

**Please feel free to leave any additional comments below. The City of Homer would like to be as thorough as possible when exploring solutions to the budget deficit and we value your input.**

1. Reinstate food tax. Take HART to .10% for trails, .15% roads, .5% to City general fund, .5% sales tax for 6 months. No action on property measures. A bed tax all cities have it 3%. Sales tax cap at \$750.00. Look at
2. Currently tourists / visitors pay 2 1/2x higher tax on a bed as compared to outside City limits. A bed tax would mean 3 1/2x as much. Think carefully before you drive visitors to seek a place outside city limits.
3. Sales Tax - food or not food, seasonal or not seasonal, sales tax cap - agh! Keep it simple! How about sales tax on everything from May - Dec and 0% sales tax Jan - Apr. Who wants to micromanage whether
4. Climate change or carbon tax .25 per gallon.
5. The City has to join with other Cities and Municipalities to roll back pensions and retirement benefits. It is not enough to pass the buck to the State and claim it can't be done. Benefits to the tune of 22% per employee per year are not in line with the current fiscal reality. We have to look at these hard choices rather than continue to ignore this and pass it on to our children. According to your HR Department the average applicants that apply to each job is around 376. We don't need to be competitive with other cities we already
6. Bed Tax - Yes!! People who come here have money. We are providing services that costs the permanent residents. My wife and I travel a lot - internationally and in the U.S. Never, is our destination determined by if they have a bed tax. Climate natural or cultural attractions determine that. Will tourists drive back up to
7. Property tax - Please consider a progressive property tax. There are 219 properties in the City with valuation > \$500,000. 40 properties with valuation of > \$1,000,000. How about asking those who can afford to
8. re HART - Temporary 3-5 year reappropriation of .5% of the .75% of HART designated funds to meet next year's budget is reasonable. I'd like it to fall more heavily on the 'road' portion, as the 'trail' portion is much smaller. (only 10% goes to trails). We have approximately 7 years worth of accumulated Road funds (\$7M that gains 1M per year) and only 4 years worth of accumulated Trail funds (\$400k that gains 100k per year).

I'd like to see the City devote a work session to spending the HART fund to not just keep up, but invest and get ahead on projects with an eye to streamlining maintenance. There are projects from the NMTTP and CIP (Main, Heath, Drive, Pioneer intersections) that are worth undertaking. You will see \$85000 in HART requests coming from Planning and Parks&Rec to complete sidewalks to schools, add safe crossings and shoulder striping around the WHE/HMS neighborhoods. Spending HART funds may provide economic infusion if local businesses bid on projects.

re PARC I serve on the Public Arts Committee and we have opened a discussion with the Parks and Rec Commission to consider the value of merging into a PARC Commission (parks, arts, recreation and C can be for Culture, Commerce, Community, Committee or Commission). Would this save money? Boards and Commission that meet only quarterly are difficult to sustain momentum. Also where there are strong non-profit counterpoints, maybe City commissions and boards are not as essential. These non-profits are incredible partners. What if the City's PFD fund was further invested to support non-departmentals more sustainably?



September 22, 2015

Ms. Katie Koester, City Manager  
City of Homer  
491 East Pioneer Avenue  
Homer, AK 99603  
*Hand Delivered*

Dear Katie:

Thank you for the invitation to participate in the town hall style meeting concerning the budget. The non-profit community is facing very similar shortfalls and I have a Homer Foundation meeting scheduled for the same time. But I would like to provide some thoughts and observations concerning the financial plight that is, actually, just in its early stages. But first, the budget:

1. **HART Funds Available** – I pointed out to you at the last public meeting that the HART fund has grown to ~\$7mm and just accumulating money is not a good use of revenue. You must seem to agree with that since one of the considerations for new revenue on your list is a reallocation of the .75% sales tax for the HART Fund into the general fund. While you projected new revenues to be \$996,601, my math indicates the amount to be more like \$1,262,726. (The 2015 projected sales tax was \$7,576,358 which, divided by 4.5 and then multiplied by .75 gets us to my number, which might be light if a 1% value equals \$1,708,868.) I favor redirecting that sales tax into other areas, but the quality of life issues are of a very high value to me, and I want to see at least some of that money placed to support our arts and recreational needs.
2. **"Permanent" Fund Available** – A prior council restricted the expenditure of the proceeds from the settlement from Exxon for the 1989 oil spill. I'm sure you are aware that these funds are subject to appropriation by the council at any time (as, if you have reviewed past memoranda from the City Attorney, are any of the so-called dedicated funds). The utility of keeping funds for their earnings, when interest rates are close to 0%, is questionable at best. Absent a charter that might otherwise obligate the City to have such a fund, there are many better uses for that money. A new police station comes to mind. But for reasons I'll explain below, this would be a good time for the City to clean up its fund balances.
3. **A Bed Tax** – Most every Podunk town in the United States has a hotel tax, and in Alaska, they range from 2% – 14%. It is time for Homer to derive some additional benefit from the people that vacation and seasonally work here.
4. **Reductions in Exemptions** – I obtained information from the Borough last spring concerning the steady growth of property benefiting from partial tax exemptions through ownership by persons

age 65 or older. I shared that information with the city council. As a reminder, there were 171 partially or fully exempted properties in the 2000 tax year, with an exemption value of ~\$17mm. By 2014, the number of properties had doubled to 390, but the exemptions had increased 352% to ~\$60mm. It is only going to get worse as the bulk of the "baby boomers" reach that magic age. (See attached population chart.) Added to the simple demographic facts of the general population at large, Homer is also a community of aged snowbirds holding Alaskan residency. The rapid expansion of exemptions has to be curtailed.

5. **Urge to Build Additional Reserves** – The council has continued to make financial decisions that are based on personal financial beliefs, not tax exempt realities. We have had 40 years of having the luxury of spending other people's money (OPM) without any concern for asking for the advice and consent of the electorate. That has come to its end. Building large capital projects and then building a fund for depreciation, taxes the current citizens twice for the same implied benefit. The City must return to a system of bonding our projects. This system allows for the capital cost, the cost of capital, and the running depreciation, are all paid over the life of the bond. That is the traditional method of municipal financing. OPM is better, but a return to self-reliance is imperative.

In regards to the financial future, and the community's ability to adapt, the City leadership is going to have to reengage a skeptical citizenry. These town meetings are a good step, but embargoing certain funds, while crying poverty, will not get you very far. The council has been fairly cavalier in its "priorities" of spending and handling of grants and other income. At the same time, other priorities, such as a storm water system and recreational facilities have been sloughed off to study and continued delay. The days of the multi-paged CIP list are over.

It also should not be lost on you that the city sharing a border with Homer *does nothing*. It is a fact that doing nothing is easy when Homer does so much, but when there is little spent, there is not much to cut.

Major fiscal changes need to begin today: local, state, national and international alike. Homer has a lot going for it, and will do better than many communities in weathering bad economic times. We can afford some additional burden of taxation, but new taxes will not be embraced with millions sitting in the bank, and no promise of anything other than eliminations of activities and programs that support our contentment.

Again, I am sorry to not be able to take part in the town meeting, but I'm sure I have said far more in this letter than I could have gotten in there. I have attached some pages that kind of support that which is above.

Best wishes and luck,



Ken Castner

## City of Homer, Alaska

Governmental Funds  
Balance Sheet

December 31, 2014	Major Funds					Nonmajor Funds	Total Governmental Funds
	General	Utility Special Revenue	Gas Line Capital Project	HART Roads Capital Project			
<b>Assets</b>							
Cash and investments	\$ 386,625	\$ 1,380,183	\$ -	\$ 6,823,357	\$ 2,739,904	\$ 11,330,069	
Receivables, net of allowance:							
Accounts	-	185,523	-	-	-	185,523	
Property taxes	77,008	-	-	-	-	77,008	
Sales taxes	759,645	189,919	-	170,922	18,995	1,139,481	
Assessments	407,314	4,814,314	-	-	-	5,221,628	
State and federal grants and loans	-	-	3,550,020	-	-	3,550,020	
Other	37,262	-	-	-	234,321	271,583	
Interfund loan	300,000	-	-	-	19,420	319,420	
Due from other funds	5,240,998	-	-	-	-	5,240,998	
Inventory	52,312	254,382	-	-	-	306,694	
Prepaid items	234,289	31,712	-	-	-	266,001	
Restricted cash and investments	-	-	1,273,602	-	2,029,389	3,302,991	
<b>Total Assets</b>	<b>\$ 7,495,453</b>	<b>\$ 6,856,033</b>	<b>\$ 4,823,622</b>	<b>\$ 6,994,279</b>	<b>\$ 5,042,029</b>	<b>\$ 31,211,416</b>	
<b>Liabilities</b>							
Accounts payable	\$ 213,661	\$ 148,806	\$ 117	\$ -	\$ 220,097	\$ 582,681	
Accrued payroll and related liabilities	196,132	40,821	-	-	-	236,953	
Customer deposits	16,204	43,652	-	-	-	59,856	
Unearned revenue	5,414	-	-	-	43,533	48,947	
Due to other funds	-	-	5,104,918	-	136,080	5,240,998	
<b>Total Liabilities</b>	<b>431,411</b>	<b>233,279</b>	<b>5,105,035</b>	<b>-</b>	<b>399,710</b>	<b>6,169,435</b>	
<b>Deferred Inflows</b>							
Deferred property taxes	78,695	-	-	-	-	78,695	
Deferred assessments	416,314	4,814,887	-	-	-	5,231,201	
<b>Total Deferred Inflows</b>	<b>495,009</b>	<b>4,814,887</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,309,896</b>	
<b>Total Liabilities and Deferred Inflows</b>	<b>926,420</b>	<b>5,048,166</b>	<b>5,105,035</b>	<b>-</b>	<b>399,710</b>	<b>11,479,331</b>	
<b>Fund Balances</b>							
<b>Nonspendable:</b>							
Inventory	52,312	254,382	-	-	-	306,694	
Prepaid items	234,289	31,712	-	-	-	266,001	
Interfund loan	300,000	-	-	-	19,420	319,420	
<b>Restricted - roads and trails</b>							
Roads and trails	-	-	-	6,994,279	543,792	7,538,071	
Special service district	76,421	-	-	-	-	76,421	
Committed - Permanent fund	-	-	-	-	2,031,828	2,031,828	
<b>Assigned:</b>							
Library	-	-	-	-	32,593	32,593	
Public Safety	-	-	-	-	97,530	97,530	
Community schools	-	-	-	-	492	492	
Sustainability	-	-	-	-	14,780	14,780	
Water and sewer	-	1,521,773	-	-	-	1,521,773	
PERS benefits	171,314	-	-	-	14,665	185,979	
Capital and land	-	-	-	-	1,968,241	1,968,241	
Unassigned (deficit)	5,734,697	-	(281,413)	-	(81,022)	5,372,262	
<b>Total Fund Balances</b>	<b>6,569,033</b>	<b>1,807,867</b>	<b>(281,413)</b>	<b>6,994,279</b>	<b>4,642,319</b>	<b>19,732,085</b>	
<b>Total Liabilities, Deferred Inflows and Fund Balances</b>	<b>\$ 7,495,453</b>	<b>\$ 6,856,033</b>	<b>\$ 4,823,622</b>	<b>\$ 6,994,279</b>	<b>\$ 5,042,029</b>	<b>\$ 31,211,416</b>	

See accompanying notes to basic financial statements.

**City of Homer  
2015 Budget**

**Table II, Sales Taxes**

Year	Receipt
2010 Actual	\$6,622,567
2011 Actual	\$7,056,403
2012 Actual	\$7,047,516
2013 Actual	\$7,135,699
2014 Budgeted	<del>\$7,425,789</del>
2015 Projected	\$7,576,358

Non-prepared foods are exempt from sales tax for the months of September through May. Kenai Peninsula Borough statistics shows the exempt sales amounted to about \$18,000,000 in total.

Taxes on personal properties are budgeted at the level of past few years' experiences. All other revenue line items, which are not specifically mentioned here, are estimated based on the same principle.

The Alaska Shared Revenue and the Prisoner Care Contract Revenue are actual amounts allocated to the coming fiscal year.

Revenues from the Airport Terminal Services are further reduced from 2014 estimate due to the pullout of Grant Aviation & FedEx.

**SPECIAL REVENUE FUNDS (Water & Sewer Fund):**

The city has one Special Revenue Fund: **Water & Sewer Fund**. The city adopted a new consumption based Rate Model as of January 1, 2014.

**Water Fund:**

2014 year-to-date consumption [volume] based revenue is going to exceed the budgeted amount by about \$150,000.

**Sewer Fund:**

2014 year-to-date sewer revenue is not going to meet the budgeted level. The deficit is close to \$200,000.

However, Water & Sewer Fund will have a significant surplus in Fiscal year 2015 due to the reorganization and the Health Insurance change. Detailed discussions are included in the City Manager's Budget Message in the Introduction section of this budget.

**ENTERPRISE FUND (Port & Harbor Fund):**

Generally Accepted Accounting Principles (GAAP) requires the state and local governments to use the **Enterprise Fund** type to account for "business-type activities designed for self-

# 2015 REVENUE OPTIONS

09/09/2015

REVENUE	ANNUAL \$ VALUE	PRO	CON	BARRIER	EFFECTIVE 2016?	HOW WOULD BECOME EFFECTIVE	RESPONSE FROM PUBLIC	NOTES	ADD. INFO.
Raise Property Tax 1 Mill	\$660,000 per mill.	Can be implemented by Council.	Increases taxes on residents when many of the services City provides are to entire Hamlet area.		Yes	Council pass a resolution by July 1, 2016 increasing the mill rate.	Town Hall: 65% positive response; Online poll: selected by 24.74% of respondents	Currently COH taxpayers pay 4.5 COH, 4.5 KPB and 2.3 SPH (total 11.3). According to HCC if property taxes increase to 6 mills, sales tax is eliminated.	KPB Mill Rate Chart. Pg. 13
Raise Sales Tax .5%	\$854,434	Raises sufficient funds to bring City close to closing the gap. Takes non-residents who use City services.	Places burden on local business. Makes rents more expensive.	Need a vote of City residents.	Yes - after first quarter	Council would pass an ordinance to increase the sales tax and for a special election. If ordinances follow budget cycle, voters would vote in a February special election.	Town Hall: 85% positive response; Online survey: 35.43% selected option	Based on 2014 sales tax revenue. Revenue estimate for 2016 (2-4 quarters) is \$117,669. Current COH sales tax is 4.5% COH and 3% KPB.	
1% seasonal sales tax increase (6 months of year)	\$1,141,762	Captures more visitor revenue. Closes gap.	Burden on local businesses.	Need a vote of City residents.	Yes	Council would pass an ordinance to increase the sales tax for a special election. If ordinances follow budget cycle, voters would vote in a February special election.	Not polled	Based on 2014 sales tax revenue.	
Repeal HART (direct .5% sales tax back to general fund)	\$996,601	No tax increase for public. Generates sufficient revenue to close the gap.	Eliminates funding for roads and trails, basic infrastructure Short term fix. Would effect road HSAD program.	Need a vote of City residents.	Yes	Council would pass an ordinance to continue to fund HART and for a special election. If ordinance follows budget cycle, voters would vote in a February special election. If ballot language is retroactive, we could capture full estimated amount for 2016.	Not polled	Based on 2014 sales tax revenue. HART has been around since 1987.	HART fund activity reports. Pg. 15 Legislation enacting HART. Pg. 17 HART Policy Manual. Pg. 21
Reinstate Seasonal Sales Tax on Non-prepared Food	\$833,473	Can be implemented by Council. Not a 'new' tax.	Taxes basic necessity. Regressive.	Voters will likely remove option to not participate for first class cities in October.	Only if voters fail October ballot initiative.	Ordinance by Council.	Town Hall: 82% positive response; Online survey: 46.96% selected	Sales tax that would have been generated from 9/1 to 5/31: 2010-2011 \$735,501; 2011-2012 \$794,163; 2012-2013 \$812,065; 2013-2014 \$833,473	KPB Ordinance 2008-28. Pg. 31
Raise Sales Tax Cap from \$300-1000	Unknown	Instituted Borough wide.	Burden on businesses, especially those that sell large items. Raise rent cost.	Unsure how much momentum is behind current proposal.	No	Ordinance by Borough and vote (note, it can be implemented w/o a vote, but the current proposal puts a vote to Borough residents).	Town Hall: 80% positive response; Online survey: 39.83% selected option	KPB Assembly Member Cooper has proposed putting this on the October 2017 ballot. If voters approve raising the cap, no other action by the City is required.	KPB Ordinance 2015-09. Pg. 23



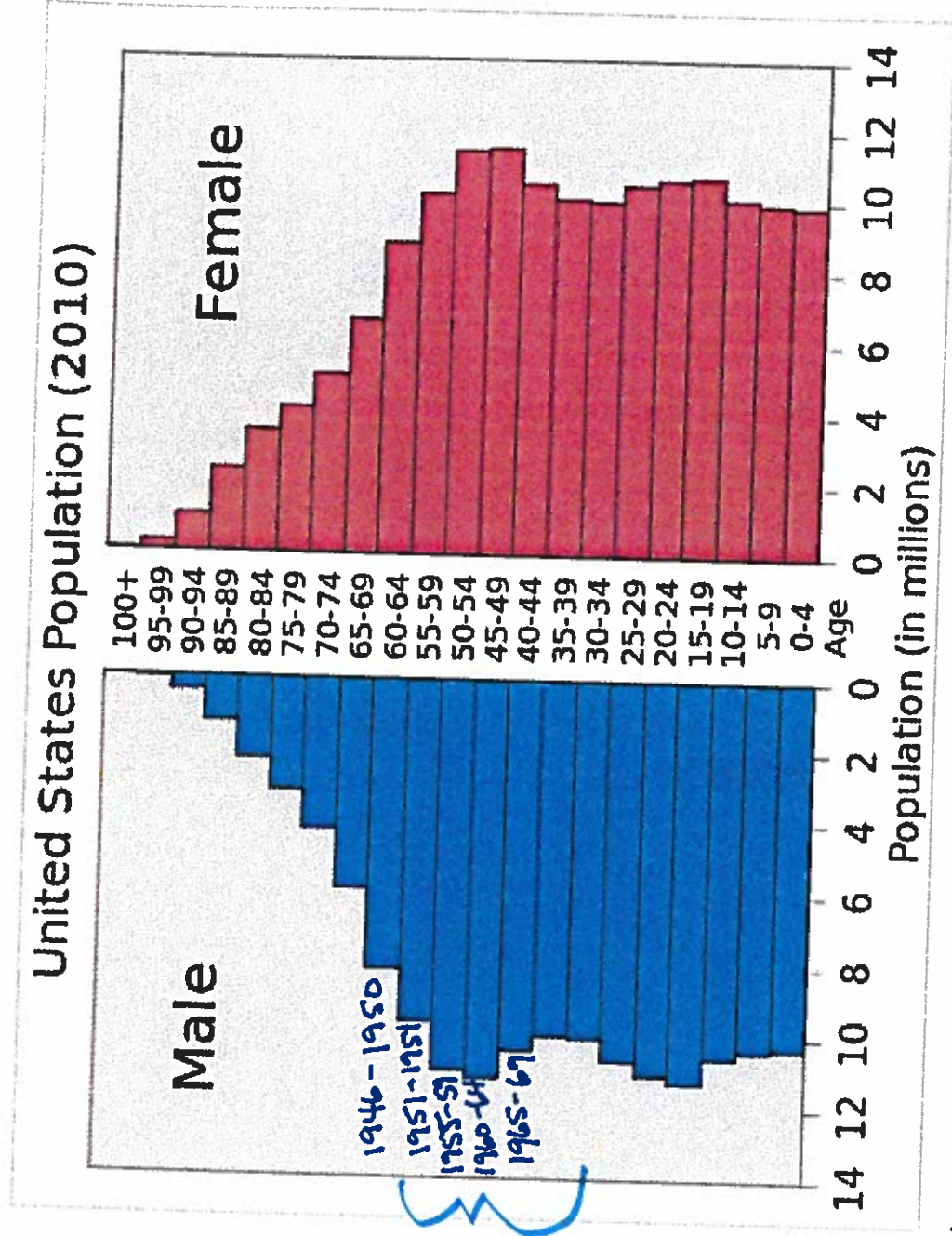
A World Factbook, unless otherwise indicated. [95]

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A population pyramid that shows the age of the population by sex in 2010.

0 by the US Census

SENIOR EXEMPTIONS - TAX YEARS 2000 TO 2014

2007			2006			2005			2004			2003			2002			2001			2000		
Count	Assessed Value		Count	Assessed Value		Count	Assessed Value		Count	Assessed Value		Count	Assessed Value		Count	Assessed Value		Count	Assessed Value		Count	Assessed Value	
	Exempted			Exempted			Exempted			Exempted			Exempted			Exempted			Exempted			Exempted	
2,545	471,273,500		2,686	407,929,500		2,522	347,981,451		2,359	272,892,801		2,291	245,168,700		2,157	219,042,200		1,947	190,967,650		1,841	177,779,700	
236	33,186,900		245	30,682,200		232	28,038,000		227	25,196,200		235	23,987,500		178	17,396,800		172	17,139,200		171	16,976,000	
-	-		-	-		-	-		-	-		-	-		-	-		-	-		-	-	
5.5000			6.5000			6.5000			6.5000			6.5000			6.5000			7.0000			7.5000		
4.5000			4.5000			4.5000			5.0000			5.0000			5.0000			5.5000			5.5000		



SENIOR EXEMPTIONS - TAX YEARS 2000 TO 2014

Year	2014		2013		2012		2011		2010		2009		2008	
	Count	Assessed Value Exempted	Count	Assessed Value Exempted	Count	Assessed Value Exempted	Count	Assessed Value Exempted	Count	Assessed Value Exempted	Count	Assessed Value Exempted	Count	Assessed Value Exempted
Kenai Peninsula Borough	3,899	737,383,632	3,686	690,785,800	3,441	648,606,700	3,276	621,163,700	3,125	578,540,400	2,897	536,162,300	2,596	465,821,700
City of Homer - Tag 20	385	54,609,300	365	51,632,100	338	48,008,700	339	48,238,800	311	43,935,200	279	39,631,600	258	36,769,100
City of Homer - Tag 21	5	646,700	3	450,000	-	-	-	-	-	-	2	300,000	-	-
Mill rates:														
KPB		4.5000		4.5000		4.5000		4.5000		4.5000		4.5000		4.5000
Tag 20 - City of Homer		4.5000		4.5000		4.5000		4.5000		4.5000		4.5000		4.5000
Tag 21 - City of Homer ODLSA		9.9625		9.9625		9.6283		-		-		4.0000		4.0000

Values are from Certified Main Real Property Rolls.

Kenai Peninsula Borough values include the Optional > 150K Senior Exemption; the City of Homer does not offer this exemption.