

1 **CITY OF HOMER**
2 **HOMER, ALASKA**

3 Lord/Davis

4 **RESOLUTION 24-046**

5
6 A RESOLUTION OF THE CITY COUNCIL OF HOMER, ALASKA,
7 PROVIDING DIRECTION TO THE PORT AND HARBOR STAFF, PORT
8 AND HARBOR ADVISORY COMMISSION AND THE FINANCE
9 DEPARTMENT REGARDING THE DEVELOPMENT OF DRAFT
10 FINANCIAL POLICIES FOR THE PORT AND HARBOR ENTERPRISE
11 FUND.
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13 WHEREAS, Sound Financial policies are an important tool for maintaining a financially
14 healthy and sustainable operation and provide transparency with public funds; and
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16 WHEREAS, The City of Homer maintains separate funds including but not limited to the
17 General Fund, Utility Fund and the Port & Harbor Enterprise Fund; and
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19 WHEREAS, The City Council developed and adopted the Utility Fund Financial Policy
20 with the help of advisors in 2023 and has committed to developing similar policies for the
21 General Fund and the Port & Harbor Enterprise Fund; and
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23 WHEREAS, The Port & Harbor Advisory Commission provides the City Council with
24 valuable advice on the Port & Harbor Enterprise operations.
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26 NOW, THEREFORE, BE IT RESOLVED, Port and Harbor staff will draft Financial Policies
27 for the Enterprise Fund that include, at a minimum:

- 28 ● Financial Goals
 - 29 ● Reserve Policies, including minimum and maximum balances and intent
 - 30 ● Policies for a balanced operating budget
 - 31 ● Policies for rate setting
 - 32 ● Debt policy
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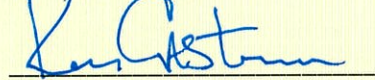
34 BE IT FURTHER RESOLVED, Staff will gather initial feedback from the Port and Harbor
35 Advisory Commission prior to beginning work on policy drafting, and will provide the
36 Commission with drafts for discussion and their feedback as needed until which time the
37 Commission is ready to send the final draft to the Council.
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40 BE IT FURTHER RESOLVED, The draft Enterprise Financial Policies will come back to
41 Council for review no later than October 28, 2024.

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43 PASSED AND ADOPTED by the Homer City Council this 22nd day of April, 2024.

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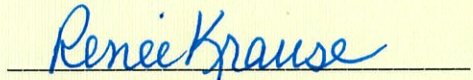
CITY OF HOMER



KEN CASTNER, MAYOR

49 ATTEST:

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RENEE KRAUSE, MMC, ACTING CITY CLERK

54 Fiscal Note: NA





MEMORANDUM

Resolution 24-046, A Resolution of the City Council of Homer Alaska Providing Direction to the Port & Harbor Staff, The Port and Harbor Advisory Commission and The Finance Department regarding the Development of Draft Financial Policies for the Port and Harbor Enterprise Fund. Lord/Davis.

Item Type: Backup Memorandum
Prepared For: Mayor Castner and Homer City Council
CC: Port & Harbor Staff
Finance Department
Port and Harbor Advisory Commission (PHAC)
Date: April 22, 2024
From: Councilmembers Lord and Davis
Through: Melissa Jacobsen, Interim City Manager

Resolution 23-120 provided direction for developing Fund-specific financial policies, using the Utility Fund as an example. We recognize that this resolution did not have sufficient direction for the Port and Harbor Enterprise Fund, and we are bringing forward another resolution that provides a more robust outline for this effort.

As “Finance Champions”, we will be working with City staff to draft a General Fund Financial Policy. There may be overlap between the three City funds in policy directives, and we will lean on staff to help us ensure we are staying on track.

We look forward to discussion with the Port and Harbor Advisory Commission during our joint worksession, and look forward to their feedback on this policy development.

We anticipate the following general schedule, appreciating that we are entering the busy season:

- Monday, April 15 - Joint worksession with City Council, general discussion on the proposed resolution and direction.
- Monday, April 22 - Council considers the financial policy resolution
- If passed, we anticipate staff will begin pulling together the pieces of a financial policy. The PHAC could include the topic at their April 24th meeting to provide additional feedback and thoughts to staff to consider in policy drafting.

- After initial feedback from PHAC, staff will draft Enterprise Fund financial policy and bring that complete draft back to the PHAC for their review and feedback (target date is September). Council champions can be available to help answer questions and liaison back to Council during this process, depending on its complexity.
- Once the PHAC has completed their review, the Port & Harbor Enterprise Fund Financial Policy would then come to City Council for review, discussion, and a vote.

Some resources may be helpful in this process, and we encourage everyone involved to review the City's Utility Fund Financial Policy (included) as well as:

MRSC Financial Policies Overview website and examples

<https://mrsc.org/explore-topics/finance/policies/financial-policies-overview>

GFOA Best Practices: Adopting Financial Policies

<https://www.gfoa.org/materials/adopting-financial-policies>

GFOA Best Practices: Working capital targets for enterprise funds

<https://www.gfoa.org/materials/working-capital-targets-for-enterprise-funds>

Attachments:

Resolution 23-120

City of Homer Utility Fund Financial Policy

41 NOW, THEREFORE, BE IT RESOLVED that the Homer City Council establishes a financial
42 plan workgroup with two members of Council, staff, and the Mayor to develop a draft plan for
43 the Council's review by February 2024 which includes:

- 44 ● A defined and agreed upon system, with approved templates, of regular financial
45 reporting to the Council (i.e. monthly balance sheet for specified funds, budget to
46 actuals, etc.)
- 47 ● Using the Utility Fund as an example, complete financial policies for the General Fund
48 and Enterprise Fund. We direct the Port and Harbor Commission to begin working with
49 staff on a Financial Policy for the Enterprise Fund. This should include how we budget
50 for projects that we don't anticipate during the budgeting process (reserve accounts!),
51 how different funds are used and minimum/maximum amounts to target within those
52 funds, how we fund large capital projects, etc.
- 53 ● Citywide CARMA planning, in line with what Public Works has done for the Fleet, Roads,
54 and Utility, exploring the potential of moving back to subaccounts within General
55 CARMA to better track funding.
- 56 ● A review of the audit process, an established goal for audit timeline, and our current
57 audit contracts with recommendations for when we are off-target of our goals.
- 58 ● An update to the City's Procurement Policy.

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60 BE IT FURTHER RESOLVED that the City will do a full review of Homer City Code Title 3
61 in 2024 following Council review, feedback, and approval of the financial plan outlined above.
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63 PASSED AND ADOPTED by the Homer City Council this 23rd day of October, 2023.
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65 CITY OF HOMER

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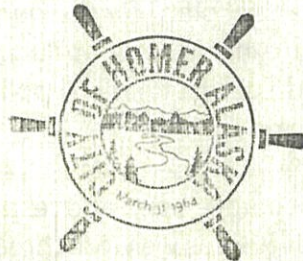
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68 KEN CASTNER, MAYOR

69 ATTEST:

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72 MELISSA JACOBSEN, MMC, CITY CLERK

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74 Fiscal note: N/A



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City of Homer Water and Sewer Water and Sewer Utility Financial/Rate Setting Policies Resolution 23-048(S)(A)

Introduction

Financial policies are an important tool for maintaining a financially healthy and sustainable utilities while also maintaining required and/or mandated measures. The Government Finance Officers Association (GFOA), bond rating agencies, and other industry organizations (e.g., the American Water Works Association (AWWA), the Water Environment Federation (WEF)) recommend written financial/rate setting policies to provide clear policy direction and guidance.

The establishment of written financial policies is intended to:

- Institutionalize sound financial practices
- Clarify strategic intent
- Define boundaries
- Promote long range strategic thinking
- Manage risk
- Adhere to established best practices

Financial Policy Goals and Objectives

The goals of the City’s financial policies are to:

1. Maintain sufficient revenues for operating and capital needs,
2. Maintain sufficient reserves, and,
3. Provide rate stability. Notwithstanding (1) and (2) above, rates will be set to provide rate/revenue stability and avoid major periodic increases.

A detailed set of financial policies have been adopted to establish consistency in utility financial planning and rate setting decision-making for the City Council and City management team.

This framework provides recommendations that take into consideration the typical or median reserve levels for a “AAA” versus a “AA” rated utility. This framework will also enable the City Council to make more informed decisions in establishing the financial targets contained within the financial policies.

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Review and Discussion of the City's Financial/Rate Setting Policies

The Utility Financial Plan will take into consideration the following financial policies. The financial planning period will be for a minimum of five years to determine overall trends and impacts to reserves and rates over a long-term horizon. The Utility Financial Plan is an integral component of the City's approach to effectively managing the utilities at a sustainable level to support the service levels of the community.

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1. Reserve Funds

50 Reserve funds shall be established for the City to properly account for the City's funds, but to also
51 provide adequate reserve levels to address the different types of funding requirements of the
52 City. The City's reserve policies shall be as follows:

53 **1.1 Operating Reserve** – The City's operating reserve is an unrestricted reserve. The
54 minimum operating reserve shall be established at 90 Days of annual O&M expenses
55 (approximately 25% of annual O&M for both the Water and Sewer Funds) as outlined
56 in Exhibits 4 and 6 in the Utility Financial Planning models for water and sewer.

57 **1.2 Capital Reserve** – The City currently has two different capital reserves for the water and
58 sewer utilities. The first is the Homer Accelerated Water and Sewer Program (HAWSP).
59 HAWSP is funded through a portion of the voter approved sales tax and assessments
60 levied on benefited properties. The second is the Capital Asset Repair and Maintenance
61 Allowance (CARMA) Fund. CARMA is funded annually through a rate surcharge equal to
62 15% of water and sewer costs and collected through the water and sewer rates.

63 In general, HAWSP is intended to provide seed money to support expanded access to
64 the City water and sewer system while CARMA is intended to support improvements,
65 repairs, and replacements of the City's existing infrastructure, and may also be used for
66 Capital Contingencies or Infrastructure Replacement. CARMA and HAWSP funds may be
67 used jointly to fund a project where applicable. The development of the projection of
68 CARMA and HAWSP funds is provided in Exhibits 8 and 9 respectively of the Utility
69 Financial Plan.

70 **1.2.1 Homer Accelerated Water and Sewer Program (HAWSP)** – HAWSP will not be
71 incorporated into this financial policy, as HAWSP has its own dedicated policy manual.

72 **1.2.2 Capital Asset Repair and Maintenance Allowance (CARMA) Fund** – The CARMA
73 reserve was established to fund improvements, repairs, and replacements to the City's
74 existing water and sewer systems. The level of CARMA funding can be adjusted by the
75 City Council. "The amount of the CARMA funds shall be established by City Council in
76 the biennial budget based on the projected maintenance and repair needs of the City."
77 (Ordinance 19-35(S)(A)). CARMA is funded annually through a rate surcharge equal to
78 15% of budgeted water and sewer costs and collected through the water and sewer
79 rates. Balance minimums and maximums are as follows: Water CARMA - minimum of
80 \$500,000 and a maximum of \$1,500,000; Sewer CARMA - minimum of \$500,000 and a

81 maximum of \$1,500,000. Additionally, the CARMA accounts may be supplemented by
82 transfers from the Utility Operations Fund Balance (with Council appropriation).

83 The intent of the City of Homer Water and Sewer CARMA Fund is “for appropriation and
84 expenditure for equipment replacement, fleet replacement, engineering or planning
85 services, major maintenance of city facilities, or any other purpose as identified and
86 recommended by the City Manager and authorized by the City Council...and to extend
87 the life and use of taxpayer funded assets, facilities and infrastructure.” (See Ordinance
88 19-35(S)(A)). The Water and Sewer Utilities - which operate independently - use CARMA
89 Funds for improvements, repairs, and replacements to the City’s existing water and
90 sewer systems. CARMA Funds may additionally be used for capital contingencies or
91 infrastructure replacement and can be used in conjunction with HAWSP to jointly fund
92 a project.

93 **2. Balanced Operating Budget**

94 **2.1 Self-Supporting** – The water and sewer utility shall be self-supporting, where current
95 revenue fully funds current operating expenditures on an annual basis.

96 **2.2 Adequate Funding to Preserve System Assets** – The City’s assets shall be properly
97 operated and maintained to provide for a long life. Annual operating expenditures will
98 be budgeted and funded at a level that promotes the efficient operation of and
99 preservation of assets through the asset’s useful life.

100 **2.3 Evaluation and Monitoring of Cost** – Costs will be monitored monthly to ensure the
101 utility is operated in a cost effective and economically prudent manner and reported to
102 the City Council on a quarterly basis.

103 **2.4 Positive Annual Net Income** – The City shall plan for annual net income (total revenue
104 less O&M, taxes or transfers, debt service, and capital projects funded from rates)
105 greater than or equal to zero (positive balance of funds).

106 **2.5 Strive for Rate Stability** – The City’s rates should be stable over time while generating
107 sufficient revenue. As a part of the annual budgeting process, the City shall review the
108 rates to confirm the adequacy of the current rates.

109 **2.6 Disposition of “One-Time” Revenue** – In instances of large one-time revenues (e.g.,
110 legal settlement), if not specifically earmarked, the funds will be transferred to an
111 appropriate reserve(s) (operating, capital, or rate stabilization).

112 **2.7 Alternative Funding/Revenue Diversification** – To minimize overall rates, the City
113 should explore alternative revenue sources such as grants and direct developer
114 contributions.

115 **2.8 Fund Balance** – the Fund Balance is an accumulation of fiscal year net activity (revenues
116 over expenditures). The Utility Operating Fund Balance is used when purchasing
117 inventory items. These items will be expensed (pulled out of inventory) when utilized.
118 It may also be used to replenish the CARMA accounts or “buy down” rates.

119 **3. Establishing Rates and Fees**

120 The City shall establish rates utilizing industry recognized “generally accepted” rate setting
121 methodologies. This will provide the City with consistency in their ratemaking process, while also

122 establishing rates which are legally defensible. The City’s policies on establishing the water and
123 sewer rates and fees, and the general methodologies to be utilized, are as follows:

124 **3.1 Revenue Requirement Analysis**

125 The revenue requirement analysis provides a projection of the City’s revenues and
126 expenditures for a defined time period. The revenue requirement analysis shall provide
127 the City Council with the information and cost-basis to determine the size and timing of
128 any proposed rate adjustments. The City’s revenue requirement analysis methodology
129 shall consider the following:

130 3.1.1 The revenue requirement (financial plan) analysis will be developed from the
131 current year’s budget, as part of the budget process.

132 3.1.2 Revenue requirements will be established using the “cash basis” methodology.
133 The “cash basis” methodology includes O&M expenses, and taxes/transfer
134 payments. The revenue requirements may include a component for change in
135 working capital/rate stabilization funds to manage reserve balances and
136 mitigate rate impacts.

137 3.1.3 Costs shared across utilities shall be allocated to each utility based an equitable
138 allocation method. These may include, but not be limited to, labor ratios,
139 number of customers, revenues, usage etc. The allocation method should be
140 whichever method most equitably allocates the specific cost.

141 3.1.4 Any wholesale increases imposed upon the City by a water supplier or
142 wastewater treatment agency will be reviewed for financial/rate impacts.

143 3.1.5 The City’s revenue requirement analysis shall fully incorporate the City’s reserve
144 and budgeting policies.

145 3.1.6 The City’s goal is to project revenue requirements for a minimum of five years
146 into the future.

147 **3.2 Cost of Service Analysis**

148 A cost of service analysis provides an equitable method to allocate the City’s water and
149 sewer revenue requirements to the customers utilizing the service. The City’s cost of
150 service analysis for the water utility shall use generally accepted cost of service
151 methodologies as defined by the American Water Works Association (AWWA) and the
152 analysis developed for the City’s sewer utility shall use cost of service methodologies as
153 defined by the Water Environment Federation (WEF). The City’s water and sewer cost
154 of service shall be developed to provide an equitable allocation of costs by taking into
155 consideration a customer group’s (e.g. residential, commercial) facility requirements
156 and usage characteristics. The City’s specific cost of service policies are as follows:

157 3.2.1 The cost of service shall be developed for a projected one-year time period or
158 the period over which rates will be set, utilizing the revenue requirements as
159 developed in 4.1.

160 3.2.2 The cost of service analysis shall be designed and developed to consider the
161 unique and specific circumstances of the City’s water and sewer system.

162 3.2.3 The City shall allocate costs to customer class of service based upon facility
163 requirements and usage characteristics.

164 3.2.4 When necessary, the City may phase-in the cost of service results to transition

165 to fully-cost based rates.

166 **3.3 Rate Design Analysis**

167 The development of cost-based rate designs concludes the City’s rate setting process.
168 The development of rate designs utilizes the results from the revenue requirement and
169 cost of service analysis to establish the target level of revenues for each customer class
170 of service (rate schedule). The City’s rate design analysis is primarily focused on the
171 structure of the rates. The City’s rate design analysis policies are as follows:

172 3.3.1 The City shall utilize the results of the revenue requirement analysis and cost of
173 service analysis in the development of final proposed rate designs.

174 3.3.2 Rates shall be designed to collect the overall target level of revenues for each
175 customer class of service.

176 3.3.3 The City’s rate designs shall be reflective of the City Council’s rate design goals
177 and objectives, while also being reflective of the greater public purpose (e.g.,
178 economic development, conservation, etc.).

179 3.3.4 The City shall take into consideration both fixed and variable costs in the
180 development of final proposed rates. The average unit costs calculated within
181 the cost of service analysis provides the cost-information related to fixed and
182 variable costs.

183 3.3.4 Bill comparisons shall be developed for all proposed rate designs to illustrate the
184 general impacts to customers across a range of consumption.

185 3.3.5 In establishing the final water and sewer rates, the City’s Council may take into
186 consideration neighboring utility rates, but not to the financial detriment of the
187 City.

188 **3.4 Other Rate Setting Considerations**

189 Provided below are other policies related to the City’s rate setting process.

190 3.4.1 At a minimum, the City shall conduct a comprehensive rate study every five (5)
191 years to update assumptions and determine financial sustainability.

192