



City of Homer

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Memorandum 21-087

TO: Mayor Castner and Homer City Council

FROM: Rob Dumouchel, City Manager

DATE: May 24, 2021

SUBJECT: FY22/23 Operating Budget Introduction and FY22/23 Capital Budget Draft Information

The May 24th Council meeting will see the introduction of the FY22/23 Operating Budget ordinance and a preview of the FY22/23 Capital Budget. The Operating Budget will come before Council two more times with a target adoption on June 28th. The Capital Budget ordinance is on track for introduction on June 14th and adoption on June 28th. In years past, they have been presented as one ordinance and one document. For this biennium they will be presented separately.

Overview

The budget proposed generally maintains the status quo, which in Homer has been conservative year over year growth. It does not add any new staff, does not cut services to the public, and it does not raise taxes. That said, the proposed budget does present operating deficits which are balanced by transfers from fund balance. The pandemic year of 2020 has had an outsized effect on many local governments all throughout the country, however, we seem to have fared much better than many municipalities. While we are forecasting a deficit, I believe that there are good odds we'll see surplus conditions in FY22 actuals. Indicators are pointing towards a very strong summer tourist season, however, it is very difficult to accurately quantify what is likely to be a very out of the ordinary year. Additionally, in recent years, the City has been least half a million dollars under budget in actual spend and generated an average of more than one million dollars in additional revenue when we compare budgets to actuals.

Two items which are not yet set, but will potentially have a significant impact on our operating budgets, are health insurance costs and the American Rescue Plan Act (ARPA).

- **Health Insurance Costs** – In the early review draft provided on May 10th, Administration had budgeted a 10% across the board increase for health insurance in FY22 and again in FY23. That same day our broker indicated that we may be on track for a larger increase. We have since gone out to bid through our broker to see what else may be available on the market. We expect news during the first week of June. In the meantime, we have increased the health insurance budget to a 15% increase in each year. It is very likely we will have to modify that number between introduction and adoption of the budget. Our insurance broker will attend the June 14th Committee of Whole meeting to address Council.
- **ARPA** – The City is expecting approximately \$1.2 million in COVID relief funds from the Federal Government which will be paid out in two tranches (~\$600,000 in FY22 and ~\$600,000 in FY23). We are

currently evaluating if these funds can be used as revenue replacement, and if those funds can then be integrated into our operating budget. The Finance Department has reached out to a financial consulting firm to assist us in our analysis of the law and how it applies to our specific context. Once we have a firm grasp of the possibilities for these funds, they may be integrated into the budget via an amendment.

FY22/23 Operating Budgets

General Fund

The General Fund Operating Budget was built with the intention of maintaining existing City services without adding new staff positions. While there are compelling cases to be made for new or expanded positions in many departments, the forecasted revenue does not support those costs and the budget includes zero new employees. It does however make some allowances for expanded temporary staff or professional services to help our team meet the demands of Council and the public for services.

The impact of rising health insurance rates has generated forecasted deficits of \$39,668 and \$180,164 for FY22 and FY23 respectively. With an expected heavy tourist season, and a tendency to come in under budget in actual spend year over year, Administration believes that it is very likely that our actual spending will not exceed our revenues.

Utility Fund

Utility operations are funded by water and sewer rates. In November 2020, Council reduced the rates by removing the CARMA reserve component (15% of the operating budget) via Resolution 20-118(s). This has contributed to forecasted deficits of \$46,991 in FY22 and \$199,913 in FY23. The Council is in the middle of a review of water and sewer reserves and financial policies with an outside consultant at HDR. There is an expectation from Administration that the results of that work will lead to an updated rate which will rebalance the utility operations budget. This is likely to occur after the adoption of the FY22/23 budget.

Harbor Enterprise Fund

The Enterprise's operating budget is in good shape for FY22/23 and projecting a surplus in each year. We anticipate a transfer of \$650,391 to reserves in FY22 and \$636,422 in FY23. The Port & Harbor Commission has indicated an interest in supporting a credit for General Fund sales tax revenue generated by the Enterprise. I have not included that request in the budget as we have not forecasted sufficient revenue to the General Fund in FY22/23 to support it without a transfer from reserves. If we have a very strong tourist season, I believe that this is a great request for Council to follow up on and consider as part of a mid-biennium review.

FY22/23 Capital Budget

Attached to this memo are a series of sheets containing proposed capital projects. These sheets are broken up by funding source (i.e. CARMA 156, Fleet CARMA 152, Port & Harbor Fleet 452, Port & Harbor Reserve 456, HART, & HAWSP).

All capital project funding is carried by existing funds, no project slated for review and approval exceeds the current balances of the funding sources. The CARMA Funds (152, 156, and 256) have sufficient existing funds to get a meaningful number of projects underway in FY22/23. A major goal of Administration in the project list put forward is to not fall behind in projects, fleet replacements, etc. because it will only exacerbate future needs. A concern is that the CARMA funds do not have new funds slated to refill them in the current draft

operating budget. Administration believes that there is a very real chance sales tax revenues will greatly exceed forecasts which could provide surplus operating funds. The staff recommendation would be to prioritize the funding of CARMA accounts (or whatever vehicle Council chooses to use for future project funding) if those surplus funds materialize.

In the attached sheets you will see the following: current information, open encumbrances, requested projects, future fund activity, and proposed future state. See below for definitions/explanations of each section.

- **Current Information** – this section shows the funding source as it stands right now with its current fund balance, open encumbrances, and available balance.
- **Open Encumbrances** – this section shows projects previously approved by Council that still have unspent funds. Each project is shown with the department that requested the project, the ordinance approving the money, the applicable account number, and the amount of funds remaining. In some cases the project has not been started and the full value is remaining, in others the project is at a midway point and some money has been spent but there is more work to do with the remaining funds.
- **Requested Projects** – this section shows projects which have been sent to the City Manager by staff and approved for inclusion into the Capital Budget draft. Each project is shown with the requesting department, applicable account number, fiscal year*, and requested amount.
- **Future Fund Activity** – this section shows other expected movement within the funding source to include transfers, incoming sales tax, assessment revenue, and debt payments.
- **Proposed Future State** – this section shows how the funding source would shape up financially if all projects presented are approved by the Council and other spending and revenues occur as budgeted.

*Regarding fiscal years, staff made their requests for either FY22 or FY23. At this time I have chosen to show all requests in FY22. I'm doing this because there are a lot of disruptions in worldwide supply chains which could last months to years depending on the industry. I would like staff to have the flexibility to take advantage of opportunities as they arise to acquire capital items when they are available, which might not perfectly sync up with our fiscal years.

Between this Council meeting and the Capital Budget introduction June 14th, I will be reviewing the draft with staff and possibly making some small changes. With current market fluctuations it is difficult to make accurate pricing estimates, we are making a good faith effort to get as close as we can to minimize return trips to Council for additional appropriations. In the meantime, I would ask that Council forward comments, questions, etc. to my office for review.