



# Agenda

## City Council Joint Worksession with Port & Harbor Advisory Commission

Monday, April 15, 2024 at 5:00 PM

City Hall Cowles Council Chambers In-Person & Via Zoom Webinar

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### Homer City Hall

491 E. Pioneer Avenue  
Homer, Alaska 99603  
[www.cityofhomer-ak.gov](http://www.cityofhomer-ak.gov)

### Zoom Webinar ID: 965 8631 4135 Password: 792566

<https://cityofhomer.zoom.us>  
Dial: 346-248-7799 or 669-900-6833;  
(Toll Free) 888-788-0099 or 877-853-5247

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### 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. Development of a Financial Policy for the Port & Harbor Enterprise Fund.

Memorandum CC-24-088 from Councilmembers Lord and Davis as backup.

### COMMENTS OF THE AUDIENCE (3 minutes)

### ADJOURNMENT

Next Regular Meeting is Monday, April 22, 2024, at 6:00 p.m. A worksession will be held at 4:00 p.m. and Committee of the Whole at 5:00 p.m. A Special Meeting is scheduled on Thursday, April 25, 2024 at 6:00. All meetings scheduled to be held in the City Hall Cowles Council Chambers located at 491 E. Pioneer Avenue, Homer, Alaska and by Zoom webinar.



# MEMORANDUM

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**Providing Direction to the Port & Harbor Staff, The Port and Harbor Advisory Commission and The Finance Department regarding the Development of Draft Financial Policies for the Port and Harbor Enterprise Fund. Lord/Davis.**

**Item Type:** Informational Memorandum  
**Prepared For:** Mayor Castner and Homer City Council  
**CC:** Port & Harbor Staff  
Finance Department  
Port and Harbor Advisory Commission (PHAC)  
**Date:** April 22, 2024  
**From:** Councilmembers Lord and Davis  
**Through:** Melissa Jacobsen, Interim City Manager

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Resolution 23-120 provided direction for developing Fund-specific financial policies, using the Utility Fund as an example. We recognize that this resolution did not have sufficient direction for the Port and Harbor Enterprise Fund, and we are bringing forward another resolution that provides a more robust outline for this effort.

As “Finance Champions”, we will be working with City staff to draft a General Fund Financial Policy. There may be overlap between the three City funds in policy directives, and we will lean on staff to help us ensure we are staying on track.

We look forward to discussion with the Port and Harbor Advisory Commission during our joint worksession, and look forward to their feedback on this policy development.

We anticipate the following general schedule, appreciating that we are entering the busy season:

- Monday, April 15 - Joint worksession with City Council, general discussion on the proposed resolution and direction.
- Monday, April 22 - Council considers the financial policy resolution
- If passed, we anticipate staff will begin pulling together the pieces of a financial policy. The PHAC could include the topic at their April 24<sup>th</sup> meeting to provide additional feedback and thoughts to staff to consider in policy drafting.

- After initial feedback from PHAC, staff will draft Enterprise Fund financial policy and bring that complete draft back to the PHAC for their review and feedback (target date is September). Council champions can be available to help answer questions and liaison back to Council during this process, depending on its complexity.
- Once the PHAC has completed their review, the Port & Harbor Enterprise Fund Financial Policy would then come to City Council for review, discussion, and a vote.

Some resources may be helpful in this process, and we encourage everyone involved to review the City's Utility Fund Financial Policy (included) as well as:

MRSC Financial Policies Overview website and examples

<https://mrsc.org/explore-topics/finance/policies/financial-policies-overview>

GFOA Best Practices: Adopting Financial Policies

<https://www.gfoa.org/materials/adopting-financial-policies>

GFOA Best Practices: Working capital targets for enterprise funds

<https://www.gfoa.org/materials/working-capital-targets-for-enterprise-funds>

**Attachments:**

Draft Resolution 24-0xx

Resolution 23-120

City of Homer Utility Fund Financial Policy

**CITY OF HOMER  
HOMER, ALASKA**

Lord/Erickson/Mayor

**RESOLUTION 23-120**

A RESOLUTION OF THE CITY COUNCIL OF HOMER, ALASKA  
PROVIDING DETAIL AND DIRECTION FOR WORKING WITH STAFF  
TO UPDATE FINANCIAL REPORTING TO THE COUNCIL AND  
DEVELOP A FINANCIAL PLAN FOR THE CITY.

WHEREAS, During the Council’s 2021 strategic planning session, the concept of a “financial plan” was put at the top of the list of priorities, highlighting that a solid financial understanding and sideboards are paramount to responsible decision-making; and

WHEREAS, Homer City Code 3.05.12 lays out the requirement for the City to have a Complete financial plan which is defined as the budget: “The budget shall provide a complete financial plan of all City funds and activities for the next two fiscal years.” ; and

WHEREAS, The City of Homer is organized as a municipality with a manager acting as the chief administrative officer, (AS 29.20.460); and

WHEREAS, As the chief administrator the manager shall make monthly financial reports and other reports on municipal finances and operations as required by the governing body, (AS 29.20.500); and

WHEREAS, Improving the consistency and timeliness of our monthly reporting is the Council's current priority; and

WHEREAS, The Mayor and Council have identified additional areas that need to be better understood and communicated pertaining to the City’s finances to ensure transparency and prudent decision-making by the Council; and

WHEREAS, A “financial plan” for the purposes of these activities will be a report which outlines guidelines and expectations about: the budget document, monthly & quarterly financial reporting, Fund-specific financial policies, Citywide CARMA planning, procurement, and audit expectations; and

WHEREAS, We encourage open and respectful dialogue, questions from the public, and a problem-solving perspective as we work through these topics.

41 NOW, THEREFORE, BE IT RESOLVED that the Homer City Council establishes a financial  
42 plan workgroup with two members of Council, staff, and the Mayor to develop a draft plan for  
43 the Council’s review by February 2024 which includes:

- 44 ● A defined and agreed upon system, with approved templates, of regular financial  
45 reporting to the Council (i.e. monthly balance sheet for specified funds, budget to  
46 actuals, etc.)
- 47 ● Using the Utility Fund as an example, complete financial policies for the General Fund  
48 and Enterprise Fund. We direct the Port and Harbor Commission to begin working with  
49 staff on a Financial Policy for the Enterprise Fund. This should include how we budget  
50 for projects that we don’t anticipate during the budgeting process (reserve accounts!),  
51 how different funds are used and minimum/maximum amounts to target within those  
52 funds, how we fund large capital projects, etc.
- 53 ● Citywide CARMA planning, in line with what Public Works has done for the Fleet, Roads,  
54 and Utility, exploring the potential of moving back to subaccounts within General  
55 CARMA to better track funding.
- 56 ● A review of the audit process, an established goal for audit timeline, and our current  
57 audit contracts with recommendations for when we are off-target of our goals.
- 58 ● An update to the City’s Procurement Policy.

59  
60 BE IT FURTHER RESOLVED that the City will do a full review of Homer City Code Title 3  
61 in 2024 following Council review, feedback, and approval of the financial plan outlined above.

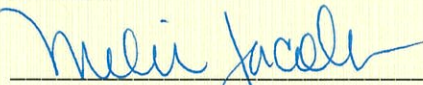
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63 PASSED AND ADOPTED by the Homer City Council this 23<sup>rd</sup> day of October, 2023.

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65 CITY OF HOMER

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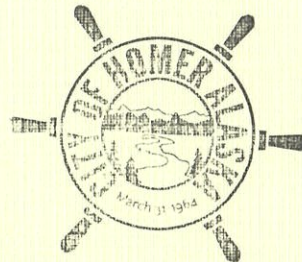
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68 KEN CASTNER, MAYOR

69 ATTEST:

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72 MELISSA JACOBSEN, MMC, CITY CLERK

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74 Fiscal note: N/A



1 **City of Homer Water and Sewer**  
2 **Water and Sewer Utility**  
3 **Financial/Rate Setting Policies**  
4 **Resolution 23-048(S)(A)**

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6  
7 **Introduction**

8 Financial policies are an important tool for maintaining a financially healthy and sustainable  
9 utilities while also maintaining required and/or mandated measures. The Government Finance  
10 Officers Association (GFOA), bond rating agencies, and other industry organizations (e.g., the  
11 American Water Works Association (AWWA), the Water Environment Federation (WEF))  
12 recommend written financial/rate setting policies to provide clear policy direction and guidance.  
13

14 The establishment of written financial policies is intended to:

- 15 • Institutionalize sound financial practices
- 16 • Clarify strategic intent
- 17 • Define boundaries
- 18 • Promote long range strategic thinking
- 19 • Manage risk
- 20 • Adhere to established best practices

21  
22 **Financial Policy Goals and Objectives**

23 The goals of the City’s financial policies are to:

- 24 1. Maintain sufficient revenues for operating and capital needs,
- 25 2. Maintain sufficient reserves, and,
- 26 3. Provide rate stability. Notwithstanding (1) and (2) above, rates will be set to provide  
27 rate/revenue stability and avoid major periodic increases.

28 A detailed set of financial policies have been adopted to establish consistency in utility financial  
29 planning and rate setting decision-making for the City Council and City management team.  
30

31 This framework provides recommendations that take into consideration the typical or median  
32 reserve levels for a “AAA” versus a “AA” rated utility. This framework will also enable the City  
33 Council to make more informed decisions in establishing the financial targets contained within  
34 the financial policies.  
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# Review and Discussion of the City’s Financial/Rate Setting Policies

The Utility Financial Plan will take into consideration the following financial policies. The financial planning period will be for a minimum of five years to determine overall trends and impacts to reserves and rates over a long-term horizon. The Utility Financial Plan is an integral component of the City’s approach to effectively managing the utilities at a sustainable level to support the service levels of the community.

## 1. Reserve Funds

Reserve funds shall be established for the City to properly account for the City’s funds, but to also provide adequate reserve levels to address the different types of funding requirements of the City. The City’s reserve policies shall be as follows:

- 1.1 **Operating Reserve** – The City’s operating reserve is an unrestricted reserve. The minimum operating reserve shall be established at 90 Days of annual O&M expenses (approximately 25% of annual O&M for both the Water and Sewer Funds) as outlined in Exhibits 4 and 6 in the Utility Financial Planning models for water and sewer.
- 1.2 **Capital Reserve** – The City currently has two different capital reserves for the water and sewer utilities. The first is the Homer Accelerated Water and Sewer Program (HAWSP). HAWSP is funded through a portion of the voter approved sales tax and assessments levied on benefited properties. The second is the Capital Asset Repair and Maintenance Allowance (CARMA) **Fund**. CARMA is funded annually through a rate surcharge equal to 15% of water and sewer costs and collected through the water and sewer rates.

In general, HAWSP is intended to provide seed money to support expanded access to the City water and sewer system while CARMA is intended to support improvements, repairs, and replacements of the City’s existing infrastructure, and may also be used for Capital Contingencies or Infrastructure Replacement. CARMA and HAWSP funds may be used jointly to fund a project where applicable. The development of the projection of CARMA and HAWSP funds is provided in Exhibits 8 and 9 respectively of the Utility Financial Plan.

**1.2.1 Homer Accelerated Water and Sewer Program (HAWSP)** – HAWSP will not be incorporated into this financial policy, as HAWSP has its own dedicated policy manual.

**1.2.2 Capital Asset Repair and Maintenance Allowance (CARMA) Fund** – The CARMA reserve was established to fund improvements, repairs, and replacements to the City’s existing water and sewer systems. The level of CARMA funding can be adjusted by the City Council. “The amount of the CARMA funds shall be established by City Council in the biennial budget based on the projected maintenance and repair needs of the City.” (Ordinance 19-35(S)(A)). CARMA is funded annually through a rate surcharge equal to 15% of budgeted water and sewer costs and collected through the water and sewer rates. Balance minimums and maximums are as follows: Water CARMA - minimum of \$500,000 and a maximum of \$1,500,000; Sewer CARMA - minimum of \$500,000 and a

81 maximum of \$1,500,000. Additionally, the CARMA accounts may be supplemented by  
82 transfers from the Utility Operations Fund Balance (with Council appropriation).

83 The intent of the City of Homer Water and Sewer CARMA Fund is “for appropriation and  
84 expenditure for equipment replacement, fleet replacement, engineering or planning  
85 services, major maintenance of city facilities, or any other purpose as identified and  
86 recommended by the City Manager and authorized by the City Council...and to extend  
87 the life and use of taxpayer funded assets, facilities and infrastructure.” (See Ordinance  
88 19-35(S)(A)). The Water and Sewer Utilities - which operate independently - use CARMA  
89 Funds for improvements, repairs, and replacements to the City’s existing water and  
90 sewer systems. CARMA Funds may additionally be used for capital contingencies or  
91 infrastructure replacement and can be used in conjunction with HAWSP to jointly fund  
92 a project.

## 93 **2. Balanced Operating Budget**

94 **2.1 Self-Supporting** – The water and sewer utility shall be self-supporting, where current  
95 revenue fully funds current operating expenditures on an annual basis.

96 **2.2 Adequate Funding to Preserve System Assets** – The City’s assets shall be properly  
97 operated and maintained to provide for a long life. Annual operating expenditures will  
98 be budgeted and funded at a level that promotes the efficient operation of and  
99 preservation of assets through the asset’s useful life.

100 **2.3 Evaluation and Monitoring of Cost** – Costs will be monitored monthly to ensure the  
101 utility is operated in a cost effective and economically prudent manner and reported to  
102 the City Council on a quarterly basis.

103 **2.4 Positive Annual Net Income** – The City shall plan for annual net income (total revenue  
104 less O&M, taxes or transfers, debt service, and capital projects funded from rates)  
105 greater than or equal to zero (positive balance of funds).

106 **2.5 Strive for Rate Stability** – The City’s rates should be stable over time while generating  
107 sufficient revenue. As a part of the annual budgeting process, the City shall review the  
108 rates to confirm the adequacy of the current rates.

109 **2.6 Disposition of “One-Time” Revenue** – In instances of large one-time revenues (e.g.,  
110 legal settlement), if not specifically earmarked, the funds will be transferred to an  
111 appropriate reserve(s) (operating, capital, or rate stabilization).

112 **2.7 Alternative Funding/Revenue Diversification** – To minimize overall rates, the City  
113 should explore alternative revenue sources such as grants and direct developer  
114 contributions.

115 **2.8 Fund Balance** – the Fund Balance is an accumulation of fiscal year net activity (revenues  
116 over expenditures). The Utility Operating Fund Balance is used when purchasing  
117 inventory items. These items will be expensed (pulled out of inventory) when utilized.  
118 It may also be used to replenish the CARMA accounts or “buy down” rates.

## 119 **3. Establishing Rates and Fees**

120 The City shall establish rates utilizing industry recognized “generally accepted” rate setting  
121 methodologies. This will provide the City with consistency in their ratemaking process, while also



122 establishing rates which are legally defensible. The City’s policies on establishing the water and  
123 sewer rates and fees, and the general methodologies to be utilized, are as follows:

124 **3.1 Revenue Requirement Analysis**

125 The revenue requirement analysis provides a projection of the City’s revenues and  
126 expenditures for a defined time period. The revenue requirement analysis shall provide  
127 the City Council with the information and cost-basis to determine the size and timing of  
128 any proposed rate adjustments. The City’s revenue requirement analysis methodology  
129 shall consider the following:

130 3.1.1 The revenue requirement (financial plan) analysis will be developed from the  
131 current year’s budget, as part of the budget process.

132 3.1.2 Revenue requirements will be established using the “cash basis” methodology.  
133 The “cash basis” methodology includes O&M expenses, and taxes/transfer  
134 payments. The revenue requirements may include a component for change in  
135 working capital/rate stabilization funds to manage reserve balances and  
136 mitigate rate impacts.

137 3.1.3 Costs shared across utilities shall be allocated to each utility based an equitable  
138 allocation method. These may include, but not be limited to, labor ratios,  
139 number of customers, revenues, usage etc. The allocation method should be  
140 whichever method most equitably allocates the specific cost.

141 3.1.4 Any wholesale increases imposed upon the City by a water supplier or  
142 wastewater treatment agency will be reviewed for financial/rate impacts.

143 3.1.5 The City’s revenue requirement analysis shall fully incorporate the City’s reserve  
144 and budgeting policies.

145 3.1.6 The City’s goal is to project revenue requirements for a minimum of five years  
146 into the future.

147 **3.2 Cost of Service Analysis**

148 A cost of service analysis provides an equitable method to allocate the City’s water and  
149 sewer revenue requirements to the customers utilizing the service. The City’s cost of  
150 service analysis for the water utility shall use generally accepted cost of service  
151 methodologies as defined by the American Water Works Association (AWWA) and the  
152 analysis developed for the City’s sewer utility shall use cost of service methodologies as  
153 defined by the Water Environment Federation (WEF). The City’s water and sewer cost  
154 of service shall be developed to provide an equitable allocation of costs by taking into  
155 consideration a customer group’s (e.g. residential, commercial) facility requirements  
156 and usage characteristics. The City’s specific cost of service policies are as follows:

157 3.2.1 The cost of service shall be developed for a projected one-year time period or  
158 the period over which rates will be set, utilizing the revenue requirements as  
159 developed in 4.1.

160 3.2.2 The cost of service analysis shall be designed and developed to consider the  
161 unique and specific circumstances of the City’s water and sewer system.

162 3.2.3 The City shall allocate costs to customer class of service based upon facility  
163 requirements and usage characteristics.

164 3.2.4 When necessary, the City may phase-in the cost of service results to transition

165 to fully-cost based rates.

166 **3.3 Rate Design Analysis**

167 The development of cost-based rate designs concludes the City’s rate setting process.  
168 The development of rate designs utilizes the results from the revenue requirement and  
169 cost of service analysis to establish the target level of revenues for each customer class  
170 of service (rate schedule). The City’s rate design analysis is primarily focused on the  
171 structure of the rates. The City’s rate design analysis policies are as follows:

172 3.3.1 The City shall utilize the results of the revenue requirement analysis and cost of  
173 service analysis in the development of final proposed rate designs.

174 3.3.2 Rates shall be designed to collect the overall target level of revenues for each  
175 customer class of service.

176 3.3.3 The City’s rate designs shall be reflective of the City Council’s rate design goals  
177 and objectives, while also being reflective of the greater public purpose (e.g.,  
178 economic development, conservation, etc.).

179 3.3.4 The City shall take into consideration both fixed and variable costs in the  
180 development of final proposed rates. The average unit costs calculated within  
181 the cost of service analysis provides the cost-information related to fixed and  
182 variable costs.

183 3.3.4 Bill comparisons shall be developed for all proposed rate designs to illustrate the  
184 general impacts to customers across a range of consumption.

185 3.3.5 In establishing the final water and sewer rates, the City’s Council may take into  
186 consideration neighboring utility rates, but not to the financial detriment of the  
187 City.

188 **3.4 Other Rate Setting Considerations**

189 Provided below are other policies related to the City’s rate setting process.

190 3.4.1 At a minimum, the City shall conduct a comprehensive rate study every five (5)  
191 years to update assumptions and determine financial sustainability.

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**CITY OF HOMER  
HOMER, ALASKA**

Lord/Davis

**RESOLUTION 24-0xx**

A RESOLUTION OF THE CITY COUNCIL OF HOMER, ALASKA,  
PROVIDING DIRECTION TO THE PORT AND HARBOR STAFF, PORT  
AND HARBOR ADVISORY COMMISSION AND THE FINANCE  
DEPARTMENT REGARDING THE DEVELOPMENT OF DRAFT  
FINANCIAL POLICIES FOR THE PORT AND HARBOR ENTERPRISE  
FUND.

WHEREAS, Sound Financial policies are an important tool for maintaining a financially healthy and sustainable operation and provide transparency with public funds; and

WHEREAS, The City of Homer maintains separate funds including but not limited to the General Fund, Utility Fund and the Port & Harbor Enterprise Fund; and

WHEREAS, The City Council developed and adopted the Utility Fund Financial Policy with the help of advisors in 2023 and has committed to developing similar policies for the General Fund and the Port & Harbor Enterprise Fund; and

WHEREAS, The Port & Harbor Advisory Commission provides the City Council with valuable advice on the Port & Harbor Enterprise operations.

NOW, THEREFORE, BE IT RESOLVED that the City Council of Homer, Alaska, hereby Provides Direction to the Port and Harbor Staff, the Port and Harbor Advisory Commission and the Finance Department regarding the Development of Draft Financial Policies for the Port & Harbor Enterprise Fund.

PASSED AND ADOPTED by the Homer City Council this 22<sup>nd</sup> day of April, 2024.

CITY OF HOMER

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KEN CASTNER, MAYOR

ATTEST:

\_\_\_\_\_  
RENEE KRAUSE, MMC, ACTING CITY CLERK

42 **Fiscal Note:**