

CITY OF UNALASKA
UNALASKA, ALASKA

RESOLUTION 2021-06

A RESOLUTION OF THE UNALASKA CITY COUNCIL RECLASSIFYING \$12,000,000 OF GENERAL FUND UNASSIGNED FUND BALANCE TO COMMITTED FUND BALANCE FOR EMERGENCY OPERATIONS.

WHEREAS, the City Council periodically reviews classification of fund balances and makes adjustments to these as deemed necessary; (descriptive reasons for the resolution) and

WHEREAS, the City's audited June 30, 2020 Comprehensive Annual Financial Report states that the General Fund included \$68,381,807 of unassigned fund balance; and

WHEREAS, the City's audited June 30, 2020 Comprehensive Annual Financial Report states that the General Fund included \$13,000,000 of committed emergency operations fund balance; and

WHEREAS, the City's audited June 30, 2020 Comprehensive Annual Financial Report states that the General Fund incurred expenditures in the amount of \$24,459,037 during fiscal year 2020; and

WHEREAS, best practices indicate that governments should set aside sufficient funds to cover six to twelve months' general fund expenditures as a precautionary measure if the City government experiences a significant reduction in general fund revenue.

NOW THEREFORE BE IT RESOLVED that the Unalaska City Council reclassifies \$12,000,000 General Fund unassigned fund balance to committed fund balance for emergency operations.

PASSED AND ADOPTED by a duly constituted quorum of the Unalaska City Council on January 26, 2021.



Vincent M. Tutiakoff, Sr.
Mayor

ATTEST:


Estkarien Magdaong
Acting City Clerk



MEMORANDUM TO COUNCIL

To: Mayor and City Council Members
From: Jim Sharpe, Interim Finance Director
Through: Erin Reinders, City Manager
Date: January 26, 2021
Re: Resolution 2021-06 – A resolution of the Unalaska City Council reclassifying \$12,000,000 of General Fund Unassigned fund balance to Committed fund balance for Emergency Operations.

SUMMARY: This resolution is a continuation of the City's Fiscal Sustainability initiative by committing additional funds for emergency operations ("Rainy Day" funds).

PREVIOUS COUNCIL ACTION: On March 22, 2011, City Council passed Resolution 2011-19 reclassifying \$13,000,000 of General Fund unassigned fund balance to General Fund committed fund balance for emergency operations.

BACKGROUND: In December 2019, the current Council was introduced to the concept of fiscal sustainability. This introduction included a work session PowerPoint presentation followed up with a copy of the Government Finance Officers Association publication *Long-term Financial Planning for Local Government* for Council members to read.

This discussion was revisited at the January 13, 2021 City Council meeting, where more specific topics were presented, including the need to increase the amount set aside for emergency operations.

DISCUSSION: There is no question that the City is heavily reliant on the fishing industry and associated tax revenue. In recent years, the City's governmental operations have been a beneficiary of robust harvests, increasing their coffers by an average of \$5,000,000 annually in the last 5 fiscal years.

However, recent events have shown that certain revenue streams may be at risk of reduction or complete loss. Should the City encounter a substantial reduction in revenue, they would be at risk of losing the ability to provide the level of service that the community has come to rely upon and enjoy.

The proposed resolution creates a buffer that, in the case of a significant loss of revenue, the City would be able to continue providing services to community members. Under those circumstances, it would also allow sufficient time for staff to evaluate solutions (i.e. additional revenue streams, staffing reductions) and not be forced to make immediate drastic reductions to staffing.

Best practices indicate that governments should set aside sufficient funds to cover six to twelve months' general fund expenditures as a precautionary measure. We currently have \$13,000,000 identified for this purpose. The City's audited June 30, 2020 Comprehensive Annual Financial Report states that the General Fund incurred expenditures in the amount of \$24,459,037 during fiscal year 2020. Given our remote location and other logistical challenges, being closer to that 12-month amount, which is roughly \$25,000,000, seems more appropriate.

Finally, City Council has not acted on this topic for nearly 10 years. Although not outlined in the resolution, staff suggests that this topic be revisited annually to ensure the amount committed for emergency operations is appropriate based on the operations of the City.

ALTERNATIVES: Based on discussions from the January 13, 2021 meeting, it is apparent Council wishes to approve some amount of increase to the amount committed for emergency operations (rainy day fund). The primary alternates are outlined below:

- 1) Increase the amount set aside for emergency operations in a lump sum amount (resolution as presented). To get to \$25,000,000, that means a lump sum of \$12,000,000.
- 2) Set aside an annual amount only.
 - a. Increase the amount set aside for emergency operations annually in a fixed amount (i.e. *“reclassify \$XXX,XXX of General Fund unassigned fund balance to Committed fund balance for emergency operations at June 30, each year”*). This amount would be reclassified regardless of General Fund operating surplus/deficit, therefore, suggest including as a budgetary item
 - b. Increase the amount set aside for emergency operations annually up to a fixed amount, based on General Fund operating surplus (i.e. *“annually reclassify up to \$XXX,XXX of General Fund surplus from General Fund unassigned fund balance to committed fund balance for emergency operations”*). This option would require an annual evaluation as part of audit preparation and would not yield a consistent amount (for example, the “up to” amount could be greater than the surplus achieved) or could be \$0 in the event of an operating deficit.
 - c. Increase the amount set aside for emergency operations annually based on a percentage of General Fund operating surplus (i.e. *“annually reclassify up to XX% of General Fund surplus from General Fund unassigned fund balance to committed fund balance for emergency operations”*). This option would require an annual evaluation as part of audit preparation and would fluctuate each year, or could be \$0 in the event of an operating deficit.
- 3) A combination alternative 1 and one of 2a, 2b or 2c.

FINANCIAL IMPLICATIONS: This resolution will increase the amount of set aside for emergency operations (rainy day funds) while reducing the amount on unassigned funds (no strings attached funds).

LEGAL: N/A

STAFF RECOMMENDATION: Staff recommends selection alternative 1 above as it is the most straight forward option presented and does not include a formal calculation annually.

PROPOSED MOTION: I move to adopt Resolution 2021-06.

CITY MANAGER COMMENTS: I support staff's recommendation.