



City of Homer

www.cityofhomer-ak.gov

Office of the City Manager

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Memorandum

TO: Mayor Zak and Homer City Council
FROM: Katie Koester, City Manager
DATE: June 21, 2017
SUBJECT: June 26 City Manager's Report

Financial Management Software Training

At the June 12th Council meeting I mentioned that staff was working with Caselle, the provider of our financial management software, on a resolution to a billing problem where sales tax was calculated incorrectly for last month's water and sewer bills. I am pleased to report that as part of the resolution Caselle will be providing over \$8,000 in complementary in person training for our staff. Since I began working at the City over 5 years ago there have been many complaints about the software from both veteran and occasional users. This has created the need for manual overrides, which in turn increases the opportunity for human error. I am confident multiple days of customized training will help us use the software to its fullest capacity. While switching software is an option I have considered, the learning curve for new software would be steep and potentially painful. I am hopeful that getting better customer service and customized training from our existing vendor will alleviate that need.

Citizen's Academy

I have received interest from the public in reinstating the Citizens Academy we had in 2014. The Academy provided 15 area residents with an in-depth look at every aspect of City government. Every member of the public that went through the academy had a new appreciation for the diverse services the City provides and the public servants who provide them. The budget for the academy was \$4,000. Half went to advertising/logistics and the other half to food; with every session lasting 3 hours or more over the dinner hour we felt it was important to feed people. Ideally, we would hold an academy every fall for potential candidates, however it takes a tremendous amount of staff time to pull off the Academy and department heads and Council are consumed with the budget during the fall. I would like Council's feedback on incorporating a Citizens academy into the 2018 budget (likely in February) and if they feel like it would be a valuable use of their time – ideally some council members would attend as it provides a wealth of information about the departments you oversee. See attached agenda from 2014 for more details on what the academy covered.

Alaska State Chamber Presentation

Mayor Zak and I had the privilege of presenting to the Alaska State Chamber while they were in town on the economic past, present and future of Homer. I learned a lot about our past in coal, dairy, and timber – and just when Homer to outgrow Seldovia as the regional hub preparing the presentation and discovered some great images of early Homer. Chamber representatives from all major Alaskan industries were in town for 2 days to explore our town.

ISER Report on Borough Finances and Employment

A Regional Assessment of Borough Government Finances And Employment is an analysis by ISER (Institute of Social and Economic Research at UAA) of how the decline of State revenues might affect Alaska's 19 borough governments. Below is a synopsis of the major findings, with a focus on KPB:

Since the 1980's the State has relied on oil wealth to provide three types of aid to Alaska's boroughs: revenue sharing for providing basic public services, grants for capital projects and aid for schools. The report shows that these State dollars play a very important role in financing local government, and that role has grown over time. The share of Borough revenues coming from the State more than doubled between 2005 and 2015. KPB's average budget share of State revenues over the last ten years is 14%, below the overall average rate of 28%. (It's higher than Anchorage with a large tax base but much lower than several boroughs with lower tax bases.) On average borough's raised The rest of their revenues from local taxes (52%) of their revenues from local taxes and federal dollars and miscellaneous other local fees (20%).

During these ten years, Borough government revenues have remained stable and grown. When the fiscal stress the State is experiencing makes its way to local government as State budget cuts, they will either need to raise taxes or reduce services.

The report found that Borough revenues fluctuate from year to year, and a lot of that volatility is caused by State funding fluctuations. 76% of KPB's variation in revenue is explained by changes in State dollars, on the high end. Volatility is high in boroughs with few internal sources of revenues. "This last point is important, because taxes—property taxes in particular—tend to be stable while external revenues (price of fish, numbers of tourists, federal dollars and now State dollars) tend to fluctuate." Future declines in State dollars going to boroughs will be harder on boroughs with few internal sources of revenues.

The report estimated how much the boroughs would have to collect in additional taxes, if there were no state aid at all. They were not predicting that the state will eliminate aid—the state constitution requires the state to provide for public education. But the estimates illustrate how critical state dollars are to boroughs—and to borough taxpayers. KPB borough government would have to collect an extra \$376 from each person to replace the total amount of 2015 State aid.

On the employment front, employment and wages of local government are more crucial to smaller, remote boroughs. 14.7% of total KPB jobs are borough/local government, primarily employed by the school district. Losses in this sector will impact our economy, but not as much as say the North Slope and Lake & Peninsula Borough with 59% and 61% government employment. Going forward, it will be crucial for the vulnerable economies to balance the needs of providing services and imposing taxes that fall on their residents.

A complete copy of the report can be found here: http://www.iser.uaa.alaska.edu/Publications/2017_06-RegionalAssessmentBorGovFinEmployment.pdf

Correction to Information Presented Regarding Ordinance 17-23, repealing the Permanent Fund

When Council passed Ordinance 17-23, at the last Council meeting you did so with incomplete information. I want to bring this to your attention as soon as possible incase Council would like to reevaluate passage of the Ordinance at the next meeting. Please see the attached memo from me outlining the problem, how to fix it, and why it won't happen again.

Enc:

2014 Citizens Academy Agenda

Quarterly Report on Customer Feedback Forms

Memos on Ordinance 17-23 from City Manager and Finance Director

Thank You email from Kachemak Nordic Ski Club

City of Homer Citizens Academy Agenda

Thursdays 5:30-8:00pm February 20 through March 27

Certification Ceremony April 14

- 1) Thursday February 20, 2014. 5:30 -8pm. City Hall Cowles Council Chambers. 491 E. Pioneer Avenue.

5:30 – Overview and Welcome
5:45 – Office of the City Manager
6:15 – City Attorney
6:45 – Break/Dinner
7:00 – Office of the City Clerk
8:00 – End of Day. Submit Evaluation

- 2) Thursday, February 27, 2014. 5:30-8pm. Harbormaster's Office. 4350 Homer Spit Road.

5:30 – Welcome and Tour of Harbormaster's Office
5:45 – Load on bus. Maintenance Shop for Dinner/Overview
6:15 – Port and Harbor Facilities Tour: DWD, Pioneer Dock, Fish Dock/Ice Plant, Overview of Facility Improvements Underway
8:00 – Wrap up at Harbormaster's Office. Submit Evaluation.

- 3) Thursday, March 6, 2014. 5:30-8pm. Homer Public Library. 500 Hazel Avenue.

5:30 – Library
6:30 – Break/Dinner
6:45 – Personnel
7:30 – Information Technology
8:00 – End of Day. Submit Evaluation

- 4) Thursday, March 13, 2014. 5:30-8pm. Homer Public Works. 3575 Heath Street.

5:30 – Community Recreation
5:45 – Public Works
6:45 – Break/Dinner
7:00 – Water/Sewer Treatment (tour of Sewer Treatment Facility)
8:00 – Wrap up. Submit Evaluation. Sign up for Water Treatment Tour

5) Thursday, March 20, 2014. 5:30-8pm. City Hall Cowles Council Chambers. 491 E. Pioneer Avenue.

5:30 – Homer Volunteer Fire Department.

6:30 – Break/Dinner

6:45 – Homer Police Department

8:00 – End of Day. Submit Evaluation. Sign up for tour of Police Station/Fire Hall

6) Thursday March 27, 2014. City Hall Council Chambers. 491 E. Pioneer Avenue Lower Entrance.

5:30 – Planning Department

6:40 – Break/Dinner

6:50 – Finance Department

8:00 – End of Day. Submit Evaluation

1) Monday April 14, 2014. City Hall Council Chambers. 491 E. Pioneer Avenue Lower Entrance.

6:00 – City Council Regular Meeting. Certification Ceremony. Cake with Council, guests, and public.

DATE	TYPE	CUST COMMENT	Response
Feb-11	comment	Library patron suggested the library get the Kingkiller Chronicle series.	Librarian informed patron that they do own the series and the patron was pleased.
Apr-24	concern	Melody Rose Lane street sign only has street name printed on one side of sign so drivers can only see name when driving uphill.	Communications Coordinator spoke with Public Works to understand what could be done and communicated follow up options to the customer. (The street sign is in a private driveway and is not a publically installed street sign.)
May-18	complaint	Library patron cut off of computer time.	No contact info was provided so staff could not follow up.
May-30	compliment	Special thanks to Port & Harbor staff (Matt) for assisting boatowner in getting a harbor slip for a week when he needed it for grand kid visit.	Communications coordinator forwarded compliment to staff.
May-31	concern	Online billing system does not work well; customer rec'd site certification warning.	Communications Coordinator worked with IT to run security analysis on intellipay site to insure fully secure connection. Asked customer about browsers and operating system and confirmed they were fully supported. Learned from customer that most recently the security warning did not come up when paying bill. Specific suggestions for site improvement forwarded to Finance and IT.
Jun-2	compliments x 4	1. "We Love the Library. Thank you for no more cuts!" 2. Angie at front desk "so truly helpful." 3. "We will miss Jo, but love working with Melissa." 4. "We appreciate Katie very much."	Communications coordinator forwarded compliments to staff.
Jun-2	concern	The autobilling water bill system is awkward and hard to deal with. Have wasted lots of time.	Communications coordinator (CC) worked with IT to ascertain how to best diagnose customer problem; CC spoke at length with customer to help problem solve and document aspects of the online site the customer thought could be improved. Specific suggestions forwarded to Finance and IT.
Jun-7	comment	Library patron suggested the library hook up a printer to the online catalog in order to print lists. Otherwise have to write lists down.	Library Director informed customer that she had a good idea, but the current computer is not capable of connecting to printer network. Will look into the cost to setting that up and implementing the idea.
Jun-14	concern/suggestion	On Ocean Drive (particularly on farmers market days) cars pass left-turning vehicles on the right, endangering pedestrians and bicyclists using bike lane. Put up "no passing on right" signs.	Communications coordinator informed customer Ocean Drive is a State maintained road and provided DOT&PF contact information. City followed up by notifying DOT&PF about the citizen concern.



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Memorandum

TO: Mayor Zak and Homer City Council
FROM: Katie Koester, City Manager
DATE: June 21, 2017
SUBJECT: Ordinance 17-23

When Council passed Ordinance 17-23, repealing the Permanent Fund at the last Council meeting you did so with incomplete information. This is our fault as staff for not asking enough questions when preparing the backup materials; you depend on us to give you accurate and timely information from which to base your decision.

1. Problem

- a. We reported that the Permanent Fund had only earned \$25,087, or a little over 1% in 2016. This is true, the fund has received that amount in interest payments and dividends in 2016. However, the account *value* has increased significantly. We only discovered this when we requested to cash out the fund. The value of the growth side has increased by 2.86% or \$368,943 between inception in March of 2016 and June 19, 2017. The growth fund tracks the stock market and the value changes daily. Of course, this fund can fluctuate significantly; the City has been fortunate to catch a good run.
- b. The interest saved from paying off the USDA Library Loan is not \$1,000,000, as reported in Ordinance 17-23. I failed to fact check this number that had been bantered around. The Finance Department keeps an amortization schedule that has been through the audit firm. Over 17 years the avoided interest payments amount to \$464,314.

2. Options to address the problem

- a. No change, maintain policy decision to abolish Permanent Fund. No need to take action.
- b. Rescind Ordinance 17-23. Maintain Permanent Fund and do not pay off library loan or dedicate funds to a new police station at this time.
- c. Rescind Ordinance 17-23 and replace it with a new ordinance liquidating only a portion of the fund. For example, Council could liquidate \$1.2m to pay off the library loan and leave the remainder in the Permanent Fund until needed by the Police Station project.

3. How this won't happen again. While I cannot promise I or staff will not make mistakes, I can say that we have learned a valuable lesson to slow down, double check numbers, and perform a deeper analysis even if it means delaying the passage of legislation. What I hope you do have confidence in is that we will not hide a mistake from you once we find it and will bring you the correct information as soon as possible.

Enc: Memo from Finance Director on Permanent Fund and Library Loan



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Finance Department

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Memorandum

TO: Mayor Zak and Homer City Council
 THROUGH: Katie Koester, City Manager
 FROM: Elizabeth Walton, Finance Director
 DATE: June 21, 2017
 SUBJECT: Update on Permanent Fund and Library Loan

The purpose of this memo is to clarify the market value and earnings of the Permanent Fund and to re-analyze the potential interest savings of paying off the Library Loan.

Permanent Fund Analysis:

Growth Sub-Fund:

When analyzing a fund that is invested primarily in the stock market, as is the growth sub-fund, it is imperative to incorporate the metric of position value when determining overall performance. If you fail to include this metric the dividends earned alone on the investments will inaccurately, and most likely, underreport overall performance in the account.

Below is a comparison summary of earnings in the Growth Sub-Fund between March 9, 2016 (date of inception) and June 19, 2017:

Amount Originally Invested	\$1,269,706.75
Market Value as of 2/28/17	\$1,556,176.01
Market Value as of 6/19/17	\$1,609,998.50
Total Dividends Earned	\$28,651.55
Net Gain (since inception)	\$368,943.30
<i>(Δ in Market Value plus Dividends Earned)</i>	
Rate of Return (since inception)	22.86%

As you can see from the chart above, the growth fund has performed quite well for the City of Homer. As of 6/19/17, we have received total net gains of \$368,943.30, which correlates to a 22.86% rate of return over the length of investment.

Income Sub-Fund:

When determining the overall performance for a fund invested primarily in the bond market, as is the income sub-fund, it is important to analyze the total interest received on investments. It is also important to consider the date of maturity on the bonds purchased and the potential earnings lost if liquidation occurs.

Below is a summary of the two bonds that are currently held in the income sub-fund:

Federal National Mortgage Association (FNMA) Bond:

- Maturity Date: 12/23/2020
- Interest Payments Received to Date totals \$4,986:
 - On 6/23/16 received \$1,666
 - On 12/23/16 received \$3,320
- Bond will continue to pay \$3,320 in interest every 6/23 and 12/23 until maturity

As you can see from above, if the City elects to liquidate this bond investment prior to maturity, we will miss out on guaranteed interest payments totaling \$26,560.

Federal Farm Credit Bank (FFCB) Bond:

- Maturity Date: 2/22/2019
- Interest Payments Received to Date totals \$3,584:
 - On 8/22/16 received \$1,792
 - On 2/22/17 received \$1,792
- Bond will continue to pay \$1,792 in interest every 8/22 and 2/22 until maturity

As you can see from above, if the City of Homer elects to liquidate this bond investment prior to maturity, we will miss out on guaranteed interest payments totaling \$7,168.

Library Loan Analysis:**Amortization Schedule:**

The City of Homer, Finance Department, generated the following amortization schedule for the Library Loan with USDA. We have experienced great difficulty attempting to receive the schedule from USDA directly; as they are quoted as saying “our system does not provide an amortization schedule”.

USDA Library Loan Amortization Schedule

	Principal	Interest	Total	Balance
2012				1,368,811
2013	43,361	56,463	99,824	1,325,450
2014	45,149	54,675	99,824	1,280,301
2015	47,012	52,812	99,824	1,233,289
2016	48,951	50,873	99,824	1,184,338
2017	50,970	48,854	99,824	1,133,368
2018	53,072	46,752	99,824	1,080,296
2019	55,262	44,562	99,824	1,025,034
2020	57,541	42,283	99,824	967,493
2021	59,915	39,909	99,824	907,578
2022	62,386	37,438	99,824	845,192
2023	64,960	34,864	99,824	780,232
2024	67,640	32,184	99,824	712,592
2025	70,428	29,394	99,822	642,164
2026	73,335	26,489	99,824	568,829
2027	76,360	23,464	99,824	492,469
2028	79,510	20,314	99,824	412,959
2029	82,789	17,035	99,824	330,170
2030	86,204	13,620	99,824	243,966
2031	89,760	10,064	99,824	154,206
2032	93,463	6,361	99,824	60,743
2033	60,743	2,506	63,249	-
	Original Loan Balance	\$1,700,000		
	Interest Rate	4.125%		
	Loan Term	30 Years		
	Yearly Payment	\$99,824		

Loan Payoff Analysis:

Below is a breakdown of the payoff amount for the Library Loan with USDA. These figures are calculated based on a payoff date of on or before July 1, 2017.

Payoff by July 1, 2017				
City of Homer Schedule			USDA Data	
Unpaid Principal	\$1,184,338.00		Unpaid Principal	\$ 1,184,339.65
Unpaid 2017 Interest	37,075.50		Unpaid 2017 Interest	\$ 37,075.51
Payoff Amount	\$1,221,413.50		Payoff Amount	\$ 1,221,415.16

As you can see from above, the City of Homer’s schedule correlates very closely with the information the library received from the USDA. Therefore, the Finance Department is able to rely on the data presented in our amortization schedule and can accurately approximate the interest savings if the City of Homer opts to pay off the Library Loan with USDA.

To determine the potential interest savings by paying off the loan by July 1, 2017 you have sum up the interest payments remaining on the loan and add that to the unpaid interest amount for 2017. Based on this calculation the potential interest savings is as follows:

Interest Savings On Remaining Life of Loan	\$ 464,314.50
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Overall Analysis:

By looking at the data presented in this memo, it is apparent that the Permanent Fund investments have been performing quite well for the City of Homer. There is some benefit to paying off the Library Loan early, as it would save the City roughly \$464,315 over the course of seventeen years. However, it is also important to compare those savings against the performance of the Fund to determine which option is in the City's best financial interest. If all market conditions remain the same, the City stands to benefit more financially from the growth in our investments held within the Permanent Fund than it would with paying off the Library Loan.

Recommendation:

Review updated data on the performance of the Permanent Fund and the savings on the USDA Library Loan. Discuss the potential impacts of the decisions made and reassess position.

From: Richard and Marylou Burton
To: [Department Clerk](#)
Subject: Kachemak Nordic Ski Club thank you
Date: Thursday, June 15, 2017 8:48:21 AM

Dear Homer City Council,

Thank you for the support you have given the Kachemak Nordic Ski Club by providing money to the Homer Foundation for grants to non-profits. The money provided by the 2017 City of Homer Grants Program is being used to help offset the costs associated with maintaining and grooming the Homer area trails managed by the ski club. These trails include a system of trails at Baycrest, Lookout Mountain, and the McNeil/Eveline area that are maintained and groomed for winter cross-country skiing. We are also maintain an accessible trail and viewing platform for summer and winter use at the Eveline State Recreation Site, which is managed by the ski club. We continue to work toward additional summer trail access at all of the areas we maintain. Additionally, money from this grant helps to fund work to improve our strategic and financial planning processes as well as our efforts to obtain larger grants that allow us to improve the facilities at our recreation areas. Being able to show support from our local government is critical in the evaluation of these grant requests.

We appreciate the support that the Homer Foundation and the City of Homer give to non-profit organizations. With the help of grants such as this, we can continue to provide excellent winter and summer outdoor recreational opportunities for children and adults in Homer as well as visitors to our area. It is very important that the city of Homer contribute to the funding of non-profits because they bring so much to our quality of life. Thank you again for your support.

Sincerely,

Kachemak Nordic Ski Club Board

Mike Gracz – President
Stacey Buckelew – Vice president
Richard Burton – Treasurer
Christine Anderson – Secretary
Jan Spurkland
Jasmine Maurer
Jason Neely
Derek Bynagle
Glenn Seaman