



City of Homer

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Memorandum 19-120

TO: Mayor Castner and Homer City Council
FROM: Katie Koester, City Manager
DATE: September 4, 2019
SUBJECT: Revenue Sources for the General Fund – FY2020-2021

The purpose of this memo is to provide Council with an overview of revenue sources for the General Fund in 2020-2021, per the budget schedule adopted by City Council.

What does General Fund Revenue Consist of?

The bulk of the revenue for the general fund comes from sales tax and property tax, with sales tax accounting for just under half of all General Fund revenue. Therefore, the health of these two revenue sources is the most important factor when budgeting for the upcoming year. Other revenue sources include operating transfers, which is where you see the overhead fees charged to other funds included this operational transfer from HART for road and trail maintenance. This came in at just over \$2 million in the 2019 budget, including the operating transfer from HART for road and trail maintenance. The next category is intergovernmental transfers which is where the City books revenue from the contract with the State for prisoner care and where we received funds for providing services to other government agencies, such as winter maintenance on Pioneer Avenue. The budget for charges for services ranges around \$600,000 for the upcoming budget period. This represents a laundry list of items including ambulance billing fees, campground fees, Community Recreation revenue, and the contract the City of Homer has with Kachemak City for fire protection.

Methodology: how do we predict numbers for the upcoming budget cycle?

Predicting budgets is an art and not a science, however the City of Homer adheres to a methodology developed long before I became City Manager. One important piece is the budget is based on projections for the current year. This means trends in revenue can be slow to show up. One rule of budgeting we incorporate is if the revenue has not experienced, it cannot be counted. These practices provide for a conservative budgeting approach I am comfortable with. For sales tax and property tax we use a linear regression model that inputs data going back to 2011. This evens out spikes from really good or bad years. For all other revenue line items we use a 3 year rolling average of actuals. After these calculations are done, the Finance Director, department heads and I go over each line carefully and talk about outliers, real life trends we are seeing, or anything that would make a prediction deviate from the norm. For example, using the average for the prisoner care contract would not be accurate since it is a hard number and previous years would distort the average. A third factor that has to be taken into account is year to date actuals. The analysis of if the numbers we budgeted for in 2019 are panning out is incorporated in the 2019 Budget Status Memo included in your packet.

Disclaimers

The numbers in the attached chart are still very much preliminary. I have yet to sit down with each department that is in charge of different revenue sources and have the conversation about predictions, changes or possible outliers they see that could influence our numbers and need to be taken into account. Additionally, the 2018 audit will not be finalized until the end of the month, which means there is still the possibility of changes in unaudited actuals as that work gets finalized.

In Conclusion

Revenue sources for the General Fund are positive. We are projecting to maintain the slight upward trend in property tax revenue and sales tax returns, by far the bulk of the budget. Keep in mind, the complete picture will depend on expenditures and I will be working with departments over the next few weeks on individual budgets to be able to compile an accurate picture of the 2020-2021 draft budget.

Enc:

FY 2020/2021 Revenue Sources for General Fund DRAFT