



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**
 - Accept uncertainty
 - Assess impact
 - Augment
 - **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)

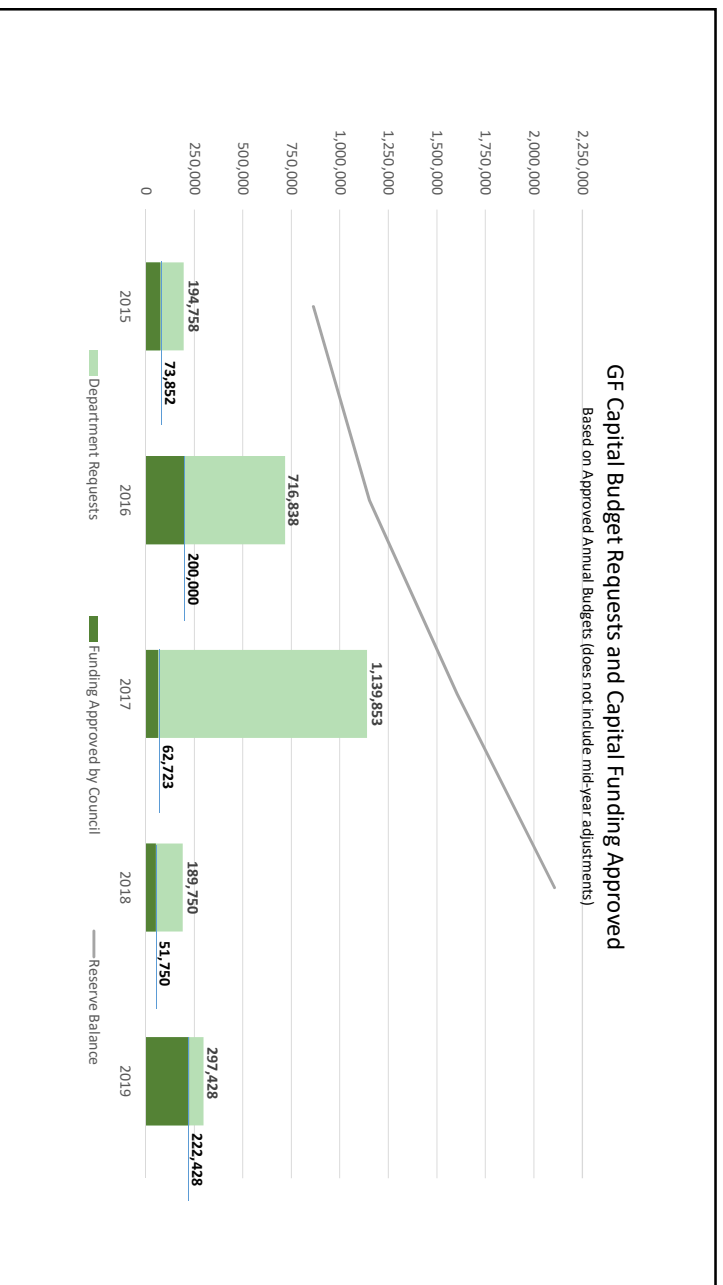
2nd priority for replenishing

- Infrastructure

Following NASEM metric:

➤ At GF Infrastructure \$28M replacement value

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



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	TOTAL YEARS OF LIFE REMAINING	NEEDS TO BE REPLACED IN		REPLACEMENT COST	FUNDING SOURCE
						THIS YEAR	THIS YEAR		
PWUDE	1992	International Vacuum Truck	27 Years	25	-2	2017		N/A	GF/W/S
PWUDEA	1995	Patchman Asphalt Mixer	25 Years	25	0	2019	\$	40,000	GF/W/S
PWLVL	1989	1989 GMC 3/4 TON	29 Years	29	0	2019		N/A	GF/W/S
PWLVL	1987	1987 CHEVY FLAT BED - PAINT TRUCK	32 Years	32	0	2019		N/A	GF
PWLVL	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	TOTAL YEARS OF LIFE REMAINING	NEEDS TO BE REPLACED IN		REPLACEMENT COST	FUNDING SOURCE
						THIS YEAR	THIS YEAR		
PWUDE	1995	A10D John Deere Backhoe	24 Years	25	1	2020	\$	120,000	GF/W/S
HPDVL	2009	2009 CHEV IMPALA	10 Years	11	1	2020		\$40,000	GF
HPDVL	2009	2009 CHEV IMPALA	10 Years	11	1	2020		\$40,000	GF
FDVL	1990	BRUSH 1 - 1990 FORD	29 Years	30	1	2020		\$95,000	GF
FDHDE	1987	1987 Tanker 1 Hurl	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 ≥ \$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 over expenditures or one-time revenues.
- 3rd priority for replenishing

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