City of Homer
www.cityofhomer-ak.gov

Finance Department
491 East Pioneer Avenue
Homer, Alaska 99603
finance@cityofhomer-ak.gov
(p) 907-235-8121
(f) 907-235-3140

Memorandum 21-077

TO:	Mayor Castner and Homer City Council
THROUGH:	Rob Dumouchel, City Manager
FROM:	Elizabeth Walton, Finance Director
DATE:	May 10, 2021
SUBJECT:	FY22/23 Budget Projection

For the May 10th City Council meeting, a draft Operating Budget packet will be provided to the Council. The purpose of this memo is to provide additional context to that draft and explain how select pieces of the FY22/23 Draft Operating Budget was derived. The Operating Budget ordinance will be introduced at the May 24th Council Meeting.

Citywide Budget Impacts:

There are a handful of expenditures that impact all of the operating funds (General, Utility and Enterprise). These expenditures are: insurance (health, property, auto, and liability) and utilities (electricity and water/sewer).

The City is in a unique situation this budget cycle with some of the fallout still remaining from the COVID-19 pandemic which has had a significant impact on City operations. We were informed by AMLJIA that all aspects of insurance coverage costs were expected to be increasing over previous years, with the possibility of costs increasing to contract maximums. We haven't received the actual costs from AMLJIA yet which makes it difficult to budget an actual expense for property, auto and general liability insurance. Therefore, we opted to take the conservative approach and increase all of these line items at 10% over FY21 Full-Year's budget (our contractual cap). We are hopeful that the actual costs will be reported prior to adoption of the FY22/23 Operating Budget and will subsequently amend the budget accordingly.

Another huge question mark for budget projections is health insurance costs. Due to the timing of our budget introduction and the ongoing negotiations with our health insurance provider, we do not have an actual cost to incorporate in the FY22/23 budget. Therefore, we utilized the rate cap (10%) that Premera incorporated in our last negotiations. We are currently engaged in getting this cost identified and are hopeful that they will come in lower than the proposed 10% increase over FY21 Full-Year's budget. If those costs are identified prior to the adoption of the FY22/23 Operating Budget, the budget will be amended accordingly. Decreases to this cost could have a significant impact to the bottom line for FY22 and FY23.

A final category that stands to impact all aspects of the Operating Budget is utilities, primarily electricity and water/sewer. Electricity was budgeted utilizing a three year average plus 10% inflation. This methodology is consistent with previous years. Water/Sewer expenditures were budgeted based on projections utilizing 2019 actuals. Typically the methodology utilizes the most recent year's data, but 2020 data arbitrarily skewed the budget estimations due to the decline in usage at City facilities.

General Fund:

The methodology used to generate most revenue projections for the General Fund was to take a three year average.

There were a couple exceptions to this, primarily in relation to property/sales tax projections and maintaining consistency with the FY21 budget.

The revenue exceptions are detailed as follows:

- Property Tax projections were generated using our existing regression model. This is consistent with the methodology used in the FY21 budget.
- Sales Tax projections were generated using our existing regression model, with a few modifications to account for the disruption in FY20. For this budget, the revenue received in FY20 was removed as it was artificially pulling down the future projections. It is very possible that sales tax will greatly exceed this forecast, a lot of indicators are pointing towards a strong summer tourist season, but the feedback Administration received from Council during budget work sessions was to be conservative with this budget and that is the approach we took with this forecast.
- Remote Sales Tax has been separated from "regular" sales tax. We only have a partial year of actuals with which to base a forecast, and used a fairly conservative number for FY22 and FY23 with an understanding that the actuals could ultimately be much higher.
- Beginning with the FY18 budget, we stopped projecting revenue into the "Other Revenues" category. So, the average formula was overwritten with a zero to be consistent with our current methodology.

The methodology used for the General Fund expenditures was consistent with the revenues (three year average).

The expenditure exceptions are detailed as follows:

- Utility expenses (electricity, natural gas, water/sewer) at the Police and Fire Departments stand to fluctuate significantly during this budget cycle, as both facilities have taken over new expenses
- New expenditure categories were created for the following:
    - Lobbying – per ORD 20-91
    - Legal Expenses have been broken out from Professional Services in the Mayor/Council budget. This will allow for more transparency in legal expenses incurred by the City.

- Old Police Station Building Maintenance – created to better track the maintenance expenses associated with keeping the facility in its current state

For FY22, there is currently a small surplus and the General Fund budget was balanced by modifying the transfers to reserves amount, which is consistent with our current practice. For FY23, there is currently a small deficit which is balanced by approximately $69,000 in General Fund Fund Balance. There is a strong expectation from Administration that this deficit is likely to disappear once we settle on a rate for health insurance, but for now the budget has a worst case health insurance increase scenario forecasted.

Utility Fund:

For the FY22 budget, the methodology used to generate metered revenue projections for the Utility Fund was to use 2019 usage and apply the new rates adopted in 2020. The other revenue line items were forecasted utilizing a three year average. Due to the relatively flat consumption usage between 2019 and 2020, the revenue budget for FY23 matches FY22.

The Utility Fund budget was balanced by modifying the transfers from utility operations fund balance amount. Both fiscal years are proposed with a net operating loss, but Administration feels that these losses could be eliminated once actual expenses are incorporated into the budget for insurance.

Port/Harbor Fund:

The revenue projections for the FY22/23 budget were achieved by taking a three year average. One exception to this is moorage, as that is based on the tariff schedule. Harbor administration attempts to incorporate those fluctuations in the revenue model.

The methodology used for the Port/Harbor Fund expenditures was consistent with the revenues (three year average).

One significant expense that should be highlighted is the early payoff of the Lot 42 loan. Harbor Administration, after deliberation with the Port & Harbor Commission, has determined that the Enterprise would benefit from eliminating this outstanding debt. The draft budget proposes splitting the six remaining installments between the two fiscal years.

The Port/Harbor Fund budget was balanced by modifying the transfers to reserves amount, which is consistent with our current practice.

FY222/23 Projected Appropriations:

The draft is illustrating the following appropriations for FY22:

General Fund	$13,375,640
Utility Fund	$ 3,846,990
Port/Harbor Fund	$ 5,105,259

The draft is illustrating the following appropriations for FY23:

General Fund	$13,721,523

Utility Fund	$ 3,969,802
Port/Harbor Fund	$ 5,251,279