserve and fleet reserve accounts under that authority).

2. Chapter 3.05.012 Compete financial plan, b (lines 76-77). I know this is currently in code. Property taxes are specifically called out in this paragraph. I'm curious why property taxes only are called out. Wouldn't we want to separately account for all revenue sources?

I do not have the background on why property taxes is separated, but it is likely because this is the most politically sensitive revenue source. The section states "The budget shall begin with a clear

general summary of its contents, which summary shall show principal sources of anticipated revenue, stating separately the amount to be raised by property taxes...” The language already requires principal revenue sources of revenue to be enumerated. Nevertheless, sales tax has become a critical component of our revenue, Council may want to consider calling out sales tax in addition to property tax since sales tax and property tax combined accounts for over 75% of general fund revenue.

3a. Ordinance Section 4 would repeal Chapter 3.05.043 Health insurance reserve fund. You and I have discussed this fund in the past and the fact that the council likely removed too much money from this fund to allocate funds to the police station. Is it wise to repeal this fund? Where would we maintain reserves for health insurance if this fund is repealed?

The answer to this question depends on how Council wants the fund to operate and the policy question of whether or not the city should be setting aside reserves specifically for health insurance expenses. After Council transferred funds from there to the police station project, we now budget that fund to zero every year.

The 2019 budget uses the health insurance reserve fund as a mechanism to pay health insurance; we deposit \$1,410 per employee per month there at the beginning of the year and make all health insurance payments from that fund. Finance has checked with the auditors and believes that we could still remove this section of code and keep the Health Insurance Reserve Fund for that purpose. Under Ordinance 19-35 any accumulated funds would lapse at the end of the year. If Council wants a fund to set aside reserves for health insurance, I would recommend not deleting this section and adding a purpose section to existing code to provide clarity.

3b. Background on this section and its use?

The fund was created while the City of Homer was still self-insured. Council allowed funds to accrue in the fund to act as a buffer against the rising costs of health insurance. This helped insulate the operating budget from steep increases.

If we repealed this section but maintained the fund as a cost center, we would still be required to have it in a separate section in our financial statements.

4. How does a repeal of 3.05.042, Alternative funding for depreciation, impact 18.04.010, Disposition of Foreclosed Properties?

There have been no instances of the City selling foreclosed property as an alternate funding source for depreciation since the ordinance was adopted. If Council repeals 18.04.010 and foreclosed property were to be sold, the authorizing ordinance would specify where the funds would go. As written, I would interpret 18.01.010 to direct funds from the sale of foreclosed properties to CARMA as the replacement fund for depreciation expenses. Council may want to consider clarifying this intent with a code change.

5. The CARMA fund and the Capital Improvement fund both contain language about equipment replacement (see lines 173 and 184). Is this intentional or a mistake? Should equipment replacement be in CARMA since we are talking about replacement? If it is intentional to include equipment replacement in both funds, should we better define what we mean by equipment replacement in each case? I'm presuming we wouldn't save money for the same equipment in each fund.

Mayor Castner is preparing additional policy guidance regarding CARMA and the Capital Improvement Fund for council consideration. The substitute removes the reference to equipment in the Capital Improvement Fund.

6. Ordinance Section 9 adding Chapter 3.05.050 Priority of funding, does not include all the funds established (see lines 209-212). Allocation to the Capital Improvement fund is missing. If this was intentional, I believe there still needs to be something in code that states how moneys will be allocated to fund.

The Capital Improvement Fund acts much like a project fund where Council can put aside funds for specific projects. For example, the police station project would live in this fund. The funding of these projects is by Council, lines 185-186 “Monies in the Capital Improvement Fund shall be designated for major capital projects or initiatives, as identified and authorized by City Council.” This same language is retained in the substitute but consolidated into subsection a.

6a. Lines 193-198 These two categories, restricted and unrestricted, are not “purposes” of the fund balance as indicated in lines 193-194. What is our current restricted fund balance? In our budget document, the fund balance recommendation of six months operating is to fund the operations of the City.

Under proposed Ordinance 19-35, for 2019 \$6,125,181 of the draft 2018 audit general fund fund balance would be restricted to emergency expenditures only leaving just over \$300,000 as unassigned and available for appropriation.

Per our statements found in the annual audit, there are four classifications of spendable fund balance: restricted, committed, assigned, and unassigned. Unaudited draft 2018 fund balances are included below.

- **Restricted fund balance** – Reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
 - Examples: HART fund balance and seawall
 - Restricted fund balance: \$7,501,802 government wide
- **Committed fund balance** – These amounts can only be used for specific purposes pursuant to constraints imposed by formal ordinances of the City Council-the government’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the City Council removes the specified use through ordinance. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
 - Examples: Police Station construction fund balance
 - Committed fund balance: \$956,541 excluding bond revenue
- **Assigned fund balance** – This classification reflects the amounts constrained by the City’s “intent” to be used for specific purposes, but are neither restricted nor committed. The City Council has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.
 - Examples: Water and sewer fund, depreciation reserves (156), fleet reserves (152), donation funds, and energy revolving loan fund.

- Assigned fund balance: \$8,436,860
- **Unassigned fund balance** – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.
 - Unassigned general fund balance: \$6,425,584

When both restricted and unrestricted resources are available for use, it is the City’s policy to use externally restricted resources first, then unrestricted resources-committed, assigned, and unassigned-in order as needed.

6b. If this new designation is intended for emergencies only, is it available for cash flow purposes?

The City operates under a central treasury, which means in practice all dollars are comingled; some are invested according to our investment policy, others are held in a liquid account with Alaska Municipal League Investment Pool (AMLIP) and Wells Fargo carries a cash balance. The movements of funds between Wells Fargo and AMLIP is fairly liquid. For accounting purposes we track and keep the funds and accounts separate.

6c. How does the City Council access those funds – what are the sideboards that constitute meeting the restriction imposed in this language?

By Ordinance in accordance with the rules established by Council. Ordinance 19-35 provides the following guidance on lines 195-198 “Restricted fund balance shall not fall below six months operating revenue and is intended to help the City of Homer provide quick response to weather economic uncertainty and unexpected situations such as natural disasters so as to avoid the need for short term borrowing.” This is reworded in the substitute for clarity, but the intent remains the same. Mayor Castner is developing further policy guidelines on how these funds can be accessed for Council consideration.

It is worth noting that because the restriction is imposed by Council and not an external constraint, such as by the voters or a funding agency, Council can exempt themselves from this section of code and spend the fund balance for any purpose, much like was done when the Permanent Fund was used to fund the police station.

7. Under the proposed code, will unexpended and unencumbered appropriations from CARMA and CIF funds lapse back into their respective reserve accounts?

No. Ordinance 19-35 gets rid of reserve accounts as we know them currently and replaces it with CARMA and CIF. Per section 3.05.035, funds in CARMA, Capital Improvement Fund, and general fund fund balance do not lapse at end of year. That section of code does provide some language for when projects fizzle out (lines 144-147) “An appropriation for a capital expenditure shall continue in force until the purpose for which it is made has been accomplished or abandoned; the purpose of such appropriation shall be deemed abandoned if three years pass without disbursement or encumbrance of the appropriation.” This is current code.

Enc:

Ordinance 05-11(S)

Ordinance 94-05

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**CITY OF HOMER
HOMER, ALASKA**

WYTHE

ORDINANCE 05-11(S)

AN ORDINANCE OF THE CITY COUNCIL OF HOMER, ALASKA AMENDING HOMER CITY CODE TITLE 18 TO ENACT A NEW CHAPTER 18.04, DISPOSITION OF FORECLOSED PROPERTIES AND AMENDING HOMER CITY CODE CHAPTER 3.05 TO ADD A NEW SECTION 3.05.042, ALTERNATIVE FUNDING OF DEPRECIATION.

WHEREAS, The City of Homer periodically receives ownership of properties due to delinquent property tax payments; and

WHEREAS, The intended purpose of the properties being transferred to the City is the recapture of revenues lost due to the uncollected property taxes; and

WHEREAS, Additional revenue sources are needed to correct the under funding for depreciable assets and future expansion projects.

NOW THEREFORE, the City of Homer Ordains:

Section 1. The Homer City Code is hereby amended by enacting a new Chapter 18.04, entitled Disposition of Foreclosed Properties, to read as follows:

18.04.010. Disposition of Foreclosed Properties. There is established the Alternative Funding of Depreciation. The Alternative Funding of Depreciation will consist of the City real property classified by the City Council for sale according to this chapter.

18.04.020 Transfer of Funds for Foreclosed Properties Classified for Public Purpose or Undesignated. Any such property that the City Council classifies, pursuant to HCC §18.04.042 shall be purchased by the transfer of funds from the General Fund or the General Fund - Fund Balance *18.06.042* *Kelen* **to the depreciation fund** in the amount equal to fair market value of the property.

18.04.030 Proceeds Derived from the Sale of Foreclosed Properties. All real property received through foreclosure proceedings and designated for resale shall be sold pursuant to the provisions of HCC Chapter 18.12 and all proceeds, after satisfying delinquent taxes, assessments and/or City costs, shall be allocated to the funding of depreciation.

Section 2. The Homer City Code Chapter 3.05 is hereby amended by enacting a new section 3.05.042 Alternative Funding for Depreciation to read as follows:

3.05.042 Alternative Funding for Depreciation. a. There is established in the General Fund of the City an Alternate Funding for Depreciation.

47 Page Two
48 Ordinance 05-11(S)
49 City of Homer

51 Section 2. This ordinance is of a permanent and general character and shall be included in the
52 Homer City Code.

55 PASSED AND ENACTED by the Homer City Council this 29th day of March, 2005.



CITY OF HOMER

James C. Hornaday
JAMES C. HORNADAY, MAYOR

64 ATTEST

Mary L. Calhoun
MARY L. CALHOUN, CMC, CITY CLERK

69 Introduction: 02/28/05
70 Public Hearing: 03/14/05
71 Second Reading: 03/29/05
72 Effective Date: 03/30/05

74 Ayes: 6
75 Noes: 0
76 Abstain: 0
77 Absent: 0

79 Reviewed and approved as to form and content:

Walt Wrede
Walt Wrede, City Manager

Gordon Tans
Gordon Tans, City Attorney

86 Date: 3/31/05

Date: 4 April 2005

88 Fiscal Note: Establishing an Alternative Funding for Depreciation.

CITY OF HOMER
HOMER, ALASKA

ORDINANCE 94-5

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF HOMER AMENDING CHAPTER 3.05 OF THE CITY CODE BY ADDING SECTION 3.05.043, HEALTH INSURANCE RESERVE FUND, AND AMENDING SECTION 3.05.035.

WHEREAS, the rising costs of health insurance is of great concern to the City of Homer; and

WHEREAS, establishing a reserve account for future health insurance premium increases for deposit of claim rebate funds is of benefit to both the City and the city's employees;

NOW, THEREFORE, THE CITY OF HOMER ORDAINS:

Section 1. Homer City Code Chapter 3.05 is hereby amended by adding Section 3.05.043 to read as follows:

3.05.043 Health Insurance Reserve Fund.

A. There is established in the general fund of the City a health insurance reserve fund. All health insurance claim rebates received shall be appropriated to and deposited in the health insurance reserve fund. The City Council may appropriate additional sums to the fund.

B. Any earnings from investment of monies accumulated in the health insurance reserve fund shall accrue to the health insurance reserve fund.

C. At the year end, all unexpended and unencumbered appropriations from the health insurance reserve fund shall be lapsed into that reserve fund.

D. Monies in the health insurance reserve fund shall be available for appropriation and expenditures for health insurance premium increases as recommended by the City Manager and authorized by the City Council.

Section 2. Homer City Code Section 3.05.035, subsection a, is hereby amended to read as follows:

A. Except as provided in this section and in section subsection 3.05.040 and 3.05.043 of this code, appropriations shall lapse at the end of the fiscal year to the extent that they have not been fully expanded or fully encumbered.

Section 3. This ordinance is of a permanent and general character and shall be included in the City Code.

ENACTED BY THE CITY COUNCIL OF THE CITY OF HOMER, ALASKA,
this 11th day of April, 1994.

CITY OF HOMER



Harry E. Gregoire, Mayor

ATTEST:

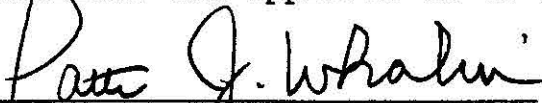


Mary L. Calhoun, City Clerk

Ayes: 5
Noes: 0
Abstain: 0
Absent: 1

First Reading: 3-14-94
Public Hearing: 3-29-94
Second Reading: 4-11-94
Effective Date: 4-12-94

Reviewed and approved as to form and content:



Patti J. Whalin
Interim City Manager

Gordon J. Tans
City Attorney

Requests for more information:

- A memo that highlights substantive code changes
- Proposed additional policies needed from Council & ideal timeline
- Previous documents provided to Council (presentation, CM paper)
- City's annual cashflow
- Current general fund designations (restricted, unrestricted)

None of the WHEREAS clauses speak to the shift to a biennial budget. Propose adding a clause. Suggestion, amended from the City of Anacortes: "WHEREAS, biennial budgeting will provide an opportunity to streamline government services through better long range and strategic financial planning, a longer perspective on program planning, and consolidation of the effort invested in the budget development and approval process, thereby improving services to the citizens of Homer"

Line 37: Consider amending to read: "requires that the City maintain sufficient fund balance to carry out its municipal duties at a time of disaster"

Line 40: Council sets all Code & policy for the City. What is the purpose of this Whereas clause?

Lines 48-49: Amend to read: "The City of Homer operates on a traditional biennial budget, beginning with the two-year biennium commencing January 1, 2020. The 2020-21 biennial budget and all subsequent budgets shall be prepared, considered and adopted under the provisions of this chapter."

Line 56: Should this clarify that this occurs every other year? "By the third Friday in October of a budget year, ..."

Lines 124-125: Current code reads that reports go to the CM and they are monthly. Is this referring to the financial reports that we receive, similar to at the last meeting? Is there anticipated quarterly Council action?

HCC 3.05.017: Should it be noted clearly that this section is repealed, similar to health insurance reserve fund?

Mid-biennial review & modification? In moving to a biennial budget, it seems as though it would augment the importance of the mid-year/mid-biennial review process. Also modified from Anacortes: "the City Council shall provide for a midbiennium review, and any modification shall occur no sooner than eight (8) months after the start, but no later than the conclusion of the first year of the biennium. The City Manager shall prepare a proposed budget modification and the City shall provide for publication of notice of hearings consistent with publication of notices for adoption of other City ordinances. Such proposal shall be submitted to the City Council and shall be a public record and be available to the public. A public hearing shall be advertised at least once and shall be held no later than the first regular Council meeting in December and may be considered from time to time. At such a hearing or thereafter, the Council may consider a proposed ordinance to carry out such modifications.

3.05.042 Repealed. Background on this section and its use? How does a repeal impact 18.04.010?

PHCC 3.05.047 CARMA Fund This would ostensibly replace our current reserve fund(s) – under HCC 3.05.040 Equipment replacement reserve fund? If we are truly going to set some better guiding policy on reserve funding, change (a) to reflect where that policy will be found.

Lines 170-171: Reword – "The purpose of the CARMA fund is to provide for adequate funds for capital asset management that is essential to extending the life and use of ..."

Lines 172-175 & Lines 183-184: The distinction between CARMA fund and CI fund is unclear to me. Line 173 states that CARMA fund can be used for equipment & fleet replacement. Line 184 states the CI fund can be used for new infrastructure or equipment replacement. Need further clarification on the differences between these funds.

Line 180: Amend to read: "There is established in the general fund a Capital Improvement Fund (CIF)."

Line 183: Strike the first "Purpose." See above question re: clarification of CARMA vs CIF

Line 185: How is this subsection different from (a)? Somewhere should be mentioned the CIP. Suggest: "b. The purpose of the Capital Improvement Fund is to help fund major capital projects identified in the approved Capital Improvement Plan for the City of Homer."

CARMA Fund: This is likely a conversation for the further policy work ahead, but it does seem important to maintain the different reserve pots under this one fund (i.e. fire fleet). As Finance stated, they will need to track those individual projects regardless and it will be more transparent and less duplicative if it's maintained in our budget document.

Under the proposed code, will unexpended and unencumbered appropriations from CARMA and CI funds lapse back into their respective reserve accounts? (I think they should..)

Line 192. Amend to read "The fund balance of the general fund represents the net assets of the general fund and serves as a measure of financial resources."

Lines 193-198 These two categories, restricted and unrestricted, are not "purposes" of the fund balance as indicated in lines 193-194. What is our current restricted fund balance? In our budget document, the fund balance recommendation of six months operating is to fund the operations of the City. If this new designation is intended for emergencies only, is it available for cash flow purposes? How does the City Council access those funds – what are the sideboards that constitute meeting the restriction imposed in this language?

Line 199 ALL funds of the City are available for appropriation by City Council, and only by Council. I'm not sure what this is supposed to mean? What is our current unrestricted fund balance?

Line 201-202 The fund balance is a statement of the City's position in time, correct? So any surplus or deficit would come out of/be credited to the unrestricted fund balance of the City? Just a point of clarification.

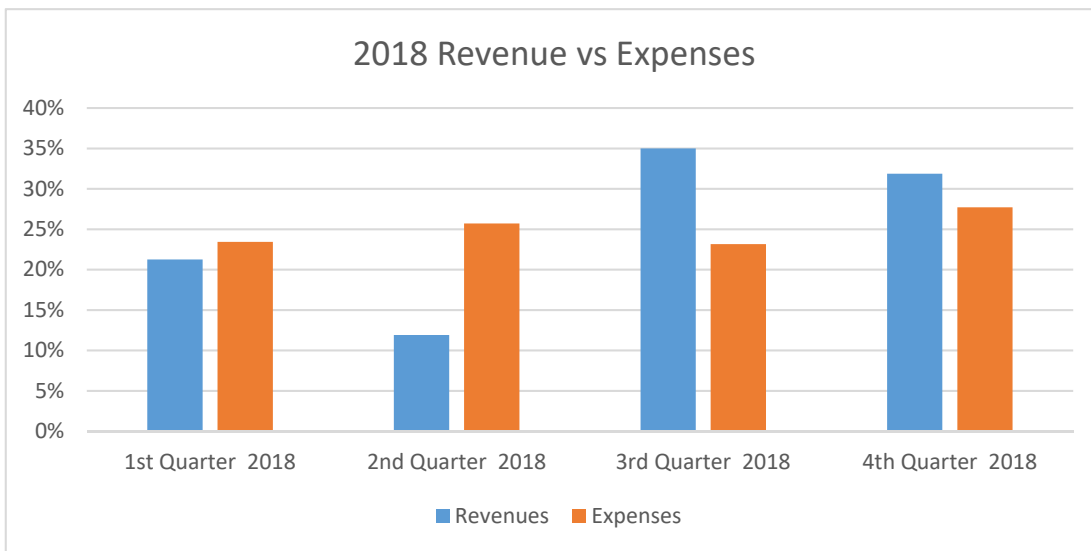
Lines 206-212 How/why would the City Manager ever present the Council with a budget that had projected revenue budgeted into the unrestricted fund balance, as defined on line 199? Why isn't the Capital Improvement Fund included on this list?

2018 City of Homer
Cash Flow Analysis
Prepared August 7, 2019

	GF Expenses			
	1st Quarter 2018 Actual	2nd Quarter 2018 Actual	3rd Quarter 2018 Actual	4th Quarter 2018 Actual
ADMIN	218,506 21.33%	287,035 30.03%	206,229 21.58%	312,728 32.72%
CLERKS	98,114 14.53%	177,795 26.34%	153,591 22.75%	245,602 36.38%
PLANNING	82,122 23.04%	92,760 26.02%	80,460 22.57%	101,154 28.37%
LIBRARY	197,243 23.15%	220,780 25.91%	204,364 23.98%	229,811 26.97%
FINANCE	139,699 21.75%	168,767 26.28%	150,708 23.46%	183,129 28.51%
FIRE	219,626 23.28%	237,533 25.18%	218,320 23.14%	268,040 28.41%
POLICE	750,428 23.44%	800,561 25.01%	783,855 24.49%	866,006 27.06%
PUBLIC WORKS	470,418 19.39%	666,745 27.49%	609,105 25.11%	679,551 28.01%
AIRPORT	70,951 35.48%	39,962 19.98%	39,827 19.91%	49,259 24.63%
CITY HALL, HERC	36,249 23.62%	40,015 26.08%	36,972 24.09%	40,213 26.21%
NON-DEPT	69,000 73.40%	25,000 26.60%	- 0.00%	- 0.00%
LEAVE CASH OUT	161,373 100.00%	- 0.00%	- 0.00%	- 0.00%
XFER TO RESERVES	1,540,055 100.25%	- 0.00%	- 0.00%	(3,800) -0.25%
TOTAL	4,053,784	2,756,954	2,483,429	2,971,692
			less xfer to reserves	
	23.44%	25.70%	23.15%	27.71%

2018 City of Homer
Cash Flow Analysis
Prepared August 7, 2019

CASH FLOWS	GF Income			
	1st Quarter 2018 Actual	2nd Quarter 2018 Actual	3rd Quarter 2018 Actual	4th Quarter 2018 Actual
PROPERTY TAX	67,596 1.93%	43,559 1.25%	1,739,464 49.79%	1,643,093 47.03%
SALES TAX	1,155,608 17.88%	1,050,686 16.26%	2,318,982 35.88%	1,938,016 29.98%
OTHER INCOME	1,486,300 53.16%	423,656 15.15%	404,420 14.46%	481,565 17.22%
Total Quarter	2,709,504	1,517,901	4,462,866	4,062,674
	21.25%	11.90%	34.99%	31.86%



Note: Prepared by Mayor Castner with data from Finance Department.



City of Homer

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Memorandum

TO: Mayor Castner and Homer City Council
FROM: Katie Koester, City Manager
DATE: June 5, 2019
SUBJECT: Fund Balance and Reserve Balance Policy Recommendations

The purpose of this memo is to summarize the research and analysis that went into the recommendation that the City of Homer develop a general fund fund balance and reserve balance policy. The memo tries to call out major policy changes and considerations, best practices and recommendations and decision points so Council can consider each touchpoint.

FUND BALANCE

According to the Municipal Research and Services Center (MSRC), fund balance is a term used to describe the difference between a fund's assets and liabilities and describes the net position of local government funds (MRSC.org, 2019).

Keeping a healthy fund balance is important to provide a government with cash flow and options to respond to emergencies and better withstand unexpected issues (earthquake, tsunami, essential infrastructure failure, revenue volatility) that pose significant threat to public health, safety, life, property or economic activity. Nevertheless, it is important to realize that that fund balance is constituent tax money and should not accumulate in excess.

Fund Balance Policy Considerations

Appropriate Level. It is important to note that the City of Homer GF fund balance is a snapshot in time and fluctuates with cash flow, expenditures and revenue. Homer City Code 3.05.035 dictates that appropriations shall lapse at the end of the fiscal year to the extent they have not been fully expended or encumbered (HCC online) but remains silent on a target or a goal funding amount for fund balance.

Sizing the fund balance requires estimating highly uncertain events. Government Finance Officers Association (GFOA) recommends performing a risk analysis and thorough financial assessment following a "*Triple-A Risk-Based Approach*" to determine how much to keep in reserves:

- *Accept* that we are subject to uncertainty, including events that we haven't even imagined.
- *Assess* the potential impact of the uncertainty. Historical references provide useful baselines.

•*Augment.* The range of uncertainty we really face will almost always be greater than we assess it to be, so we should augment that range. Historical reference cases provide a baseline, but that baseline may not be adequate to account for all realistic future possibilities.

(https://www.gfoa.org/sites/default/files/GFR_OCT_12_10.pdf)

GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures. Risk analysis then informs how far above the minimum a municipality should maintain its general fund reserve.

<https://gfoa.org/fund-balance-guidelines-general-fund>. In literature review, GFOA has recommended GF fund balance levels ranging from 2 to 6 months operating budget. Some municipalities had targets as low as 10% of operating budget.

The proposed policy recommends City of Homer maintain 50% (or 6 months' worth) of operating budget in fund balance. This is a conservative number given a variety of risk factors: how frequently Council uses fund balance for non-emergency expenditures; our dependence on sales tax revenue, which is traditionally a more volatile revenue source; our susceptibility to natural disasters and cash flow.

Restrictions. GFOA recommends that reserve amounts be categorized by component making the purpose of the reserve more transparent. Policy should identify and clearly state the purposes for which the funds are intended (which should include, at a minimum, an emergency reserve for one-time events like earthquakes, and a stabilization reserve to offset economic downturns).

GFOA further recommends that the reserve policy clearly state the purposes for which the funds are *not* allowed to be used, for example, to fund ongoing operations or to start new programs; and for the policy to establish the authorization to access the funds (requiring, for example, a two-thirds vote or a formal declaration of a state of emergency).

Replenishing. GFOA further recommends that reserve policy should establish the method and timing for fund replenishment when funds dip below an identified level.

RESERVES

Reserves exist to fund anticipated and predictable expenditures to maintain and replace major assets. The City of Homer uses approximately 20 different reserve accounts in three different reserve categories: Fleet, Depreciation/Capital, and Capital Project Funds. Capital Project Funds account for financial resources used for the acquisition or construction of major capital facilities.

The Fleet Reserves and Depreciation/Capital Reserves fund routine major maintenance and replace smaller capital items. These expenditures are outside the scope of the operating budget and are generally one-time expenses over \$25,000. Examples of projects funded through reserves are the replacement of a roof at City hall, a new patrol vehicle for the Homer Police Department or a feasibility study for a proposed improvement.

Fleet Reserves provide for the replacement of the City's fleet of vehicles on a planned rotation basis as their useful life expires. The June 5, 2019 memo "City Fleet Summary and Current/Impending Needs"

(attached) provides a detailed snapshot of the City's fleet needs from 2019-2020. As you can see in the fleet replacement schedule developed by Superintendent Gardner, GF Fleet Reserves funded none of the scheduled replacements for 2019, deferring \$53,333 to 2020. In 2020, six pieces of equipment valued over \$1.5 Million are due to be replaced. Each piece of equipment not replaced when its "years of life remaining" expires adds additional cost to the upcoming calendar years and runs the risk of increasing the City's maintenance costs in order to take care of an outdated fleet.

Depreciation/Capital Reserves provide consistent funding to maintain capital assets at a level such that it protects the taxpayer's capital investments and minimizes future maintenance and replacement costs. While it's difficult to accurately quantify the amount of money deferring maintenance wastes, some research indicates that consistent maintenance can reduce the lifecycle costs of long service life infrastructure like roads, bridges, tunnels, drainage systems, water and sewer system by as much as 75-90%, primarily by extending the life of capital assets and making costly replacements less frequent. The percentage of lifecycle savings will be lower for facilities because of their relative shorter service life, but it underscores the importance of maintenance of assets. (*Dornan, Daniel L, GASB 34's Impacts on Infrastructure Management, Financing & Reporting. June 2000.*

https://www.researchgate.net/publication/237266261_GASB_34's_Impacts_on_Infrastructure_Management_Financing_Reporting)

Reserve Policy Considerations for Capital Asset Repair and Maintenance

Appropriate Level. Resolution 2006-101 establishes a reserve goal of 40% of depreciable assets. However, this goal is unrealistic as the City has only ever been able to reach about 10% of the value of depreciable assets. A more realistic goal based on asset management forecasts will make a more useful policy.

Mayor Castner has proposed a target for reserves that is no more than four times the average spending. Under this model, every year the budget would include a replacement of ¼ of the previous four years of spending. This model will even out over time as deferred maintenance needs are taken care of and the amount Council needs to set aside for maintenance becomes a predictable part of the budget cycle.

The City's investment in deprecation and regular maintenance has been lacking over the last ten years due to budget constraints and a lack of appetite to dedicate funds to care for what we have. Deferring maintenance is generally one of the first things a City does to cut costs in difficult years. When the City defers maintenance, it is essentially liquidating its capital assets by allowing them to deteriorate in order to free up cash for other programs. The consequences are not apparent for many years. Over time, though, the practice can be costly for both City government and future taxpayers in terms of deferred maintenance costs and fixes that become more extensive and expensive. The HERC is an example of a building that has suffered deferred maintenance to the point where the Borough gave the facility to the City of Homer and the costs to repair or replace the facility are high.

To establish adequate reserve amounts, GFOA recommends an inventory of all municipal capital assets, development of an asset management plan that identifies the most outstanding needs and a depreciation schedule. I am working to provide Council with that information, but with a capital assets valued at over \$100 million City-wide, it is likely to be a long list, labor intensive to create, and large

number. The number is more manageable for fleet as we have established schedules and can anticipate lifespan for fleet and apparatus.

Another best practices guideline for facilities management (developed by the National Academy of Sciences, Engineering & Medicine and widely cited in the facilities management literature) is for property owners to reserve, on average, two to four percent of the replacement value of a facility annually for capital asset repair and maintenance.

It is important to note, that although the metric is replacement value, 2-4% annual spending on major maintenance it does not provide for replacement at end of life. Nor does is the metric expected to cover operational maintenance. It includes:

- preventative maintenance of equipment and systems for which a specific operator is not assigned and which if disabled, would interfere with an essential operation, endanger life or property, or involve high cost or long lead time for replacement;
- programmed major maintenance whose cycle exceeds one year (e.g. painting, roofs);
- predictive testing and inspection;
- routine repairs (like replacement of a failed boiler) and replacement of obsolete items. (Budgeting for Facilities Maintenance and Repair Activities: Report Number 131, 1996

<https://www.nap.edu/read/9226/chapter/1.>)

Currently, the City of Homer GF reserve is used to maintain 14 buildings and structures and a variety of other constructed assets, primarily at our parks. Using AMLJIA replacement values, the current replacement value (CRV) of these assets is \$27,868,382.

			Purchase	Useful Life	AMLJIA CRV
Airport	Building	Airport Terminal	1993	40	\$ 3,352,338
Gen Govt	Building	City Hall	1977	40	\$ 3,927,269
Gen Govt	Building	HERC	2000	40	\$ 2,570,000
Library	Building	Library	2006	40	\$ 7,117,792
Parks & Rec	Building	Downtown Restrooms	2014	30	\$ 492,130
Parks & Rec	Improvements	Ben Walters Park Restroom*	1984	40	\$ 338,280
Parks & Rec	Improvements	End of Road Restroom*		40	\$ 215,000
Parks & Rec	Improvements	Jack Gist Park*	2008	10	\$ 251,992
Parks & Rec	Improvements	Karen Hornaday Park Ph 1*	2014	20	\$ 433,416
Public Safety	Building	Fire Hall Buildings & Improvements	1980	40	\$ 2,582,339
Public Safety	Building	Skyline Fire Station	2015	40	\$ 611,172
Public Safety	Building	Police Station (Heath St. location)	1984	40	\$ 2,063,271
Public Safety	Building	New Animal Shelter	2005	40	\$ 979,478
Public Works	Building	Public Works Building	1986	40	\$ 2,383,852
Public Works	Building	Public Works Pole Barn	2005	40	\$ 343,705
Public Works	Building	Public Works Storage Shed	2016	40	\$ 206,348

\$ 27,868,382

The guideline suggests that the City would expend from \$557,368 to \$1,114,735 per year in reserves for long-term maintenance of the City's existing General Fund capital assets.

AMLJIA replacement values are based on *estimates* for buildings under \$5 million and on actual appraisals for buildings over \$5 million. Many of the estimates are low. Additionally, the range does not account for funds needed to "catch up" on past years of deferred maintenance. Without an actual facilities inventory and capital asset management plan, however, this offers another method to consider when sizing the reserve fund. *Please note that CRVs for park improvements were based on current book value from the City's Depreciation Schedule.

Whether or not the Council uses a percent of assets, historical spending, or some other formula, setting a target balance for reserves in an important policy decision for Council.

Consolidation The proposed policy consolidates all reserve funds into one account in the general fund. The pros to this methodology are that it ensures the highest and best need is funded at any given point. A negative is it becomes difficult to set aside funding and justify funding for smaller or lower priority projects. It also becomes more difficult to track the capital expenditure needs department. Furthermore, departments or interest groups may see that their needs are not getting addressed when specific reserves are not identified. This is an important policy call for Council to discuss.

If reserve accounts are consolidated into one fund, an asset management plan, if developed could prioritize use of reserve funds (highest need to lowest) or the assessment could be used by Departments and/or Council to assign priority use of annual reserve funds.

CAPITAL IMPROVEMENT FUND

This policy introduces a new fund, the capital improvement (CI) fund. The City has innumerable potential expenses that might not go on a depreciation schedule or are too large to be funded out of the reserve fund as proposed with additional restrictions. A CI fund provides a place for Council to place funds for larger projects to either provide seed money or accomplish items on the Capital Improvement Plan. The purpose of this account is not to establish a replacement fund for major infrastructure, but rather provide a place for holding funds for needed capital projects, be they replacement projects like a new police station or new projects that the Council and community has identified.

An approach I've seen in other City's CIP's is a restructure of the CIP where the first year of the six-year plan represents the approved Capital budget scheduled for expenditure, which is incorporated into the City's annual budget. The CIP becomes an appendix to the budget.

PRIORITIZATION OF FUNDS

The attached policy prioritizes filling funds in a cascading manner: first into fund balance to achieve the six-month target, then to reserves (renamed Capital Asset Repair and Maintenance Account, or CARMA) to meet the-reserve requirement, and finally to the CI fund. Establishing an expectation of where available dollars will go is another important policy decision for Council.

This is consistent with many fund balance policies that prioritize maintaining existing capital infrastructure before building new facilities. This prioritization makes sure adequate resources are allocated to preserve existing infrastructure before targeting resources to build new facilities that will also carry operating and maintenance obligations.

RECOMMENDATION

Council discuss and provide input on the proposed fund balance and reserve balance policy and establishment of a capital improvement funds. Topics to discuss are itemized below:

1. GF Fund Balance
 - a. What should that number be?
 - b. What restrictions should or could be placed in code that limit the spending of those funds?
 - c. What does replenishment look like?
2. Reserve Balance
 - a. Is no more than four times the average spending a reasonable goal?
 - b. Should restrictions on what can be funded from here be further codified?
 - c. Should all general fund reserve funds be consolidated into one fund?
3. Capital Improvement Fund
 - a. Should this fund be established?
 - b. What would a ranking system look like?
 - c. Is the purpose of the fund established in the draft policy adequate?
4. Prioritization of Funds

Enc:

Fleet Memo

Policy Recommendations Paper

Draft Policy



City of Homer

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Memorandum

TO: Mayor Castner and Homer City Council
 FROM: Katie Koester, City Manager
 DATE: June 5, 2019
 SUBJECT: City Fleet Summary and Current/Impending Needs

Background

The City's fleet consists of over 120 pieces of equipment ranging from graders and plows to police cars and fire trucks with a total replacement cost value estimated at \$11.7 million dollars. Each piece of equipment has a specific use for the City depending on the department it serves. The Police, Fire, Public Works, Port/Harbor, and Administrative Departments preserve the integrity of their fleet by conducting regular maintenance on the equipment while City Council also transfers funds to their respective fleet reserve accounts for future replacement and acquisition needs. In regards to transfers, the Administrative Department is the only exception as there have been no transfers into the Admin Fleet Reserve Account for the past 5 years

The most recent fleet acquisition needs presented in the 2019 Budget included continuing the replacement of the Police Department's aged Chevrolet Impalas with all-season four wheel drive Ford Explorers and replacing Port and Harbor's truck mounted sanding unit. The Public Works Water and Sewer Division requested a ½ ton pickup truck used to haul parts and fittings to various job sites however this request was denied this calendar year due to budgetary concerns.

The chart below details each *general fund-supported* department's fleet reserve budget and account balance as adopted in the 2019 budget; the estimated 2019 balance reflects expenditures encumbered by the 2019 budget.

2019 General Fund-Supported Department Fleet Reserve Budget and Account Balance

Account	Dept.	Approved 2019 Budget	Est. 2019 Balance
152-0375	Admin (City Hall)	\$41,929	\$41,929
152-0383	Public Works (GF)	\$141,959	\$22,959
152-0382	Police	\$296,853	\$208,853
152-0381	Fire	\$355,433	\$355,433
Total GF \$		\$836, 174	\$629, 174

Superintendent Gardner compiled a fleet replacement schedule detailing the City’s fleet based on department, the internal City-assigned equipment number, equipment year and make, current age, total expected life, years remaining, replacement cost, and mileage/hours currently on the piece of equipment (“Attachment A1” and “Attachment A2”). In order to determine the vehicle’s total expected life, interviews were conducted with mechanics and Department Heads to discuss the use of the equipment, type of use, and maintenance history over time.

Based on Attachment A1, the below tables summarizes General Fund fleet replacement needs for calendar years 2019 and 2020 with equipment ranging from 0 to 2 years of remaining life.

2019

DEPT	Year	DESCRIPTION	CURRENT AGE	TOTAL EXPECTED LIFE	YEARS OF LIFE REMAINING	NEEDS TO BE REPLACED IN THIS YEAR	REPLACEMENT COST	FUNDING SOURCE
PWHDE	1992	International Vacuum Truck	27 Years	25	-2	2017	N/A	GF/W/S
PWHDEA	1995	Patchman Asphalt Mixer	25 Years	25	0	2019	\$ 40,000	GF/W/S
PWLVA	1989	1989 GMC 3/4 TON	29 Years	29	0	2019	N/A	GF/W/S
PWLVA	1987	1987 CHEVY FLAT BED - PAINT TRUCK	32 Years	32	0	2019	N/A	GF
PWLVA	1999	1999 FORD E250 VAN	20 Years	20	0	2019	\$40,000	GF
FDHDE	2002	2002 POLARIS 6-WHEELER	17 Years	17	0	2019	N/A	GF

2019 GF Deferred Total: \$53,333

2020

DEPT	Year	DESCRIPTION	CURRENT AGE	TOTAL EXPECTED LIFE	YEARS OF LIFE REMAINING	NEEDS TO BE REPLACED IN THIS YEAR	REPLACEMENT COST	FUNDING SOURCE
PWHDE	1995	410D John Deere Backhoe	24 Years	25	1	2020	\$ 120,000	GF/W/S
HPDLV	2009	2009 CHEV IMPALA	10 Years	11	1	2020	\$40,000	GF
HPDLV	2009	2009 CHEV IMPALA	10 Years	11	1	2020	\$40,000	GF
FDLV	1990	BRUSH 1 - 1990 FORD	29 Years	30	1	2020	\$95,000	GF
FDHDE	1987	1987 Tanker 1 Huri	32 Years	33	1	2020	\$650,000	GF
FDHDE	1989	1989 Tanker 2 E-One	30 Years	31	1	2020	\$650,000	GF

2020 GF Total: \$1,515,000

No department’s fleet reserve account will cover their upcoming acquisition needs as listed above. Therefore, the City prioritizes replacing life and safety equipment first while other pieces of equipment are maintained past their total expected life. Parts on these older models can be very expensive and difficult to come by. For example, in 2017 Public Works ordered a replacement mullboard for the City’s 31 year old grader, which is no longer made by the manufacturer and had to be acquired after market. Also in 2017, Public Works had to find a used radiator for the older steamer truck as this part is not made by the manufacturer. Maintaining older pieces of equipment can be not only challenging, but also increase maintenance costs to the point where, over time, it outweighs purchasing new equipment. Superintendent Gardner shared that some pieces of equipment can be purchased used, however the advantage of used equipment has to take into account the City's ability to capitalize on government discounts when purchasing new.

The City does recycle older vehicles by changing the intended use of the equipment. For example, when Chief Robl’s Durango was replaced with a new patrol car, the Durango then replaced Public Work’s 1989 GMC pick-up truck, which is now listed as a surplus vehicle.

Fleet Replacement/Acquisition Reserve Account and Future Planning

Mayor Castner has proposed to consolidate all reserve funds into one account in the General Fund and fund it at no more than four times the average spending. Thus far this model has been applied to General Fund only, but time permitting Administration will be working with the Mayor on establishing similar policies for Port/Harbor and Public Works' Water/Sewer Division since they are enterprise funds, which are intended to be self-contained and separate from the general fund.

Overall, there is merit behind having one independent fleet reserve account in the general fund given the predictable replacement needs of the City's fleet. The fleet replacement schedule is a useful tool for City Council members when planning for the future fleet replacement/acquisition needs of each department and deciding what fleet need is most pressing that calendar year. This replacement schedule does not propose to automatically fund fleet replacement when each piece of equipment reaches its predicted end of life; staff will still perform an analysis of replacement based on life expectancy, intended use, and other factors like a mechanical analysis of the vehicle/equipment. It is my intention that the fleet replacement schedule and recommendations from staff on individual vehicle/equipment replacement would be provided to Council in the budget process. The fleet replacement schedule will also give guidance on Council contributions to fleet reserves.

2019-2020 Fleet Replacement Schedule

DEPT	Year	DESCRIPTION	CURRENT AGE	TOTAL EXPECTED LIFE	YEARS OF LIFE REMAINING	NEEDS TO BE REPLACED IN THIS YEAR	REPLACEMENT COST	FUNDING SOURCE	ALREADY FUNDED BY BUDGET	
2019 PWHDE	1992	International Vacuum Truck	27	Years	25	-2	2017	N/A	GF/W/S	
PWHDEA	1995	Patchman Asphalt Mixer	25	Years	25	0	2019	\$ 40,000	GF/W/S	
PWLV	1989	1989 GMC 3/4 TON	29	Years	29	0	2019	N/A	GF/W/S	
PWLV	1987	1987 CHEVY FLAT BED - PAINT TRUCK	32	Years	32	0	2019	N/A	GF	
PWLV	1999	1999 FORD E250 VAN	20	Years	20	0	2019	\$40,000	GF	
FDHDE	2002	2002 POLARIS 6-WHEELER	17	Years	17	0	2019	N/A	GF	
PWLV	1994	1994 FORD 4X4 F-150 P/U	25	Years	25	0	2019	\$30,000	W/S	
PWLV	1997	1997 FORD F-350 4x4 UTILITY TRUCK	22	Years	22	0	2019	\$52,250	W/S	X
PWLV	2000	2000 K2500 4X4 W/SERVICE BODY	19	Years	19	0	2019	\$46,350	W/S	X
PHLV	1994	HV-1 - 1994 FORD F-150 PU	25	Years	25	0	2019	\$30,000	PH	
PHHDE	1995	1995 Grove Manlift MV11	24	Years	24	0	2019	\$30,000	PH	
PHHDE	1999	1999 20' Skiff with 90 HP Honda Motor	20	Years	20	0	2019	\$50,000	PH	

2019 GF Deferred Total	\$53,333
2019 PH Enterprise Deferred Total	\$110,000
2019 W/S Enterprise Deferred Total	\$155,267
	-\$98,600
	\$56,667

N/A = will not be replaced

2020 PWHDE	1995	410D John Deere Backhoe	24	Years	25	1	2020	\$ 120,000	GF/W/S	
HPDLV	2009	2009 CHEV IMPALA	10	Years	11	1	2020	\$40,000	GF	
HPDLV	2009	2009 CHEV IMPALA	10	Years	11	1	2020	\$40,000	GF	
FDLV	1990	BRUSH 1 - 1990 FORD	29	Years	30	1	2020	\$95,000	GF	
FDHDE	1987	1987 Tanker 1 Huri	32	Years	33	1	2020	\$650,000	GF	
FDHDE	1989	1989 Tanker 2 E-One	30	Years	31	1	2020	\$650,000	GF	
PHHDE	1995	1995 T2 Fish Carcass Dump Trailer	24	Years	25	1	2020	\$12,000	PH	

2020 GF Total	\$1,515,000
2020 PH Enterprise Total	\$12,000
2020 W/S Enterprise Total	\$80,000

Key

PWHDEA = Public Works Heavy Duty & Equipment Attachments
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 HPDLV = HPD Light Vehicles
 FDLV = Fire Department Light Vehicles
 FDHDE = Fire Department Heavy Duty & Equipment

2021-2044 Fleet Replacement Schedule

Supplemental Information: 2021-2044

DEPT	Year	DESCRIPTION	CURRENT AGE	TOTAL EXPECTED LIFE	YEARS OF LIFE REMAINING	NEEDS TO BE REPLACED IN THIS YEAR	REPLACEMENT COST	FUNDING SOURCE	
PWLV	2001	2001 CHEV S-10 EXTEND CAB	18	Years	20	2	2021	\$30,000	GF
PWLV	2006	2006 FORD F-350 4X4	13	Years	15	2	2021	\$45,000	GF
PWLV	2013	2013 FORD F-550 2-TON 4X4 Truck/Sander	6	Years	8	2	2021	\$48,000	GF
PWHDE	1986	140G Cat Grader	33	Years	35	2	2021	\$200,000	GF
PHLV	1995	MV1 - 1995 CHEV S-10 4X4 PU	24	Years	26	2	2021	\$30,000	PH
HPDLV	2009	2009 CHEV IMPALA	10	Years	12	2	2021	\$40,000	GF
FDLV	1997	MEDIC 1 (1997 FORD 4X4 F350)	22	Years	24	2	2021	\$200,000	GF
FDLV	2006	2006 FORD EXPEDITION - COMMAND VEHICLE	13	Years	15	2	2021	\$75,000	GF
PWHDEA		Grader Wing x3	22	+ Years	25	3	2022	\$60,000	GF
PWHDEA		Grader Snow Gate x3	22	+ Years	25	3	2022	\$30,000	GF
PWLV	1992	1992 FORD RANGER	27	Years	30	3	2022	\$30,000	W/S
PWLV	1994	1994 FORD PU	25	Years	28	3	2022	\$30,000	GF
PWLV	1994	1994 CHEV SVC TRK	25	Years	28	3	2022	\$40,000	GF/W/S
PWLV	1997	1997 FORD RANGER XLT 4X4	22	Years	25	3	2022	\$30,000	GF/W/S
PWHDE	1987	950 Cat Loader	32	Years	35	3	2022	\$210,000	GF/W/S
HPDLV	2007	2007 FORD EXPEDITION	12	Years	15	3	2022	\$40,000	GF
HPDLV	2007	2007 FORD EXPEDITION	12	Years	15	3	2022	\$40,000	GF
FDLV	2003	UTILITY 1 - 2003 FORD F-350, CREW CAB	16	Years	19	3	2022	\$75,000	GF
PWLV	1995	1995 FORD F-150 4X4	24	Years	28	4	2023	\$30,000	GF
PWLV	1998	1998 FORD EXPEDITION XLT - 4X4	21	Years	25	4	2023	\$40,000	GF
PWLV	2003	2003 FORD F-550 2-TON 4X4	16	Years	20	4	2023	\$40,000	GF
PWHDE	2003	Toolcat 5600	16	Years	20	4	2023	\$60,000	GF
PHLV	1993	1993 CHEV STEP-SIDE VAN	26	Years	30	4	2023	\$30,000	PH
PHLV	2003	2003 FORD F-250 4X4 Plow Truck Ice Plant	16	Years	20	4	2023	\$40,000	PH

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 FDLV = Fire Department Light Vehicles
 FDHDE = Fire Department Heavy Duty & Equipment

PHLV	2003	2003 FORD F-250 4X4 Plow Truck Maintenance	16	Years	20	4	2023	\$40,000	PH
HPDLV	2008	2008 CHEV VAN (JAIL VAN)	11	Years	15	4	2023	\$40,000	GF
FDLV	2001	UTILITY 3 - 2001 F-550 FORD	18	Years	22	4	2023	\$95,000	GF
FDHDE	2008	2008 Polaris 6x6 Wheeler ATV	11	Years	15	4	2023	\$15,000	GF
PWLTV	1999	1999 RANGER	20	Years	25	5	2024	\$30,000	GF
PWLTV	1999	1999 RANGER TRUCK	20	Years	25	5	2024	\$30,000	W/S
PWLTV	1999	1999 FORD F-550 2 TON 4X4	20	Years	25	5	2024	\$30,000	GF
PWLTV	2016	2016 FORD F-550 2-TON 4x4 Truck/Sander	3	Years	8	5	2024	\$48,000	GF
PWHDE	1984	Ford Steam Truck 4x6	35	Years	40	5	2024	\$80,000	GF/W/S
PWHDE	1989	Ford F800 Bucket Truck	30	Years	35	5	2024	\$50,000	GF
PWHDE	1994	720A Champion Grader	25	Years	30	5	2024	\$240,000	GF
FDHDE	1983	1983 Engine 4 Spartan	35	Years	40	5	2024	\$650,000	GF
FDHDE	2009	2009 Achilles Inflatable Boat	10	Years	15	5	2024	\$17,500	GF
PWLTV	2000	2000 K2500 4X4 W/SERVICE BODY	19	Years	25	6	2025	\$34,000	W/S
PWLTV	2000	2000 DODGE DURANGO	19	Years	25	6	2025	\$30,000	GF/W/S
PWHDE	1980	12G Cat Grader	39	Years	45	6	2025	\$250,000	GF
PWHDE	2000	Freightliner End Dump Truck	19	Years	25	6	2025	\$187,000	GF/W/S
PHLV	2010	2010 F-350 4X4 Plow Truck	9	Years	15	6	2025	\$40,000	PH
PHHDE	2000	2000 Fish Carcass Trailer	19	Years	25	6	2025	\$12,000	PH
PWHDEA		Bomag Gravel Compactor	23	Years	30	7	2026	\$15,000	GF/W/S
PWLTV	2006	2006 FORD F-150 4X4	13	Years	20	7	2026	\$30,000	W/S
PWLTV	2006	2006 FORD F-150 4X4	13	Years	20	7	2026	\$30,000	GF/W/S
PWLTV	2006	2006 FORD F-150 4X4	13	Years	20	7	2026	\$38,000	W/S
PHLV	2001	2001 F550 USED OIL VAC TRUCK	18	Years	25	7	2026	\$60,000	PH
PWHDEA	1987	Faire Snow Blower for Loader - backup	32	Years	40	8	2027	\$80,000	GF
PWLTV	2002	2002 JEEP WRANGLER	17	Years	25	8	2027	\$30,000	GF/W/S
PWLTV	2007	2007 FORD F-150 4X4	12	Years	20	8	2027	\$30,000	W/S
FDLV	2002	MEDIC 2 (2002 FORD F350)	17	Years	25	8	2027	\$200,000	GF
FDHDE	2002	2002 Utility Trailer for 6 Wheeler	17	Years	25	8	2027		GF

Key

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PWHDE = Public Works Heavy Duty Equipment

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HPDLV = HPD Light Vehicles

FDLV = Fire Department Light Vehicles

FDHDE = Fire Department Heavy Duty & Equipment

PWLTV	2008	2008 FORD F-250 4X4 FLATBED	11	Years	20	9	2028	\$38,000	GF
PHLV	2008	2008 FORD F-350 4X4 Plow Truck	11	Years	20	9	2028	\$40,000	PH
HPDLV	2003	2003 FORD EXCURSION	16	Years	25	9	2028	\$40,000	GF
HPDLV	2013	2013 FORD EXPEDITION	6	Years	15	9	2028	\$40,000	GF
FDLV	2013	UTILITY 2 2013 FORD EXPEDITION	6	Years	15	9	2028	\$95,000	GF
PWHDE	2004	EW 180B Volvo Wheeled Excavator	15	Years	25	10	2029	\$250,000	GF/W/S
PHHDE	2004	2004 Fish Carcass Trailer	15	Years	25	10	2029	\$12,000	PH
HPDLV	2014	2014 FORD EXPLORER	5	Years	15	10	2029	\$40,000	GF
PHLV	2005	2005 FORD F-150 2WD	14	Years	25	11	2030	\$30,000	PH
HPDLV	2015	2015 FORD EXPLORER	4	Years	15	11	2030	\$40,000	GF
HPDLV	2015	2015 FORD EXPLORER	4	Years	15	11	2030	\$40,000	GF
FDHDE	1999	1999 Rescue 1 Freightliner Truck	30	Years	41	11	2030	\$650,000	GF
PHLV	2011	2011 FORD ESCAPE HYBRID	8	Years	20	12	2031	\$30,000	PH
PHHDE	2006	2006 Komatsu Loader WA100M-5	13	Years	25	12	2031	\$70,000	PH
CH	2006	2006 FORD FREESTYLE AWD	13	Years	25	12	2031	\$32,000	GF
PWHDEA		OJK 125 Meleter - Asphalt Crack Sealer	17	Years	30	13	2032	\$35,000	GF
PWLTV	2012	2012 CHEVY COLORADO EXT CAB	7	Years	20	13	2032	\$30,000	GF/W/S
PWLTV	2012	2012 CHEVY COLORADO CREW CAB	7	Years	20	13	2032	\$30,000	GF
PWHDE	2002	163H Cat Grader	17	Years	30	13	2032	\$225,000	GF
PWHDE	2007	D37 Komatsu Dozer	12	Years	25	13	2032	\$100,000	GF
PHHDE	2002	2002 25' Peregrine Harbor Tug w Twin 150 HP	17	Years	30	13	2032	\$130,000	PH
HPDLV	2017	2017 FORD EXPLORER INTERCEPTOR	2	Years	15	13	2032	\$40,000	GF
HPDLV	2017	2017 FORD EXPLORER INTERCEPTOR	2	Years	15	13	2032	\$40,000	GF
FDLV	2016	MEDIC 3 (2016 FORD F3HZ)	3	Years	16	13	2032	\$200,000	GF
FDHDE	2017	2017 Argo Model 8x8 Frontier-S	2	Years	15	13	2032	\$25,000	GF
PWHDEA	2018	Diamond Brush Cutter for Loader	1	Years	15	14	2033	\$82,000	GF
PWHDEA	2003	Trailmax Heavy Equipment Trailer	16	Years	30	14	2033	\$25,000	GF/W/S
PWLTV	2008	2008 FORD F-350 SD FLATBED	11	Years	25	14	2033	\$45,000	GF/W/S
PHHDE	2008	Genie Z-45/25 Articulating Boom Lift	11	Years	25	14	2033	\$65,000	PH

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FDHDE = Fire Department Heavy Duty & Equipment

HPDLV	2018	2018 FORD EXPLORER AWD 4DR K8AT	1	Years	15	14	2033	\$40,000	GF
PWHDEA	2004	Tex Steamer Unit for Truck E160	15	Years	30	15	2034	\$30,000	GF/W/S
PWLTV	2014	2014 F-150	5	Years	20	15	2034	\$30,000	W/S
PWLTV	2014	2014 F-150	5	Years	20	15	2034	\$30,000	GF
PWHDE	2009	Isuzu Sweeper Truck Vacuum	10	Years	25	15	2034	\$200,000	GF
PHLV	2009	2009 CHEV COLORADO	10	Years	25	15	2034	\$30,000	PH
FDHDE	2008	2008 Engine 2 KME Custom Pumper	12	Years	27	15	2034	\$650,000	GF
PHLV	2010	2010 FORD F-150 NEW TO CREW 2014	9	Years	25	16	2035	\$30,000	PH
FDHDE	2005	2005 Mako Air Compressor at HVFD	14	Years	30	16	2035	\$65,000	GF
PWHDEA	2011	Larue Snow Blower for Loader	8	Years	25	17	2036	\$150,000	GF
PWLTV	2016	2016 CHEVY EXPRESS 2500 VAN	3	Years	20	17	2036	\$40,000	GF
PWHDE	2006	PC160LC-7 Track Excavator	13	Years	30	17	2036	\$175,000	GF/W/S
PWHDE	2006	Freightliner Steam Truck 2x4	13	Years	30	17	2036	\$80,000	GF/W/S
PHLV	2016	2016 F-SERIES SD F350 4X4 Sander	3	Years	20	17	2036	\$40,000	PH
PHHDE	2011	Bobcat Versa Handler	8	Years	25	17	2036	\$70,000	PH
PHLV	2012	2012 CHEVROLET SILVERADO 1500 1/2 TON	7	Years	25	18	2037	\$30,000	PH
PWHDE	2003	644H JD Loader	16	Years	35	19	2038	\$200,000	GF/W/S
PHLV	2013	2013 F-150 PICKUP	6	Years	25	19	2038	\$30,000	PH
FDHDE	2008	2008 Utility Trailer for 6 Wheeler	11	Years	30	19	2038	\$4,500	GF
PWHDEA		Wacker Plate Compactor	0	Years	20	20	2039	\$4,000	GF/W/S
PWHDE	2014	Pelican Sweeper	5	Years	25	20	2039	\$237,000	GF
PWHDE	2015	Mac End Dump Truck	4	Years	25	21	2040	\$187,000	GF/W/S
PWHDEA	2016	Light Duty Car Hauler Trailer	3	Years	25	22	2041	\$8,000	GF
PWHDEA	2012	Steamer Unit for Truck E176	7	Years	30	23	2042	\$30,000	GF/W/S
FDHDE	2017	Big Tex Utility Trailer	2	Years	25	23	2043	\$4,500	GF
PWHDE	2018	Sewer Vac Truck	1	Years	25	24	2044	\$500,000	GF/W/S

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Introduction

The goal of this paper is to develop a General Fund Fund Balance and Reserve Balance policy for the City of Homer. In order to do achieve that lofty goal, the paper establishes common definitions of these terms and methodology for reviewing recommendations and finding the best fit for the City of Homer. The current state and local fiscal climate is taken into consideration, as are the implications, both legal and in human resources, of the absence of a policy, or the ‘do nothing’ option. Best practices are analyzed from literature, professional organizations and the experiences of similarly sized municipalities around the country. A deep dive into the City of Homer’s current practices in fund balance and reserve management exposes challenges the municipality faces. Finally, this paper concludes with a recommendation on maintaining a fund balance reserve target and a three-pronged approach to reserve balance policy that takes capital asset management into consideration. The appendix of this paper has a draft policy establishing General Fund Fund Balance and Reserve Balance policies for consideration by the Homer City Council.

Definitions

What is a fund balance policy? How does it differ from a reserve policy? According to the Municipal Research and Services Center (MSRC), fund balance is a term used to describe the difference between a fund’s assets and liabilities and describes the net position of local government funds (MRSC.org, 2019). Fund balance policies are necessary to make sure there is enough actual money on hand to pay the bills even though tax revenue and cash flow may be cyclical in nature. It is also critical to have funds on hand to be able to meet unanticipated, or emergency expenditures. The definition of an emergency could be an unexpected sharp and sudden reduction in revenue or increased spending due to a natural disaster. May municipalities spend a great deal of time defining what an emergency is to their community through strategic planning and code changes so as to protect the corpus of the fund balance.

Fund balance is a constantly moving number since it is a snapshot in time of what the overall position of the fund is. Generally speaking, the City of Homer aims to keep 6 months operating budget, or \$6 million in General Fund Fund Balance. If annual revenue versus expenditures falls short, the difference is made up in fund balance. Conversely, if there is a surplus, it rolls into fund balance. Homer City Code 3.05.035 dictates that appropriations shall lapse at the end of the fiscal year to the extent they have not been fully expended or encumbered (HCC online) but remains silent on a target or goal funding about for fund balance.

It is difficult for the layperson to distinguish between reserves and fund balance. Some municipalities use fund balance more as a capital reserve account, but they are fundamentally different with different purposes.

Methodology

This paper analysis a combination of best practices derived from the General Finance Officers Association (GFOA) and literature from other professional organizations. GFOA has gone so far as to develop a rating system and numeric tool to help municipalities in setting fund balance goals. The second part of the analysis was to review what other municipalities have implemented for target levels and how they got to

those levels. With the exception of the Kenai Peninsula Borough, these municipalities were recommended through the Municipal Research and Services Center (MRSC), a Washington nonprofit that provides professional advice and policy recommendations to citizens and local governments (MRSC.org).

Background: Politics and Economics

State Fiscal Climate

The State of Alaska is facing a fiscal crisis not seen since the oil crash in the 1980s. This has triggered a state-wide recession and cuts to government – both state programs and contracts with local governments to provide state services. This has resulted in job losses in state and local government. In addition to cuts that have been already made, there are threats of more cuts from the Dunleavy administration and general uncertainty that is stymieing growth in the economy as lawmakers have failed to reach an agreement on how to resolve the fiscal crisis (ADN, 2018).

State budget cuts and general economic uncertainty has effected the City of Homer in very real ways; in 2015 the City laid off six employees and contracted spending. A successful request to change a dedicated sales tax to help fund general government has helped the City keep their head above water; however officials are watching Juneau carefully for cuts to programs that have a direct impact on the City of Homer operating budget like contracts with community jails, decreases to the on behalf payments into Public Employees Retirement System (PERS) and erosion of Community Assistance. Other cuts that the administration has proposed will have a more indirect impact on City finances by putting pressure on Borough government (who will in turn pressure the cities and residents) and changing our economic landscape with reductions in locally available well-paying jobs and a potential decrease in the capacity of the education system.

City of Homer Political and Fiscal Climate

The Homer City Council is a non-partisan body. Nevertheless, members vary in their philosophies on the role of government and the value of saving for capital improvement projects versus bonding.

For example, conservatives have long criticized government for policies that squirrel away money instead of offering tax relief. In this regard, policies that establish generous savings accounts for government can be seen as irresponsible and unfair to the taxpayers. Nevertheless, conservatives are fiscally conservative by their nature and favor limiting spending on non-core services in favor of ensuring there is adequate savings for emergencies without forcing new taxes. Progressive thought puts more value on increased taxes for increased government services. However, sometimes that philosophy puts pressure on reserve funds and savings account as the temptation to spend money on expanding services is great. The key, and what this paper hopes to address, is to find a balance between the competing demands of funding government through reasonable taxes with adequate savings for both maintenance and emergencies. One thing the Homer City Council can agree on is the need for a fund balance and reserve balance policy. Members on all sides have been requesting administration develop a policy for some time.

Vulnerabilities

An absence of city code to direct the use of fund balance and how to adequately manage reserves leaves a municipality vulnerable on multiple fronts. There is vulnerability to legal challenges without language to authorize the transfer of funds. Furthermore, a lack of reasonable policy and expectations in fund balance

and reserve balance management can lead to irresponsible fiscal habits that compromise an organizations ability to fund basic services. A delicate balance needs to be struck that ensures adequate funding to maintain city services, city infrastructure and prioritize employee safety.

Legal Implications

The potential ramifications of improper financial management can be far reaching, and a solid fund balance and reserves policy is part of responsible financial management. Alaska law requires a single audit for all first class and home rule municipalities. The audit ensures the public that funds are being spent in accordance with established practices (Alaska Division of Community and Regional Affairs, online). Findings on the audit, or an audit that is not made in a timely manner, jeopardizes an entity's ability to receive state and federal funds. This puts a dollar value and very real consequences on proper accounting practices and best practices.

A fund balance policy also protects from the illegal transfer of funds without proper authority. For example, in the City of Homer all transfers over \$25,000 need to be approved by City Council. This has made some members question how an overage gets automatically rolled into fund balance, which is current practice, instead of expressly appropriated by Council. While administration is not behaving illegally by leaving the funds where they accumulate (HCC 3.05.035 authorizes appropriations to lapse to the fund they originated from at the end of the fiscal year), there is the appearance of impropriety, which can sometimes be just as bad. Another example where operating without policy can create legal vulnerability is keeping funds and transfers between funds separate. The City of Homer has an enterprise fund (Port and Harbor) that is kept separate from the General Fund. Any comingling of those funds would be against City code, and single audit standards, which could have legal consequences.

Human Resources

In the public sector, employees are the biggest expense. Municipalities provide services, and employees are needed to provide those services. Personnel costs constitute 44% of the budget of the City of Homer (City of Homer Budget, p.33 FY2019). While it is wise and prudent to have a reserve policy that puts away enough to fund major maintenance and essential repairs, getting that balance right is critical or you are putting aside money at the expense of your operating budget and compromising your ability to hire employees and adequately perform the services the public demands. Often part of a reserve policy is a required annual minimum transfer, either as a dollar amount or as a percent of operating budget. Nevertheless, this is also often the first place to cut – or not to fund, when times become lean. Councils have to develop a policy that is flexible enough that they can be responsive in lean years and adjust the transfer to reserves without having to lay off workforce to meet reserve balance goals. This means in the good years, the policy needs to mandate a sufficient transfer to buffer against the unexpected. If the policy cuts too close to the bone, you run the risk of not being able to adapt to changing conditions and quickly run out of funds not only for major maintenance and repairs, but also for staffing and providing essential services. On the flip side, if you over prioritize the growth of the municipality's fund balance or reserves, it is at the expense of hiring employees to provide services. For example, at the City of Homer we do not have enough police officers to have double coverage on every shift. This means if something really terrible and involved happens, our staff could have no back up. This of course has legal implications, as discussed previously, and puts our staff at great risk to harm. If we had a very large and comfortable police reserves that we added to every year, one could question if those fund would not be better spent on hiring more staff to mitigate risk and protect the safety of our employees.

Employee safety is a critical element of why a reserve policy is essential. Reserves are used to fund the replacement of essential equipment like vehicles, and fund safety improvements at facilities. A grate to cover exposed wells to protect water and sewer employees from confined spaces is a great example of an expenditure from reserves that recently happened in the City of Homer budget to protect employees. Safe vehicles is another great example, as is turn out gear for fire fighters – the City of Homer just purchased 2 new patrol vehicles and 10 sets of turn out gear from our reserves to the tune of \$110,000. From a broader perspective, providing a safe, comfortable and pleasant work environment where employees can be productive and thrive is also the responsibility of an employer. This was one of the core messages behind a campaign to fund a new police station for our officers - \$2.7 million of which was funded from City funds on hand. This seed money was able leverage approval of a \$5 million bond from voters tied to an increase in sales tax. This was possible because the City of Homer had reserves to initiate this project and move it beyond the ‘dream’ stage.

Best Practices and Case Studies

Fund Balance

GFOA recommends performing a risk analysis and thorough financial assessment to determine recommended level of fund balance. The recommended levels found in the literature ranged from 2 -6 months operating budget, though some municipalities had targets as low as 10% of operating budget (GFOA, 5024). Various factors determine whether or not municipal savings should be on the higher or lower end of that range including how the fund is used, how volatile revenue is, impact on bond ratings, and the level of exposure to significant one-time outlays. The literature encourages municipalities to undergo a risk analysis of all these factors. For example, pressure on the fund balance from other funds, such as a poor performing enterprise fund that has to be buoyed up by the general fund, will naturally necessitate a higher balance (MRSC, 2019). Where this pressure on the fund balance is most often seen is when municipalities have insufficient capital reserves, a topic we will discuss later, and have to dip into the ‘rainy day fund’ to cover necessary major maintenance and capital expenditures. However, one big no-no is using Fund Balance for ongoing operations; it should only be used for one-time expenditures. Generally speaking, the one-time outlays of cash from Fund Balance are unpredictable and the municipality should have as part of their policy plan in place to replenish the fund balance. Such surprise expenditures could take the form of natural disasters, cuts from State or Federal government, and litigation.

Volatility of revenue is another consideration. A fund balance is designed ‘to provide sufficient cash flow to meet operating needs’ so a policy has to take into consideration when revenue is taken in (when property taxes are remitted, for example) and how predictable the revenue is (MRSC, 2019). Property tax is considered a very stable form of revenue; conversely, sales tax can be more volatile. Therefore, if your municipality depends primarily on sales tax revenue a higher target is appropriate. A third factor to consider is external reasons you might need a large savings account, such as to maintain a favorable bond rating. As part of the risk analysis, GFOA recommends not only considering these factors, but defining how likely each one is to happen (i.e., how likely is a major earthquake?).

Reserves

Reserves should be considered separately from fund balance, though they are interrelated and affect each other, as described above. Reserves exist to fund anticipated and predictable expenditures to maintain and replace major assets. In some ways, an adequate reserve policy is easier to decipher and defend than a fund

balance policy because the anticipated costs are very real and predictable. Nevertheless, it takes time and expertise to determine the adequate levels of funding for reserves, or capital asset management, as GFOA terms it. Adequate capital asset management involves taking a physical inventory of capital assets on a regular basis and translating this into a depreciation schedule that is regularly and adequately funded. In addition to an annual assessment of capital assets by a qualified engineer, GFOA recommends developing an educational campaign every few years to bring the decision making body and public up to speed on why it is necessary to save and plan for major maintenance and depreciation (GFOA, 501). One aspect of a capital asset management plan that varies (based on philosophical approach to government finances) is whether municipalities plan for replacement cost. Many argue that debt should be used to replace major infrastructure, versus saving and paying in advance, as a mechanism for the current user or beneficiary to pay for the current assets. This is compounded by the fact that often saving for replacement requires so much to be put into savings that there is not the political appetite to either leave the savings untouched for a long enough period or collect sufficient revenue to fund it. The ‘pay as you go’ philosophy needs additional financial management and oversight as it can be more risky.

Communication is the key to any good capital asset management plan. Not only do you have to spend time and effort ensuring that the data inputted is accurate and defensible, but you have to convince taxpayers that it is wise and prudent to plan for the future. In order to do this, GFOA recommends using condition ratings, replacement life cycles, actual expenditures and long-term trends (GFOA, 501).

What other municipalities are doing

Best practices from other communities can be a great starting place for developing both a Fund Balance policy and capital asset management plan. However, it is important to note that each municipality will be different in how their finances are structured, limitations and rules that govern how they are used, and most importantly the political will and financial landscape.

The town of Atherton, California has a simple but easy to follow policy that begins with a clearly stated purpose, to “provide quick response to weather economic uncertainty, unexpected situations such as natural disasters, provide sufficient cash flow to avoid the need for short-term borrowing” (Atherton Fund Balance Policy for General Fund). As part of this policy, Atherton assesses the risk to fund balance according to 3 funds up into 3 distinct categories: emergency, economic uncertainty and working capital. Using these metrics, they have set an absolute floor of 15% of the Town’s annual General Fund expenditures.

Closer to home, the Kenai Peninsula Borough (KPB), Alaska has developed a fund balance policy based on five major components: 1) working capital requirements, 2) bond rating and debt service, 3) revenue volatility amount, 4) unexpected expenditure and 5) future capital expansion and contingencies (KPB, March 2018). The KPB policy has a text book quality to it – each element enumerated above has a mathematical formula attached to that, when looked at comprehensively creates a minimum and maximum fund balance for each fiscal year for each fund, including the General Fund. It is worth noting that this strategy does not use a percentage of operating budget as a target, but rather develops a numerical range. One critique could be that though very logical and numbers driven, the complexity of the model makes it difficult to communicate and thereby justify to decision makers and taxpayers.

The Village of Barrington, Illinois establishes a minimum for fund balance by fund based on the specific risk factors to each fund. For example, General Fund is limited to three months operating revenue where the street maintenance program has a higher threshold of 50%. This not only ensures sufficient savings to

maintain this critical program, but as a way to ‘forward fund’ street and road maintenance (Village of Barrington, 2009-2010 Biennial Budget). Barrington is an established community outside of Chicago with a very high value property tax base, which means its revenue is considered relatively stable by GFOA standards.

The City of Ferndale, Washington goes so far as to call the fund balance the ‘rainy day fund’ in policy and stresses the prudent and limited use of it. However, the target for fund balance is low by GFOA standards, 10% of operating expenditures. The municipality is aware of this deficiency and established a goal of increasing this to 20% ‘if a new major retailer comes online after 2012’ (City of Ferndale). The City has a separate Facilities Capital Reserve with a dedicated funding source for “unforeseen City facilities capital expenditures” of \$300,000.

The final community examined was the Community of Leavenworth, Kansas with a robust fund balance policy that sets a goal of 25% operating budget for General Operating Reserves. Their plan further details that any surpluses should be limited to one-time operational expenditures, a planned capital facilities expenditure, or increasing the general fund operating reserve (Leavenworth). It is important to have a plan in place that replenishes fund balance when it dips below the desired levels. Leavenworth’s policy goes on to define optimum levels of savings by fund depending on the specific nature, risk factors and volatility of the fund. The Leavenworth case is a good case study when looking at debt as there is considerable policy developed around how to manage healthy debt service ratios by fund when a high level of debt is incurred.

The City of Homer Experience – Current Practice and Recommendations

Fund Balance

City of Homer Current Practice

The City of Homer has no stated policy in code or otherwise for how fund balance is managed. Rather, the administration and Council work under the assumption that the City of Homer should have at a minimum six months operating revenue (or \$6 million for FY2019) in General Fund Fund Balance. When overall General Fund budget comes in under, or over, it impacts fund balance through no action of City Council. For example, if the City comes in \$250,000 under budget in a fiscal year, those funds grow Fund Balance. Conversely, if expenditures exceed revenue, Fund Balance takes the hit. This unstated policy has come under criticism as of late and Council wants to have more agency in this transaction in order to be able to dedicate surplus funds to an expenditure of their choosing.

Recommendation

After analyzing GFOA best practices and what other municipalities do, I recommend the City of Homer adopt a formal policy that aims to maintain General Fund Fund Balance at 50% of one-year operating expenses. This may seem high compared to other municipalities analyzed, however, my reasoning stems from the following factors:

- 1) The City Council uses Fund Balance for general spending. In many instances in the past three years, City Council has spent funds directly from fund balance. The most notable project was \$800,000 on a remodel of the Fire Hall. If this is going to be a common practice, the fund needs to have sufficient revenue to still be healthy with those dips, or there needs to be the political will to

only dip into fund balance for emergency expenditures. If the latter is the case, I would recommend developing a solid policy on what constitutes an emergency.

2) Although the City does have a reserve fund, between the two this constitutes the entirety of the City of Homer's general fund 'savings.' Other municipalities have emergency funds, capital improvements funds, permanent funds or other places whereby funds are set aside for either emergencies or major expenditures.

3) GFOA recommends a higher fund balance if your funding source is more volatile. The City of Homer primarily depends on sales tax revenue, which is considered more volatile than property tax revenue. Furthermore, given the fiscal situation of the state budget and uncertain impact cuts will have on the overall economy, a conservative approach is recommended.

4) A higher fund balance is recommended by GFOA if your region is prone to natural disasters Homer lies within both an earthquake zone and tsunami zone; either one of those events could have catastrophic short and longer-term impacts that we need to be prepared to handle.

4) A higher fund balance is necessary to be able to maintain cash flow. Property taxes, 1/3 of general fund revenue, are only paid once a year. Sales tax, the bulk of revenue, is paid quarterly but the bulk of it is earned during the summer months.

The question has come up with City Council of what to do when the fund balance exceeds six months operational expenses, which is where it sits for FY2019. Should the excess be spent? Should it be transferred into a reserve account or possibly a permanent fund with less restrictive investment policy where it is able to earn a greater rate of return for the City? My recommendation would be to create a capital projects fund for major capital projects that can serve as seed or match money in the future. We know we are facing many large infrastructure replacement projects such as the Homer Education and Community Recreation Complex, a new public works complex and the wholesale replacement of a fire fleet that is, on average, over 30 years old. In the absence of state and federal money, having local capital to seed these major projects is going to be key to the long-term health of the City.

Reserves

Current Practice

In the case of the City of Homer, there are approximately 20 different reserve accounts that range from fleet reserves to information and technology reverse sub funds for funding IT infrastructure. These funds pay for routine capital expenditures that are outside the scope of the operating budget and are generally one-time expenses over \$25,000. The City of Homer does have a reserves policy on the books, Resolution 2006-101 establishes a goal of 40% of depreciable assets. However, this goal is unrealistic as the City has only ever been able to reach about 10% of the value of depreciable assets. The ambitious nature of the goal makes it not useful to administration or policy makers and the City Council is begging for more concrete standards that they can justify.

Investment in depreciation and regular maintenance has been lacking over the last 10 years at the City due to budget constraints and a lack of appetite to take care of what we have. For example, the fire department fleet is entirely beyond its lifespan and there is no sustainable fleet management plan. In lean years, spending on major maintenance and transfers to reserves is sacrificed to maintain the operating budget –

which makes average spending a poor metric of demand. In addition, major replacement and repairs has depended in the past on robust capital budget and grants, both of which have dried up in the last five years.

Recommendation

After reviewing the literature, best practices, and current City of Homer practices, I believe the City should take a three-pronged approach to reserve management: 1) inventory deferred maintenance and get infrastructure to an adequate baseline 2) establish a goal of keeping reserve funds at a balance of 4 years average spending and 3) establish a capital assets account where funding is set aside for major maintenance or replacement.

The City needs to perform a detailed analysis of our infrastructure and produce a schedule that identifies the most outstanding needs to bring infrastructure up to a reasonable level. This will result in a concentrated push to fund and perform deferred maintenance tasks. This will require an influx of cash and staff capacity to take care of the most egregious projects and establish a schedule for others. From this, we can work backward on how much we should be investing annually in maintaining the infrastructure, plan for replacement at its end of life and put adequate funds away in reserves to fund anticipated expenditures. However, this approach is staff and resource intensive. It is a large project that would be handled by the overstretched Public Works department and likely require hiring outside engineers. Furthermore, there would be significant ongoing cost to keep this list updated and relevant. There is also the very real fear that this number will be so high that there will be no political appetite to save, or spend, at recommended levels.

Once maintenance projects that have been ignored for years are taken care of, budgeted for, or at least planned for, a reasonable and much more conservative approach to reserve management can be implemented. One approach that has been suggested by the current Mayor, Ken Castner, is to cap the necessary reserve spending amount at the four times the average annual spending. Under this scenario, the Council would prioritize replenishing the fund annually with whatever the four-year average in spending is. For the general fund, this only works if you consolidate the 20 separate reserve funds since spending annually in one reserve can be sporadic and not consistent enough to derive reliable averages. Combining these funds may provide the ability to more effectively direct funds to the greatest need, versus departments taking a proprietary approach to available funding.

Evaluating Success

While the recommendations developed in this paper are sound and justifiable for the City of Homer at this moment in time, it is important to revisit the effectiveness of the policy as circumstances change and the City has experience with the policy. For example, if the political climate and comfort level for saving versus borrowing changes within the community and the Council, the target amount for fund balance and reserves may need to be adjusted. Another variable that will influence the effectiveness of the policy is available revenue. If times become lean, it may be impossible to fund at the recommended levels while continuing to provide basic services. If this becomes the case, Council needs to make a policy decision on how to prioritize resources. An unexpected windfall may also prompt tweaking of the policy as the highest and best use of unexpected dollars is explored by Council. Lastly, an emergency draw on fund balance, such as a fiscal crisis or natural disaster will prompt a careful analysis of the policy as Council and management work to rebuild recommended reserve levels.

In addition to being incorporated into city code, the fund balance and reserve balance policy should be integrated as a part of the budget process and published document to prompt review and reflection on a regular basis.

Conclusion

In conclusion, the City of Homer is overdue for a fund balance and reserve balance policy. Though the current practice established in code of surplus funds reverting back to their originating source allowed for a healthy and responsible growth of fund balance, putting reasoning, definitions and targets further institutionalizes this practice. Another problem the City of Homer had was an unrealistic target for reserve funding, 40% of depreciable assets. With millions of dollars in depreciable assets, it became unrealistic to set aside more than 10% making the goal meaningless.

This paper proposes a conservative and reasonable approach to general fund fund balance policy setting a target amount of 6 months operating budget. The recommendations are more divergent from current practice when it comes to the reserve policy. The paper recommends combining all funds into one common general fund reserve and capping it at four times average spending. This only works with the third recommendation of the paper, the establishment of a capital improvement fund to save money for major capital projects and council priorities. The paper further recommends prioritizing the replenishment of the funds in the order listed: fund balance, reserves, and finally capital improvement.

The changes proposed in this paper will require thoughtful deliberation and discussion by Council with input from the Manager, Finance Director and department heads that know their budgets, facilities, and anticipated expenditures best. Decisions on restrictions on spending, prioritization of funds, and what the prudent level of reserves are a matter of policy influenced by the political and economic climate and the personal philosophies of each member. It is a conversation I am looking forward to observing. I appreciate the Council's commitment to good governance and budgeting by pursuing this topic and setting aside time for its careful consideration.

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City of Homer

Fund Balance Policy for the General Fund

General Fund Fund Balance

Purpose

To help the City of Homer provide quick response to weather economic uncertainty, unexpected situations such as natural disasters, and provide sufficient cash flow to avoid the need for short-term borrowing. This policy establishes the appropriate level of reserves which the City will strive to maintain in its General Fund balance; how the target balances will be funded; and the conditions under which fund balance can be used.

Funding Target

Funding of general fund balance targets will generally come from excess revenue over expenditures or one-time revenues. The target fund balance for the fund is six months general fund annual operating expenditures.

Conditions for Use

The use of fund balance shall be limited to unanticipated, emergency non-recurring needs. If the annual audit determines there is more than six months general fund operating revenue in fund balance, it can be appropriated by Council to other funds or to fund qualifying expenditures. Fund balance shall not be used for normal or recurring annual operating expenditures.

Capital Asset Repair and Maintenance Account (CARMA)

Purpose

Capital asset management is essential to extending the life and use of taxpayer funded major assets, facilities and infrastructure. Funds should be set aside annually to ensure funding is available to replace fleet, repair facilities, and replace equipment.

Funding Target

The City will strive to hold no less than four times average annual expenditure in general fund reserves. All general fund reserves will be combined into one fund. This ensures that the highest and best need for the city is prioritized in any given year. The general fund reserves will be replenished by appropriation in the budget process by taking the average of the actual spending for the four prior years.

Any revenue available in excess of ¼ average annual spending will be available for appropriation by Council into the Capital Improvement Fund or other Capital expenditures as determined by Council.

Conditions for Use

Reserve funds should be used to fund fleet replacement, repairs to facilities, and replacement equipment. Reserve funds are not intended to fund major capital projects such as new facilities.

Capital Improvement Fund

Purpose

The purpose of the Capital Improvement Fund is to help fund major capital projects and/or new infrastructure for the City of Homer.

Funding Target

Funding of the Capital Improvement Fund will come from excess revenue over expenditures or one-time revenues.

Conditions for Use

Major Capital projects are defined as projects that have been prioritized through the City of Homer Capital Improvement Plan and, in general, have a total project cost of \$1 million or more. The Capital Improvement Fund is not intended to fund 100% of major capital projects, but rather be a place to accumulate funds as seed money or match funding in anticipation of larger, multiyear projects.

Prioritization of Funds

The funds will be funded in the following priority order: 1) general fund fund balance, 2) CARMA and 3) Capital Improvement Fund.



Developing a GF Fund Balance and Reserve Policy

City Council Committee of the Whole Presentation – June 10, 2019

Objectives

- Overview of Best Practices for GF Fund Balance & Reserve Funds Policy
- Variables to Consider
- Where City of Homer Fits in Those Variables
- City's Capital Asset Long-Term Maintenance Needs
- Historical Context of Capital Asset Funding

Best Practices – GFOA Recommendations

- **Policy should set appropriate level for GF Fund Balance**

- **“Triple A” Risk-Based Approach**

- **A**ccept uncertainty
 - **A**ssess impact
 - **A**ugment

- **Sizing GF Fund Balance**

- No less than 2-6 months of regular general fund operating expenditures
 - Then augment after risk analysis

Best Practices – GFOA recommendations

- **Restrictions – Policy should**

- **Rather than one Fund, categorize reserves:**

- Makes the purposes of the reserves more transparent

- **State the purposes for which the funds are not allowed**

- Fund on-going operations or start new programs

- Define authorization process to access emergency funds

- **Replenishing – Policy should**

- Prioritize funds

- Establish the method and timing for fund replenishment when funds dip below an identified level.

COH GF Fund Balance & Reserve Balance Policy Considerations

- Establish three funds:
 - GF Fund Balance is emergency reserve for one-time events/stabilization funds to offset economic downturns
 - Capital Asset Repairs & Maintenance Account (CARMA)
 - Capital Improvement Fund

Sizing GF Fund Balance – Variables to consider

- **Risk Factors**

- Cash flow needs
- Volatility of revenues
- How frequently GF Fund Balance used for non-emergency expenditures
- Susceptibility to and severity of natural disasters
- Susceptibility to critical infrastructure failure

GF Fund Balance Policy Recommendations

- Target GF fund balance:

6 months of general fund annual operating expenditures

Restricted to unanticipated, emergency, non-recurring needs.

1st priority for replenishing

- Based on risk factors:

- COH cash flow needs
- Relatively volatile revenue source: sales tax revenues
- Historical use of GF Fund Balance
- Susceptibility to major infrastructure damage due to earthquake and/or tsunami
- Age & condition of critical infrastructure (e.g. water/sewer)

Sizing Capital Asset Repair & Maintenance Account (CARMA) Best Practices

- **GFOA**

- Base reserve level on asset management plan and fleet replacement schedule
- Augment if there has been deferred maintenance

- **National Academy of Sciences, Engineering & Medicine**

- Recommend property owners reserve, on average, 2-4% of the replacement value of a facility annually for capital asset repair and maintenance.

Capital Asset Repair & Maintenance Account

- CARMA fund balance:

No more than four times the average annual spending:
 $\$350,000 \times 4 = \$1,400,000$

Restricted to major non-recurring repair/maintenance of capital assets (infrastructure & fleet)

2nd priority for replenishing

- Infrastructure

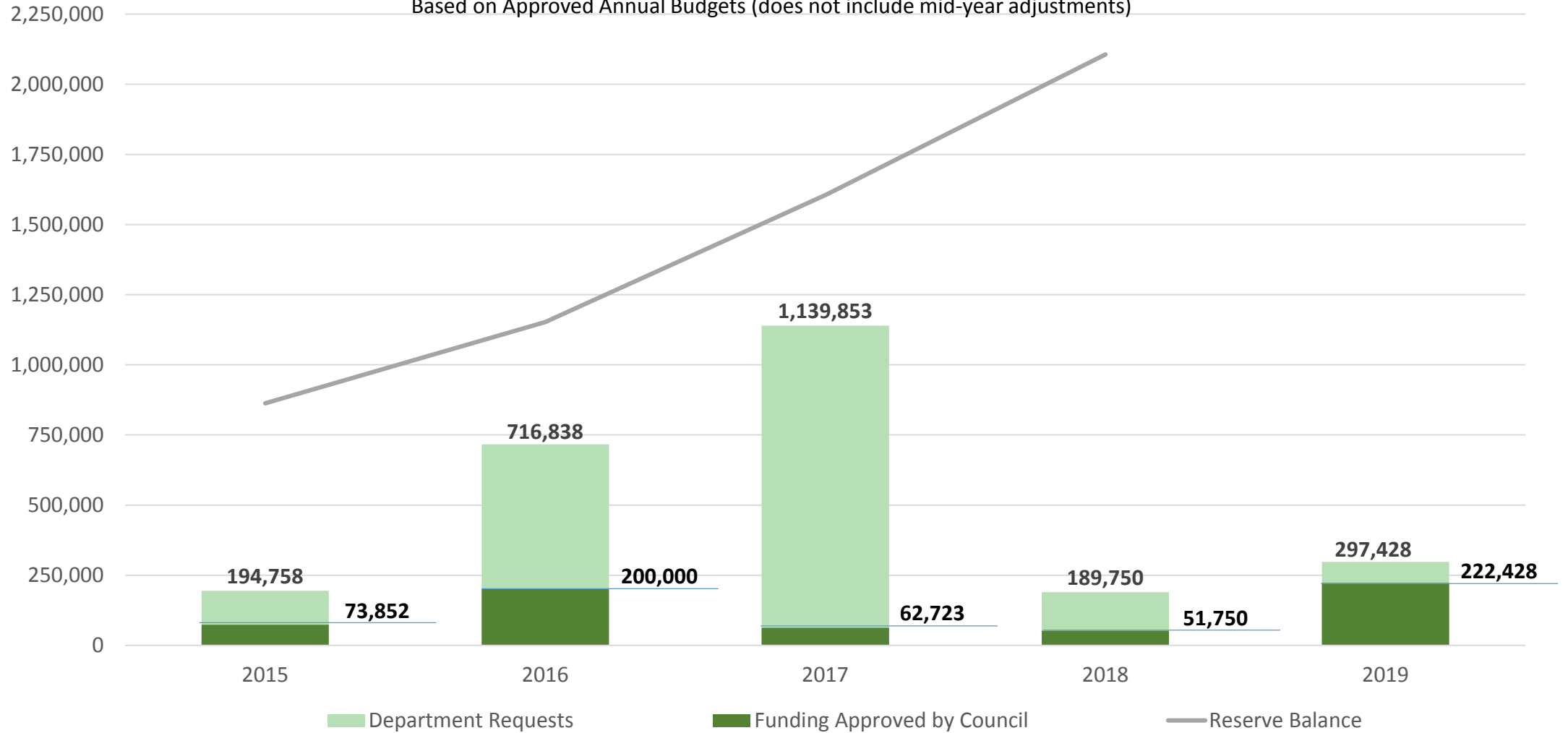
Following NASEM metric:

➤ At GF Infrastructure \$28M replacement value

budget \$550,000 (2%) to \$1.1M (4%) per year for repair

GF Capital Budget Requests and Capital Funding Approved

Based on Approved Annual Budgets (does not include mid-year adjustments)



CARMA: Fleet

- CARMA fund balance:

No more than four times the average annual spending:
 $\$250,000 \times 4 = \$1,000,000$

2nd priority for replenishing

- GF Fleet Reserve

- Replaces City's fleet on a planned, rotation basis as their useful life expires.
- 2019 budget funded \$836,174 for GF fleet replacement, leaving \$53,333 deferred
- 2020 fleet replacement schedule calls for replacing \$1.5M

2019 General Fund-Supported Department Fleet Reserve Budget

Dept.	Approved 2019 Budget
Admin (City Hall)	\$41,929
Public Works (GF)	\$141, 959
Police	\$296,853
Fire	\$355,433

Total: \$836,174

General Fund fleet replacement needs for 2019 and 2020 (replacing equipment ranging from 0 to 2 years of remaining life).

2019

DEPT	Year	DESCRIPTION	CURRENT AGE	TOTAL EXPECTED LIFE	YEARS OF LIFE REMAINING	NEEDS TO BE REPLACED IN THIS YEAR	REPLACEMENT COST	FUNDING SOURCE	
PWHDE	1992	International Vacuum Truck	27	Years	25	-2	2017	N/A	GF/W/S
PWHDEA	1995	Patchman Asphalt Mixer	25	Years	25	0	2019	\$ 40,000	GF/W/S
PWLTV	1989	1989 GMC 3/4 TON	29	Years	29	0	2019	N/A	GF/W/S
PWLTV	1987	1987 CHEVY FLAT BED - PAINT TRUCK	32	Years	32	0	2019	N/A	GF
PWLTV	1999	1999 FORD E250 VAN	20	Years	20	0	2019	\$40,000	GF
FDHDE	2002	2002 POLARIS 6-WHEELER	17	Years	17	0	2019	N/A	GF

2019 GF Deferred Total: \$53,333

2020

DEPT	Year	DESCRIPTION	CURRENT AGE	TOTAL EXPECTED LIFE	YEARS OF LIFE REMAINING	NEEDS TO BE REPLACED IN THIS YEAR	REPLACEMENT COST	FUNDING SOURCE	
PWHDE	1995	410D John Deere Backhoe	24	Years	25	1	2020	\$ 120,000	GF/W/S
HPDLV	2009	2009 CHEV IMPALA	10	Years	11	1	2020	\$40,000	GF
HPDLV	2009	2009 CHEV IMPALA	10	Years	11	1	2020	\$40,000	GF
FDLV	1990	BRUSH 1 - 1990 FORD	29	Years	30	1	2020	\$95,000	GF
FDHDE	1987	1987 Tanker 1 Huri	32	Years	33	1	2020	\$650,000	GF
FDHDE	1989	1989 Tanker 2 E-One	30	Years	31	1	2020	\$650,000	GF

2020 GF Total: \$1,515,000

Sizing Capital Asset Repair & Maintenance Account (CARMA) Considerations

- Capital expenditures not captured in average 4 years spending:
 - Fire Hall Deferred Maintenance
 - New Police Station
 - Projects have 3 years to expend appropriation
- Past availability of State Capital Project Grants
- Deferred maintenance/Fleet replacement

Capital Improvement (CI) Fund

- Recommend establishing a new CI Fund

- Place where Council can dedicate funds to
- provide seed money for major capital replacements \geq \$1M (like Police Station or upcoming Public Works offices) or
- accomplish items on the Capital Improvement Plan.

3rd priority for replenishing

- Funding of the CI Fund will come from excess revenue over expenditures or one-time revenues.

Next steps

Discuss and give direction on the proposed fund balance and reserve balance policy and establishment of a capital improvement funds.

- GF Fund Balance
 - What should that number be?
 - What restrictions should or could be placed in code that limit the spending of those funds?
 - What does replenishment look like?
- Reserve Balance
 - Is no more than four times the average spending a reasonable goal?
 - Should restrictions on what can be funded from here be further codified?
 - Should all general fund reserve funds be consolidated into one fund?
- Capital Improvement Fund
 - Should this fund be established?
 - What would a ranking system look like?
 - Is the purpose of the fund established in the draft policy adequate?
- Prioritization of Funds