



City of Homer

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Finance Department

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Memorandum 20-177

TO: Mayor Castner and Homer City Council
THROUGH: Rob Dumouchel, City Manager
FROM: Elizabeth Walton, Finance Director
DATE: October 19, 2020
SUBJECT: Impacts from Fiscal Year Change

The purpose of this memo is to provide additional information regarding the impacts of changing fiscal years.

Historical Information:

Prior to Fiscal Year 1987, the City of Homer operated under a fiscal year that began on July 1 and ended on June 30 of the succeeding year. There was discussion with City Council prior to this conversion that weighed the advantages and disadvantages of the switch. Resolution 86-70 and accompanying Memorandum 86-163 have been attached to this memo for reference purposes.

Advantages:

- There is no longer the conflict with elections and new council members won't have to immediately tackle budget conversations on the first day of his/her term.
- There will be some administrative relief in providing budget estimations for our insurance costs. The bill is issued based on a July – June fiscal year and we currently have to split the bill amongst two fiscal years.
- There is a potential for an ease to State and KPB grant reporting, as our fiscal years would align and splitting between fiscal years is no longer necessary.
- Much of our revenue is earned in the second half of the calendar year, starting the fiscal year in July would allow us to have more time to react to a summer with revenues that did not meet forecasted expectations.

Disadvantages:

- One time cost would be incurred for necessary changes to the accounting system as well as the need for an audit at the end of the fiscal years during the transition.
 - o We are working to get a quote for the cost that will be charged by our accounting software (Caselle) to facilitate such a transition. We have spoken with Caselle and they have stated it is a “process and it involves a complete restructuring of our

- accounting system”. We are also working to get a timeline towards completion time.
- A decision would have to be made on the length of our budget years during this transition, as we will have to amend our audit schedule accordingly. There are two options (6 month or 18 month fiscal year). It has been recommended that we highly consider the 6 month term, as our grant agencies will not want to wait the 18 months plus audit time for finalized statements.
- The biggest stumbling block is the amount of work that has to occur behind the scenes to accomplish such a transition:
- Administrative work associated with the switch in our accounting software appears to be lengthy and we will need to schedule our transition accordingly. There is bound to be unforeseen impacts by making this switch and those impacts can be burdensome, achieving this change on the proposed timeline may require additional temporary help for the Finance Department.
 - The Finance department will be highly engaged during the first quarter of 2021 to complete CARES reporting and return any unspent funding to the State. There is no solid communication that explicitly lines out what the closeout process will involve, but we are expecting to provide detailed reporting.
 - There is a huge concern over the mandatory need to time audits with the budget year. If we make the transition this will mean that the City will have to work through two audits simultaneously.
 - Administrative work associated with performing multiple audits within a short time span is another major concern. Having a shortened fiscal year does not decrease the amount of work associated with a financial audit, as the requirements remain the same. As it stands, we barely manage to meet the reporting deadline and the pressure will be intensified to get multiple audits completed prior to deadlines. If we fail to meet the deadlines, our ability to receive grants could be impacted.
- Budget Implications:
- Public engagement in the budget process could be affected, as a significant portion of our community is engaged in seasonal work.
 - However, the distribution of information and opportunities for public engagement are much different in 2020 and this may not be as much of a barrier at this time.
 - State/KPB funding – if the State and the Borough are going through budget conversations at the same time we are there will be trickle down effects if our assumptions don’t align.
 - Administrative work associated with “rebuilding” the budget to accommodate the new fiscal year.

Additional Items to Consider:

- When will this fiscal year change occur? If we transition in July 2021, are we having a 6 month fiscal year running January – June 2021?
 - There will be a need to set a budget for this transition period. This means conversations will need to begin immediately.

- There would be a subsequent need to set the budget beginning July 2021 and administrative work would need to begin in January.
- There will be a need to amend budget code accordingly to accurately reflect the start/end time of the fiscal year. Other edits will need to be made to ensure terminology is consistent with the fiscal year change.