



City of Homer

www.cityofhomer-ak.gov

Homer City Council

491 East Pioneer Avenue
Homer, Alaska 99603

(p) 907-235-3130

(f) 907-235-3143

Memorandum 20-132

TO: Mayor Castner and Homer City Council

FROM: Councilmembers Aderhold and Lord

DATE: September 24, 2020

SUBJECT: Resolutions 20-077 and 20-078 regarding water/sewer depreciation reserve policy and HAWSP policy

The purpose of this memo is to provide mayor and council with background information regarding Resolutions 20-077 and 20-078 and the draft policies for water/sewer depreciation reserves and the Homer Accelerated Water and Sewer Program (HAWSP).

Councilmembers Aderhold and Lord took the lead on drafting/revising these policies with valuable input from Public Works Director Keiser, Water/Sewer Department Head Cook, and Finance Director Walton. The policies in front of council are proposals for discussion and remain in draft form as there are many outstanding questions we must answer before a water/sewer depreciation reserve policy is implemented and HAWSP policy is amended. It is important that these policy documents move forward together because one of the basic questions we discussed during the two weeks between meetings was how to define these policies to clearly delineate when the city should use HAWSP funds or depreciation reserve funds for water and sewer projects. Please also refer to Ordinances 20-56 and 20-57 on the regular agenda, which propose to use funds from water and sewer depreciation reserves to fund urgent maintenance projects, and Resolutions 20-075 and 20-076 on the regular agenda, which would adopt capital improvement plans for the city's water and sewer systems.

HAWSP Policy Updates

As a reminder, HAWSP is funded through $\frac{3}{4}$ % of the city's sales tax. Homer City Code (HCC 9.16.010(b)) states: "An additional consumer's sales tax in the amount of three-quarters percent is hereby levied by the City of Homer on all sales, rents and services within the City except as the same may be otherwise exempted by law, for the purpose of funding debt retirement of the sewer treatment plant improvements, and to the extent revenues from such tax exceed such debt retirement obligations, for the purpose of funding water and sewer systems."

The proposed HAWSP policy update is intended to make the policy more readable and understandable with clear criteria for when and how HAWSP funds can be used. Based on the comments that remain in the document you can see the many questions we are wrestling with. All these questions are fodder for council discussion.

In reviewing past legislation related to HAWSP, the use of the program has shifted over time as the debt service on the sewer treatment plant improvements was retired and the city has in-filled water and sewer systems to existing neighborhoods. We should all be familiar with these shifts as we make decisions for the future of the program. We will

work with the City Clerk to provide this information before we make final decisions on the policy. For instance, Resolution 13-078(S)(A) states that if the HAWSP fund exceeds \$3 million the City Manager shall propose projects from the Water and Sewer Capital Improvement plans to utilize the funds, but Resolution 16-041(S-2)(A) instituted a minimum debt service ratio of 1.25 in order to initiate new special assessment districts; we need to understand how these directives work together to maintain funds in the program adequate to continue initiating water and sewer special assessment districts when neighborhoods apply.

Water/Sewer Utility Depreciation Reserves Policy

Aside from HAWSP, city water and sewer are special utility funds paid for by the utility ratepayers. As such, depreciation reserves are funded by the water and sewer utility ratepayers (the “15% reserve requirement” in the water and sewer rate models presented at our last worksession).

We currently do not have a policy for water and sewer utility depreciation reserves, and this constitutes one of the reserve policy projects council tasked ourselves with as we adopted the biennial budget for 2020/2021. There are many questions associated with the collection and use of depreciation reserves and the document in the packet is a starting point for discussion.

The title, depreciation reserves, indicates the reserves are intended for maintenance, repairs, and upgrades to keep the existing water and sewer system functioning as everyone with water and sewer expects. However, as stated above in HCC 9.16.010(b), HAWSP was also intended to fund debt retirement for sewer treatment plant improvements. Is it appropriate now to amend this portion of code to reflect that sewer treatment plant improvement debts have been retired?

Policy Questions for Council

There are many policy questions related to HAWSP and water/sewer utility depreciation reserves for council to consider. Below are a few to start the conversation. These questions are sometimes difficult to parse from one another and are not necessarily in priority order, but they are all questions we need to grapple with.

1. What are the water/sewer utility depreciation reserve funds for and how should they be used? One suggestion has been that HAWSP be used for new infrastructure and depreciation reserves be used for existing infrastructure. This is the definition currently included in the reserve fund policy draft. A different definition is included in HAWSP. How do we clearly define which funds are used in a particular instance?
2. Currently, water/sewer depreciation reserves are funded by the utility ratepayers through the 15% reserve requirement in the rate model. Is this the appropriate funding mechanism for the utility reserves? How else would depreciation reserves be funded?
3. What constitutes “the right amount” for the reserve funds? Should reserve fund policy include a “floor” and “ceiling” for the reserve funds? If so, how do we calculate them?

Backup Materials for Decision-making

We understand that council does not have all the information available to make final decisions on these policies. Our time during the past two weeks was spent preparing draft documents. Additional information we have identified we need includes the lists below. What other information can others think of that will be useful?

HAWSP policy revision:

- Legislative history establishing and amending HAWSP (excluding legislation that established special assessment districts under HAWSP)
- List of special assessment districts formed under HAWSP
- List of city projects funded by HAWSP
- Current status of the HAWSP fund

Depreciation reserve policy:

- History of legislation, task force recommendations, and council action on water/sewer reserves
- List of city projects funded by water/sewer reserves
- Current status of water and sewer reserve funds

RECOMMENDATION: Discuss water and sewer policies and provide direction for staff and councilmembers Lord and Aderhold to continue refining.