HOMER FISCAL PLANNING MODEL: BACKGROUND REPORT

prepared by

Oliver Scott Goldsmith
Professor of Economics
Institute of Social and Economic Research
University of Alaska Anchorage
3211 Providence Drive
Anchorage, Alaska 99508

for

City of Homer

The information in this report does not represent the official position of the city of Homer.

March 10, 1992

This publication is printed on recycled paper.
Table of Contents

Introduction .................................................................................................................. 1

I. Economics and Population ...................................................................................... 1
   Population and Settlement Patterns ................................................................. 1
   Basic Industries .................................................................................................. 2
   Support Industries .............................................................................................. 4
   Analysis of Economic Structure ........................................................................ 4
   Prospects for the Future ....................................................................................... 5

II. Greater Homer Fiscal Structure ........................................................................... 6
   General .................................................................................................................. 6
   Port and Harbor .................................................................................................... 6
   Sewer ...................................................................................................................... 7
   Water ...................................................................................................................... 7
   Debt ......................................................................................................................... 7
   Recent Events Influencing the Fiscal Situation ............................................... 8

III. Fiscal Planning Model ............................................................................................ 8

IV. Economic and Fiscal Projections ......................................................................... 9
   Introduction .......................................................................................................... 9
   Economic Activity ................................................................................................. 9
   General Fund Revenues from Current Sources ............................................ 9
   General Fund Expenditures and Balance ....................................................... 11
   New Requirements ............................................................................................... 12

V. Gap Closing Strategy ........................................................................................... 13

VI. Monitoring Indicators ......................................................................................... 15

VII. Notes on the Use of the Fiscal Planning Model ............................................. 15
HOMER FISCAL PLANNING MODEL:
BACKGROUND REPORT

INTRODUCTION

Homer is a first-class city of about 4,000 residents, located in the Kenai Peninsula Borough. The city provides a variety of local government services including police and fire protection, roads maintenance, and parks and recreation as well as a library, but excluding schools (provided by the Borough). These services and general government expenses are financed primarily through sales and property taxes and transfers from the state.

City expenditures increased rapidly through most of the 1980s, interrupted only during the recession years of 1988 and 1989. An economic boom occurring at the end of the decade has now passed, and the ability of the city to fund services is being constrained both by the local economic base and the budget problems facing state government. The 1992 Homer budget reflects a sharp reduction from the previous year, with departments planning layoffs and service cutbacks. Aggressive fiscal planning in future years will be required to minimize the negative effects of budget shortfalls in the coming years. This document provides information to assist the community in addressing this issue.

I. ECONOMICS AND POPULATION

Population and Settlement Patterns

The greater Homer area — where residents look to Homer for shopping, health care, and other services — consists of Homer itself and the incorporated and unincorporated areas along both sides of Kachemak Bay, north along the Sterling Highway as far as Ninilchik, and Port Graham and English Bay at the tip of the Kenai Peninsula. The 1990 population estimates of the greater Homer area based on the 1990 census are as follows:

<table>
<thead>
<tr>
<th>Location</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Homer</td>
<td>3,660</td>
</tr>
<tr>
<td>Kachemak City</td>
<td>418</td>
</tr>
<tr>
<td>Fritz Creek</td>
<td>1,815</td>
</tr>
<tr>
<td>Anchor Point</td>
<td>1,960</td>
</tr>
<tr>
<td>Diamond Ridge</td>
<td>1,049</td>
</tr>
<tr>
<td>Ninilchik</td>
<td>817</td>
</tr>
<tr>
<td>across Kachemak Bay</td>
<td>920</td>
</tr>
<tr>
<td>greater Homer area</td>
<td>10,658</td>
</tr>
</tbody>
</table>

Locally conducted censuses put the total about 10 percent higher.

The population has a major seasonal component, primarily related to fishing and tourism. Many crew members for fishing boats, fish processing workers, and retail and service workers come from other parts of the state or outside Alaska to work during the summer. However, some seasonal residents are not in the labor force and choose to live in
Homer for only part of the year. In addition, some year-round residents may work in seasonal jobs or may be out of the labor force (retired or otherwise).

Basic Industries

Basic industries are those which bring money into a region and support the economy. In Homer the most important basic industries are fishing and tourism, but other activities are also present.

(1) Fish Harvesting and Processing

This is the major industry in the community from several perspectives. First, many residents are engaged in the harvesting of seafood either in Cook Inlet (perhaps 40 percent of all Homer area fish harvesters) or other fisheries. (Because most fishermen are self-employed, these jobs are not reported in the non-agricultural wage and salary employment statistics.) A 1987 study (Douglas Coughenower, Commercial Fishing Industry Study, Homer Alaska; University of Alaska Marine Advisory Program, Marine Advisory Bulletin #33, November 1987) estimated that in 1985 the Homer area supported the equivalent of 270 full-time jobs in fish harvesting with 224 of the jobs being held by residents.

Residents are also engaged in fish processing; Seward Fisheries, the major processor, employed the equivalent of 105 full-time employees in 1985. Coughenower estimated the total direct effect of commercial fishing in the Homer area to be over $28 million in 1985. The Alaska Department of Labor reports annual averages of between 100 and 200 manufacturing jobs (most of which are fish processing) in Homer between 1985 and 1989; the figure for 1990 was 304.

The community is also a center of supply for the industry, both for harvesters that are located in Homer and also for boats from outside the region.

The major target for Homer fishermen is salmon; some also fish for halibut, herring, shrimp, and crab. While many Homer fishermen fish in Lower Cook Inlet fisheries, many also fish in Upper Cook Inlet, Prince William Sound, Kodiak, and Bristol Bay; and some Homer residents fish as far away as Norton Sound and Southeast Alaska. Many of the fishermen live in the surrounding area rather than in Homer itself.

The salmon fishery is cyclical. There are years when the monetary return to the fishermen is high due to high prices and/or large harvests, and there are years of relatively low monetary return due to low prices. Prices boomed in the 1980s and, combined with several years of large harvests, led to several excellent years for commercial salmon fishermen (Figure 1). However, with major growth in the supply of farmed salmon starting in 1985, and lower harvests in 1990 and 1991, the return to the fishermen has dropped dramatically from a peak in 1988 (Gunnar Knapp and Terry Smith, Seafood Industry Sector Report, Alaska Department of Commerce, May 1991).

Harvests of other seafood products is also cyclical. Shrimp harvests declined through the eighties, while groundfish harvests (especially sablefish) increased in both pounds harvested and total value.
(2) Tourism

The tourist sector consists of parts of the trade, services, and transportation industries which serve recreational visitors; it is a basic industry because tourists bring money into the local economy. Tourists are drawn to the area to a large extent by the fishing in the Kenai River, and some continue to Homer for sightseeing, charter fishing, the local arts community, or other tourist-oriented businesses. Cruise ships coming from or going to Anchorage may stop in Homer. Currently, about one ship per month does so, and there is some potential for additional cruise ship landings. A recent study for the Alaska Division of Tourism estimates that from the summer of 1989 through the spring of 1990, 114,600 visitors, including business travelers as well as tourists, spent $7.8 million in Homer (Alaska Visitor Industry, An Economic Profile, Alaska Division of Tourism, Department of Commerce and Economic Development, 1991). In the 1991 summer season, the volume of business was up but average sales were reportedly down. This may reflect the nation’s general economic hard times, or a loss of a high-spending group of tourists — those coming long distances to fish for Kenai King Salmon.

The majority of Kenai Peninsula visitors are Alaska (mostly Anchorage) residents (Kenai Peninsula Tourism Study, Fox Practical Marketing and Management for the Kenai Peninsula Economic Development District, July 1991). Although in-state residents make up almost 5 of 6 visits to the Peninsula, they spend less than nonresidents. The Kenai Peninsula Tourism study estimates that Alaska resident visitors to the Peninsula spend just under $100 per person per trip. Many people visit more than one community per trip, however, and spending per visitor in Homer is closer to $60 — $70 per trip.

(3) Agriculture

There is a small cattle raising industry east of Homer near the head of Kachemak Bay, on federal grazing leases. The processing occurs north of Homer in the central Kenai Peninsula.

(4) Construction

State and federal construction projects represents a flow of money into the regional economy. The most significant in recent years has been the Bradley Lake hydroelectric project which was completed in 1991. The construction work force is expected to move away since there is no other large project in the planning phases that can replace the construction jobs on the Bradley Lake project.

(5) Resident Commuters

In addition to those resident fishermen who work outside the area, there are other residents who work on the North Slope, the Cook Inlet oil fields, or other remote locations. These residents bring their paychecks back into the community.

(6) Timber

The timber industry is not currently active in the region, but it is a potential contributor to basic employment in the region. There is a possibility of harvesting occurring across Kachemak Bay from the city of Homer.
Support Industries

The fishing industry generates considerable employment in support industries: boat maintenance/repair, retail sales of gear and supplies, and provision of various services. Tourism also stimulates some support industry activity such as restaurant supply or advertising services to tourist-oriented businesses. In addition, there are support industries, including trade and services which directly serve the needs of the households in the region.

Analysis of Economic Structure

The state of Alaska experienced very rapid economic growth in the early 1980s fueled by high oil revenues collected and disbursed by state government. A significant recession occurred in 1986 and 1987 as a consequence of the fall in the world oil price. The cleanup effort associated with the Exxon Valdez oil spill in 1989 and 1990 decisively ended the recession and resulted in two years of rapid economic growth. This was compounded by the increase in oil price brought on by the Iraqi crisis in 1990 and 1991. Since then the growth of the economy has slowed almost to a standstill by the end of 1991.

The economic prospect for the decade of the 1990s is for employment and income growth at a rate much below what Alaska has experienced on average in the preceding decades. The primary reason for this is the impact of the continuing decline in petroleum production which began in 1989. Declining production not only affects the petroleum industry but also makes it difficult to fund state government, which currently receives about 85 percent of its revenues from the petroleum industry. Oil-revenue-fueled growth in state government has been one of the primary driving forces behind growth of the state economy during the 1970s and 1980s. Furthermore, state government transfers account for a large portion of local government revenues. Statewide growth in employment and per capita personal income during the 1990s is currently projected to average 1 percent annually. State government spending is unlikely to grow in nominal terms and will fall in terms of real purchasing power (inflation adjusted dollars).

Homer is primarily dependent on fishing and tourism for its livelihood. This dependence, combined with its small size, makes it particularly vulnerable to booms and busts. In the early and mid-1980s, it expanded rapidly as reflected in both the value of new construction permits and the assessed value of property (Figures 2 and 3). During 1988-1990 the economy benefitted from expansion of the tourism industry in Southcentral Alaska, the construction of the Bradley Lake hydroelectric project, the high price for salmon, and the Exxon Valdez cleanup effort (Figures 4, 5, and 6).

The Exxon Valdez oil spill, in particular, had a dramatic effect on the regional economy in 1989 and early 1990. Homer became the southern Peninsula headquarters for Exxon cleanup activities, including warehousing, equipment and supply procurement, etc. Homer’s gross sales increased almost fourfold between 1988 and 1989, and Exxon reimbursed the city over $300,000 for oil-spill related services in 1988 and 1989. Oil spill cleanup activity also boosted local sales; gross sales for Homer almost quadrupled between 1988 and 1989.

The primary economic effects of the cleanup gradually dissipated in 1990 and by 1991 had largely disappeared. In addition, the Bradley Lake project is complete and the fishing
industry is in disarray due to collapse of the salmon price and uncertainty about the future role of Alaska salmon in the world market.

Because of the small size of the economy and its dependence on a limited range of basic activities, the annual level of economic activity and population in Homer and the region are difficult to project within a narrow band with any confidence. The economy of the region will continue to be cyclical due to its primary dependence on fishing and, to a lesser extent, tourism. Unfortunately, the factors driving the cycles in the fishing industry are difficult to anticipate, so uncertainty will continue to be an important characteristic of the economy. Fishing will not only continue to be subject to annual fluctuations in activity and income but may also experience a longer-term trend which could either be positive or negative. This could translate into a Homer economy that is either slowly expanding, flat, or declining in terms of employment, income, and population.

Although there are a number of possible small economic development projects presently under discussion for the region which could help to cushion the economy from the cycles associated with fishing, an alternative source for more rapid growth is not identifiable. Public distribution of petroleum revenues will not be a driving force for economic growth in the 1990s as it had been in the previous two decades. Non-labor income (transfer payments, retiree payments, etc.) as well as labor income brought into the region by resident commuters will be a stabilizing factor for the economy. As in the past, unanticipated surprises will continue to influence the level of economic activity.

Prospects for the Future

A number of factors will influence the future economy and population of Homer. Those which can be identified at this time include:

1. The uncertainty in world markets for salmon.
2. The development of the bottomfish industry.
4. The development of shellfish farming as an industry.
5. Expansion of tourism demand from Anchorage and outside the state.
6. Exxon settlement money paid to the state may be used to buy back for parkland tracts currently available for timber harvests.
7. A combined Coast Guard and Marine Research facility is expected to provide 50 jobs by 1993.
8. Growth in population not tied to employment may continue both within the city limits as well as in the surrounding area.
9. Home porting of a state ferry vessel (Tustamena) could occur in Homer.
10. An Alaska Oil Sales supply facility may be established in Homer.
11. Water and sewer may be extended to the Homer Spit and other areas currently outside the city limits.
12. Development of public facilities on the Homer Spit may serve as the catalyst for expansion of tourism activities.
II. GREATER HOMER FISCAL STRUCTURE

General

The city of Homer is located within the Kenai Peninsula Borough. The Borough provides schools, solid waste management, planning and zoning, tax collection, and recently tourism promotion. These areawide services are financed by a property tax (5.75 mills), sales tax (2 percent), and state support (the school foundation program, etc.). In addition, the Borough provides a number of non-areawide (the portions of the Borough outside incorporated cities) services through service areas financed by additional area-specific property taxes. These non-areawide services include fire, hospitals, recreation, and road maintenance. Homer (as well as several service areas outside Homer city) collects 2.25 mills of its property tax to support the South Peninsula Hospital.

As a first-class city within an organized borough, Homer is broadly empowered to provide public facilities and services. The city provides police, fire, animal control, roads, a library, a cemetery, and city parks. The police department (including jail operation and animal control activities) accounts for the largest share of general fund expenditures — 30 percent to 35 percent. General government activities are second in importance with about 20 percent, followed by streets and roads with 15 percent, and fire with about 10 percent (Figures 7, 8, 9, and 10).

Homer provides these services not only to residents of the city but also to the surrounding populations. This includes residents of Kachemak City (a second-class city) as well as those outside city and service area boundaries. Some services, such as library and roads, are used by non-Homer residents only when they travel to Homer; others, most notably fire, are provided to areas outside Homer's boundaries.

Many of these services are partially financed by grants from the state. The primary local sources of revenue for the support of these activities are the 5.5 mill property tax and the 3.5 percent property tax. There is little financial support from the Borough.

In addition to these services provided through the General Fund, Homer has three enterprise funds providing port and harbor services, water, and sewer.

Port and Harbor

The Port provides a variety of services to recreational and commercial users. These are supported from a variety of revenue sources including fees and taxes. Moorage fees are the same for recreational and commercial use. Landing/launching fees include beach landing fees, commercial boat ramp fees, crane use fees, and other fees associated with loading, launching, or landing boats. Other fees cover use of electricity, water, sewer utilities, storage, and purchase of items such as ice.

Taxes include the shared fish tax and the boat property tax. The shared fish tax is not paid where the fish comes over the dock, but rather where first processing occurs; so some fish caught and landed in Homer are taxed elsewhere (Figure 11). The Port received $240 thousand for the 1988 season and $97 thousand for the 1989 season. Personal property tax
is levied on boats berthed in the Port of Homer as of January of each year. Since fishermen have complained that the tax is too expensive, they can, and many apparently do, move their boats to ports outside the Kenai Peninsula Borough in order to avoid the tax. In 1990 the boat property tax brought in $80,000, but it was all applied to the General Fund.

Port revenues have been sufficient to cover expenses, debt, and depreciation until quite recently (Figure 12). Revenues have fallen as fishing revenues declined and fishermen and processors cut costs. Expenses have not declined commensurately. The new deepwater dock has lost money since its completion. It is worth noting that in order to obtain the grant to build the dock, the city depended on assurances from Oceantrawl, Inc., that it would base factory trawlers out of Homer and use the deep water dock and build processing plants on the spit. The plan fell through, however, leaving no major user for the new dock. The port intends to tighten up on collecting current user fees and to reduce or eliminate free amenities; the current 1992 budget estimate still shows a $250,000 revenue shortfall.

Sewer

Operating revenues, primarily user fees, more than cover expenses plus debt service requirements (Figure 13). Revenues do not cover depreciation; it is written off against retained earnings and contributed capital. However, depreciation has been more than balanced by new capital investment. The total value to the Sewer Enterprise Fund has more than doubled since 1988. The sewage treatment facility was recently expanded with federal grant money and some new debt. That debt is partly being paid off by a 3/4 percent contribution from the sales tax.

Water

Water service is supported almost entirely by user fees (Figure 14). The water utility is characterized by an old physical plant, retained earnings which hover near zero, and a total worth which has held fairly constant in nominal dollars. Under the terms of its revenue bonds, revenues are required to be at least 1.3 times debt service requirements. In 1989 and 1990 the utility fell short of this ratio, and rates increased 41 percent in May of 1991.

Debt

At the start of 1991, the city of Homer had just under $17 million of outstanding bonds (general obligation (Figure 15), special assessment, and revenue) and capitalized lease obligations. Just under half of the bonds ($7.7 million) are revenue bonds which are paid for from the port and harbor, water, and sewer funds. Some of the general obligation and special assessment bonds are also carried by these funds.

Debt service on bonds already issued will decline from $2.2 million to about $1.5 million by 2000. The most obvious need for capital expenditures in the future is the water plant. Homer added $5.6 million in capital obligations in 1990, while reducing principal owed by $.75 million. With declining federal and state capital grants, Homer will have to rely more on bonding in the future.
Recent Events Influencing the Fiscal Situation

(1) Sales tax — receipts were down 18 percent in the first 6 months of 1991. The decline is attributable to the weakness in the economy related to less fishing activity and income, tourism receipts down, Exxon oilspill money finished, and Bradley Lake construction finished. Businesses may also be stretching their payments.

(2) Property tax — the economic decline has led to decline in property values and increased delinquency in payments. Fishing boats may find it more cost-effective to relocate rather than to pay the tax.

(3) State transfers are continuing a downward per capita trend.

(4) Transfers from projects are unlikely to continue at the current high level.

(5) State pass-throughs are vulnerable to state budget reductions.

(6) General Fund balance — use of working capital to fund shortfalls of recurring revenues cannot be a permanent solution.

(7) Debt service cost recently increased significantly.

(8) Ports and harbors — revenues have fallen short of requirements by as much as 25 percent in most recent years.

(9) Personnel costs — employees are not now unionized, but this may happen. There is a dispute currently in the courts over whether city employees gave up the right to vote on unionization. Unionization could add significantly to total costs in the first year. The budget cuts last year did not result in any layoffs.

III. FISCAL PLANNING MODEL

The fiscal planning model is designed to analyze different methods of balancing the general fund over the entire planning horizon. This is done by adjusting a SOLUTION package of revenue and expenditure adjustment measures for a particular CASE representing assumptions about economic growth and public service needs. For every CASE there are a large number of possible SOLUTIONS representing different strategies for dealing with the problem of public service demands outstripping revenues. A set of INDICATORS describes the implications of a SOLUTION on per capita revenues and expenditures. Different opinions about the future of the economy are handled by varying the assumptions representing a CASE. The model can be run numerous times to investigate different CASES and SOLUTIONS. The model includes a historical database for analyzing trends in important components of the economy and the Homer fiscal structure.
IV. ECONOMIC AND FISCAL PROJECTIONS

Introduction

A CASE is described by a set of economic assumptions as well as the revenues and expenditures implied by that economic activity. The revenues assume no change in the current fiscal structure, and the expenditures include current needs increasing with population and inflation as well as anticipated new requirements not now included in the budget.

Economic Activity

Population growth within the city and the tax base for the property and sales tax are the variables which summarize expected economic activity levels in the community.

The measure of inflation is the Anchorage Consumer Price Index for all Urban Consumers (CPI-U). Primarily due to the slow increase in the cost of housing, this index grew slowly during most of the 1980s, particularly during the recession of 1986 and 1987. During the subsequent expansion it grew more rapidly.

General Fund Revenues from Current Sources (percentage of 1991 General Fund Revenues in parentheses — Figure 16)

(1) Sales Tax — (29 percent)

The tax is broad based, covering services as well as goods (Figures 17 and 18). Two percent of the 5 1/2 percent sales tax (from 1992) is paid into the General Fund; 2 percent goes to the Borough; 3/4 percent is earmarked for roads; and 3/4 percent goes to repayment of sewer debt. The city has gradually come to rely more heavily on the sales tax relative to the property tax as a source of locally generated revenues since the 1970s (Figures 19 and 20). The advantage of the sales tax is that its incidence falls partially on nonresident consumers of city services. The percentage of taxes collected from nonresidents is not known. Further increases in the tax rate could cause consumers to shift their purchases to other communities and have an adverse impact both on sales and tax receipts. Revenues fluctuate from year to year in response to the health of both the fishing and tourism sectors of the economy.

Projected sales tax revenues are driven by inflation and an assumption about the trend in the economy.

(2) Property Tax — (21 percent)

Of the 13.5 mill property tax, 5.5 mills is paid into the General Fund; 5.75 mills goes to the Borough; and 2.25 mills supports the South Peninsula Hospital. Reliance on the property tax as a source of local revenues in comparison to the sales tax has declined since the 1970s. This is due partially to the fact that nonresidents using Homer services are more likely to contribute to their cost with a sales tax. Further increases in the mill rate, or even maintenance of the current mill rate, could cause a shift of property out of the city limits.
Revenues fluctuate from year to year based on the health of both the fishing and tourism industries. Tax delinquency also varies with the health of the economy. The proportions of the tax paid by residential and commercial property owners are unknown as are the proportions between mobile (commercial fishing, charter boats, pleasure boats) and non-mobile property owners.

Projected property tax revenues are based on inflation and an assumption about the trend in the Homer economy.

(3) Shared State Revenues (16 percent including Shared Revenue [6 percent], Municipal Assistance [9 percent], and Other [1 percent])

The bulk of these revenues are the two formula programs: State Revenue Sharing and Municipal Assistance (Figures 21 and 22). The state appropriation is allocated to communities on the basis of population and services provided. These programs grew in size in the early 1980s when state oil revenues were large but annual appropriations have been flat or declining since 1987; and because state population has continued to increase, the inflation-adjusted per capita value of these programs has significantly eroded. The Homer share of these revenues has followed the state pattern as larger populations in communities have been competing for a smaller total appropriation. The appropriation is made in the spring of the year, and the city receives its allocation in August, early in the state fiscal year.

Continued declining state petroleum revenues will further reduce appropriations for these programs. At best a continuation of the current nominal level of transfers can be expected. If petroleum revenues fall rapidly or other state program needs increase more rapidly, these transfers could fall rapidly.

Other shared revenues are based on actual collections and, consequently, vary with economic activity in Homer.

(4) State Grants and Pass Throughs (5 percent)

In contrast to State Shared Revenues that can be used for essentially any purpose, the use of grants from the state is limited to specific purposes. Important activities supported in this way are the jail, police, street maintenance, and the library. Pass-through revenues are identified by the state for specific providers. The Child Care program is the major current pass-through recipient. In addition, the state contracts with the city to carry out certain state responsibilities, such as street sweeping of state roads, providing prisoner space in the jail, and renting space to the State Troopers.

(5) Charges for Services, Fees, Permits (9 percent)

The largest charge is paid by state government for the operation of the jail. Other charges, fees, and permits are paid by service users. These revenues are projected to increase at the rate of inflation (Figure 23).
(6) Transfers from Projects (15 percent)

Eleven and one-half percent of capital project dollars from grants, bonds, and other sources is allocated to the general fund to pay for services provided by general government to these projects. Because capital project dollars have varied dramatically from year to year, so has this source of general fund revenues (Figure 24). Continued dependence on transfers from projects as a major source of revenue for Homer is problematic for three reasons. First, there is no clear connection between the size of the transfer and the actual cost to general government. Second, the decline in state revenues will reduce the amount of capital project dollars available to Homer from the state. Third, to the extent that bonds are used to fund capital projects, the transfer of a portion of the bond proceeds to the general fund for operations amounts to bonding for operations, a policy with potential problems.

The projections assume a continuation of this source of revenue, but at a lower level than historically. The source of revenues is state capital grants.

(7) Interest (2 percent)

Interest earnings depend on the balance in the general fund. The fluctuating general fund revenues over the past decade have generated fluctuations in the amount of interest earnings.

(8) Other (1 percent)

General Fund Expenditures and Balance

General Fund expenditures are built up from a base of MAINTENANCE LEVEL EXPENDITURES. MAINTENANCE LEVEL EXPENDITURES are those required to fund the budget from the previous year with increments for inflation and population increase. These increments are applied to the entire general fund budget from the previous year, including transfers to other funds (port and harbor, sewer, and water) and debt service.

The maintenance level budget is adjusted in two ways to arrive at actual expenditures.

(1) NEW REQUIREMENTS are added, including new transfers to other funds.

(2) Expenditure reduction measures are introduced to bring expenditures into balance with available revenues. These include both COST CONTAINMENT and PROGRAM REDUCTION measures.

REVENUE ENHANCEMENTS may also be necessary to eliminate the budget gap.

The result of this exercise is actual expenditures and actual revenues. Any difference in actual expenditures and actual revenues is represented by a change in the general fund balance.
New Requirements

Six categories of potential new requirements are identified.

(1) Personnel costs — This would be the result of anything that increases the cost per employee (including benefits) faster than the rate of inflation.

(2) Federal mandates — The federal government through regulation may impose costs upon local government which are not matched by revenues to pay the costs. One example would be the requirement for local governments to eliminate underground fuel storage tanks. (This particular mandate does not appear to be a significant budgetary problem for the city.) Other mandates should be expected in future years.

(3) Transfer of functions from state to local government — Functions which the state might shift to the local government include airport and harbor operations and maintenance, road maintenance, social service functions, jails, and local misdemeanor responsibility. The city would need to decide whether or not to continue to provide these services.

(4) New infrastructure needs — Water and sewer needs are two examples of future demands.

(5) Deferred maintenance — There is currently $1.8 million of fixed assets with no maintenance and replacement fund (not including requirements of the water and sewer funds). This is equipment with a 3-5 year life like fire trucks, snow blowers, computer equipment, etc. If maintenance costs continue to be postponed, operating costs will be higher in the future.

(6) Transfers to enterprise funds for operational support — This would be the case if the enterprise funds are unable to cover their operating costs with their own sources of revenues.
V. GAP CLOSING STRATEGY

A STRATEGY for balancing the budget consists of a set of policy options. These are divided into three categories: COST CONTAINMENT, PROGRAM REDUCTIONS, and REVENUE ENHANCEMENTS. No attempt has been made to calculate the maximum potential savings available from any option, nor have the economic or social implications of each option been specified. There may be other options not included on this list.

1. Cost containment
   (a) Efficiency improvements — This would include the reduction of nonlabor-related costs.
   (b) Reduce personnel costs — This would include employee sharing of the cost of benefits, wage reductions, reducing the shift differential pay system, etc. (Reductions in personnel are not included here.)

2. Program reductions or eliminations — This would include the reduction of all costs associated with a program, including the elimination of personnel.

3. Revenue enhancements
   (a) Sales tax — A concern is that increasing this tax could divert sales to other communities.
   (b) Property tax — A concern is that increasing this tax could divert mobile personal property (fishing vessels) and, over time real property, outside the city limits.
   (c) Bed tax — This could negatively impact tourism.
   (d) User fees — These could potentially be imposed/increased for various services including fire, library, port/harbor, water/sewer, police, etc.
   (e) Limited service areas — Population outside the city limits uses many of the services provided by the city. An alternative to user fees for services would be the establishment of limited service areas. One example would be a fire service area, established through the Borough, including both the city and the surrounding area. However, this could increase the cost of fire service on a per capita basis for two reasons. First, some of the current volunteers live outside the city and might not volunteer if they were taxed. Second, the service area might require that a certain standard of service be provided which could result in increased costs. For example, a new fire truck stationed somewhere outside the current city limits might be required. Another possible service area would be for the library.
   (f) Reallocate existing revenues — If some city functions have a higher priority than Borough functions, currently collected revenues could be reallocated to fund the higher priorities.
(g) Aggressive property management — More active management of the Homer Spit (a public resource) might generate additional income for the community.

(h) Revisions in state revenue sharing — One way that state government is dealing with its fiscal problems is by reducing local assistance because this is one of the easiest parts of the state budget to reduce. If local transfers had a higher priority in the state budget, they would not be squeezed out by other formula-based entitlements like the Longevity Bonus and Medicaid or by state agency budgets. If state revenue sharing were a more important source of local revenues, there also could be a reduction in competition among communities for footloose activities (such as the homeporting of fishing vessels) through the manipulation of local property and sales taxes.

(i) Expand the city boundaries through annexation — This would require some increase in services in exchange for the ability to collect property taxes over a wider area. Since some services are already provided to households and businesses located outside the city, the gain might outweigh the cost.

(j) Use of fund balances — Because the fund balance serves at least three functions, the maintenance of a balance is prudent policy. These functions are as follows:

(i) contingency against unanticipated needs

(ii) short-term cash flow — receipts are lumpy because of seasonality and state revenue sharing

(iii) long-term (year-to-year) revenue fluctuations — due to cycles in industries
VI. MONITORING INDICATORS

Several indicators describe the implications of a gap-closing STRATEGY and provide some information for evaluating its impact on revenues and expenditures.

1. Real per capita expenditures — general fund spending per Homer resident.

2. Homer city employees per 1000 population — service delivery measure per Homer resident after adjusting for changing personnel costs over time.

3. Real compensation per employee — the cost of the average employee.

4. Real sales tax per capita — measure of the tax burden from the sales tax.

5. Real property tax per capita — measure of the tax burden from the property tax.

6. General fund coverage — measure of the ratio of general fund balance to annual expenditures.

VII. NOTES ON THE USE OF THE FISCAL PLANNING MODEL

1. Different assumptions for the initial year produce different patterns for the opening of a fiscal gap in subsequent years.

2. Faster population growth is harder on city finances since major portions of revenues do not increase at the same rate as population. (With revenue and tax sharing, the city must share with the rest of the state so it is only if Homer population growth is relatively faster than the state that its share increases.)

3. Actual conditions will differ from projections significantly due to annual fluctuations in revenues and expenditure requirements, which can be expected to be volatile.

4. Revenue fluctuations are a more significant factor than fluctuations in the demand for local government services. Some expenditures are one-time projects and programs while others are entirely dependent upon a single revenue source.

5. Economic development and, consequently, revenues and expenditures may be impacted by policy changes designed to alter revenues and expenditures.
Figure 1. Cook Inlet Salmon Harvest

Figure 2. Homer New Construction Permits
Figure 3. Assessed Value of Homer Property

![Chart showing the assessed value of Homer property from 1978 to 1990. The chart displays the assessed value in millions of 1990 dollars, with separate lines for real property and personal property.

Figure 4. Homer Wage and Salary Employment

![Chart showing Homer wage and salary employment from 1980 to 1990. The chart displays employment in thousands, with a source note indicating the data comes from the Alaska Department of Labor.]
Figure 5. Homer Per Capita Personal Income

Figure 6. Homer Average Annual Wages per Employee
Figure 7. Homer Expenditures

Figure 8. Homer City Government Employment
Figure 11. Homer Shared Fish Tax Revenues

Figure 12. Port of Homer Enterprise Fund
Figure 13. Homer Sewer Utility Enterprise Fund

Figure 14. Homer Water Utility Enterprise Fund
Figure 15. Homer Gross Bonded Debt

![Graph showing Homer Gross Bonded Debt from 1977 to 1990. The debt fluctuates with peaks in 1980, 1987, and 1990.]

Figure 16. Homer General Fund Revenues, 1991

![Pie chart showing the distribution of Homer General Fund Revenues in 1991. Sales Tax is the largest source at 29.5%, followed by Shared State Revenue at 16.0%, Property Tax at 21.2%, and Restricted State Grants at 4.4%. Other revenues include Permits, Licenses [1] (8.6%), Transfers from Projects (14.5%), Interest (2.0%), Other (0.6%), and Other Taxes (3.1%).]
Figure 17. General Fund Revenues: Taxes

Figure 18. Homer General Fund Taxes
Figure 19. Per Capita Revenues by Type: Real (1990) Dollars

Figure 20. Per Capita Revenues by Type: Real (1990) Dollars
Figure 21. General Fund Revenues: State Transfers

Figure 22. Homer State Revenue Sharing
Figure 23. General Fund Revenues

CHARGES, FEES, ETC. & OTHER

$700.00
$600.00
$500.00
$400.00
$300.00
$200.00
$100.00
$0.00


□ CHARGES, FEES + OTHER

Figure 24. General Fund Revenues

TRANSFERS FROM PROJECTS AND INTEREST

$1.50
$1.40
$1.30
$1.20
$1.10
$1.00
$0.90
$0.80
$0.70
$0.60
$0.50
$0.40
$0.30
$0.20
$0.10
$0.00


□ PROJECT TRANSFERS + INTEREST EARNINGS