



City of Homer

City Manager

491 East Pioneer Avenue
Homer, Alaska 99603
907-235-8121, X-2222

Fax (907) 235-3148 E-mail: wwrede@ci.homer.ak.us Web Site: www.ci.homer.ak.us

MANAGER'S REPORT October 11, 2010

MEMORANDUM

FY 2011 DRAFT BUDGET SUMMARY

TO: Mayor Hornaday and Homer City Council

DATE: October 4, 2010

This Memorandum contains an outline and summary of the Draft FY 2011 Operating Budget. The draft budget was placed in your mail boxes on October 4, 2010. The budget will be posted on line and will be available in hard copy for public review at the Clerk's office. The Council is scheduled to receive a full briefing on the budget at the Committee of the Whole meeting on October 11. There is a public hearing scheduled on the draft at the regular meeting the same night. The budget ordinance along with all of the associated resolutions is scheduled to be introduced at the regular meeting on October 25. At that point, the Council will be able to make amendments as it sees necessary and appropriate.

Following is a summary of the draft budget for the General Fund and the two Enterprise Funds.

General Fund

At the regular meeting on September 27, I reported to the Council that revenues were projected to be down from 2010. The primary reasons for that included reduced property taxes, loss of rent for the old intermediate school, and a reduction in the special services contract with the Alaska State Troopers. In addition, revenue from sales taxes did not appear to be up as some had predicted. This reduction in revenue coupled with an increase in some fixed costs created an initial budget deficit of approximately \$300,000 before equipment and personnel requests were considered. By meeting time, the deficit had been reduced to just over \$200,000 but much work remained to be done.

The draft budget before you is balanced in the sense that expenditures do not exceed revenues. We were able to balance the budget by making additional cuts, slightly adjusting revenues based upon new information, and minimally raising fees (airport parking and administration overhead). We were very fortunate this year that insurance costs went down significantly. Property, auto, and liability insurance costs were reduced by \$70,000 in the General Fund alone because each department participated in AML/JIA risk reduction training. We were also able to reduce the contribution to the internal service fund by close to \$90,000 because the fund balance has grown to a comfortable level. These are one time reductions though and likely cannot be repeated next year.

Following is an outline of where the cuts were made, significant budget highlights, and some thoughts about the future.

The Additional Cuts / Where Did They Come From?

- 5% cut on average to each department budget
- A reduction in the contribution to the Internal Service Fund (self insured health plan)
- Funding for two parks seasonal employee positions
- Funding for one seasonal beach patrol / parking enforcement aid
- Deeper cuts in training, travel, and professional services line items across the board
- Reduction in snow removal budget
- Cuts to Council travel, subsistence, lobbying, and training budgets
- A myriad of additional cuts to supplies, materials
- Additional cuts to overtime budgets

Anticipated Impacts

The budget reductions noted above may not be too noticeable to the general public in the short term but the impacts will be felt over time, especially when you consider that many of these same areas have been already cut substantially over the past two years. For example, this budget reduces training funds to levels that should concern us all. For the City to provide a high level of service, it must have highly trained and professional employees. Eliminating training options for the Police, Fire, and Public Works Departments in particular can lead to unwanted costs and consequences later on.

The two seasonal parks positions are responsible for a wide variety of things including cleaning bathrooms and collecting trash. This will mean that the work will be spread to other employees and a reduced level of service overall can be expected for parks maintenance, camp fee collection, landscaping and beautification projects (especially on Pioneer Ave.) and public education on beach policies. The loss of a seasonal parking aid will mean elimination of beach patrols and a reduced parking enforcement presence at a time when the City is considering taking over parking responsibility for the entire Spit. Cuts to professional services means that we will likely have to seek a separate budget ordinance every time we need a surveyor or an assessor in the course of conducting normal City business.

Cuts to overtime budgets do not mean that there is less work to do. It just means that employees will pile up more compensation time. Although that does not cost the City cash, it does lower productivity because employees spend less time in the office. This is a particular problem for Planning and the Clerk's office as the number of committees continues to expand. Finally, there is only so much that you can reduce material and supply budgets before employees cannot do their jobs. We are getting very close to that now.

Draft Budget Highlights

- Operating Budget reduced by \$264,704 or about 2.8%
- No Employee COLA (2nd year in a row)
- No contributions to depreciation reserves
- No contributions to fleet reserves
- Vacant positions at Police, Fire, Public Works, Finance, and Clerks remain unfilled
- No vehicle or equipment purchases (with exception of a few computers, \$36,000 in fire department equipment, and new sliding glass doors at airport terminal)
- Fund Balance Grows very slightly

- 5% reduction in non-profit contribution

Discussion

My goal in preparing the budget this year was to come up with a short term, transitional budget that would for the most part avoid additional service cutbacks and cause as little turmoil in the community as possible. The idea was to prepare a budget that would provide the Council and the community with a little breathing room to thoughtfully discuss the level of services it is willing to pay for going forward. I think this budget does that but it is not sustainable for long. My hope is that this budget and budget message will serve as a wake-up call and will lead to good community dialog without the pressure of an immediate budget axe hovering overhead.

Unless the economy rebounds significantly or new revenue sources are identified, the budget problem is likely to be worse next year. The City cannot continue to defer transfers to its depreciation accounts or investments in its infrastructure. Sooner or later, the bill will come due. Additional cuts can be made to employee compensation packages and staffing levels but they must be weighed against reduced productivity, lowered qualifications and skill sets, and deteriorating morale. We have basically reached the bottom when it comes to cuts in supplies, materials, training, travel, overtime, and other “low hanging fruit”.

In short, the City can no longer simply “cut the fat”. Staffing levels are about as low as they can go and still provide something that resembles the same level of service. We continue to look for ways to operate more efficiently (energy consumption and procurement for example) but there are limits to how far that can take you. Future budget reductions will necessarily include elimination of entire programs or services. The Council will have to consider structural changes that fundamentally change the level and type of services provided. In addition to eliminating programs and services, these changes may include some of the things we see taking place in the Lower 48 (and Anchorage for that matter) such as reduced hours of operations, furloughs, layoffs, and outsourcing some functions.

Port and Harbor Enterprise Fund

The Port and Harbor Enterprise Fund is in relatively good shape, at least with respect to the short term and this year’s budget. The Port and Harbor has no outstanding debt with the exception of a small equipment loan. Revenues are projected to increase slightly next year and will increase by over \$100,000 if a recommendation to increase fees by 3% is approved. Operating expenses are down from last year by over \$100,000, mostly due to decreases in insurance costs. The draft budget proposes that \$500,000 be transferred to depreciation and fleet reserves.

The draft budget contains no new employees and no COLA for existing employees. The same reductions in contributions to the internal service fund were applied. No new vehicles are included except for a ½ ton pick-up for Port Maintenance. Fortunately, the Port and Harbor is in a position to make some targeted investments in its infrastructure. The draft budget contains \$160,000 in capital improvements that includes upgrades to the harbor tug, a crane rebuild on the Fish Dock, an electrical conduit overhaul on the Fish Dock, upgrades to the ice delivery system, and replacement of the Wiggins forklift.

Discussion

As noted above, the Port and Harbor Enterprise Fund is in good shape overall, especially if the planning horizon is short term. However, the auditors have reminded us again this year that the fund needs to improve its cash balance situation and significantly enlarge its reserves. As many have noted, the port and harbor facilities are probably the most important economic engine we have in this community. The City should take a long term view in terms of investing in existing infrastructure there. The port and

harbor contains upward of \$70 Million dollars of infrastructure but the City only has just over \$1 Million in reserves. Much of this infrastructure, such as the ice plant and the Fish Dock cranes is 25 years old. We have been treading water but not really maintaining and investing as we should. One large breakdown could wipe out the reserves in short order.

To that end, the administration is recommending a 3% increase in most fees. Fees have not been raised for several years and they remain low for the most part compared to other comparable harbors. The extra revenue would be used to grow the reserves and maintain the facilities that we have. Adequate reserves and a healthy revenue stream are also vital if bond sales or grant matching funds are needed in the future.

Water and Sewer Fund

As you know, the Council has decided to set water and sewer rates every other year at mid-year. Council will revisit the water and sewer budget and water and sewer rates later this spring. However, in the meantime, a water and sewer budget must be approved along with the rest of the operating budget so that operations can continue through the first part of FY 2011.

The Water and Sewer Enterprise Fund is in pretty good shape overall considering the fundamental problems it must overcome. Those problems include a very expensive and far flung infrastructure and relatively few customers to pay for it. The overall picture becomes more tenuous when debt is considered. Although debt payments are made by the Homer Accelerated Water and Sewer Program Fund, a separate fund supported by sales tax revenues, this still remains water and sewer debt and it is close to \$14 Million. When the two funds are combined, like the auditors like to do, the overall picture suggests caution and close monitoring.

This discussion is limited to the Water and Sewer Enterprise Fund. Total water and sewer fund revenues were down this year and are projected to be down next year as well. The dip in revenues was mostly on the water side and it has been suggested that it is due in part to a very wet summer season and to conservation efforts on the part of consumers. The draft budget contains operating expenses that are essentially flat. There are no COLAs for employees and contributions to the internal service fund were reduced similar to the other funds. The budget contains no new employees, no new vehicles, and transfers \$500,000 into the reserves. The Water and Sewer Fund has just under \$4 Million in reserves. The draft budget contains sewer capital project funding for polymer feed equipment replacement and a bio-solids treatment feasibility study. The purpose of the study is to increase efficiency, reduce energy costs, and prepare for the day that the Borough closes the landfill.

Discussion

Discussion this spring will likely center on several key topics:

- How do we promote in-filling, increase customers, and increase revenues so that the cost of maintenance and operations can be shouldered by more people?
- Should the Water and Sewer Enterprise Fund be subsidized in order to keep rates down? If so, how?
- Is the present fee schedule and cost apportionment between residential, commercial and bulk carrier classes fair and equitable? If not, how should it be adjusted?
- Are there ways to reduce costs we have not thought of yet?

