

Appendix G: City of Homer Fiscal Trends

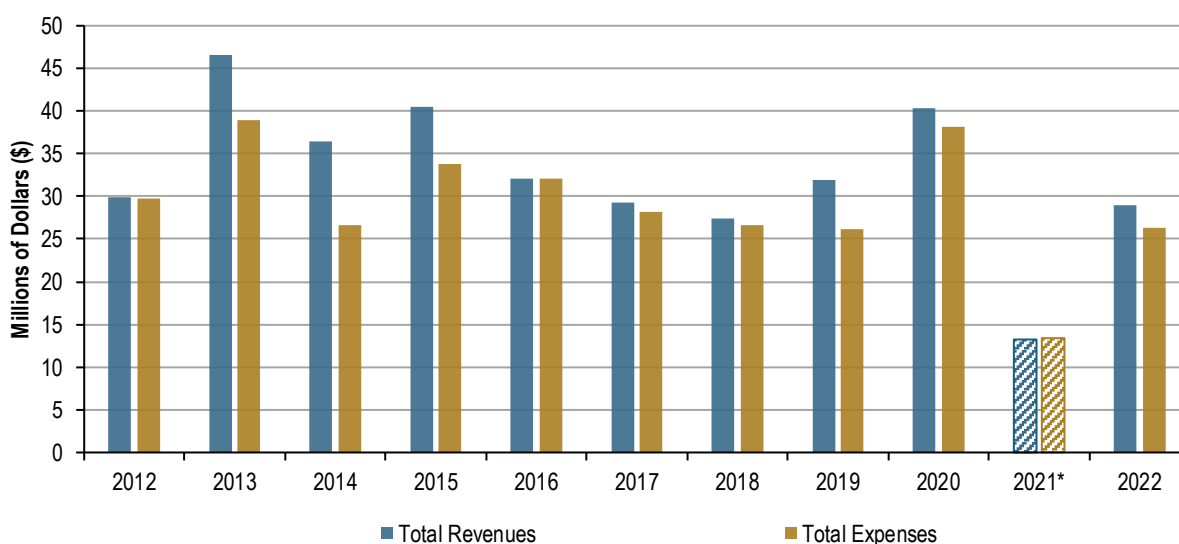
Fiscal Trends

Prepared by Northern Economics, Inc.
July 10, 2024

City Revenues and Cost of Service

Over the years, the City of Homer's annual revenues and expenses have fluctuated. It is important to note that in 2021, the accounting method changed from a calendar year to a fiscal year, so the 2021 data only cover 6 months instead of 12. As seen in Figure 1, total revenues exceeded total expenses in 9 out of 11 years—in 6 of those years, by a considerable margin. The two years in which expenses exceeded revenues were 2016 and 2021, resulting in \$57,641 and \$169,125 deficits respectively for those years. Compared to the gains made in other years, these were both small deficits.

Figure 1. Revenues and Expenses for the City of Homer, 2012–2022 (Millions of 2022 dollars)



*Note: *The City changed from a calendar year to a fiscal year, resulting in 2021 only covering six months. As a result, the revenues and expenses shown for 2021 reflect six months of activity. A full fiscal year is shown for 2022 (July 1, 2021–June 30, 2022).*

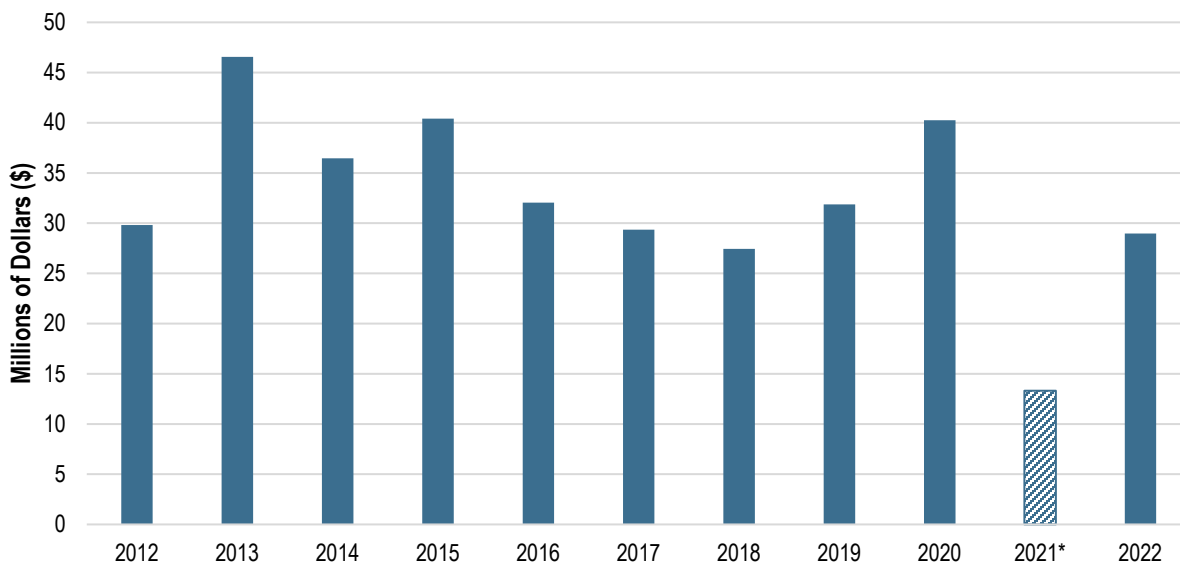
Source: City of Homer (2012–2022), U.S. Bureau of Economic Analysis for inflation adjustments (2023), and Northern Economics analysis

Revenues

Figure 2 shows total revenue by year from 2012 to 2022, in 2022 dollars. City revenue experienced a slightly negative compound annual growth rate of -0.29% after being adjusted for inflation from 2012 to 2022. The total revenue in 2022 was about 3% less than the total revenue in 2012. It is worth noting that this year was still close enough to the pandemic that it might not be truly representative of the overall trend. When only examining pre-pandemic data, the compound annual growth for revenues was 3.82%, and when adjusted for inflation, the revenues in 2020 were 35% greater than they were in 2012. The total revenues have fluctuated between 2012 and 2022, and there have been periods of growth and periods of shrinkage. One driving factor in revenue fluctuations is operating and capital grants, which are received periodically.

The fastest growing revenue observed was sales tax (3.32% annual compound growth). Port and harbor revenue experienced compound annual growth of 1.11% from 2012 to 2022 after being adjusted for inflation. Both charges for services and property taxes also grew slightly (0.4% and 0.3% compound annual growth). Among various charges for services, the fastest growing was public safety (4.96% compound annual growth), and the revenues in 2022 were 62% greater than the revenues in 2012 when adjusted for inflation. The fastest growing services within the general fund were ambulance services (10.99% compound annual growth) and miscellaneous services (5.72% compound annual growth). After being adjusted for inflation, revenues from ambulance services were 2.8 times greater in 2022 than 2012, and revenues from miscellaneous services were 1.74 times greater in 2022 than 2012.

Figure 2. City of Homer Annual Revenue, 2012–2022 (Millions of 2022 dollars)



*Note: *The amount shown for 2021 represents six months, due to the change from a calendar year to a fiscal year.*

Source: City of Homer (2012–2022), U.S. Bureau of Economic Analysis for inflation adjustments (2023), and Northern Economics analysis

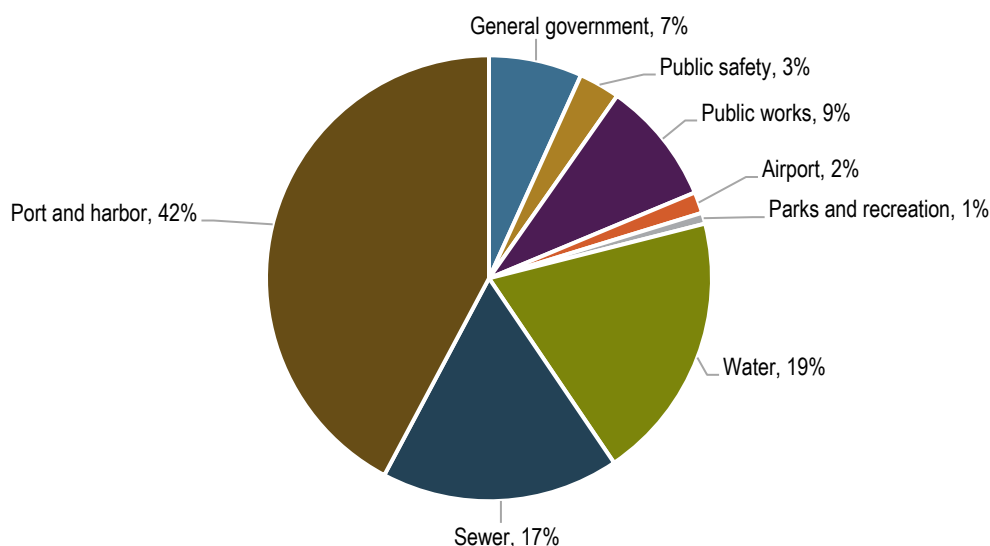
Table 1 shows the breakdown of significant sources of revenue for the City of Homer over time, adjusted for inflation. Typically, the revenue source that contributed the most total dollars was sales taxes (43% of total revenue in 2022). Charges for services was another significant revenue contributor (38% of total revenue in 2022). Figure 3 shows the average share of charges for service revenue by category. Within those categories, the greatest contributors were port and harbor (51%), water (18%), and sewer (17%). Port and harbor revenues were stable throughout the period when adjusted for inflation, with a compound annual growth rate of 1.11%.

Table 1. Inflation-Adjusted City of Homer Revenues, 2012, 2016, 2020, and 2022 (Millions of 2022 dollars)

	2012	2016	2020	2022
Charges for services, Port and harbor	\$ 4.96	\$ 5.26	\$ 5.70	\$ 5.19
Charges for services, Water	\$ 2.18	\$ 2.38	\$ 2.39	\$ 1.95
Charges for services, Sewer	\$ 1.97	\$ 2.09	\$ 1.87	\$ 1.81
Operating grants and contributions	\$ 2.06	\$ 1.33	\$ 12.44	\$ 1.35
Capital grants and contributions	\$ 3.27	\$ 5.06	\$ 0.75	\$ 1.20
Property tax	\$ 3.80	\$ 3.89	\$ 4.24	\$ 3.91
Sales tax	\$ 8.90	\$ 9.20	\$ 10.15	\$ 12.34
Other Revenues	\$ 2.69	\$ 2.85	\$ 2.72	\$ 1.22

Source: City of Homer (2015, 2016, 2020, 2022), U.S. Bureau of Economic Analysis for inflation adjustments (2023), and Northern Economics analysis

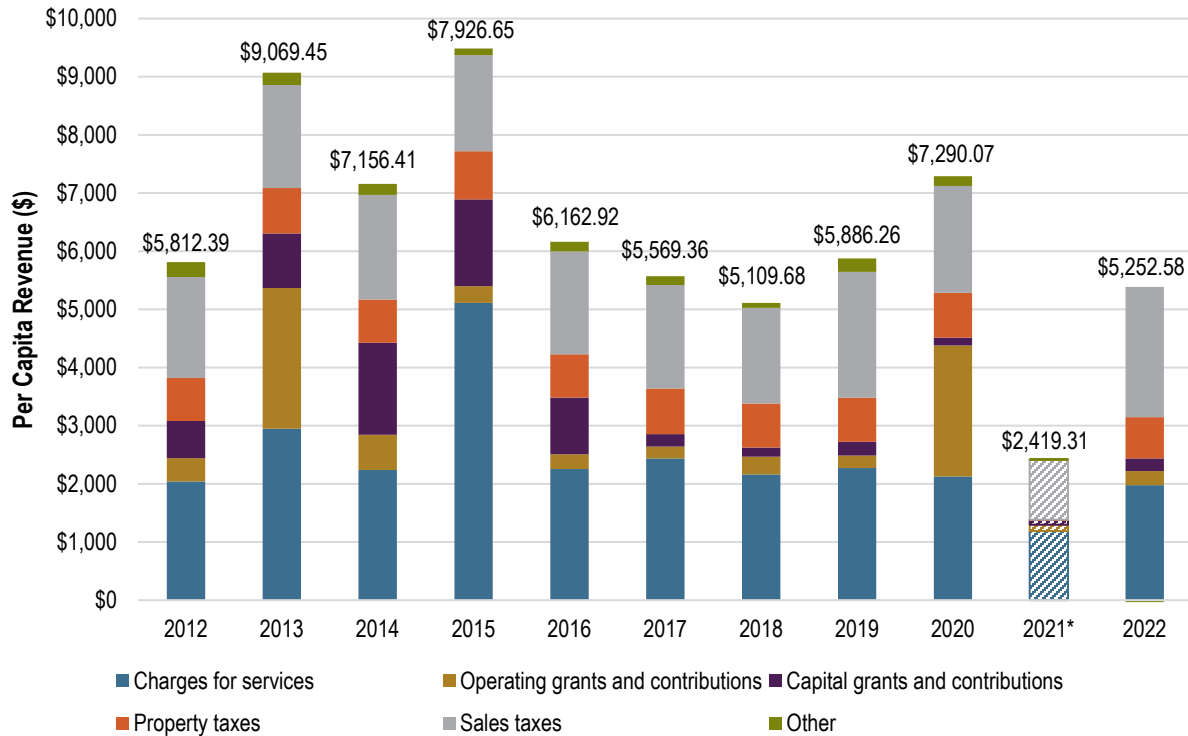
Figure 3. Average Share of Charges for Services by Category, 2012–2022



Source: City of Homer (2012–2022), U.S. Bureau of Economic Analysis for inflation adjustments (2023), and Northern Economics analysis

Homer's population has increased over the past decade, growing 0.73% on average each year from 2012 to 2020 (ADOLWD 2024a, 2024b, 2024c). The population in 2022 was 7.48% greater than in 2012. Figure 4 shows annual revenues for 2012–2022 per capita and demonstrates the fluctuating nature of total revenues. Prior to the pandemic, revenues were on a downward trend, reaching a low in 2018. However, from 2018 to 2020, there was a rapid increase until the pandemic. It is hard to say whether the increasing pattern would have continued if it were not interrupted by the pandemic. The largest sources of revenue per capita were charges for services and sales tax. Infrequently, operating grants and contributions had one of the highest per capita revenues, but this is only when large grants were received.

Figure 4. Per Capita Revenue by Category 2012–2022 (2022 dollars)



Note: *The amount shown for 2021 represents six months, due to the change from a calendar year to a fiscal year.

Source: City of Homer (2012–2022), ADOLWD (2024a, 2024b, 2024c), U.S. Bureau of Economic Analysis for inflation adjustments (2023), and Northern Economics analysis

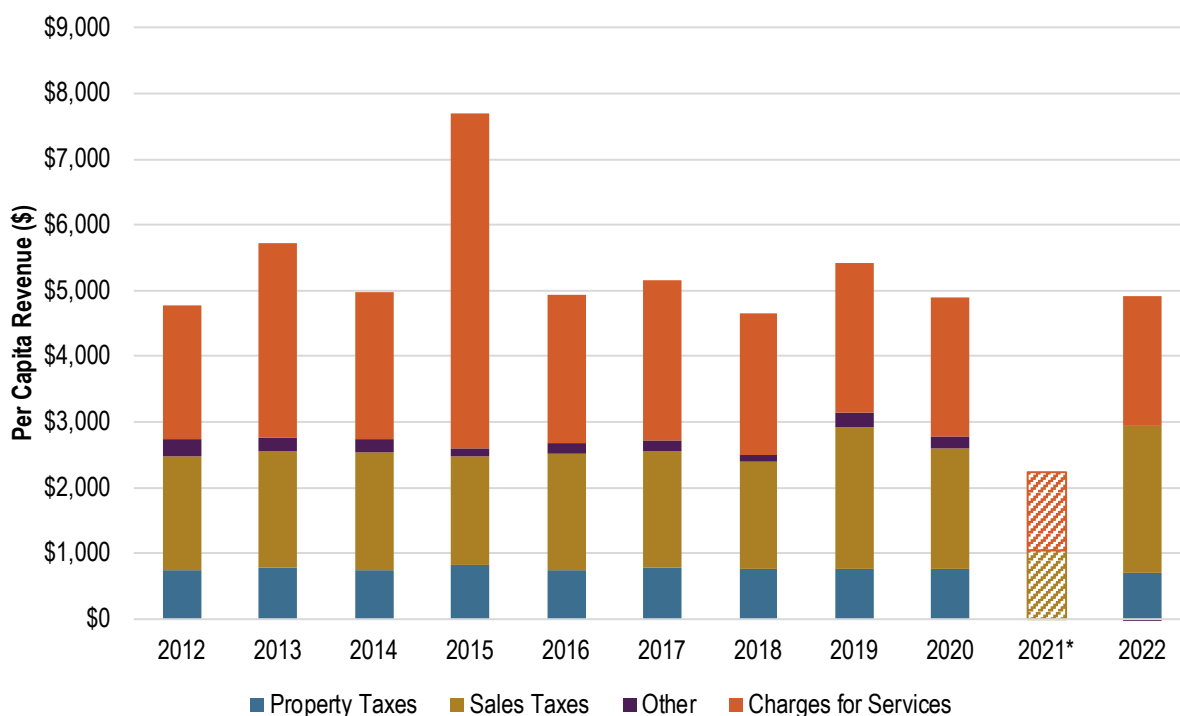
Looking at the broadest level of revenue categories, there were many categories that decreased on a per capita basis when including data for 2012–2022. However, when looking at the 2012–2020 period, most of the revenue categories experienced slight annual growth. This would suggest that 2022 may still be a recovery year from the pandemic, but since there are no data for 2023 yet, it is hard to say if the outlook is positive. However, even in years where revenues are lower, typically expenses have been lower as well, which is discussed in greater depth in the expenses section of this analysis.

When including 2022, total revenues shrank by 1% per year, and most revenue categories shrank or were stable. Sales tax and public safety were the only exceptions, growing 2.6% and 4.2% annually per capita. However, when only including pre-pandemic data from 2012 to 2020, most revenue categories grew slightly on a per capita basis. Total revenue for the period grew at 2.9% annually per capita. The revenue categories that had the greatest annual growth rates per capita were public safety (4.4%), general government (3.6%), and port and harbor (0.8%).

Figure 5 shows revenues without capital or operating grants and contributions to help isolate trends in the other, more consistent, sources of revenue. One notable exception within Figure 5 is 2015, in which there were unusually high revenues in the charges for services category. In 2014 and 2016, charges for services typically brought in between \$11 million and \$12 million. However, in 2015 there were special

assessments collected related to the natural gas pipeline, which boosted charges for services revenue to just over \$26 million (City of Homer 2015). As shown in Figure 5, revenues per capita are generally stable at around \$5,000, when we exclude capital and operating grants and contributions. As a result, it seems reasonable to anticipate that if no additional revenue streams are realized, the city should anticipate generating around \$5,000 in revenue per capita.

Figure 5. Per Capita Revenue by Category 2012 – 2022, Excluding Grants and Contributions (2022 dollars)



Note: *The amount shown for 2021 represents six months, due to the change from a calendar year to a fiscal year.

Source: City of Homer (2012–2022), ADOLWD (2024a, 2024b, 2024c), U.S. Bureau of Economic Analysis for inflation adjustments (2023), and Northern Economics analysis

City Expenses and Cost of Services

Total expenses in 2022 were less than total expenses in 2012 after being adjusted for inflation. However, this does not tell the whole story. Post-pandemic data are not the most reliable due to an accounting methodology change that impacted 2021, 2022 being a relatively low year in both revenue and expenses, and 2023 data not yet being available for comparison with 2022. For these reasons, this analysis has included discussion both including and omitting post 2020 data.

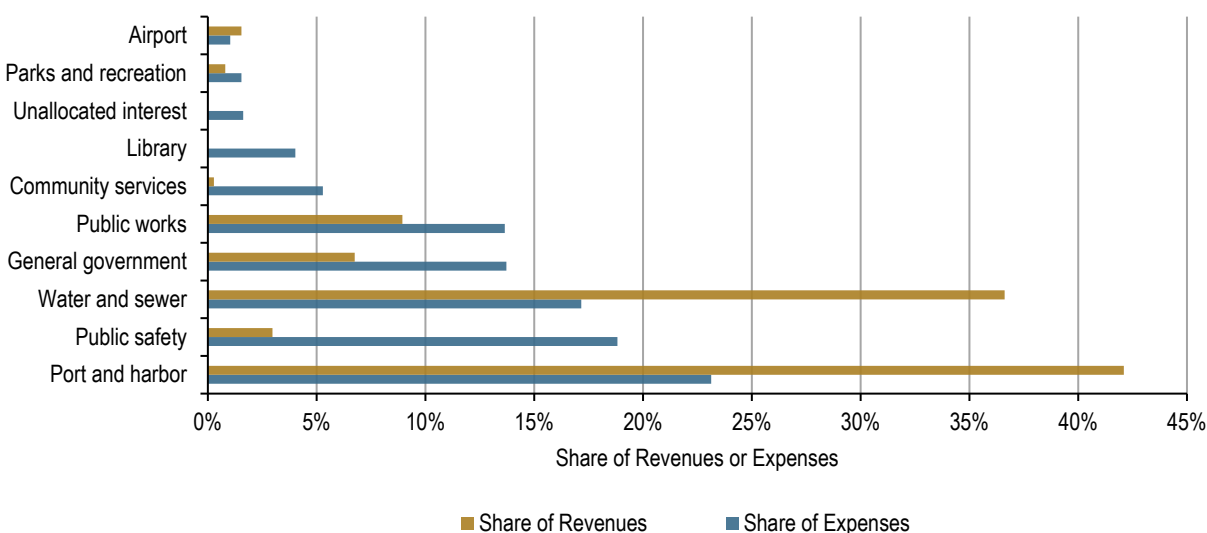
For 2012–2022, total expenses per capita decreased with a compounded annual rate of -1.9%. All categories of expenses decreased except for public safety expenses, which increased 1.9% annually.

When excluding the partial year in 2021, the average per capita expenses for 2012–2022 after being adjusted for inflation were \$5,819.80, compared with \$6,523.58 per capita revenues.

Port and harbor, public safety, and water and sewer make up the largest share of service-related expenses on average. The port and harbor alone accounts for 23% of expenses, which is offset by its making up 42.1% of revenues from services. Other significant expenditures include public safety (18.8% of expenses), and water and sewer (17.17% of expenses). Public safety did not generate a significant share of revenues from services to balance out the expenditures (2.97% of revenues). However, water and sewer generated 36.6% of revenues for services. Figure 6 compares the average share of service-related revenues compared to the share of expenses for various programs and services for 2012–2022. Not all programs and government functions exist for the purpose of generating revenue, and some are necessary government functions or community services. As a result, expenses tend to be more broadly shared across all programs and government functions, while revenues are concentrated in a few different programs.

Table 2 shows the breakdown of significant expenditures for the City of Homer over time, adjusted for inflation. Typically, the department that accounted for the greatest expense was port and harbor (22% of total expenses in 2022). Public safety was another significant source of expenses (22% of total expenses in 2022).

Figure 6. Average Share of Revenues and Share of Expenses by Program/Government Function, 2012–2022



Note: The calculations for revenues and expenses excluded operating and capital grants and contributions to capture the true program cost versus the amount of revenue it generates. Additionally, revenues from taxes are excluded from the 100% total since there is not a tax-specific expense with which to compare.

Source: City of Homer (2012–2022) and Northern Economics analysis

Table 2. Inflation-Adjusted City of Homer Expenses, 2012, 2016, 2020, 2022 (Millions of 2022 dollars)

	2012	2016	2020	2022
Port and Harbor	\$ 5.89	\$ 8.75	\$ 6.68	\$ 5.83
Public Safety	\$ 6.02	\$ 6.23	\$ 5.75	\$ 5.81
Public Works	\$ 3.39	\$ 3.76	\$ 4.62	\$ 4.39
Water and Sewer	\$ 5.82	\$ 5.40	\$ 4.99	\$ 4.38
General Government	\$ 4.92	\$ 4.12	\$ 5.58	\$ 4.20
Other Expenses	\$ 3.71	\$ 3.85	\$ 10.46	\$ 1.76

Source: City of Homer (2012–2022), U.S. Bureau of Economic Analysis for inflation adjustments (2023), and Northern Economics analysis

Some programs generate enough revenues to cover well over their expenses without any other grants or contributions, and others do not. Many programs generate enough revenues to be mostly self-supporting with the revenue they generate from their charges for services. This leaves a relatively small deficit to make up through operating and capital grants and other tax-based revenues. Some programs are designated as “business-type activity”, meaning they should recover all or most of its costs through user fees and charges. This includes water and sewer, and port and harbor. Usually, the port and harbor covers most of its expenses through charges for services and leaves a relatively small portion that needs to be covered through other means of support. The other programs covering most of their expenses are designed so that they can be primarily supported by taxes and intergovernmental revenue.

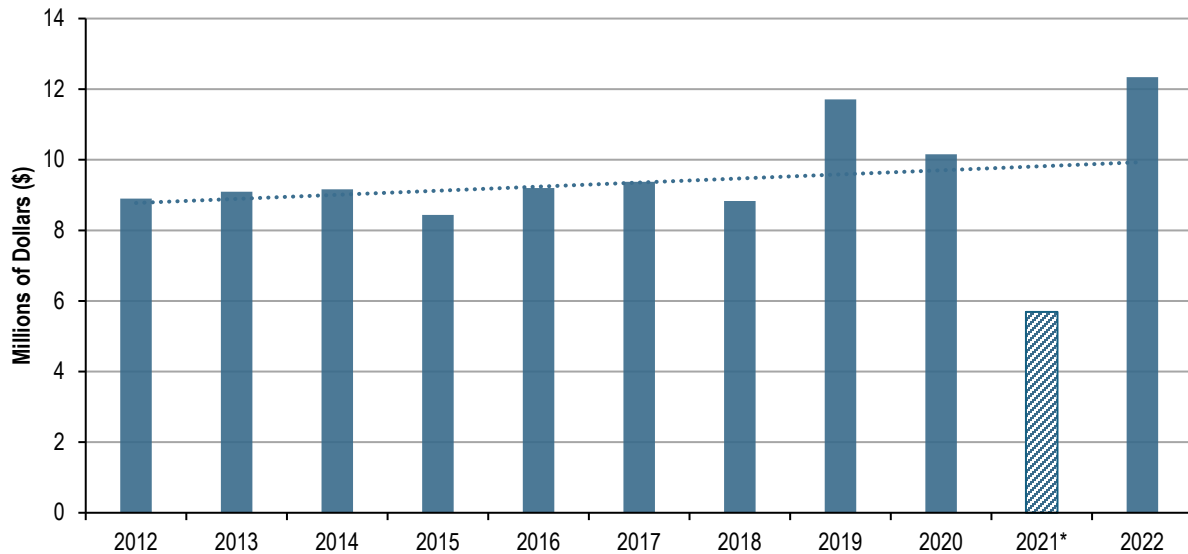
Taxation

The City of Homer receives sales tax revenue and property tax revenue. The Kenai Peninsula Borough (KPB) collects tax revenue on behalf of the city and then distributes it.

Sales Tax

The City of Homer collects a year-round 7.85% sales tax (4.85% of which is for the city) with a \$500 cap (KPB 2024b). It is the second highest tax rate in the borough behind Seldovia, which charges 9.5% seasonally (April through September). The city’s tax rate has been in effect since January 1, 2019, when it increased from 4.5% to finance the bonds for a police station. The increase expires once enough funds have been generated to pay all the debt service. Figure 7 shows the inflation-adjusted sales tax revenue from 2012 to 2022. Excluding 2021 from the calculation, sales tax revenue has grown an average of about 4% year over year from 2012–2022. The 33% increase from 2018 to 2019 was the result of the previously mentioned city sales tax increase.

Figure 7. Homer Sales Tax Revenues 2012–2022 (Millions of 2022 dollars)



*Note: *The amount shown for 2021 represents six months, due to the change from a calendar year to a fiscal year.*

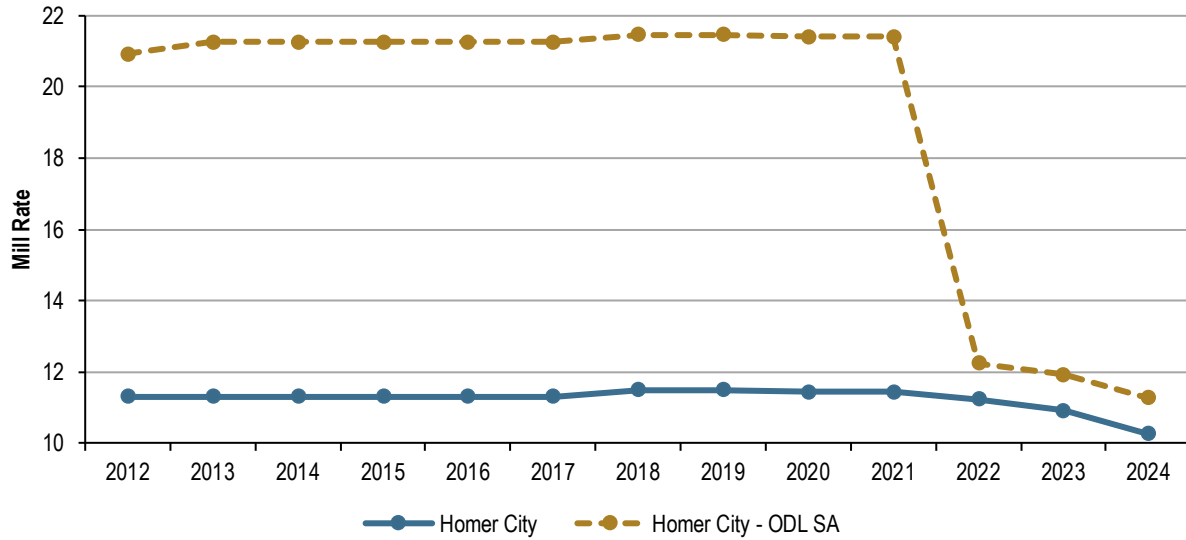
Source: City of Homer (2012–2022), U.S. Bureau of Economic Analysis for inflation adjustments (2023), and Northern Economics analysis

On a per-capita basis, sales tax revenue in 2012 was \$1,734.81 and in 2022 it was \$2,237.71 per person, demonstrating real growth relative to the population and inflation. It is likely that the increase in tax revenue per capita came from both an increase in spending as well as an increase in the tax rate in 2019.

Property Tax

Property tax is collected by the KPB and then distributed to the cities, including Homer. The mill rate is the dollar amount of property taxes collected per \$1,000 of assessed property value. In the City of Homer, the 2024 tax year mill rate is 10.26. Of the total 10.26 mill rate, 4.50 of that is for the City of Homer, 4.30 is for the Borough (standard across all properties in the borough), 0.34 is for paying off debts related to special projects, and 1.12 is for South Hospital (KPB 2024a). Figure 8 shows the mill rates in Homer from 2012 to 2024. As noted below the figure, a higher rate was assessed in the Homer City Ocean Drive Loop Service Area (ODL SA) to cover the cost of necessary seawall repairs that benefited the residents of that area. After funding the needs, the special assessment was removed in 2022. Over time, the mill rates have remained stable for the Homer area with small fluctuations. The general rate in the city hovers around 11 mills.

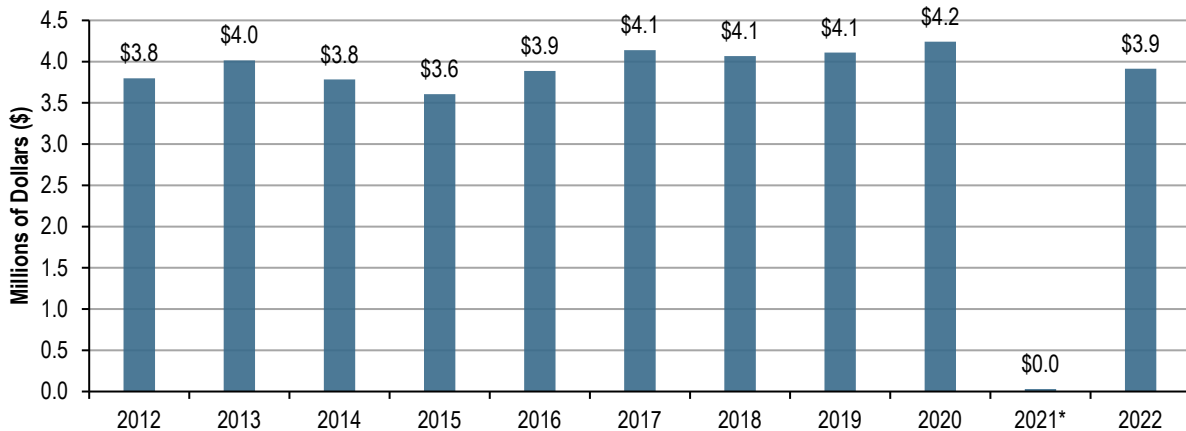
Figure 8. Historic Mill Rates Homer, 2012-2024



Note: Homer City – ODL SA refers to the Homer City Ocean Drive Loop Service Area, which had an increased mill rate to help cover seawall repairs (City of Homer 2020b).

Source: KPB (2024a)

Figure 9. City of Homer Property Tax Revenues, 2012–2022 (Millions of 2022 dollars)



Note: *2021 is not shown, due to changes in tracking from a calendar year to a fiscal year.

Source: City of Homer (2012–2022), U.S. Bureau of Economic Analysis for inflation adjustments (2023), and Northern Economics analysis

As can be seen in Figure 9, total property tax revenues have been steady from 2012 to 2022, increasing by about half a percent each year. However, one trend that could impact future property tax revenues received by the city is an aging population, since there are property tax exemptions for senior citizens. For residents who are 65 or older or are disabled veterans, the KPB exempts the first \$150,000 of property valuation.

The population over the age of 65 in the KPB increased from 11.3% of the population in 2012 to 18.6% in 2022. Homer has an even greater share of people over the age of 65 than the KPB and that share has been increasing as well (USCB 2022). In the KPB, there were 3,700 approved property tax exemption applications in 2012, compared to 6,704 approved applicants in 2022 (ADCCED 2024). This increase represented a 6.06% increase each year on average from 2012 to 2022. After being adjusted for inflation, the equivalent of \$5,527,965 dollars were exempted in 2012, compared to \$8,914,444 in 2022, a 61% increase. Considering optional tax exemptions in the KPB, the overall percentage of the tax base exempted has fluctuated, peaking at 31.3% in 2014 and going as low as 18.6% in 2013 (ADCCED 2024). In 2022, the percent of the tax base exempted was 20.7%. This could result in less revenue for the city when funds are redistributed to it from the KPB if the borough is generating less revenue.

Fiscal Challenges and Trajectory

The state's fiscal situation is still uncertain. As a result, the city cannot count on some of the same sources of state funding as it has in the past for certain programs. The pandemic also caused additional uncertainty in future revenue and expenditure activities for the city. The city will be utilizing federal funding from the American Rescue Plan Act–Coronavirus State and Local Fiscal Recovery Funds in 2023-2024. An additional source of financial vulnerability is the city's water and sewer utility fund. The challenge is that the city owns expensive and expansive treatment, collection, and distribution infrastructure. However, there are few customers to pay for maintenance and operations of the systems. The proposed best course of action has been to infill and hook up customers where the infrastructure already exists, avoiding additional build-out capital costs (City of Homer 2022).

Additionally, the city's FY24/25 budget notes that Homer is currently facing challenges meeting increasing demands for services while dealing with high inflation following the pandemic (City of Homer 2023). As a result, despite revenue growth, the buying power of the revenue growth has been hurt by market price increases. Supply chain disruptions have also been challenging for the city following the pandemic. However, there has also been an increase in visitation from independent tourists. While in the short term the rate of revenue increase is close to the rate of expense increases for cost of goods and services, the hope is that as inflation eases revenues will continue to remain strong and increase.

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