



City of Homer

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Memorandum 21-076

TO: Mayor Castner and Homer City Council

FROM: Rob Dumouchel, City Manager

DATE: May 10, 2021

SUBJECT: Capital Asset Repair & Maintenance Allowance (CARMA) Subaccount Balancing and/or Consolidation

There is a strong desire on Council to remove a negative fund balance from the General CARMA – General subaccount (156-0375). There are two ways to remove this negative balance: 1) make a transfer of available funds 2) allow General CARMA (156) interest to refill the General subaccount (156-0375) over time. Council has clearly communicated that their preference is for a solution that resolves the negative balance as quickly as possible. There are currently two proposals on the May 10th agenda with the intent to begin to achieve this goal. Administration has recently developed a third alternative which may achieve a good balance of Council interests. This memo will discuss all three options, provide analysis, and make a staff recommendation.

Background and Context

Reserves and CARMA

Reserves, in some instances called CARMA within the City of Homer, are portions of fund balance that are legally segregated for a specific future use. These funds are appropriable for expenditures with the approval of the City Council during the budget process or on an individual basis as situations arise which are addressed by the City Council. The focus of this memo includes Utility CARMA (256), Fleet CARMA (152), and General CARMA (156). Table 1 below shows how those CARMAs are further subdivided into subaccounts.

Table 1: CARMA Subaccounts

Utility CARMA (256)	Fleet CARMA (152)	General CARMA (156)		
Water 256-0378	General 152-0375	Public Art 156-0367	Planning 156-0387	HERC 156-0396
Sewer 256-0379	Administrative 152-0380	Seawall 156-0369	Airport 156-0388	Fishing Hole 156-0397
	Fire 152-0381	Animal Shelter 156-0370	Library 156-0390	IT 156-0398
	Police 152-0382	General 156-0375	Fire 156-0393	Sister City 156-0399
	Public Works 152-0383	City Hall 156-0384	Police 156-0394	ADA 156-0400
	Insurance 152-0391	Park & Rec 156-0385	Public Works 156-0395	

Over the years, Administration has used the various CARMA subaccounts to hold funds for specific departments/projects/etc. Sometimes these subaccounts are used to save up for a capital project over a few years. Other times, money goes in with the passage of the budget and is spent that year on Council approved projects. It would appear that sometimes left over money is stranded here for years at a time. The strategic use of subaccounts has varied over time in relation to the fiscal health of the City.

Recent Council Activity and Alternatives

At a budget work session hosted on April 5th, I presented information on City CARMAs and other reserve accounts. During this session, it was noted that the General Fund CARMA’s General subaccount had a negative fund balance of \$247,181. This subaccount has had a negative balance since 2019 and is visible in the adopted FY20/21 budget (it was \$262,803 at that time). General Fund CARMA interest has reduced that amount over time.

At the April 26th Council meeting, Finance Director Walton provided a memo regarding the negative balance and also provided a memo from Porter & Allison about allowable ways to resolve the balance. After a discussion during the City Manager’s report, there was a request for an ordinance which would transfer funds from the General Fund to the CARMA General Fund (156-0375) to resolve the negative balance. I have produced the requested ordinance and it is on the May 10th Council agenda for introduction (Ord. 21-28). I am calling this **Alternative #1**.

The Mayor has subsequently introduced a resolution for the May 10th Council meeting which would direct staff to consolidate the subaccounts within CARMA accounts leaving a General Fund CARMA (156), Fleet CARMA (152), and Water and Sewer CARMA (256) (Reso. 21-034). I am calling this **Alternative #2**.

After evaluating the intent of the Mayor’s resolution along with comments from Council regarding a desire to clarify the purpose and limitations of each CARMA subaccount, I have developed a third option which would not be available for action at the May 10th meeting but could be integrated into the Capital Budget ordinance which is on track for a June 14th introduction. I am calling this **Alternative #3**.

Alternative Evaluation & Analysis

In consideration of the three alternatives available, I suggest considering technical, economic, political, and legal factors as shown below in Table 2.

Table 2: Suggested evaluation criteria for alternatives

Factor	Guiding Questions
<i>Technical Feasibility</i>	<ul style="list-style-type: none"> • Does the alternative work within the confines of generally acceptable governmental accounting methods? • Can staff implement the change?
<i>Economic Feasibility</i>	<ul style="list-style-type: none"> • Does the City have sufficient funds to implement the alternative
<i>Political Interest (as perceived by Administration)</i>	<ul style="list-style-type: none"> • Is the alternative acceptable to a majority of the Council?
<i>Legal Feasibility</i>	<ul style="list-style-type: none"> • Are there any conflicts with Homer City Code in implementation of the

alternative?

- Are there any other legal concerns?

Alternative #1: Transfer funds from the General Fund (Ordinance 21-28)

Ordinance 21-28 takes a very simple and direct approach to resolving the negative balance. It takes \$247,181 from the General Fund and transfers it to the General CARMA – General subaccount which would bring that balance to zero. This method is technically sound, there is sufficient General Fund balance available, and I do not see any potential legal or code issues. This alternative quickly achieves the Council goal of balancing the General subaccount, however I believe that Council would prefer to avoid making a transfer from the General fund to balance this subaccount.

Alternative #2: Consolidate subaccounts within each CARMA (Resolution 21-034)

Resolution 21-034 calls for the consolidation of subaccounts within each CARMA. This would mean Utility CARMA (256) goes from two subaccounts to one, Fleet CARMA (152) would go from six subaccounts to one, and General CARMA (156) would go from seventeen subaccounts to one. The consolidation of General CARMA would resolve the negative balance in the General subaccount and would not change the overall balance within the General CARMA (156). Because the money currently residing in the various subaccounts was specifically appropriated by Council, I don't believe that a resolution is the appropriate vehicle for a consolidation and instead should be replaced by an ordinance if this is the desired path forward. Additionally, I believe that there are some CARMA subaccounts that should not be part of any consolidation as they are being used to "park" money for expected expenses (i.e. Seawall (156-0369) and Fishing Hole (156-0397)).

Alternative #3: Partial consolidation and reform

Alternative #3 has three phases: 1) partial consolidation, 2) reflection, and 3) reform.

- **Phase 1:** This alternative temporarily consolidates the funds from some subaccounts via the capital budget ordinance.
 - Staff is undecided on whether it would be positive or negative to consolidate Utility CARMA (256) and would leave it as-is for now.
 - We would transfer available Fleet CARMA funds into Fleet General 152-0375
 - We would transfer available General CARMA funds into General 156-0375 except for Seawall (156-0369), HERC (156-0396), and Fishing Hole (156-0397)
- **Phase 2:** This alternative then goes through each subaccount with Council to determine the following (review to occur after the budget is adopted):
 - Should the subaccount exist?
 - What is its purpose?
 - How should it be funded?
 - What other considerations must be addressed?

- **Phase 3:** Once subaccounts have their policies set, we will begin to appropriate the funds into the subaccounts again

This alternative meets the criteria of being technically, economically, and legally feasible. I believe that there would be broad interest from Council in this phased approach. It solves an immediate problem in a relatively short timeline, and makes systemic improvements which will benefit CARMA into the future.

Staff Recommendation: Direct staff to plan for Alternative #3, to include post-capital budget approval work sessions on CARMA subaccount policy development.