



City of Homer

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Memorandum 22-150

TO: Mayor Castner and City Council
THROUGH: Rob Dumouchel, City Manager
FROM: Janette Keiser, PE, Director of Public Works
DATE: August 31, 2022
SUBJECT: Recommended Transfer of Utility Fund Balance to Water/Sewer CARMA Funds

Issue: A transfer of the Utility Fund Balance to the Water/Sewer CARMA Funds is needed.

Background: The Utility Fund Balance is an accumulation of the surpluses (or deficits) in the Utility Operating Budget over time. Historically, the Fund Balance sits on the books, with no dedicated purpose. Council is in the process of making decisions about how to administer the Fund Balance as part of their work to establish water/sewer rates, implement the Water/Sewer Financial Policies adopted with Resolution 21-066, and otherwise update how the Utility's financial affairs should be managed. There is currently a substantial surplus in the Fund Balance, collected over multiple years.

The City maintains a Water Capital Asset Repair and Maintenance Allowance (Water CARMA) Fund and a Sewer Capital Asset Repair and Maintenance Allowance (Sewer CARMA) Fund for the purpose of funding repair and replacements of capital assets in the water and sewer systems that serve existing customers. For some years, the City added a 15% fee to the water and sewer rates and directed these funds into the CARMA accounts, allowing the CARMA funds to build into a reliable safety net. This fee was deleted from the rates in 2020 and a replacement CARMA funding mechanism has not yet been put in place. The CARMA Funds have dwindled because both the water and sewer utilities have needed repairs/replacements of critical equipment. The Sewer CARMA Fund is completely depleted and the Water CARMA Fund is at a much reduced level. Without a source of funding for capital repair/replacements, the reliability of the utilities is at risk.

It is critical to rebuild the CARMA Funds by reinstating an element in the water/sewer rate model to fund capital repairs/replacements effective with the next new rate schedule. In the meantime, we can use the existing surplus in the Fund Balance to provide an immediate injection of revenue into the CARMA Funds.

Recommendations: We recommend that the City Council do the following

- a. Authorize the transfer of the existing Utility Fund Balance, to be distributed 75% to the Sewer CARMA and 25% to the Water CARMA.
- b. Reinstated a CARMA element as a line item in the water/sewer rate model, the value of which would be based on the value of the repair/replacement projects allocated for the budgeted year.