



# City of Homer

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Finance Department

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## Memorandum 22-158

TO: Mayor Castner and Homer City Council  
THROUGH: Rob Dumouchel, City Manager  
FROM: Elizabeth Walton, Finance Director  
DATE: September 8, 2022  
SUBJECT: Utility Operations Fund Fund Balance Transfer to Utility CARMA

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The purpose of this memo is to provide a financial position of various Utility funds (Operations, Water CARMA, and Sewer CARMA). This information is necessary for understanding the impacts of Ordinance 22-58.

Below details the financial position of each of the funds impacted by Ordinance 22-58, which proposes transferring \$208,000 out of the Utility Operations Fund into the Utility CARMA Fund. Included as supplemental information to this memo is a visual representation of the financial impacts and historical fund balance information.

### **Utility Operations Fund (Fund 200):**

The purpose of the Utility Operations Fund is to fund operational expenses associated with the Water and Sewer Utilities. As fiscal years end, there is either a residual operating surplus or deficit. The accumulation of these surpluses/deficits over previous years has lead towards the current fund balance of \$1,205,126.

### **Water CARMA (Fund 256-0378):**

The purpose of the Water CARMA Fund is to fund capital expenses associated with maintaining current water infrastructure.

The current fund balance for the Water CARMA fund is \$2,032,054. Of which, \$359,155 is currently encumbered through council appropriations. This balance is further reduced by a pending encumbrance of \$270,000 (ORD 22-54, Extending Capital Project Appropriations). If you also factor in the proposed \$52,000 transfer, the estimated balance available in the Water CARMA Fund is \$1,454,899. It is also worth mentioning that the FY23 Amended Budget included a Water CARMA transfer totaling \$106,804.

### **Sewer CARMA (Fund 256-0379):**

The purpose of the Sewer CARMA Fund is to fund capital expenses associated with maintaining current sewer infrastructure.

The current fund balance for the Sewer CARMA fund is \$1,356,081. Of which, \$907,689 is currently encumbered through council appropriations. This balance is further reduced by a pending encumbrance of \$156,000 (ORD 22-54, Extending Capital Project Appropriations). If you also factor in the proposed \$156,000 transfer, the estimated balance available in the Sewer CARMA Fund is \$396,392. It is also worth mentioning that the FY23 Amended Budget included a Sewer CARMA transfer totaling \$234,166.

**Ordinance Walkthrough:**

Ordinance 22-58 serves to begin the replenishment of the Utility CARMA funds, as both the Water and Sewer CARMA funds have been heavily depleted (without restoration) over the last couple years.

The methodology behind determining the amount to transfer is as follows:

(1) Establish available balance	\$1,205,126
(2) Reduce for WWTP Clarifiers	(\$370,263)
(3) Reduce for 50% Utility Rate Buyback	(\$417,432)
(4) Reduce for 25% Operating Reserve	(\$208,716)
Total Allowable Transfer to CARMA	\$208,716

This amount was rounded to \$208,000 to allow for easier splits between the Water and Sewer CARMA funds. This amount was then split 25% to Water CARMA (\$52,000) and 75% to Sewer CARMA (\$156,000).

This ordinance is written to be in alignment with the passage of Scenario 2 in the proposed Utility Rate Model, which is formalized in Ordinance 22-61 establishing those rates.

**Recommendation:**

Introduce Ordinance 22-58 with a public hearing on September 26, 2022 to allow for public hearings on two Ordinances (22-60 Appropriating ARPA funds and 22-61 Establishing Utility Rates). These three Ordinances go in tandem and should pass in numerical order (Utility Fund Fund Balance transfer (ORD 22-58), appropriating ARPA funds (ORD 22-60), and ending with establishing utility rates (ORD 22-61)). It is worth mentioning that changes to any of these ordinances individually could have impacts on the others.

Utility Fund  
 Unaudited Fund Balance Summary  
 Presented 9/8/22

<b>Utility Operations Fund (200)</b>					
	FY18	FY19	FY20	FY21	FY22
Beginning Fund Balance	\$ 3,291,818	\$ 3,325,819	\$ 673,608	\$ 1,030,917	\$ 979,016
Ending Fund Balance	\$ 3,325,819	\$ 673,608	\$ 1,030,917	\$ 979,016	\$ 1,205,126
Net Change	\$ 34,001	\$ (2,652,211)	\$ 357,309	\$ (51,901)	\$ 226,110

<b>Water CARMA Fund (256-0378)</b>						
	FY18	FY19	FY20	FY21	FY22	FY23
Beginning Fund Balance	\$ 2,593,246	\$ 2,650,270	\$ 2,615,008	\$ 2,555,103	\$ 2,391,139	\$ 2,044,196
Ending Fund Balance	\$ 2,650,270	\$ 2,615,008	\$ 2,555,103	\$ 2,391,139	\$ 2,044,196	\$ 2,032,054
Net Change	\$ 57,024	\$ (35,262)	\$ (59,905)	\$ (163,964)	\$ (346,943)	\$ (12,143)
					Encumbered	\$ 359,155
					Pending Encumbrance (ORD 22-xx)	\$ 270,000
					Pending Transfer (ORD 22-xx)	\$ 52,000
					Estimated Balance Available	\$ 1,454,899
					FY23 Budgeted CARMA Transfer	\$ 106,804

<b>Sewer CARMA Fund (256-0379)</b>						
	FY18	FY19	FY20	FY21	FY22	FY23
Beginning Fund Balance	\$ 2,153,985	\$ 1,979,619	\$ 2,065,381	\$ 1,929,114	\$ 1,792,300	\$ 1,357,240
Ending Fund Balance	\$ 1,979,619	\$ 2,065,381	\$ 1,929,114	\$ 1,792,300	\$ 1,357,240	\$ 1,356,081
Net Change	\$ (174,366)	\$ 85,762	\$ (136,267)	\$ (136,814)	\$ (435,060)	\$ (1,160)
					Encumbered	\$ 907,689
					Pending Encumbrance (ORD 22-xx)	\$ 208,000
					Pending Transfer (ORD 22-xx)	\$ 156,000
					Estimated Balance Available	\$ 396,392
					FY23 Budgeted CARMA Transfer	\$ 234,166

**CITY OF HOMER  
FINANCIAL SUPPLEMENT**

PROJECT NAME	<u>Utility CARMA Funding</u>	DATE	<u>09/07/2022</u>
DEPARTMENT	<u>Public Works</u>	SPONSOR	<u>City Manager/Finance Director</u>
REQUESTED AMOUNT	<u>\$ 208,000</u>		

<b>DESCRIPTION</b>	<p>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.</p> <p>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.</p>
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FUNDING SOURCE(S)	Utility Operations	GF CARMA	GF FLEET CARMA	PORT RESERVES	WATER CARMA
	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>
	HAWSP	HART-ROADS	HART-TRAILS	PORT FLEET RESERVES	SEWER CARMA
	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>

FUNDING SOURCE 1: Utility Operations FB	FUNDING SOURCE 2:	FUNDING SOURCE 3:
Current Balance <u>\$ 1,205,126</u>	Current Balance      _____	Current Balance      _____
Encumbered <u>\$ 0</u>	Encumbered            _____	Encumbered            _____
Requested Amount <u>\$ 208,000</u>	Requested Amount     _____	Requested Amount     _____
Other Items on Current Agenda <u>\$ 370,263</u>	Other Items on Current Agenda    _____	Other Items on Current Agenda    _____
Remaining Balance <u>\$ 626,863</u>	Remaining Balance     _____	Remaining Balance     _____
FUNDING SOURCE 4:	FUNDING SOURCE 5:	FUNDING SOURCE 6:
Current Balance      _____	Current Balance      _____	Current Balance      _____
Encumbered            _____	Encumbered            _____	Encumbered            _____
Requested Amount     _____	Requested Amount     _____	Requested Amount     _____
Remaining Balance     _____	Remaining Balance     _____	Remaining Balance     _____