



MEMORANDUM

Emergency Fund Discussion

Item Type: Informational Memorandum
Prepared For: Mayor Lord and Homer City Council
Date: May 3, 2025
From: Melissa Jacobsen, City Manager

At the April 28th City Council worksession, Council requested information on the history of the emergency fund as outlined in Homer City Code 3.05.049 and recommendations from Government Finance Officers Association (GFOA) regarding emergency fund balance.

This code was established through the adoption of Ordinance 19-35(S) on August 12, 2019. The ordinance contains a myriad of code amendments, including a new section 3.05.049 General Fund-Fund Balance. This section includes the establishment within the fund balance of the general fund an amount equal to four months' revenue for the current fiscal year that is restricted to emergency use only. It further outlines that the emergency restricted fund balance shall only be spent to help the City of Homer provide quick response to weather, economic uncertainty and unexpected situations such as natural disasters so as to avoid the need for short-term borrowing. I've included copies of the minutes from the meetings where this was discussed and adopted, as requested.

GFOA doesn't have specific, mandatory standards for emergency funds and recommends at least two months of operating expenses or revenues as an unrestricted fund balance. This can be adjusted based on the City's needs. When considering the unrestricted fund balance GFOA recommends considering:

- The predictability of revenues and volatility of expenditures
- Perceived exposure to one-time expenditures like disasters, unexpected capital needs, state funding cuts
- Potential drains on general fund resources from other funds, along with resources available in other funds
 - Other funds may need financial support from the general fund
 - Loans or transfers because those other funds may be underperforming or facing shortfalls
- Potential impacts to the bond rating
- Commitments and assignments
 - Community Recreation Center project fund balance, as an example

n the same way it sets standards for other areas like budgeting or accounting. However, GFOA provides extensive guidance and recommendations for [unrestricted fund balance](#) in the general fund, which can serve as an emergency reserve. GFOA generally recommends at least two months of operating expenses or revenues as an unrestricted fund balance, but this is a minimum and can be adjusted based on specific circumstances.

Here's a more detailed look at GFOA's approach to emergency funding:

1. General Fund Unrestricted Balance:

- **Minimum Recommendation:**

GFOA recommends that general-purpose governments maintain an unrestricted fund balance in their general fund of at least two months of regular general fund operating revenues or expenditures.

- **Purpose:**

This fund balance acts as a cushion against unexpected events, including emergencies, revenue shortfalls, and sudden capital needs.

- **Adjustments:**

The appropriate level of unrestricted fund balance may need to be adjusted based on a government's specific circumstances, including its revenue stability, expenditure volatility, and exposure to potential disasters.

2. Factors Influencing Emergency Fund Needs:

- **Revenue Predictability:**

Governments with more volatile revenue streams may need a larger fund balance to buffer against unexpected revenue shortfalls.

- **Expenditure Volatility:**

Governments with higher risk of sudden, unforeseen expenditures, such as disaster recovery costs, may need a larger fund balance.

- **Disaster Risk:**

Governments in areas prone to natural disasters may need a higher fund balance to cover emergency response and recovery costs.

- **Borrowing Costs:**

Maintaining a healthy fund balance can improve a government's credit rating and potentially reduce borrowing costs.

3. Disaster Recovery and Emergency Response:

- **Documentation:**

GFOA recommends that governments establish formal policies and procedures for documenting disaster-related costs to ensure maximum reimbursement from all levels of government.

- • **Resilience Planning:**

GFOA encourages governments to incorporate resiliency into their capital planning process to mitigate the effects of disasters.

- • **Risk Assessment:**

GFOA provides resources and guidance on risk assessment to help governments identify potential events that could impact their financial health.

4. ARPA Funding (American Rescue Plan Act):

- **Guiding Principles:**

GFOA has issued guiding principles for the use of American Rescue Plan Act (ARPA) funds, emphasizing their temporary nature and recommending their use for non-recurring expenditures, such as infrastructure investments, [according to GFOA](#).

- • **Spending Restrictions:**

ARPA funds cannot be used to offset tax cuts, delay taxes, or be deposited into pension funds, [according to GFOA](#).

In summary, while GFOA doesn't mandate specific emergency fund amounts, it provides strong guidance on maintaining a healthy unrestricted fund balance in the general fund to act as an emergency reserve. This balance should be determined based on a government's unique circumstances and risk profile, and governments should also develop policies and procedures to effectively manage and respond to emergencies.

1 CITY OF HOMER
2 HOMER, ALASKA

Mayor

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4 ORDINANCE 19-35(S)(A)

5
6 AN ORDINANCE OF THE CITY COUNCIL OF HOMER, ALASKA,
7 AMENDING HOMER CITY CODE CHAPTER 3.05, BUDGET TO
8 INSTITUTE A TRADITIONAL BIENNIAL BUDGET; REPEALING
9 HOMER CITY CODE 3.05.040, EQUIPMENT REPLACEMENT
10 RESERVE, HOMER CITY CODE 3.05.042, ALTERNATIVE FUNDING
11 FOR DEPRECIATION, AND HOMER CITY CODE 3.05.043, HEALTH
12 INSURANCE RESERVE FUND; AMENDING HOMER CITY CODE
13 3.05.045, BALANCED BUDGET REQUIREMENTS; AND ENACTING
14 HOMER CITY CODE 3.05.047, CAPITAL ASSET REPAIR AND
15 MAINTENANCE ALLOWANCE FUND; 3.05.048, CAPITAL
16 IMPROVEMENT FUND; 3.05.049, GENERAL FUND - FUND BALANCE;
17 AND 3.05.050, PRIORITIZATION OF FUNDING.

18
19 **WHEREAS, Biennial budgeting will provide an opportunity to streamline**
20 **government services through better long range and strategic financial planning, a longer**
21 **perspective on program planning, and consolidation of the effort invested in the budget**
22 **development and approval process, thereby improving services to the citizens of Homer;**
23 **and**

24
25 WHEREAS, It is the intent of the City to budget in a fair and transparent manner and
26 provide adequate oversight by the City Council; and

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28 WHEREAS, The City Manager is required to prepare and present a budget proposal for
29 the following budget period by the third Friday in October; and

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31 WHEREAS, It is imperative that the budget process provide the City Council adequate
32 opportunities to fulfill their appropriation and oversight duties; and

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34 WHEREAS, Establishing funds and fund balance and reserve policies will provide better
35 fiscal accuracy and a more informed budget process; and

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37 WHEREAS, It is in the best interest of the City to set aside funds for maintenance and
38 repairs to ensure the City is funding the highest city-wide priorities; and

39
40 WHEREAS, The unique location of the City next to the North Pacific Ocean and subject
41 to frequent earthquakes, volcanic eruptions, flooded rivers, and high fire danger, requires that

the City maintain an emergency reserve sufficient **fund balance** to carry out its municipal duties at a time of disaster; and.

~~WHEREAS, The City Council may supplement, or further delineate designations.~~

NOW, THEREFORE, THE CITY OF HOMER ORDAINS:

Section 1. Homer City Code 3.05.005 through 3.05.035 of Homer City Code Chapter 3.05, Budget are amended to read as follows:

3.05.005 Budget assumptions.

The City of Homer operates on a traditional biennial budget beginning with the two-year biennium commencing January 1, 2020. The 2020-21 biennial budget and all subsequent budgets shall be prepared, considered and adopted under the provisions of this chapter.

The budget shall be adopted every second year of a mayoral term. By the third Friday in September the City Manager shall present to the Council an overview of preliminary budget assumptions for the next fiscal year of the City **a budget period containing the next two fiscal years.** These preliminary assumptions will address, by fund, revenue projections, tax and utility rates, program additions or deletions, wages and benefits, or other issues with potential effects upon the City's overall financial condition.

3.05.010 Budget submission – Contents.

By the third Friday in October **of a budget year,** the City Manager shall present to the Council a budget proposal ~~for the next~~ **covering each of the next two fiscal years** of the City.

3.05.011 City Manager's budget message.

The City Manager's budget message shall explain the budget in fiscal terms and in terms of work programs. It shall contain an outline of the proposed financial policies of the City for the ensuing **two** fiscal years, describe the important features of the budget, indicate any major changes from the ~~current year~~ **prior budget period** and from current financial policies, expenditures, and revenues, together with the reasons for such changes, summarize the City's debt position and include other material as deemed desirable.

3.05.012 Complete financial plan.

a. The budget shall provide a complete financial plan of all City funds and activities for the next **two** fiscal years. In organizing the budget, the City Manager shall utilize the most feasible combination of expenditure classification by fund, organizational unit, program, purpose or activity and objective.

b. The budget shall begin with a clear general summary of its contents, which summary shall show principal sources of anticipated revenue, stating separately the amount to be raised

by property taxes, and by department the kinds of expenditures in such a manner as to present to the public a clear and simple estimate of budget detail.

c. The budget shall show in detail all estimated income, including the proposed property tax levy, but shall exclude State revenue sharing, which will be appropriated when received. The budget also shall show in detail all proposed expenditures, including debt service, for the ensuing fiscal year budget period.

d. The budget shall be prepared on a modified accrual basis and subsequent reporting ~~and auditing shall reflect this basis of goods and services are received, and revenues are recorded when payment is received; except for material or available revenue which should be accrued to reflect properly the taxes levied and the revenues earned~~ **shall recognize revenues when they become available and measurable and recognize expenditures when liabilities are incurred.**

e. The budget shall include in separate sections:

1. Proposed expenditures for each current fund operations during the ensuing ~~fiscal year~~ **budget period** detailed by offices, departments and agencies in terms of their respective work programs, and the method of financing such expenditures;

2. Anticipated net surplus or deficit (fund balance) for the ensuing ~~fiscal year~~ **budget period** of each enterprise-fund owned or operated by the City and the proposed method of its disposition; subsidiary budgets for each such enterprise fund, giving detailed income and expenditures information, shall be presented in the budget;

3. Proposed capital budget will be presented ~~under as~~ a separate **section** ~~document of the biennial budget. The capital budget shall show capital~~ expenditures during the ensuing fiscal year **budget period**, detailed by offices, departments and agencies, when practicable, and the proposed method of financing each such capital expenditure.

f. Comparative data for the previous and current ~~fiscal years~~ **ensuing budget periods** shall be provided in a format for ease of comparison ~~of previous~~ with the proposed revenues and expenditures.

~~g. Data for the current fiscal year shall include the total of the amounts actually received or encumbered to the time of preparing the budget, plus anticipated receipts and expenditures for the remainder of the current year.~~

3.05.015 Review – Hearing – Adoption – Appropriations.

a. ~~The budget proposal of the City Manager shall be reviewed by the Council and shall be available for public inspection in the office of the City Clerk and the budget summary shall be posted in three public places and published at least once in one or more newspapers of general circulation in the city.~~ **At a Council meeting held not less than 10 days prior to the end of the current budget period, the Council shall, by ordinance, appropriate the money needed for the ensuing budget period.**

b. ~~A public hearing on the appropriation ordinance shall be held in accordance with provisions for adoption of an ordinance. All interested parties shall be given an opportunity to be heard on matters relative to the budget.~~ **The budget proposal of the City Manager shall be reviewed by the Council and shall be available for public inspection in the office of the City Clerk and posted on the City's website.**

c. ~~At a Council meeting held not less than 10 days prior to the end of the fiscal year, the Council shall, by ordinance make appropriation of the money needed for the following year.~~ **A public hearing on the appropriation ordinance shall be held in accordance with provisions for adoption of an ordinance. All interested parties shall be given an opportunity to be heard on matters relative to the budget.**

d. A separate appropriation shall be made to each of the various funds of the City. From the effective date of the budget, the amounts stated therein as expenditures shall be and become appropriated to the objects and purposes therein named. The City Council may make supplemental and emergency appropriations, but payment may not be authorized or made and an obligation may not be incurred except in accordance with approved appropriations.

e. The City Council shall provide for a midbiennium review, and any modification shall occur no sooner than eight (8) months after the start, but no later than the conclusion of the first year of the biennium. The City Manager shall prepare a proposed budget modification and the City shall provide for publication of notice of hearings consistent with publication of notices for adoption of other City ordinances. Such proposal shall be submitted to the City Council and shall be a public record and be available to the public. A public hearing shall be advertised at least once and shall be held no later than the first regular Council meeting in December and may be considered from time to time. At such a hearing or thereafter, the Council may consider a proposed ordinance to carry out such modifications.

3.05.020 Amendments.

The Council may, by ordinance, increase or decrease appropriations during the course of the budget period, and may also amend the budget using the same method used for its initial adoption.

3.05.025 System of accounts.

All City accounts shall be organized in a manner consistent with the approved budget. ~~For purposes of appropriations under HCC3.05.15, the funds of the City are those established by the Finance Director/Treasurer, recommended by the City Manager and approved by the City Council.~~ **The City Council may supplement or further delineate designations.**

3.05.030 Unencumbered balances of appropriations – Transfers.

a. The necessary accounting records shall be maintained to reflect the unencumbered balances of all appropriations. ~~In determining the unencumbered balances of appropriations, the estimated amounts of commitments for goods or services ordered but not paid for shall be taken into consideration, and t~~ **The Finance Director/Treasurer shall submit to the City Manager City Council a quarterly monthly report of all unencumbered balances reflecting operating activity and anticipated expenditures.**

b. Unencumbered appropriation balances may be transferred from one budget line item to another within the same department by the City Manager at any time. Transfer of appropriations within departments which would permanently amend the approved staffing level or level of service delivery shall require Council approval.

c. At the request of the City Manager, or on its own initiative, the Council may, by resolution, transfer unencumbered appropriation balances from one department to another within the same fund.

~~d. Nothing allowed in this section shall violate the requirements of presenting a balanced budget (HCC3.05.045).~~

3.05.035 Lapse of appropriation at end of fiscal year.

a. Except as provided in this section and in HCC ~~3.05.040 and 3.05.043~~ **3.05.047 – 3.05.049**, appropriations shall lapse at the end of the fiscal year to the extent that they have not been fully expended or fully encumbered. **Any earnings from investment of monies accumulated in a fund shall accrue to the fund.**

b. An appropriation for a capital expenditure shall continue in force until the purpose for which it is made has been accomplished or abandoned; the purpose of such appropriation shall be deemed abandoned if three years pass without disbursement or encumbrance of the appropriation.

Section 2. Homer City Code 3.05.017, Minimum annual transfer for Homer Accelerated Roads and Trails capital accounts is repealed.

Section 3. Homer City Code 3.05.040, Equipment replacement reserve fund, is repealed.

Section 4. Homer City Code 3.05.042, Alternative funding for depreciation, is repealed.

Section 5. Homer City Code 3.05.043, Health insurance reserve fund, is repealed.

Section ~~5~~ **6**. Homer City Code 3.05.045, Balanced budget requirements, is amended to read as follows:

3.05.045 Balanced budget requirements.

~~The budget which is adopted shall be balanced considering all sources of funds.~~

~~a. Any action to reconsider, rescind or veto the budget which creates an "imbalance" shall be in violation of this section.~~

Projected expenditures shall not exceed projected revenues in the operating budget.

~~b.~~ Any action to reconsider, rescind, or veto the budget which would affect a balanced budget must be accompanied by action which maintains a balanced budget.

Section ~~6~~ **7**. Homer City Code 3.05.047, Capital asset repair and maintenance account, is enacted to read as follows:

3.05.047 Capital Asset Repair and Maintenance Allowance Fund.

a. There is established in the general fund a Capital Asset Repair and Maintenance Allowance Fund (CARMA). The amount of the fund shall be established by City Council in the biennial budget based on the projected maintenance and repair needs of the City.

b. Purpose. Capital asset management is essential to extending the life and use of taxpayer funded assets, facilities and infrastructure.

c. Funds in the Capital Asset Repair and Maintenance Allowance Fund shall be available for appropriation and expenditure for equipment replacement, fleet replacement, engineering, or planning services, major maintenance of city facilities, or any other purpose as identified and recommended by the City Manager and authorized by the City Council.

Section ~~7~~ **8**. Homer City Code 3.05.048, Capital improvement fund, is enacted to read as follows:

3.05.048 Capital Improvement Fund

a. There is established a Capital Improvement Fund (CIF). The fund shall be comprised of various Council appropriations for capital projects, acquisitions or initiatives as identified and authorized by the City Council which shall not be limited to only the current budget period.

Section ~~8~~ **9**. Homer City Code 3.05.049, General fund – Fund balance, is enacted to read as follows:

3.05.049. General Fund – Fund Balance.

a. Purpose. General Fund – The fund balance of the general fund represents the net assets of the general fund and serves as a measure of financial resources.

b. There is established within the fund balance of the general fund an amount equal to ~~six~~ four months revenue for the current fiscal year that is restricted to emergency use only. Emergency restricted fund balance shall only be spent to help the City of Homer provide quick response to weather economic uncertainty and unexpected situations such as natural disasters so as to avoid the need for short-term borrowing.

c. Unassigned fund balance shall be available for appropriation by City Council.

b. Any General Fund budget surplus at the end of a fiscal year will lapse into the General Fund – Fund Balance.

Section 9 **10**. Homer City Code 3.05.050, Priority of funding, is enacted to read as follows:

3.05.050 Priority of Funding

Within the General Fund during the biennial budget process available revenue will be budgeted in the following priority order in order to meet the financial obligations of the City of Homer:

- i. Operating budget**
- ii. General Fund – Fund Balance Restricted**
- iii. Capital Asset Repair and Maintenance Allowance Fund**
- iv. General Fund – Fund Balance Unrestricted**

Section ~~10~~ **11**. Section 1 of this ordinance shall take effect immediately

Section ~~11~~ **12**. Sections 2-9 shall take effect January 1, 2020.

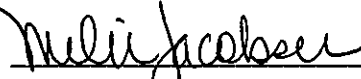
Section ~~12~~ **13**. This ordinance is of a permanent and general character and shall be included in Homer City Code.

ENACTED BY THE CITY COUNCIL OF HOMER, ALASKA, this 12 day of August, 2019.

CITY OF HOMER


KEN CASTNER, MAYOR

ATTEST:

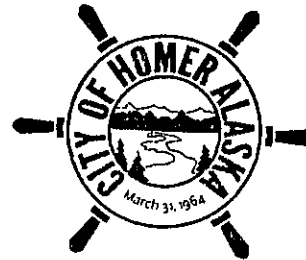

MELISSA JACOBSEN, MMC, CITY CLERK

YES: 6

NO: 0

ABSTAIN: 0

ABSENT: 0



First Reading: 7.22.19


Public Hearing: 8.12.19

Second Reading: 8.12.19

Effective Date: 8.13.19

Reviewed and approved as to form.


Katie Koester, City Manager


Holly C. Wells, City Attorney
9/24/19



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Memorandum 19-097

TO: Mayor Castner and Homer City Council
FROM: Katie Koester, City Manager
DATE: August 7, 2019
SUBJECT: Staff responses to questions on Ordinance 19-35

The purpose of this memo is to answer questions that Councilmembers asked since the introduction of Ordinance 19-35.

1. The Finance Director stated at introduction that we would no longer be able to track spending by project and would like to learn more about that (I know I'm oversimplifying). Is there a way we can establish our new reserve funds and also be able to track projects?

Finance Director Walton's statement was in reference to consolidating the General Fund Depreciation Reserve fund (156). Currently, we have a "bucket" assigned with specific purposes (typically by department). If we restructured the reserve fund into the CARMA fund and eliminated these "buckets" it would be much more difficult for us to keep track of expenditures. To help explain, let's use the City Hall Roof repair/replacement project. Currently, there is a "bucket" assigned for City Hall (156-0384) and all invoices associated with this project would get assigned here. If we chose to consolidate and eliminate those "buckets", we would simply code all invoices to the CARMA fund (156) and they would be mixed in with all other invoices that impact that fund. So, we would lose the quick ability to give current balances on reserve projects. The only solution I can see to combat this is to create a spreadsheet that a staff member would have to manually update every time an invoice processes through (this would be in addition to the data entry that is necessary to actually pay the vendor). Part of the challenge is in the way our chart of accounts is structured and how that interfaces with the software. If Council decides to consolidate the funds we will explore purchasing an expanded package through Caselle and the cost of associated staff training.

I will point out, Ordinance 19-35 does not dictate the consolidation of funds; you could still maintain CARMA as structured in the ordinance and have individual reserve accounts. (For example, existing code just establishes depreciation reserves, we have designated reserve and fleet reserve accounts under that authority).

2. Chapter 3.05.012 Compete financial plan, b (lines 76-77). I know this is currently in code. Property taxes are specifically called out in this paragraph. I'm curious why property taxes only are called out. Wouldn't we want to separately account for all revenue sources?

I do not have the background on why property taxes is separated, but it is likely because this is the most politically sensitive revenue source. The section states "The budget shall begin with a clear

general summary of its contents, which summary shall show principal sources of anticipated revenue, stating separately the amount to be raised by property taxes..." The language already requires principal revenue sources of revenue to be enumerated. Nevertheless, sales tax has become a critical component of our revenue, Council may want to consider calling out sales tax in addition to property tax since sales tax and property tax combined accounts for over 75% of general fund revenue.

3a. Ordinance Section 4 would repeal Chapter 3.05.043 Health insurance reserve fund. You and I have discussed this fund in the past and the fact that the council likely removed too much money from this fund to allocate funds to the police station. Is it wise to repeal this fund? Where would we maintain reserves for health insurance if this fund is repealed?

The answer to this question depends on how Council wants the fund to operate and the policy question of whether or not the city should be setting aside reserves specifically for health insurance expenses. After Council transferred funds from there to the police station project, we now budget that fund to zero every year.

The 2019 budget uses the health insurance reserve fund as a mechanism to pay health insurance; we deposit \$1,410 per employee per month there at the beginning of the year and make all health insurance payments from that fund. Finance has checked with the auditors and believes that we could still remove this section of code and keep the Health Insurance Reserve Fund for that purpose. Under Ordinance 19-35 any accumulated funds would lapse at the end of the year. If Council wants a fund to set aside reserves for health insurance, I would recommend not deleting this section and adding a purpose section to existing code to provide clarity.

3b. Background on this section and its use?

The fund was created while the City of Homer was still self-insured. Council allowed funds to accrue in the fund to act as a buffer against the rising costs of health insurance. This helped insulate the operating budget from steep increases.

If we repealed this section but maintained the fund as a cost center, we would still be required to have it in a separate section in our financial statements.

4. How does a repeal of 3.05.042, Alternative funding for depreciation, impact 18.04.010, Disposition of Foreclosed Properties?

There have been no instances of the City selling foreclosed property as an alternate funding source for depreciation since the ordinance was adopted. If Council repeals 18.04.010 and foreclosed property were to be sold, the authorizing ordinance would specify where the funds would go. As written, I would interpret 18.01.010 to direct funds from the sale of foreclosed properties to CARMA as the replacement fund for depreciation expenses. Council may want to consider clarifying this intent with a code change.

5. The CARMA fund and the Capital Improvement fund both contain language about equipment replacement (see lines 173 and 184). Is this intentional or a mistake? Should equipment replacement be in CARMA since we are talking about replacement? If it is intentional to include equipment replacement in both funds, should we better define what we mean by equipment replacement in each case? I'm presuming we wouldn't save money for the same equipment in each fund.

Mayor Castner is preparing additional policy guidance regarding CARMA and the Capital Improvement Fund for council consideration. The substitute removes the reference to equipment in the Capital Improvement Fund.

6. Ordinance Section 9 adding Chapter 3.05.050 Priority of funding, does not include all the funds established (see lines 209-212). Allocation to the Capital Improvement fund is missing. If this was intentional, I believe there still needs to be something in code that states how moneys will be allocated to fund.

The Capital Improvement Fund acts much like a project fund where Council can put aside funds for specific projects. For example, the police station project would live in this fund. The funding of these projects is by Council, lines 185-186 “Monies in the Capital Improvement Fund shall be designated for major capital projects or initiatives, as identified and authorized by City Council.” This same language is retained in the substitute but consolidated into subsection a.

6a. Lines 193-198 These two categories, restricted and unrestricted, are not “purposes” of the fund balance as indicated in lines 193-194. What is our current restricted fund balance? In our budget document, the fund balance recommendation of six months operating is to fund the operations of the City.

Under proposed Ordinance 19-35, for 2019 \$6,125,181 of the draft 2018 audit general fund fund balance would be restricted to emergency expenditures only leaving just over \$300,000 as unassigned and available for appropriation.

Per our statements found in the annual audit, there are four classifications of spendable fund balance: restricted, committed, assigned, and unassigned. Unaudited draft 2018 fund balances are included below.

- **Restricted fund balance** – Reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
 - Examples: HART fund balance and seawall
 - Restricted fund balance: \$7,501,802 government wide
- **Committed fund balance** – These amounts can only be used for specific purposes pursuant to constraints imposed by formal ordinances of the City Council-the government’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the City Council removes the specified use through ordinance. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
 - Examples: Police Station construction fund balance
 - Committed fund balance: \$956,541 excluding bond revenue
- **Assigned fund balance** – This classification reflects the amounts constrained by the City’s “intent” to be used for specific purposes, but are neither restricted nor committed. The City Council has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.
 - Examples: Water and sewer fund, depreciation reserves (156), fleet reserves (152), donation funds, and energy revolving loan fund.

- Assigned fund balance: \$8,436,860
- **Unassigned fund balance** – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.
 - Unassigned general fund balance: \$6,425,584

When both restricted and unrestricted resources are available for use, it is the City's policy to use externally restricted resources first, then unrestricted resources-committed, assigned, and unassigned-in order as needed.

6b. If this new designation is intended for emergencies only, is it available for cash flow purposes?

The City operates under a central treasury, which means in practice all dollars are comingled; some are invested according to our investment policy, others are held in a liquid account with Alaska Municipal League Investment Pool (AMLIP) and Wells Fargo carries a cash balance. The movements of funds between Wells Fargo and AMLIP is fairly liquid. For accounting purposes we track and keep the funds and accounts separate.

6c. How does the City Council access those funds – what are the sideboards that constitute meeting the restriction imposed in this language?

By Ordinance in accordance with the rules established by Council. Ordinance 19-35 provides the following guidance on lines 195-198 "Restricted fund balance shall not fall below six months operating revenue and is intended to help the City of Homer provide quick response to weather economic uncertainty and unexpected situations such as natural disasters so as to avoid the need for short term borrowing." This is reworded in the substitute for clarity, but the intent remains the same. Mayor Castner is developing further policy guidelines on how these funds can be accessed for Council consideration.

It is worth noting that because the restriction is imposed by Council and not an external constraint, such as by the voters or a funding agency, Council can exempt themselves from this section of code and spend the fund balance for any purpose, much like was done when the Permanent Fund was used to fund the police station.

7. Under the proposed code, will unexpended and unencumbered appropriations from CARMA and CIF funds lapse back into their respective reserve accounts?

No. Ordinance 19-35 gets rid of reserve accounts as we know them currently and replaces it with CARMA and CIF. Per section 3.05.035, funds in CARMA, Capital Improvement Fund, and general fund fund balance do not lapse at end of year. That section of code does provide some language for when projects fizzle out (lines 144-147) "An appropriation for a capital expenditure shall continue in force until the purpose for which it is made has been accomplished or abandoned; the purpose of such appropriation shall be deemed abandoned if three years pass without disbursement or encumbrance of the appropriation." This is current code.

Enc:

Ordinance 05-11(S)

Ordinance 94-05

and Structures, to Add Medical Clinics as a Permitted Use. Introduction June 24, 2019, Public Hearing and Second Reading July 22, 2019

Memorandum 19-078 from City Planner as backup

Mayor Castner opened the public hearing. There were no comments and the hearing was closed.

VENUTI/ERICKSON MOVED TO ADOPT ORDINANCE 19-31 BY READING OF TITLE ONLY FOR SECOND AND FINAL READING.

There was no discussion.

VOTE: NON OBJECTION: UNANIMOUS CONSENT

Motion carried.

- c. Ordinance 19-32(S), An Ordinance of the City Council of Homer, Alaska, Amending Homer City Code 2.72 Advisory Planning Commission; Homer City Code 11.12.010 Street Address Assignment Plan Adopted; Homer City Code 21.03.040 Definitions Used in Zoning; and Homer City Code 22.10.040 Applicable and Exempted Subdivisions to Change the Name of the Advisory Planning Commission to the Planning Commission Throughout. Mayor. Introduction June 24, 2019, Public Hearing and Refer to Planning Commission July 22, 2019, Second Reading August 12, 2019.

Mayor Castner opened the public hearing. There were no comments and the hearing was closed.

ADERHOLD/LORD MOVED TO REFER ORDINANCE 19-32(S) TO THE PLANNING COMMISSION AND SCHEDULE FOR SECOND READING ON AUGUST 12TH.

There were brief comments confirming that a question raised by the public at the last meeting had been answered.

VOTE: NON OBJECTION: UNANIMOUS CONSENT.

Motion carried.

ORDINANCE(S)

- a. Ordinance 19-35, An Ordinance of the City Council of Homer, Alaska, Amending Homer City Code Chapter 3.05, Budget to Institute a Biennial Budget; Repealing Homer City Code 3.05.040, Equipment Replacement Reserve, Homer City Code 3.05.042, Alternative Funding For Depreciation, And Homer City Code 3.05.043, Health Insurance Reserve Fund; Amending Homer City Code 3.05.045, Balanced Budget Requirements; and

Enacting Homer City Code 3.05.046, Emergency Operations Fund; 3.05.047, Capital Asset Repair And Maintenance Account; 3.05.048, Capital Improvement Fund; 3.05.049, General Fund - Fund Balance; And 3.05.050, Prioritization of Funding. Mayor. Recommended dates: Introduction July 22, 2019 Public Hearing and Second Reading August 12, 2019.

ERICKSON/LORD MOVED TO INTRODUCE ORDINANCE 19-35 BY READING OF TITLE ONLY.

It was noted that Council discussed this at their Committee of the Whole, and suggested that more discussion is needed. Lengthy discussion ensued regarding how to proceed to allow for more discussion and consideration, and still allow time for staff to do the work that needs to be done to present a budget to Council on schedule.

Discussion points included:

- Concern with the compressed timeline for adoption of this ordinance.
- A lack of back up items including a memo that walks through the policy decisions, the Mayor's budget chart from a previous meeting along with the City Manager's report regarding fund balance and reserve policies, and more information from the Finance Department regarding annual cash flow and current general fund.
- There are two effective dates, the early date allows the City Manager to proceed with a two year process and the later date allows time to address policy decisions.
- Amending the ordinance to separate the portions that need to be addressed now for the two year budget cycle be addressed, and separate ordinance at the next meeting that addresses the rest of the code amendments.
- Council can put in the time to stay on schedule to work through the ordinance and resolve the policy portions.
- Submitting questions to the City Manager to have them addressed at the next meeting to keep this moving forward.
- The Finance Director comment at Committee of the Whole that she's comfortable with the ordinance and ready to move forward with it.
- There things that need to be clarified to ensure there is a good understanding of the budget process and components of the fund balance, including the proposed new Capital Asset Repair and Maintenance Allowance fund.

VOTE: YES: VENUTI, SMITH, ADERHOLD, LORD, STROOZAS, ERICKSON

Motion carried.

CITY MANAGER'S REPORT

- a. City Managers Report

VENUTI/ADERHOLD MOVED TO ADOPT ORDINANCE 19-33 BY READING OF TITLE ONLY FOR SECOND AND FINAL READING.

There was brief discussion in support of the ordinance.

VOTE: NON OBJECTION: UNANIMOUS CONSENT.

Motion carried.

- b. Ordinance 19-34, An Ordinance of the City Council of Homer, Alaska, Amending the Capital Budget and Authorizing Pass Through Funds for the Alaska Department of Transportation (ADOT) Lake Street Project. City Manager/Public Works Director. Introduction July 22, 2019, Public Hearing and Second Reading August 12, 2019.

Mayor Castner opened the public hearing. There were no public comments and the hearing was closed.

LORD/ADERHOLD MOVED TO ADOPT ORDINANCE 19-34 BY READING OF TITLE ONLY FOR SECOND AND FINAL READING.

There were brief comments in support of the ordinance.

VOTE: NON OBJECTION: UNANIMOUS CONSENT.

Motion carried.

- c. Ordinance 19-35, An Ordinance of the City Council of Homer, Alaska, Amending Homer City Code Chapter 3.05, Budget to Institute a Biennial Budget; Repealing Homer City Code 3.05.040, Equipment Replacement Reserve, Homer City Code 3.05.042, Alternative Funding For Depreciation, And Homer City Code 3.05.043, Health Insurance Reserve Fund; Amending Homer City Code 3.05.045, Balanced Budget Requirements; and Enacting Homer City Code 3.05.046, Emergency Operations Fund; 3.05.047, Capital Asset Repair And Maintenance Account; 3.05.048, Capital Improvement Fund; 3.05.049, General Fund - Fund Balance; And 3.05.050, Prioritization of Funding. Mayor. Introduction July 22, 2019, Public Hearing and Second Reading August 12, 2019.

Ordinance 19-35(S), An Ordinance of the City Council of Homer, Alaska, Amending Homer City Code Chapter 3.05, Budget to Institute a Biennial Budget; Repealing Homer City Code 3.05.040, Equipment Replacement Reserve, Homer City Code 3.05.042, Alternative Funding For Depreciation, And Homer City Code 3.05.043, Health Insurance Reserve Fund; Amending Homer City Code 3.05.045, Balanced Budget Requirements; and Enacting Homer City Code 3.05.046, Emergency Operations Fund; 3.05.047, Capital Asset Repair And Maintenance Account; 3.05.048, Capital Improvement Fund;

3.05.049, General Fund - Fund Balance; And 3.05.050, Prioritization of Funding. Mayor.

Policy Discussion Points from Mayor
Memorandum 19-097 from City Manager as backup

Mayor Castner opened the public hearing. There were no public comments and the hearing was closed.

ERICKSON/ADERHOLD MOVED TO ADOPT ORDINANCE 19-35 BY READING OF TITLE ONLY FOR SECOND AND FINAL READING.

ERICKSON/ADERHOLD MOVED TO SUBSTITUTE ORDINANCE 19-35(S) FOR 19-35

There was no discussion on the motion to substitute.

VOTE (substitute): NON OBJECTION: UNANIMOUS CONSENT

Motion carried.

Councilmember Aderhold questioned the repeal of the health insurance fund, City Manager Koester responded if the fund is repealed it would not be used as a mechanism to buffer against increased in the operating budget for health insurance, it would be used as a cost center a cost center for payments per employee contribution, at the end of every year any surplus or deficits would laps back to the general fund. It wouldn't be used as a buffer against increasing health insurance costs, without a policy direction from Council.

Councilmember Lord commented this ordinance raises two issues that should be addressed separately. They could have moved forward with approving the biennial budget and for the next budget cycle created a new system of how we utilize funds, developing well thought out and articulated policies. She questioned the need for line 272 that reads unassigned fund balance shall be available for appropriation by City Council, as all dollars run though the city are available for appropriation by City Council. Mayor Castner commented it's simply a statement and commented regarding funds available for Council to use at their discretion. City Manager Koester added it boils down to a policy and philosophy on spending money with a clear picture of assets versus liabilities, which the Mayor is trying to streamline through this process.

There was continued general discussion of addressing policies and priorities related to funds and spending. Concerns were expressed regarding potentially over spending with the proposed Capital Asset Repair and Maintenance or CARMA Fund and consider the pros and cons of that approach.

ADERHOLD/VENUTI MOVED TO AMEND TO STRIKE LINE 205 AND 206 SECTION 2. HOMER CITY

CODE 3.05.017, MINIMUM ANNUAL TRANSFER FOR HOMER ACCELERATED ROADS AND TRAILS CAPITAL ACCOUNTS IS REPEALED.

There was discussion that Council established a minimum amount to go toward new road and trail projects. Removing the minimum amount that remains in the HART fund opens the ability for the general fund to absorb what it needs to cover roads and trail maintenance. This is what the voters agreed to when it went to the ballot and repealing isn't an option.

VOTE (amendment): NON OBJECTION: UNANIMOUS CONSENT

Motion carried.

There was discussion regarding the fund balance and consideration of four versus six months of revenue restricted for emergencies. The risk factors are relatively low outside of a natural disaster, and that being the case, four months is the minimum they should lock in. Creating a ceiling would allow for some flexibility in emergency spending.

Mayor Caster called for a recess at 7:36 p.m. and reconvened the meeting at 7:45 p.m.

SMITH/ERICKSON MOVED TO AMEND LINE 262 TO READ "EQUAL TO ~~SIX~~ **FOUR** MONTHS REVENUE FOR THE CURRENT FISCAL YEAR THAT IS RESTRICTED TO EMERGENCY"

There was comment restricting that amount of money leaves the remaining unassigned fund balance to provide more flexibility.

City Manager Koester explained GFOA recommends municipalities develop a fund balance policy and recommends two months to six months operating expenditures as the fund balance policies. The number set depends on the use of the fund. She isn't uncomfortable with four months in this instance.

It was noted discussion there are questions that need to be answered in developing a fund balance policy.

VOTE: NON OBJECTION: UNANIMOUS CONSENT

Motion carried.

There was no further discussion on the substitute ordinance as amended.

VOTE (main motion): YES: ERICKSON, VENUTI, LORD, STROOZAS, ADERHOLD, SMITH

Motion carried.

ORDINANCE(S)