Objectives

- Historical Context of Capital Asset Funding
- City’s Capital Asset Long-Term Maintenance Needs
- Where City of Homer Fits in Those Variables
- Objectives of Best Practices for GF Fund Balance & Reserve Funds Policy
Best Practices – GFOA Recommendations

• Replenishing – Policy should
  Establish the method and timing for fund replenishment when funds dip below an identified level.
  < Establish the replenishment when funds drop below an identified level.
  < Establish the method and timing for fund replenishment when funds dip below an identified level.
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• Restrictions – Policy should
  Rather than one Fund, categorize reserves:
  > Makes the purpose of the reserves more transparent
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  > Makes the purpose of the reserves more transparent

Best Practices – GFOA Recommendations

Analyzing
  > No less than 2-6 months
  > No less than 2-6 months
  > No less than 2-6 months
  > No less than 2-6 months

Sizing GF Fund Balance
  > “Triple A” Risk-Based
  > “Triple A” Risk-Based
  > “Triple A” Risk-Based
  > “Triple A” Risk-Based

Approach
  > Accept uncertainty
  > Accept uncertainty
  > Accept uncertainty
  > Accept uncertainty

Assess Impact
  > Assess impact
  > Assess impact
  > Assess impact
  > Assess impact

Augment
  > Augment
  > Augment
  > Augment
  > Augment

No Alan (after risk)
  > Operating expenditures
  > Operating expenditures
  > Operating expenditures
  > Operating expenditures

Fund on-going operations or start new programs
  > Fund on-going operations or start new programs
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  > Fund on-going operations or start new programs
  > Fund on-going operations or start new programs

State the purposes for which the funds are not allowed
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Policy should set appropriate level for GF Fund
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Policy Considerations

COH GF Fund Balance & Reserve Balance

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

Susceptibility to critical infrastructure failure
Susceptibility to and severity of natural disasters
Expenditures

Variables to consider:
- 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

Sizing GF Fund Balance – Variables to consider

Risk Factors •
GF Fund Balance Policy Recommendations

- Target GF fund balance: 6 months of general fund annual operating expenditures
  - Priority for replenishing
    - Restricted to unanticipated, emergency, non-recurring needs
    - Augmented if there has been deferred maintenance
  - Based on risk factors:
    - Age & condition of critical infrastructure (e.g., water/sewer)
    - Debt service
    - Sales tax revenues
    - Revenue from sales, services & other sources
    - Historical use of GF fund balance
    - Relatively volatile revenue sources
    - COH cash flow needs
  - Schedule
    - Based on property owner reserve
  - Historical use of GF fund balance
    - Susceptibility to major infrastructure damage due to earthquake and/or tsunami

Sizing Capital Asset Repair & Maintenance

- GFOA
  - Base reserve level on asset management plan and fleet replacement schedule
  - GFOA (CARM) Best Practices
  - Non-recurring, non-essential
  - Operating expenditures
  - 2-4% of replacement value of a facility annually for capital asset repair and replacement

National Academy of Sciences, Engineering, Medicine

- COH cash flow needs
  - Relative to unanticipated, emergency, non-recurring needs
  - Augmented if there has been deferred maintenance
  - Based on property owner reserve
  - Schedule
  - Historical use of GF fund balance
  - Susceptibility to major infrastructure damage due to earthquake and/or tsunami

GF Fund Balance Policy Recommendations
Capital Asset Repair & Maintenance Account

**CARMA fund balance:** No more than four times the average annual spending: $350,000 x 4 = $1,400,000

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

2nd priority for replenishing

Infrastructure Following NASEM metric:

- GF Infrastructure replacement value
- $28M at GF Infrastructure $550,000 (2%) to $1.1M (4%) per year for repair

Replacement value at GF Infrastructure $28M

Following NASEM metric:

- Infrastructure
- CARMA fund balance:

<table>
<thead>
<tr>
<th>Year</th>
<th>Department Requests</th>
<th>Funding Approved by Council</th>
<th>Reserve Balance</th>
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</thead>
<tbody>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td>222,428</td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td></td>
<td>189,750</td>
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<tr>
<td>2017</td>
<td></td>
<td></td>
<td>73,852</td>
</tr>
<tr>
<td>2018</td>
<td></td>
<td></td>
<td>71,688</td>
</tr>
<tr>
<td>2019</td>
<td></td>
<td></td>
<td>73,852</td>
</tr>
</tbody>
</table>
CARMA: Fleet

• CARMA fund balance: No more than four times the average annual spending: $250,000 x 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

<table>
<thead>
<tr>
<th>Dept.</th>
<th>Approved 2019 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fire</td>
<td>$355,433</td>
</tr>
<tr>
<td>Police</td>
<td>$296,853</td>
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<tr>
<td>Public Works (GF)</td>
<td>$141,959</td>
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<tr>
<td>Admin (City Hall)</td>
<td>$44,929</td>
</tr>
</tbody>
</table>

Total: $836,174
Deferred maintenance/Fleet replacement

Past availability of State Capital Project Grants

Projects have 3 years to expend appropriation

New Police Station

Fire Hall Deferred Maintenance

Capital expenditures not captured in average 4 years spending:

Account (CARMA) Considerations

Sizing Capital Asset Repair & Maintenance Account (CARMA) Considerations

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

General Fund Fleet Replacement needs for 2019 and 2020
Recommend establishing a new CI Fund

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

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

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?
  • Should restrictions on what can be funded from here be further codified?

• 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?

3rd priority for replenishing:
- Improvements Plan
- Accomplish items on the Capital Works Officer's or Police Station or upcoming Public capital replacement $2M (like
- Provide seed money for major funds to
- Place where Council can dedicate a new
- Capital Improvement (CI) Fund

Recommending establishment of a capital improvement funds.