



City of Homer

www.cityofhomer-ak.gov

Office of the City Manager

491 East Pioneer Avenue
Homer, Alaska 99603

citymanager@cityofhomer-ak.gov

(p) 907-235-8121 x2222

(f) 907-235-3148

Memorandum 19-097

TO: Mayor Castner and Homer City Council
FROM: Katie Koester, City Manager
DATE: August 7, 2019
SUBJECT: Staff responses to questions on Ordinance 19-35

The purpose of this memo is to answer questions that Councilmembers asked since the introduction of Ordinance 19-35.

1. The Finance Director stated at introduction that we would no longer be able to track spending by project and would like to learn more about that (I know I'm oversimplifying). Is there a way we can establish our new reserve funds and also be able to track projects?

Finance Director Walton's statement was in reference to consolidating the General Fund Depreciation Reserve fund (156). Currently, we have a "bucket" assigned with specific purposes (typically by department). If we restructured the reserve fund into the CARMA fund and eliminated these "buckets" it would be much more difficult for us to keep track of expenditures. To help explain, let's use the City Hall Roof repair/replacement project. Currently, there is a "bucket" assigned for City Hall (156-0384) and all invoices associated with this project would get assigned here. If we chose to consolidate and eliminate those "buckets", we would simply code all invoices to the CARMA fund (156) and they would be mixed in with all other invoices that impact that fund. So, we would lose the quick ability to give current balances on reserve projects. The only solution I can see to combat this is to create a spreadsheet that a staff member would have to manually update every time an invoice processes through (this would be in addition to the data entry that is necessary to actually pay the vendor). Part of the challenge is in the way our chart of accounts is structured and how that interfaces with the software. If Council decides to consolidate the funds we will explore purchasing an expanded package through Caselle and the cost of associated staff training.

I will point out, Ordinance 19-35 does not dictate the consolidation of funds; you could still maintain CARMA as structured in the ordinance and have individual reserve accounts. (For example, existing code just establishes depreciation reserves, we have designated reserve and fleet reserve accounts under that authority).

2. Chapter 3.05.012 Compete financial plan, b (lines 76-77). I know this is currently in code. Property taxes are specifically called out in this paragraph. I'm curious why property taxes only are called out. Wouldn't we want to separately account for all revenue sources?

I do not have the background on why property taxes is separated, but it is likely because this is the most politically sensitive revenue source. The section states "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..." The language already requires principal revenue sources of revenue to be enumerated. Nevertheless, sales tax has become a critical component of our revenue, Council may want to consider calling out sales tax in addition to property tax since sales tax and property tax combined accounts for over 75% of general fund revenue.

3a. Ordinance Section 4 would repeal Chapter 3.05.043 Health insurance reserve fund. You and I have discussed this fund in the past and the fact that the council likely removed too much money from this fund to allocate funds to the police station. Is it wise to repeal this fund? Where would we maintain reserves for health insurance if this fund is repealed?

The answer to this question depends on how Council wants the fund to operate and the policy question of whether or not the city should be setting aside reserves specifically for health insurance expenses. After Council transferred funds from there to the police station project, we now budget that fund to zero every year.

The 2019 budget uses the health insurance reserve fund as a mechanism to pay health insurance; we deposit \$1,410 per employee per month there at the beginning of the year and make all health insurance payments from that fund. Finance has checked with the auditors and believes that we could still remove this section of code and keep the Health Insurance Reserve Fund for that purpose. Under Ordinance 19-35 any accumulated funds would lapse at the end of the year. If Council wants a fund to set aside reserves for health insurance, I would recommend not deleting this section and adding a purpose section to existing code to provide clarity.

3b. Background on this section and its use?

The fund was created while the City of Homer was still self-insured. Council allowed funds to accrue in the fund to act as a buffer against the rising costs of health insurance. This helped insulate the operating budget from steep increases.

If we repealed this section but maintained the fund as a cost center, we would still be required to have it in a separate section in our financial statements.

4. How does a repeal of 3.05.042, Alternative funding for depreciation, impact 18.04.010, Disposition of Foreclosed Properties?

There have been no instances of the City selling foreclosed property as an alternate funding source for depreciation since the ordinance was adopted. If Council repeals 18.04.010 and foreclosed property were to be sold, the authorizing ordinance would specify where the funds would go. As written, I would interpret 18.01.010 to direct funds from the sale of foreclosed properties to CARMA as the replacement fund for depreciation expenses. Council may want to consider clarifying this intent with a code change.

5. The CARMA fund and the Capital Improvement fund both contain language about equipment replacement (see lines 173 and 184). Is this intentional or a mistake? Should equipment replacement be in CARMA since we are talking about replacement? If it is intentional to include equipment replacement in both funds, should we better define what we mean by equipment replacement in each case? I'm presuming we wouldn't save money for the same equipment in each fund.

Mayor Castner is preparing additional policy guidance regarding CARMA and the Capital Improvement Fund for council consideration. The substitute removes the reference to equipment in the Capital Improvement Fund.

6. Ordinance Section 9 adding Chapter 3.05.050 Priority of funding, does not include all the funds established (see lines 209-212). Allocation to the Capital Improvement fund is missing. If this was intentional, I believe there still needs to be something in code that states how moneys will be allocated to fund.

The Capital Improvement Fund acts much like a project fund where Council can put aside funds for specific projects. For example, the police station project would live in this fund. The funding of these projects is by Council, lines 185-186 “Monies in the Capital Improvement Fund shall be designated for major capital projects or initiatives, as identified and authorized by City Council.” This same language is retained in the substitute but consolidated into subsection a.

6a. Lines 193-198 These two categories, restricted and unrestricted, are not “purposes” of the fund balance as indicated in lines 193-194. What is our current restricted fund balance? In our budget document, the fund balance recommendation of six months operating is to fund the operations of the City.

Under proposed Ordinance 19-35, for 2019 \$6,125,181 of the draft 2018 audit general fund fund balance would be restricted to emergency expenditures only leaving just over \$300,000 as unassigned and available for appropriation.

Per our statements found in the annual audit, there are four classifications of spendable fund balance: restricted, committed, assigned, and unassigned. Unaudited draft 2018 fund balances are included below.

- **Restricted fund balance** – Reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
 - Examples: HART fund balance and seawall
 - Restricted fund balance: \$7,501,802 government wide
- **Committed fund balance** – These amounts can only be used for specific purposes pursuant to constraints imposed by formal ordinances of the City Council-the government’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the City Council removes the specified use through ordinance. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
 - Examples: Police Station construction fund balance
 - Committed fund balance: \$956,541 excluding bond revenue
- **Assigned fund balance** – This classification reflects the amounts constrained by the City’s “intent” to be used for specific purposes, but are neither restricted nor committed. The City Council has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.
 - Examples: Water and sewer fund, depreciation reserves (156), fleet reserves (152), donation funds, and energy revolving loan fund.

- Assigned fund balance: \$8,436,860
- **Unassigned fund balance** – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.
 - Unassigned general fund balance: \$6,425,584

When both restricted and unrestricted resources are available for use, it is the City's policy to use externally restricted resources first, then unrestricted resources-committed, assigned, and unassigned-in order as needed.

6b. If this new designation is intended for emergencies only, is it available for cash flow purposes?

The City operates under a central treasury, which means in practice all dollars are comingled; some are invested according to our investment policy, others are held in a liquid account with Alaska Municipal League Investment Pool (AMLIP) and Wells Fargo carries a cash balance. The movements of funds between Wells Fargo and AMLIP is fairly liquid. For accounting purposes we track and keep the funds and accounts separate.

6c. How does the City Council access those funds – what are the sideboards that constitute meeting the restriction imposed in this language?

By Ordinance in accordance with the rules established by Council. Ordinance 19-35 provides the following guidance on lines 195-198 “Restricted fund balance shall not fall below six months operating revenue and is intended to help the City of Homer provide quick response to weather economic uncertainty and unexpected situations such as natural disasters so as to avoid the need for short term borrowing.” This is reworded in the substitute for clarity, but the intent remains the same. Mayor Castner is developing further policy guidelines on how these funds can be accessed for Council consideration.

It is worth noting that because the restriction is imposed by Council and not an external constraint, such as by the voters or a funding agency, Council can exempt themselves from this section of code and spend the fund balance for any purpose, much like was done when the Permanent Fund was used to fund the police station.

7. Under the proposed code, will unexpended and unencumbered appropriations from CARMA and CIF funds lapse back into their respective reserve accounts?

No. Ordinance 19-35 gets rid of reserve accounts as we know them currently and replaces it with CARMA and CIF. Per section 3.05.035, funds in CARMA, Capital Improvement Fund, and general fund fund balance do not lapse at end of year. That section of code does provide some language for when projects fizzle out (lines 144-147) “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.” This is current code.

Enc:

Ordinance 05-11(S)

Ordinance 94-05