

CITY OF HOMER

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Year 2011 Budget Message

Dear Mayor, Council Members and Citizens of the City of Homer:

In accordance with the provisions of Homer City Code Section 3.05, the Fiscal Year 2011 Operating Budget of the City of Homer is hereby presented to you. The budget contains individual operating budgets for the General Fund, Special Revenue Fund (Utility Fund), Enterprise Fund (Port & Harbor), three Internal Service Funds (Self Insured Health Care, Leave Cash Outs, and Revolving Energy Fund), Permanent Fund, Investment Funds, and Debt Service Funds.

Many difficult issues were considered and balanced in developing this budget. These issues represent the fiscal challenges that the City of Homer will face both in the coming year and over the next several years. These challenges are similar to those addressed by the Council in 2009 and 2010. Those challenges include balancing the budget in a time of decreasing revenues and increasing demands for services, increasing operating efficiencies so that the City can do more with less, avoiding major cuts and maintaining a level of services that the public has grown to expect, maintaining a responsible General Fund Reserve, and finding ways to maintain existing depreciation reserves.

The FY 2011 Operating Budget is essentially a “maintenance” budget. It sustains the level of services provided in the previous year however, it contains no transfers to depreciation funds and little or no expenditures for capital projects, building repairs, or equipment repair and replacement. Seven full-time equivalent staff positions remain unfilled. This is the second “maintenance” budget in a row and this style of budgeting is not sustainable for long. The overall goal of the City continues to be providing quality services in a fiscally responsible manner.

This budget reflects a real team effort on the part of all City of Homer staff to provide a consistent level of services within the constraints of our revenue sources. As in previous years, significant consideration was given to balancing short-term needs with the Council’s long-term goals. I would also like to thank the City Council for all of the hard work and support it provided as this budget was finalized and adopted.

Three basics of the City of Homer budgeting process are presented below; the Mission Statement, the Basis of Accounting, and the Tax Rate:

Mission Statement - The City of Homer exists to provide quality services to all its citizens; to respond in the most appropriate, open and fiscally responsible manner possible to citizens needs and concerns; and to do so through the active participation of those citizens. These services include police, fire, emergency medical service, parks, cemeteries, animal control, street maintenance, water, wastewater collection and treatment, port and harbor, airport terminal, library, planning and general administration.

Basis of Accounting - Governmental fund types are accounted for using the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Expenditures are generally recognized when a related fund liability is incurred. An exception to this general rule is principal and interest on general long term debt which is recognized when due. Pre-payment of insurance and similar services extending over more than one year is allocated to the years benefited.

The Proprietary Fund type [Enterprise Fund] is accounted for using the accrual basis of accounting, wherein revenues are recognized when earned and expenditures are recognized when a liability is incurred.

Tax Rates - The City Code of Ordinances, Section 9.16.020, establishes a maximum 6.00 mill tax levy for operations of the City's general government. The mill rate cap is in effect in the years that the city levies the general sales tax. The General Fund property tax rate for FY10 is 4.5 mills and the sales tax rate is 4.5%. Effective January 1, 2009, a voter initiative generated ordinance was passed by the Kenai Peninsula Borough to exempt non-prepared foods from the Borough sales tax for the months of May through September annually. The City of Homer voters followed the Kenai Peninsula Borough's lead and exempted non-prepared foods from the local sales tax for the same period in 2009.

GUIDING PRINCIPLES

The following guiding principles were used by the administration to develop the FY 2009 Operating Budget. Based upon input from the Council, they changed very little this year. As noted above, these principles have resulted in several "maintenance" budgets in a row. The guiding principles will likely change next fiscal year to reflect some of the tough decisions that may have to be made regarding new revenues and/or reductions in services.

City Council Priorities

- No new taxes or increases in tax levies
- No new user fees or increases in fee rates
- Preserve and protect fund balances and reserve accounts
- Priority for basic/core municipal services. If cuts are required, eliminate funding for non-core services and programs first.

City Manager Priorities

- Avoid departmental cuts that jeopardize the core mission and primary service delivery
- Avoid overreacting, cutting too deeply, and causing damages to services that would be difficult to restore, until more revenue information becomes available
- Suspend contributions to reserve and depreciation accounts for one year and simultaneously, suspend expenditures from those funds.
- Place a high priority on workplace morale, productivity, and competitiveness when considering expenditure reduction options
- Achieve workforce reductions and personnel expense reductions through attrition, retirements, limited layoffs, and suspending COLA's
- A one year moratorium on all new capital projects
- A one year moratorium on all new equipment purchases
- A one year moratorium on all new programs and services.

The Budget in Brief:

General Fund:

The 2011 General Fund budget of \$10,160,106 represents a decrease of \$175,672 (2%) in comparison to previous year's budget. The decrease from 2010 to 2011 represents a decrease in insurance premiums, electric and fuel primarily. A COLA (Cost of Living Adjustment) was not given to employees this year.

Revenues and other financing projections for the 2011 General Fund total \$10,119,075; \$2,883,716 in property tax revenues, \$4,255,185 in sales tax revenues, and \$2,760,226 from other revenues and financial sources. This is a decrease from the previous year's budget by \$239,866 (2.3%).

The General Fund property tax rate was maintained in 2010. Total taxable property values have declined from the previous year causing an expected decrease in revenues. Sales tax revenues are expected to remain the same in FY11. Interest rates have fluctuated down during the past year, but are forecast to be between 1% and 2% in FY11.

Special Revenue Fund:

The Utility Fund operating budget of \$3,530,205 represents a decrease of \$1,298 (.038%) in comparison to the prior year budget.

The Water/Sewer Rate Model was adjusted in July of 2009 and was simplified, and rates were raised for the higher end users. The rates are to be reviewed again in 2011. Anticipated Operating Revenues for 2011 are \$3,419,943, a decrease \$124,458 (3.5%) from the previous year budget.

Enterprise Fund:

The Port & Harbor Enterprise Fund budget of \$3,623,698 represents an increase of \$116,923 (3.3%), in comparison to the prior year budget. A major portion of the increase was due to an additional funds being put into reserves with \$500,000 being transferred in 2011.

Debt Service Fund:

The total debt as of January 01, 2011 is \$13,445,153 for all outstanding obligations, including General Obligation Bonds, Revenue Bonds for the Water, Sewer and Port/Harbor Enterprise Funds, and the Alaska Clean Water Loan. The principal payment on this Debt Fund in 2010 will be \$1,281,518.

The City has accumulated debt of \$10,972,682 for the ADEC water/sewer loans. \$8,000,000 of this debt is for a new water treatment plant. The interest rate is 1.5% on all ADEC loans. LID assessments will go toward reimbursing the City for ¾ of the loan.

Capital Projects:

The approved FY11 budget includes \$1,891,743 for capital projects for all funds. The funds are budgeted as follows: Vehicle and equipment purchases \$30,000, General fund projects \$25,000, HART projects \$157,697 and debt payments \$160,951, HAWSP projects and debt payments \$1,434,046, Water/Sewer projects \$85,000, and Port/Harbor projects \$160,000.

Internal Service Funds:

The Internal Service Fund consists of three different funds.

- ❖ Self Insurance Health Fund: Expected expenses for the 2011 budget year are \$1,513,272. This is charged to the individual departments through the benefits paid for each employee.
- ❖ Leave Cash Out Bank: Anticipated Employee's leave cash out for the 2011 year was budgeted at \$185,000. This is charged to the General Fund, \$112,457, Water and Sewer \$36,623, and Port and Harbor \$35,830.

- ❖ **Revolving Energy Fund:** Currently no loans were made for the improvement of energy efficiency in the City buildings and facilities.

Investment Funds and Permanent Fund:

These funds are presented for informational purposes only. The City of Homer's investments are governed by City Code 3.10. The investment portfolio is managed so that as a whole safety of principal is considered, maintaining sufficient liquidity to meet the City's cash flow needs, and to achieve a reasonable market rate or return. Current year's interest rates continue to be sluggish at 1 – 2% interest rates. Earnings from investments are allocated monthly various different funds.

The Permanent Fund was established utilizing Exxon Valdez settlements received in 2010 of \$1,257,641. City Code 3.12 allows for 95% of these funds to be invested. Sixty percent into a growth sub-fund and forty percent into an income sub-fund. The remaining five percent is to be used for grants for local non-profit organizations.

Future Policy Issues –

The economic recession and the exemption of non-prepared foods from the municipal sales tax continues to creates significant challenges for budgeting and the delivery of services. The costs associated with equipment, supplies, and labor continues to rise. Public expectations regarding City services have not declined during this period of revenue shortfall. If anything, they have increased. Striking a balance between the level of services residents desire and the amount of taxes and fees they are willing to support to provide those services will be very important going forward. It is recommended that the City Council review and revise as appropriate its adopted Long Term Fiscal Plan and further, that it take steps to engage the public on the level of services it desires and is willing to pay for.

The City changed the “Water/Sewer Enterprise Fund” into a Special Revenue Fund. The Water/Sewer Fund was not operating as a true enterprise fund because capital costs, replacement and depreciation costs are paid for by grants or sales tax revenues through the Homer Accelerated Water/Sewer Program (HAWSP), and then become assets of the Water/Sewer Fund. It is common for municipally owned utilities that operate with mixed revenue sources to establish Special Revenue Funds.

The Water and Sewer Special Revenue Fund continues to struggle. The most prominent of these problems is that the City has expensive treatment systems and complicated and expansive distribution and collection systems with relatively few customers to bear the cost.

The Port and Harbor Enterprise Fund is in relatively good shape this year. Rates were increased in order to put additional funds away into the depreciation reserve accounts. The reserve accounts are dangerously low and could be depleted quickly if significant repairs were needed or business declines. A major challenge for the administration is to find more business activity for the Deep Water and Pioneer Docks and to capture a larger piece the revenues associated with the very busy Fish Dock. The goal is to find a better balance between revenues derived from port operations and revenues derived from harbor operations.

Economic diversity and expansion of existing economic sectors is vital to Homer's future. The City will continue to strive towards diversifying and expanding the City's economic base while providing a climate which nurtures existing businesses. The foundation of the City's economy includes fishing, tourism, education, culture, health care, agriculture, transportation, government, and general commerce.

Acknowledgments -

I wish to express my appreciation to all members of the City of Homer's Staff for their dedicated service during the past year. A special thanks to Finance Director, Regina Mauras, and her staff for preparation of this budget document. The invaluable help given by the entire municipal workforce in the preparation of the FY11 budget is also acknowledged. Each employee's contribution combined to develop a budget that provides Homer residents with a high level of service at the lowest possible cost. *This plan for 2011 could not have been accomplished without the enthusiastic help of all City employees. Thank you.*

I would also like to thank the Mayor and the Council for their interest, support, suggestions, and participation in the creation of this budget. I believe this proposed budget allows the staff to conduct the financial affairs of the City of Homer in a progressive and responsible manner. *Thank you.*

The Future -

The City of Homer has the best municipal workforce in the state. These dedicated employees make the City of Homer a great place to live, work, visit, and conduct business. While the City of Homer may face interesting challenges in 2011 and beyond, the future is indeed bright - - the best days are still ahead.

Respectfully submitted,



Walt Wrede
City Manager

CITY OF HOMER

DESCRIPTION OF BUDGET DOCUMENT

The budget document is divided into several sections. The first part of the budget is the introduction, which includes the table of contents, narratives about the budget document, budget process and fund structure. The next section is the overview. In this section the reader can see the combined budget for all fund types, and graphic presentations of the total government expenditures and revenues. The overview information is a recapitulation of detailed data presented later in the budget document. Its purpose is to give the reader an understanding of the overall financial activities and structure of the City without having to sift through the many pages of detailed information.

Following the overview are sections for each type of fund, beginning with the General Fund and followed by the Utility fund, Port and Harbor, Project, Debt Service, Internal Service, Investments, and Permanent fund. Each section provides detailed information on revenues and expenditures for each fund within the fund type. Each fund, or department/division within a fund, has a page of narrative which describes the general and specific objectives of the fund, proposed program changes, and explanation of changes in particular accounts. There is also a page detailing the expenditures by account number. Expenditure information includes the Council's adopted or amended appropriation and historical information from three prior fiscal years.

The Depreciation Reserves and Vehicle Replacement funds are included in the Project fund. The Health Insurance Reserves, Leave Cash Out Bank and the Revolving Energy Fund are in the internal service fund section. The Water and Sewer are included in the Utility Fund. The Debt Service, Investments and Permanent Fund are included for informational purposes only.

The Staffing section includes citywide staff. You will find an organizational chart and an employee range classification, an hourly salary schedule, the number of authorized employees by department.

A chart of accounts and a glossary of terminology are included in the appendix. Each department has a comparison of three prior fiscal years personnel with the council approved personnel for proposed fiscal year personnel.

CITY OF HOMER

THE BUDGET PROCESS

The budget process begins in August when Finance submits budget work sheets, including salary and fringe benefits cost, to each department. The Manager meets with the Department Heads and outlines his general budget policies and goals at this time.

By the third Friday in September the City Manager present to the Council an overview of preliminary budget assumptions. These preliminary assumptions will address by fund, revenue projections, tax and utility rates, program additions or deletions, wage and benefits, or other issues with potential impact on the City's overall financial condition.

The departmental budgets are received by the finance department and entered into the computerized budgeting system. This information is shown in the budget document on the department budget pages in the "Manager's proposed" column. The resulting computer reports are then routed to the department heads for their review. After adjustments are made, the Manager, along with the Finance Director and the appropriate department head, reviews each departmental budget. As the Manager makes changes to the department's proposed budget, his recommended changes are entered into the computerized budget system under the "Manager's proposed" column for the preliminary budget document. The City Council makes the final adjustments to the budget, and the final budget amounts appear in the "Council adopted" column of the final budget document.

In accordance with Homer City Code 3.05, the City Manager will submit to the City council the proposed budget by the third Friday in October and at a meeting held not less than ten days prior to the end of the fiscal year, the Council shall, by ordinance, make appropriation of the money needed for the following year. In FY2010, the proposed budget will be submitted to the Council on September 13, the Council has the option of holding work sessions on the budget throughout October and November. The ordinance setting the level of appropriation for fiscal year 2011 is introduced at the second Council meeting in November. After holding public work sessions is scheduled for adoption at the first meeting in December.

After the budget has been established, the Council may transfer appropriations between major classifications or department by resolution; however, transfer of appropriations between funds must be done by ordinance. The City Manager has the authority to transfer amounts up to \$10,000 within a department.

CITY OF HOMER

FUND DESCRIPTION

The City of Homer's financial system involves the use of 33 funds. These funds are broken down into four major categories: The General Fund, Enterprise Funds, Debt Funds, and Reserve Funds.

Fund accounting has always been used as a control device to segregate financial resources and ensure that the segregated resources were only used for their intended purpose. The use of funds for financial reporting demonstrates accountability.

There are three broad fund categories: **Governmental Funds, Proprietary Funds, and Fiduciary Funds.**

GOVERNMENTAL FUNDS

General Fund: The general fund is the general operating fund of the City of Homer. It serves as the primary reporting vehicle for current government operations. This fund accounts for all current financial resources not required by law or administrative action to be accounted for in another fund. Financial support for this fund comes from such sources as general property taxes, sales taxes, fees, and inter-governmental revenues (i.e. reimbursement from enterprise funds to the general fund for administrative services). Expenditures are authorized in the general budget. In the general fund you will find various departments such as Administration, Finance, Planning and Zoning, Public Safety, Fire, Public Works, Library and Airport.

RECOMMENDATION: Maintain a balance of equal to six months worth of expenditures for purposes of providing operating capital for all City operations.

Water and Sewer Special Revenue Fund: This fund accounts for operations of the water and sewer system. User charges are designed to recover cost of operation and maintenance of the system, exclusive of depreciation and major capital improvements. This fund is a component of the Utility Fund.

Debt Service Fund: The debt service funds are used to account for the accumulation of resources for the payment of general long-term principal, interest, and related cost. Each enterprise fund includes their respective general long-term debt principal, interest, and related costs. During the year these are kept in separate funds but are reported in the respective enterprise fund at the end of the year for financial statement presentation. During the year there is a debt service fund for HART and HAWSP. Revenue for these funds comes mainly from the collection of sales tax and assessments.

HAWSP Debt Service Fund: Water services are extended and property owners are assessed for part of the cost of this service. Sales tax revenue are used to pay for the financing of the debt incurred in input of new water/sewer lines and the new water treatment plant. The fund is a component of the Utility Fund.

CITY OF HOMER

FUND DESCRIPTION

Reserve Funds: Those portions of the fund balance that are legally segregated for a specific future use are reserve funds. These funds are appropriate for expenditures with the approval of the City Council during the budget process or on an individual basis as situations arise which are addressed by the City Council. There are three types of reserve funds being used by the City now.

Fleet Reserve: The sole purpose of this fund is for replacement of the City's fleet of vehicles on a planned rotation basis as their useful life expires. It is **not** for the purchase of vehicle accessories. Each department director through the normal budgetary process funds fleet allocation every year in an amount sufficient to cover the replacement of that department's fleet of vehicles. At the present the following exist: Administration, Fire, Police, Public Works, Water, Sewer, and Port/Harbor. Resolution 91-52. Includes all rolling stock with the exception of graders, backhoes, dump trucks, fire trucks, etc.

Depreciation/Capital Reserve: Capital replacement monies are to be restricted and distributed only for major capital outlay expenditures. Unbudgeted and unexpected capital costs in excess of \$10,000 shall come from these reserve accounts. To use these restricted funds, the City Council must approve the proposed purchase of services and/or goods. These reserve accounts have been established for City Hall, Library, Fire Department, Police Department, Public Works Department, City Leased Property, Library, Airport, Sewer (94-129a), Water (94-130A), and Port and Harbor (92-51S).

Capital Project Funds: Capital project funds account for financial resources used for the acquisition or construction of major capital facilities (other than those financed by the Proprietary Fund Type). This fund is used as a financial reporting tool to demonstrate compliance with legal and contractual provisions, and to compile certain cost data. The purpose is to control expenditures for each project or closely related group of projects. In the general fund this is mainly used for the construction of roads and the collection of cost data. The sewer and water funds use this for the addition of sewer and water lines or improvements. The Port and Harbor use the capital fund for various grants and improvements to their facilities and for the collection of cost data.

PROPRIETARY FUNDS

Enterprise Funds: Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. It is the intent of the City Council that the cost of providing goods and/or services to the general public be financed or recovered primarily through user fees. Currently, Port and Harbor is the only enterprise fund operated by the City.

CITY OF HOMER

FUND DESCRIPTION

Internal Service Fund: The City has three Internal Service Funds. The chief aim of an internal service fund is cost reimbursement.

- **Self Insurance Health Fund:** This fund accounts for operations that provide a service to other departments with the City on a cost-reimbursement basis. The City of Homer's health insurance is a self-funded program. The City holds sufficient funds to pay claims and other costs incurred by the program. Each department is allocated a portion of the cost, depending on their individual employee needs, to pay the necessary expenditures of this fund. The amount allocated from departments is not limited to the expenses of this fund, as any remaining balance remains in the fund for future expenses.
- **Leave Cash Out Fund:** This fund is to capture the expenditures of leave cash out from employees who retire or cash in their leave during the year. The General Fund, the Water & Sewer Special Revenue Fund, and Port & Harbor Enterprise Funds allocate a portion of the cost, depending on the anticipated retiree's and other leave cash outs of this fund for the year.
- **Revolving Energy Fund:** This fund was created to provide a long term source of funding for energy efficiency projects in City Facilities. Loans are provided for capital projects that improve energy efficiency in City buildings and facilities. The loans re to be repaid using the savings that are achieved.

FIDUCIARY FUNDS

Agency Funds: An agency fund is used to account for assets held by the City. Agency funds are custodial in nature and do not involve measurement of operations. This fund generally serves as a clearing account. The City has two such accounts – (1) Library contributions and (2) Fire Department contributions.

Library Contributions Fund: For the City of Homer is include funds received by the Homer Public Library, Inc. until such time as disbursements are requested.

Fire Donation Fund: This includes funds received by the Homer Volunteer Fire Department until such time as disbursements are requested.

CITY OF HOMER

Financial Policies

The City form of government is designed to provide maximum local self-government.

The City of Homer is a first class General Law City incorporated in 1964 under Title 29 of the Alaska State Statute. City Code establishes a December 31 year-end. A wide range of services are provided by the City for the citizens of Homer and surrounding areas. Some of the services are planning and zoning, docks & small boat harbor, airport facility, water and wastewater services, library, parks and recreation, police protection, jail facilities, fire and emergency medical services and general administrative services. In addition to general governmental activities, the City provides financial support to certain community service organizations that promote education, health, recreation and economic stability for the citizens of the community. Funding for the City, by order of importance, is provided from sales tax, property tax, state revenue, interest earnings, federal revenue and other sources.

The City of Homer Council has the responsibility to set the budget and establish the mill rate for the City.

The need to demonstrate compliance with regulations governing the funding sources for those services requires a complex and advanced accounting system. To fulfill this need, the National Council on Governmental Accounting recommended the use of fund accounting by state and local governments. A description of the fund types is presented in the Fund Description section of this document. Depending on the type of fund referred to, the basis of accounting may be different. The basis of accounting determines when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The budgetary basis is the same as the Generally Accepted Accounting Principles (GAAP) basis, where encumbrances outstanding at year-end are not treated as expenditures but as reservations of fund balance. The City's budget and accounting systems are operated on the modified accrual basis for governmental fund types (this includes the general, special revenue, capital projects and debt service funds) and the agency funds. Revenues are recognized when they become measurable and available as net current assets, and expenditures are recognized when the related fund liability is incurred. The accrual basis of accounting is used for the proprietary fund types, whereby revenues are recognized when earned and expenses are recorded when incurred.

The City of Homer's financial policies set forth the framework for the overall fiscal management of the City. The established long-range policies regarding financial management have been to take a conservative approach on forecasting revenues due to the uncertainty of the revenue source, particularly State revenues. This policy takes into consideration any changes in circumstances or conditions when evaluating both the current and long-range goals, and has helped to maintain financial stability.

The following policies assist the decision-making process of the Homer City Council.

CITY OF HOMER

Financial Policies

Prudent budgeting and effective budgetary control.

Working capital, sufficient to meet current operating needs, is provided for all funds. The working capital designation will provide the cash flow to fund day-to-day City operations. It also significantly reduces the likelihood of the City ever needing short-term debt to cover cash shortages.

Formal budgetary integration is employed as a management control device during the year for the General Fund. Capital projects are budgeted on a project length basis. The objective of these budgetary controls is to insure compliance with legal provisions embodied in the annual appropriated budget approved by the Homer City Council. The legal level of control (that is, the level at which expenditures cannot legally exceed the appropriation) is at the fund level. The City Council may pass subsequent supplemental appropriations. Activities of the General Fund and Enterprise Funds are included in the annual appropriating budget. Appropriations lapse at the end of the year.

The City maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Open encumbrances are reported as reservations of the fund balances and are charged to subsequent year appropriations.

The City's financial records for governmental fund types are maintained on a modified accrual basis. Revenues and other financial resource increments are recognized when they become susceptible to accrual. Expenditures are recognized when the fund liability is incurred except for inventories of materials and supplies, prepaid insurance, and similar items that may be considered expenditures when consumed. The City's Proprietary Funds are accounted for on the accrual basis. The accrual basis means that financial records are affected when the revenues are earned and expenses are incurred.

Efficient safeguarding of City assets:

Management of the City of Homer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of 'reasonable assurance' recognizes that: 1) the cost of a control should not exceed the benefits likely to be derived; and 2) the valuation of costs and benefits require estimates and judgments by management. Authorization, through purchase orders, is required for the encumbrance and expenditure of funds. An encumbrance is the reservation of the funds necessary to pay for the purchase. The proper account must have adequate appropriations available prior to approval of the purchase order. Formal bids are required for purchases exceeding \$25,000.

CITY OF HOMER

Financial Policies

Manageable debt administration:

Debt administration procedures include the scheduling of bond payments spread over the life of the issue, producing a total debt service schedule that is manageable. Under state statutes, a municipality may incur general obligation bond debt only after a bond authorization ordinance is approved by a majority vote at an election. There is no legal debt limit established for the City. Debt repayment is timed to correspond to expected cash inflows.

Maintenance of a sound investment policy of City monies:

The City uses a Central Treasury whereby all cash of the general government, enterprise fund, and any other agency's of the City is accumulated and invested. This procedure not only provides internal control but yields a higher rate of return on our investments because the amount available to invest is larger. The investment policies included in the City's Code of Ordinances include requirements for collateralization, diversification and safekeeping, as well as listing authorized investment instruments. The main objectives of this policy is the safeguarding of principal, maintaining sufficient liquidity to meet the City's cash flow requirements, and striving to achieve the highest rate of return on City investments and deposits, with due regard to the security of the investments and margins of risk. The city's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. The City's cash is fully invested at all times.

CITY OF HOMER

2011 PROPOSED BUDGET DEVELOPMENT SCHEDULE

DATE	TIME	EVENT
7/26/2010	6:00 PM	Budget Schedule to Council
8/6/2010		Submit to departments, budget work sheets including salary and fringe benefit costs.
8/9/2010	5:00 PM	During Committee of the Whole, Council to discuss budget priorities for the coming year.
8/9/2010	6:00 PM	Regular Meeting-Public Hearing, Council to seek public input on budget priorities for the coming year.
8/16/2010		Complete budget work sheets, including narratives, and justifications to finance.
8/23/2010	5:00 PM	During Committee of the Whole, Council to discuss Revenue Sources for General Fund.
8/30/2010		Compile data and return copy to departments for review.
9/7/2010	Week of	City Manager & Finance Director review budget requests with Department Heads.
9/13/2010		Preliminary budget assumptions to council.
9/27/2010		City Manager submits Draft Proposed Budget to Council.
10/11/2010	5:00 PM	During Committee of the Whole, Council to discuss budget - 1 hour.
10/11/2010	6:00 PM	Regular Meeting - Public Hearing.
10/25/2010	5:00 PM	During Committee of the Whole, Council to discuss budget - 1 hour
10/25/2010	6:00 PM	Regular Meeting-Budget Ordinance and Resolutions Introduced.
11/22/2010	5:00 PM	During Committee of the Whole, Council to discuss budget - 1 hour
11/22/2010	6:00 PM	Regular Meeting - Public Hearing.
12/13/2010	6:00 PM	Regular Meeting - Public Hearing & Adoption of Proposed Budget.

CITY OF HOMER

Homer Municipal Code: 3.05.005-3.05.045

Chapter 3.05

BUDGET

Sections:

- 3.05.005 Budget assumptions.
- 3.05.010 Budget submission; contents.
- 3.05.011 City Manager's budget message.
- 3.05.012 Complete financial plan.
- 3.05.015 Review; hearing; adoption; appropriations.
- 3.05.020 Amendments.
- 3.05.025 System of accounts.
- 3.05.030 Unencumbered balances of appropriations; transfers.
- 3.05.035 Lapse of appropriation at end of year.
- 3.05.040 Equipment replacement reserve fund.
- 3.05.042 Alternative Funding for Depreciation.
- 3.05.043 Health Insurance Reserve Fund.
- 3.05.045 Balanced budget requirements.

3.05.005 Budget Assumptions. By the third Friday in September the City Manager shall present to the Council an overview of preliminary budget assumptions. These preliminary assumptions will address by fund, revenue projections, tax and utility rates, program additions or deletions, wages and benefits, or other issues with potential impact on the City's overall financial condition. (Ord. 93-14 § 2, 1993)

3.05.010 Budget submission; contents. By the third Friday in October the City Manager shall present to the Council a budget proposal for the next fiscal year of the City. (Ord. 93-14 § 2, 1993)

3.05.011 City Manager's budget message. The City Manager's budget message shall explain the budget in fiscal terms and in terms of work programs. It shall contain an outline of the proposed financial policies of the City for the ensuing fiscal year, describe the important features of the budget, indicate any major changes from the current year and from current financial policies, expenditures, and revenues, together with the reasons for such changes, summarize the City's debt position and include other material as deemed desirable. (Ord. 93-14 § 2, 1993)

3.05.012 Complete financial plan. a. The budget shall provide a complete financial plan of all City funds and activities for the next fiscal year. In organizing the budget, the City Manager shall utilize the most feasible combination of expenditure classification by fund, organizational unit, program, purpose or activity and object.

b. The budget shall begin with a clear general summary of its contents, which summary shall show principal sources of anticipated revenue, stating separately the amount to be raised by property taxes, and by department the kinds of expenditures in such a manner as to present to the public a clear and simple estimate of budget detail.

CITY OF HOMER

Homer Municipal Code: 3.05.005-3.05.045

c. The budget shall show in detail all estimated income, including the proposed property tax levy, and all proposed expenditures including debt service, for the ensuing fiscal year.

d. The budget shall be prepared on a modified accrual basis and subsequent reporting an auditing shall reflect this basis of goods and services are received, and revenues are recorded when payment is received; except for material or available revenue which should be accrued to reflect properly the taxes levied and the revenues earned.

e. The budget shall include in separate sections:

(1) Proposed expenditures for current operations during the ensuing fiscal year detailed by offices, departments and agencies in terms of their respective work programs, and the method of financing such expenditures;

(2) Anticipated net surplus or deficit (fund balance) for the ensuing fiscal year of each enterprise fund owned or operated by the City and the proposed method of its disposition; subsidiary budgets for each such enterprise fund, giving detailed income and expenditures information, shall be presented in the budget.

(3) Proposed capital budget will be presented under a separate document. Expenditures during the ensuing fiscal year, detailed by offices, departments and agencies, when practicable, and the proposed method of financing each such capital expenditure.

f. Comparative data for the previous and current fiscal years shall be provided in a format for ease of comparison with the proposed revenues and expenditures.

g. Data for the current fiscal year shall include the total of the amounts actually received or encumbered to the time of preparing the budget, plus anticipated receipts and expenditures for the remainder of the current year. (Ord. 93-14 § 2, 1993)

3.05.015 Review; hearing; adoption; appropriations. a. The budget proposal of the City Manager shall be reviewed by the Council and shall be available for public inspection in the office of the City Clerk and the budget summary shall be posted in three public places and published at least once in one or more newspapers of general circulation in the City.

b. A public hearing on the appropriation ordinance shall be held in accordance with provisions for adoption of an ordinance. All interested parties shall be given an opportunity to be heard on matters relative to the budget.

c. At a Council meeting held not less than ten days prior to the end of the fiscal year, the Council shall, by ordinance, make appropriation of the money needed for the following year.

d. A separate appropriation shall be made to each of the various funds of the City.

CITY OF HOMER

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From the effective date of the budget, the amounts stated therein as proposed expenditures, shall be and become appropriated to the objects and purposes therein named. The City Council may make supplemental and emergency appropriations, but payment may not be

authorized or made and an obligation may not be incurred except in accordance with approved appropriations. (Ord. 98-20(A), 1998; Ord. 93-14 § 2, 1993)

3.05.020 Amendments. The Council may, by ordinance, increase or decrease appropriations during the course of the fiscal year, and may also amend the budget using the same method used for its initial adoption. (Ord. 93-14 § 2, 1993)

3.05.025 System of accounts. All City accounts shall be organized in a manner consistent with the approved budget. For purposes of appropriations under subsection 3.05.015, the funds of the City are those established by the Finance Director/Treasurer recommended by the City Manager and approved by the City Council. (Ord. 93-14 § 2, 1993)

3.05.030 Unencumbered balances of appropriations; transfers. a. The necessary accounting records shall be maintained to reflect the unencumbered balances of all appropriations. In determining the unencumbered balances of appropriations, the estimated amounts of commitments for goods or services ordered but not paid for shall be taken into consideration, and the Finance Director/Treasurer shall submit to the City Manager a monthly report of all unencumbered balances.

b. Unencumbered appropriation balances may be transferred from one budget line item to another within the same department by the City Manager at any time. Transfer of appropriations within departments which would permanently amend the approved staffing level or level of service delivery shall require Council approval.

c. At the request of the City Manager, or on its own initiative, the Council may, by resolution, transfer unencumbered appropriation balances from one department to another within the same fund. (Ord. 93-14 § 2, 1993)

3.05.035 Lapse of appropriation at end of year.

a. Except as provided in this section and in section 3.05.040 and 3.05.043 of this code, appropriations shall lapse at the end of the fiscal year to the extent that they have not been fully expended or fully encumbered. (Ord. 94-5 § 2, 1994)

b. An appropriation for a capital expenditure shall continue in force until the purpose for which it is made has been accomplished or abandoned; the purpose of such appropriation shall be deemed abandoned if three years pass without disbursement or encumbrance of the appropriation. (Ord. 93-14 § 2, 1993)

3.05.040 Equipment replacement reserve fund.

a. There is established in each fund of the City an equipment replacement reserve

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fund. The amount of the equipment replacement reserve fund shall be based on the amount necessary to meet future equipment needs projected for all departments within each fund of the City.

b. Any earnings from investment of monies accumulated in the equipment replacement reserve fund shall accrue to the equipment reserve fund.

c. At year end, all unexpended and unencumbered appropriations from the reserve fund for equipment purchases shall be lapsed into that reserve fund.

d. Monies in the reserve fund for equipment replacement shall be available for appropriation and expenditure for equipment replacement, purchase or any other purpose as recommended by the City Manager and authorized by the City Council. (Ord. 93-14 § 2, 1993)

3.05.042 Alternative Funding for Depreciation.

a. There is established in the General Fund of the City an Alternate Funding for Depreciation. (Ord. 05-11(S) §2, 2005.)

3.05.043 Health Insurance Reserve Fund.

a. There is established in the general fund of the City a health insurance reserve fund. All health insurance claim rebates received shall be appropriated to and deposited in the health insurance reserve fund. The City Council may appropriate additional sums to the fund.

b. Any earnings from investment of monies accumulated in the health insurance reserve fund shall accrue to the health insurance reserve fund.

c. At the year end, all unexpended and unencumbered appropriations from the health insurance reserve fund shall be lapsed into that reserve fund.

d. Monies in the health insurance reserve fund shall be available for appropriation and expenditures for health insurance premium increases as recommended by the City Manager and authorized by the City Council. (Ord. 94-5 § 1, 1994)

3.05.045 Balanced budget requirements. The budget which is adopted shall be balanced considering all sources of funds.

a. Any action to reconsider, rescind, or veto the budget which creates an "imbalance" shall be in violation of this section.

b. Any action to reconsider, rescind, or veto the budget which would affect a balanced budget must be accompanied by action which maintains a balanced budget. (Ord. 93-14 § 2, 1993)

CITY OF HOMER – FACT SHEET

Government

The City of Homer was established as a first class municipality in March 1964 with a city manager/city council form of government. Elected officials consist of six City Council members and the Mayor. Homer is part of the Kenai Peninsula Borough.

History

Named for Homer Pennock, a con man who arrived in 1896 and lured others to the Homer area with promises of gold, the community of Homer evolved from a coal mining town to a center for fishing, farming, ranching, and homesteading and finally to the vibrant regional economic center we see today.

Located at the southern tip of the Kenai Peninsula, Homer is variously described as “where the land ends and the sea begins,” “the cosmic hamlet by the sea,” an arts community, and a fishing community. Common to almost any description is an acknowledgement that Homer is situated in **one of the most beautiful places in the world**, with spectacular views of Kachemak Bay, the Kenai Mountains, and several volcanic peaks across Cook Inlet including Mt. Augustine, Mt. Iliamna, and Mt. Redoubt.

Homer is also famous for **the Homer Spit**, a 4.5 mile natural spit of land extending into Kachemak Bay. Accommodating Homer’s port facilities and small boat harbor along with numerous shops, restaurants, the Nick Dudiak “Fishing Hole,” campgrounds, charter fishing and sight-seeing businesses, and other attractions, the Spit is a beehive of activity during the summer months. Commercial fishing remains a vital part of the local economy. Homer lands more halibut than any other port in the world, earning the title of “Halibut Capital of the World.”

Homer’s economy is based on more than just fishing and tourism. Marine trades are an industry cluster. The Alaska Department of Labor has noted that entrepreneurship is a key element in Homer’s economic equation. Education and health services are vital to the economy and contribute to Homer’s quality of life. Homer has become popular as a retirement community and locale for summer homes. New residents who can live anywhere they choose Homer partly because of the beauty; partly for the arts, culture, and recreation opportunities; and partly because people here are friendly and welcoming.

Homer residents make the most of **outdoor recreation opportunities** including fishing, hiking, skiing, kayaking, snow-machining, birding, kite-surfing, and more. In addition to these attractions, Homer is widely acknowledged to have the best arts scene and the best restaurants of any small town in Alaska. Many of these businesses are located on Pioneer Avenue or in “Old Town” as well as on the Spit. Two other major attractions are the Pratt Museum and the Alaska Islands and Ocean Visitor Center. The Islands and Ocean Center serves as headquarters for the Alaska Maritime National Wildlife Refuge and the Kachemak Bay National Estuarine Research Reserve. The Homer Chamber of Commerce operates a visitor information center and is a quick source of information on local happenings, opportunities, and services. Homer has a plethora of non-profit organizations that enhance quality of life and provide wide-ranging volunteer opportunities.

CITY OF HOMER – FACT SHEET

Homer prides itself on being an ambitious, forward-thinking community that embraces responsible economic development. **Major goals for the next decade** include developing 30 acres in the heart of Homer as a new and vibrant “Town Center,” expanding the Deep Water Dock, adding additional boat harbor space, developing a new water source to meet the needs of a growing population, and bringing natural gas to Homer.

Homer is also gaining recognition for its **emphasis on sustainability**. It was the first community in Alaska to adopt a Climate Action Plan (2007) and the City of Homer has followed up with an employee sustainability guidebook and a program to improve energy efficiency and conservation in all City buildings and facilities.

Tax rates in Homer

There is no state income tax or state sales tax in Alaska. The sales tax in Homer is 7.5% (4.5% City of Homer and 3% Kenai Peninsula Borough). Non-prepared foods are exempt from sales tax from September through May.

The property tax rate in Homer totals 11.3 mills (4.5 City of Homer, 4.5 Kenai Peninsula Borough, and 2.3 South Peninsula Hospital). This translates to a tax levy of \$1,130 for every \$100,000 in assessed valuation. However, the first \$20,000 in valuation is tax exempt for most residents who request the exemption. In addition, senior citizens (age 65 and older) benefit from an exemption on the first \$150,000 in valuation for the City of Homer portion and on the first \$300,000 in valuation for the Kenai Peninsula Borough portion. The KPB exemption applies to service area tax assessments as well; for example, the one which supports South Peninsula Hospital.

Water and sewer service and rates

The City of Homer provides clean water to the Homer community through a water treatment plant located adjacent to the Bridge Creek Reservoir. The water treatment plant came on line in 2009, replacing an older facility.

The Sewer Treatment Plant is located in the Public Works compound on the Sterling Highway. The existing plant has been in operation since 1989.

Some households not hooked up to the City water system obtain water from commercial water haulers. Local water haulers include QuickDraw and Hank’s Water Service. Contact them for information on current rates.

ALASKA – KENAI PENINSULA – CITY OF HOMER



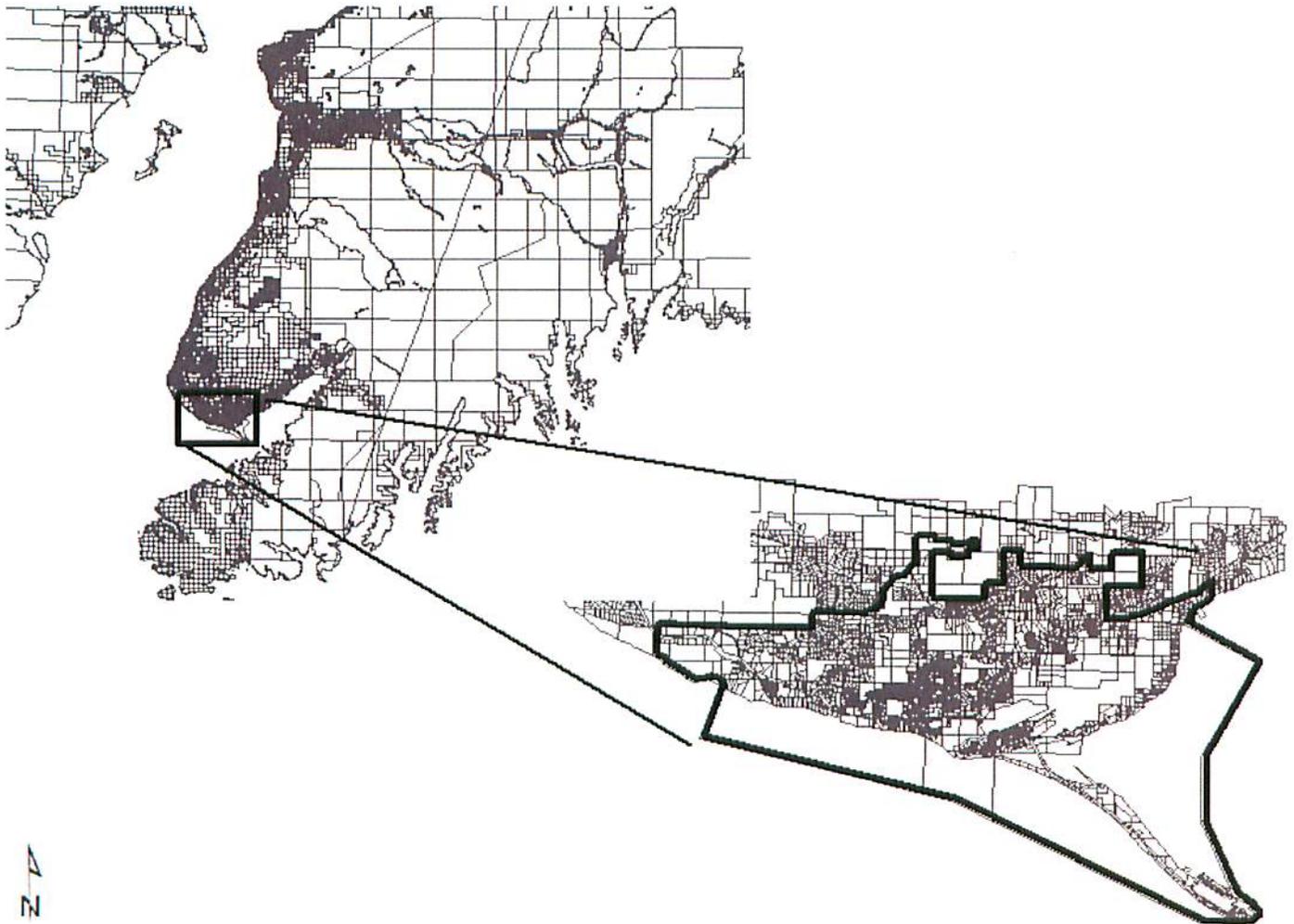
Land area

15 square miles of land and 10.5 square miles of water.

Location

Homer is located in south-central Alaska, 227 road miles from Anchorage (Alaska's largest city), near the southern tip of the Kenai Peninsula, 59°38'35" North Latitude, 151°31'33" West Longitude. (Map source: Alaska Islands and Ocean Visitor Center.)

CITY OF HOMER - CITY LIMITS



1.05.010 City boundaries designated. Alaska Tidelands Survey 612 and the legal description stated in the Order Declaring Corporation of the City of Homer, dated March 31, 1964, and recorded in Book 32, Page 169 of the Homer Recording District Office, and the legal description of the Corporate Boundaries of the City of Homer including approximately 4.58 square miles annexed to the City of Homer effective March 20, 2002 and recorded in the Homer Recording District: 309-Homer, as serial number 2002-001430-0 dated April 3, 2002, are incorporated in this section by this reference as the boundaries of the City of Homer. (Ord. 02-08(A), 2002; Ord. 84-25 §2, 1984)

**CITY OF HOMER
HOMER, ALASKA**

City Manager

ORDINANCE 10-51

AN ORDINANCE OF THE CITY COUNCIL OF HOMER, APPROPRIATING FUNDS FOR THE CALENDAR YEAR 2011 FOR THE GENERAL FUND, THE WATER-SEWER FUND, THE PORT/HARBOR FUND, DEBT FUNDS, CAPITAL RESERVE FUNDS (CONDITIONAL EXPENDITURES).

THE CITY OF HOMER ORDAINS:

Section 1. Pursuant to the authority of Alaska Statute, Title 29, the appropriations for Calendar Year ending December 2011 are appropriated as follows:

General Fund	\$10,160,106
Water-Sewer Fund	\$ 3,528,908
Port/Harbor Fund	\$ 3,623,698
Capital Projects	\$ 1,891,743
Internal Service Funds	\$ <u>1,698,272</u>
Total Expenditures	\$ 20,902,727

Section 2. Such amounts are appropriated to the objects and purposes stated in the adopted budget.

Section 3. A copy of the budget shall be certified by the City Clerk and filed in the Office of the City Clerk.

Section 4. The supporting Line Item Budget detail as presented by the Administration and reviewed by the City Council is incorporated as part of this Budget Ordinance.

Section 5. The property tax mill levy is set at 4.5 mills for 2011.

Section 6. This Ordinance is limited to approval of the Budget and appropriations for Calendar Year 2011, is a non code Ordinance and shall become effective January 1, 2011.

PASSED AND ENACTED by the Homer City Council on this ____ day of December, 2010.

CITY OF HOMER

JAMES C. HORNADAY, MAYOR

ATTEST:

JO JOHNSON, CMC, CITY CLERK

Introduction:
Public Hearing:
Second Reading:
Effective Date:

Ayes:
Noes:
Abstain:
Absent:

Reviewed and approved as to form and content:

Walt E. Wrede, City Manager

; City Attorney

Date: _____

Date: _____

Fiscal Note: See Line Item Budget and detail