



# City of Homer

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## Memorandum 20-128

TO: Mayor Castner and Homer City Council  
THROUGH: Rob Dumouchel, City Manager  
FROM: Elizabeth Walton, Finance Director  
DATE: August 19, 2020  
SUBJECT: Water and Sewer Rate Model and Depreciation Reserves Fund

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The purpose of this memo is to address outstanding council questions regarding the adopted Water and Sewer Rate Model and to provide some context to the upcoming depreciation reserves policy discussion.

### **Outstanding Questions:**

- 1) Timeline for Water/Sewer Rate Passage
  - a. As long as the rate structure remains the same, it is fairly easy to accommodate any changes in usage rates. Therefore, the timeline is very flexible towards when the rates need to be adopted. The rates are in effect the first billing period of the subsequent year, so rates would need to be adopted by end of year. I am not familiar with any code language that stipulates when the rates have to be adopted.
- 2) What is the purpose of the \$5 per unit surcharge?
  - a. The primary purpose of this additional fee is to collect revenue to help offset costs that are associated with maintaining infrastructure. One other option to this additional fee was to install meters in each individual unit. This would allow for each unit to be responsible for billing and usage. My recollection of previous conversations is that this was not a viable option, as most multi-unit buildings would have to undergo extensive repairs to accommodate such a system. The City would also have to purchase additional equipment to make the necessary fixes.
  - b. According to recommendations presented by the Water & Sewer Rate Task Force, the reason this model was selected was to help equalize the cost of the system amongst all users. To that effect, it is reasonable to suspect this fee was included to help offset some of the cost burden to those single households. If this additional \$5 was backed out of the model, the rate per gallon would increase.
  - c. Per our fee schedule on what constitutes a multi-unit:
    - i. Multi-Units: An additional \$5 monthly charge shall apply to each of the units of a building or lot occupied by more than one household or commercial entity contained within one building or several buildings within one complex. Examples of multi-family units include duplexes, four-

plexes and up, apartments, condominiums, co-housing projects, and multiple structures on one lot (where units are normally rented or occupied for longer than one month at a time). Examples of units not considered as multi-family include hotels, motels, and B&B's seasonal rooms/cabins (where units are routinely rented or occupied for less than one month at a time.) This fee applies to all multi-unit structures defined in the sewer section of this for apartments, rental units or multi-unit buildings where each unit would have one or more restrooms and are intended to be rented on a monthly basis where there is only one meter installed, excluding a rental building restroom used for shared or public use.

3) 15% Reserve Requirement

- a. While I don't have more information to share on why this component was incorporated into our model, I do have some insight into how this connects with our budget.
  - i. The current practice is to balance the operating budget with a transfer to depreciation reserves to ensure sufficient funding was set aside for known future deferred maintenance items. The rate model utilizes this requirement to ensure there is sufficient revenue to support this transfer to reserves, otherwise the Utility Operations Fund Fund Balance would take a draw to fund the transfer to reserves.

**Depreciation Reserve Policy:**

One thing to consider is that any revenue that is generated in excess of expenditures remains in the Utility Operations Fund until Council makes the determination to address the surplus. The same goes for any deficit that is incurred by expenditures exceeding revenue generated. Therefore, it is worth considering having a financial fiscal year closeout discussion to determine whether or not an additional transfer is warranted.

A huge motivator for administration in the past has been to diligently scrutinize any proposed projects out of the depreciation reserves fund in an effort to establish a sufficient fund balance to address outstanding deferred maintenance items. It would be worth revisiting the list of deferred maintenance items for water and sewer infrastructure prior to depleting the reserve balance for new projects.