



City of Homer

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Memorandum 20-039

TO: Mayor Castner and Homer City Council
FROM: Katie Koester, City Manager
DATE: March 5, 2020
SUBJECT: HAWSP Worksession follow up on Reso 20-012(A)

The purpose of this memo is to help Council debate questions raised in Resolution 20-012(A) and come up with policy recommendations to guarantee adequate Council oversight of the fund. As Council discusses each bullet point below, it would be helpful to come to a consensus on the policy recommendation presented, including changes, for incorporation into the HAWSP Policy Manual.

- **What is an appropriate metric to gauge the health of the HAWSP fund?**

Debt service ratio has not been a useful metric, in part because of the complexity of timing (when to apply it) and how it has been applied. For example, if there has been a major expenditure and debt incurred, yet no revenue collected in the prior year for that debt, the ratio will be off. Careful thought needs to be put into the timing and criteria. I would suggest that the numbers come from sources like the annual budget and/or audit. It is important that the metrics used to gauge fiscal health address both comfort level for borrowing and ability to make payments. This can be achieved through a combo of metrics.

Because so many changes have occurred with HAWSP in 2019, we are using draft numbers in the sample calculations. However, it would be more accurate in the future to use the most recent final audit numbers when performing financial analysis of HAWSP.

Forward funding. One potential metric could be making sure the fund has enough in it according to the prior year audit to pay for the upcoming budgeted year payment. This is essentially forward funding the fund. Using current (unaudited) numbers, the City would have \$1,385,553 to put toward HAWSP projects (not including borrowing):

12/31/19 Unaudited Fund balance \$2,387,160
2020 debt payments due \$1,001,607

Debt Service Ratio. For this to work, the debt service ratio needs to be adequately defined and understood as a snapshot in time using the most recent audited numbers. City of Homer debt service ratio is 2.22; using 2019 unaudited numbers. I would suggest defining debt service ratio in the HAWSP policy manual as:

HAWSP Revenue (Assessment Revenue + Sales Tax Revenue + Interest Income)

Scheduled Annual Payments

- **What we are owed.** Taking into account how much the City is owed in debt over time gives an idea of our ability to pay debt that has been incurred. Comparing this number to our debt schedule will give Council a comfort level for when to take on new debt. As of 12/31/19, we are owed \$3,365,162 in HAWSP assessments.
- **How often should Council review the health of the HAWSP fund?**

My suggestion is to review HAWSP annually on a scheduled basis – I would recommend June/July when water and sewer rates are established. Otherwise, the review will fall through the cracks. However, because audit does not get finalized until the fall, this means you will be using data that is a year and a half old in your analysis. For this reason, you may want to review HAWSP in December or January when the most current numbers are available.
- **Should pending HAWSP projects be taken into considering when evaluating the health of the fund?**

I think the best way to do that is for finance to prepare a fiscal note that takes into account the assumptions of the SAD and tells Council, if passed, what that would do to the health of the fund (or the previously established metric). To do that, Finance has proposed a fiscal analysis be presented early in the SAD process as part of the improvement plan that takes into account, all other variables being equal, the impact of the project on the fund in both the short term and the long term. For example, borrowing for a new project in the short term will show an influx to the fund, while in a few years out it will increase debt. This is why Council needs a multiyear analysis to truly understand the long term impact of a project on the fund. This real time picture would be provided in addition to the annual review during water and sewer rate.
- **How should system-wide projects be evaluated and prioritized versus citizen-initiated SADs?**

Mayor has mentioned that the City's share should be paid in cash and not financed. This could be spelled out in the HAWSP policy manual, taking into consideration that a major city wide infrastructure project (like the water treatment plant) would still require financing. Other expend
- **Should the fees be increased to initiate a SAD?**

There is substantial effort involved in initiating a SAD. Neighboring communities charge: Kodiak and Wasilla \$0; Soldotna \$500; KPB \$1,000; Kenai \$1,500. Staff recommends increasing the fee to initiate a SAD from \$100 to \$1,000.
- **The current method of establishing HAWSP SADs is first come first served, tracked by the Clerk's office. Is this the most appropriate method or should a different method be employed?**

I think, and the Clerk's office agrees, it would be complicated to do it another way and would have to be done much like a grant process with an application period and criteria. It takes a long time to go from a property owner triggering the process to the City receiving its first payment. For example, with Eric lane it took 2 years and 8 months.

Eric lane:

July, 2015: Petition circulated by City Clerk

October, 2017: Assessment roll confirmed

March, 2018: First payment due

Enc:

DRAFT 2016 Memo from Planning Commission (incomplete recommendations)

2020 Memo from Planning Commission and attachments

Resolution 20-012(A)

HAWSP Reconciliation requested by Mayor Castner