
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: Fiscal Year 2022 Budget Goals

SUMMARY: This memo provides information regarding recommended FY22 Budget Goals. The FY21 Budget Goals are attached, along with staff recommendations for FY22, and will be utilized to help direct the preparation of the budget once approved.

PREVIOUS COUNCIL ACTION: The City Council has reviewed budget goals at the beginning of each budget cycle since about 2002. Council will discuss the FY22 Budget goals at the January 26, 2021 work session and may take action by resolution at the February 9, 2020 Council Meeting.

BACKGROUND: Much of what we do as a municipal government is legislatively or code driven. City staff will continue to seek ways to provide service to the community more efficiently in an effort to reduce costs and increase our effectiveness.

DISCUSSION: Proposed Budget Goals for fiscal year 2022 are attached and include narrative related to any changes from the prior fiscal year. Key points on various issues impacting the budget goals are provided below.

Personnel: Any proposed increase to the total number of full-time equivalent (FTE) positions will be fully evaluated and justified during the budget approval work sessions. The current year (FY21) budget includes 162 full time personnel and 40 part-time temporary and permanent positions (11.96 FTE) resulting in a total of 173.96 FTE. Staff is currently in discussions about Fire and Public Safety staffing needs, namely positions to focus on emergency preparedness as well as administrative support for the Fire Department. Additionally, we are looking into what the expanded role of a Resource Analyst position might be, especially in light of the geothermal Power Purchase Agreement.

General Fund Surplus/Deficit: Staff will work to develop a budget in which the General Fund will operate without a deficit.

Proprietary Funds: Staff will continue to seek ways to balance budgets in the proprietary funds.

City owned housing is used as an incentive for recruitment and retention, therefore, while we conservatively budget operations and renovations, a gap in funding will continue. In

addition, Airport operating costs continue to increase at a greater rate than revenues.

The City has engaged an outside firm to perform a rate study for the City's Public Utilities, which shall be completed prior to the end of March 2021. It is anticipated that the study will indicate that substantial rate increases will be required for each utility to operate at a break even in FY 2022.

Through December 2020, Ports & Harbors has experienced a revenue reduction due to several factors including:

- COVID-19 pandemic (construction cargo, cruise ships);
- NYK Lines pulled out of Dutch Harbor;
- Loss of flights due to Ravn bankruptcy (less jet fuel sold resulted in less transferred); and
- Reduction in wharfage due to industry not meeting Pollock quota by about 10%.

Operating Expenses: Although the goal is set at a maximum increase of 3% for non-personnel expenses, the Directors will prepare their proposed budgets understanding any non-personnel increases will have to be justified and evaluated to ensure that the level and quality of services to the public is maintained or improved.

Certain departments will request one-time increases in order to purchase items that do not qualify as a capital purchase, but would otherwise not be purchased at their existing operating budget levels.

Capital Projects: The CMMP is currently being developed. A presentation of the initial draft projects, with a special focus on FY22, was provided to Council at the January 12, 2021 meeting. The draft CMMP presentation to Council is planned for March.

Based on our work to date it is expected that the first year of the CMMP, the FY22 Capital Budget, will be approximately \$74 million. A breakdown by funding source is as follows:

Grants	\$42,430,500
General Fund/1% Tax Fund	18,293,151
Ports & Harbors Fund	6,145,000
Electric Utility Fund	4,264,938
Water Utility Fund	2,034,500
Solid Waste Utility Fund	<u>1,171,100</u>
Total	\$74,336,189

Revenues: Projected revenues for the Propriety Funds will be presented along with the draft budget later in the budgeting process.

Rate studies for Public Utilities are currently underway and should be completed by the end of March 2021. Water, Wastewater and Solid Waste were completed in FY17 and a rate study for Electrical was completed in FY16.

Port related tariffs and fees were evaluated in FY17, with Council approved adjustments made in July and August of 2017. While the next formal review of the tariff is scheduled for fiscal year FY 22, rates are reviewed and approved by Council annually. Annual increases since the last tariff review have been in the 2% to 3% range, with the goal to keep up with annual Consumer Price Index adjustments.

Projected FY22 General Fund revenues will be presented on January 26, 2021. We anticipate this to show a small increase from FY21. Given the economic uncertainty related to the current pandemic and future collection of fishing related taxes, Council may wish to consider expanding current revenue sources and/or pursuing new sources. Council considers the mil rate annually as part of the budget process.

Debt Service: In prior years, the City has incurred debt in their Proprietary Funds; each of which requires annual debt services. The City refunded a portion of this debt at the beginning of fiscal year 2021 through bond refinancing opportunities, achieving significant cost savings over the remaining term of the debt. The City paid off the remainder of the non-proprietary fund debt in FY 2020 and does not anticipate a need for additional debt at this time.

ALTERNATIVES: Various alternatives exist. As Staff completes the budget process, we will seek ways to perform our work more efficiently in an effort to reduce costs and increase effectiveness.

FINANCIAL IMPLICATIONS: Financial implications will be brought forward during the budget presentations.

LEGAL: None.

STAFF RECOMMENDATION: No action is required at the work session stage. Recommended changes from last year's budget goals are noted on the attached sheet. Approval of the Budget goals by resolution is proposed for the February 9, 2021 meeting.

ATTACHMENTS:

1. FY22 Budget Goals
2. Draft Resolution 2021-07 for action on February 9, 2021

**CITY COUNCIL
FY22 BUDGET GOALS**

Personnel Goals

Goal: Any proposed increase to the total number of full-time equivalent (FTE) positions will be fully evaluated and justified during the budget approval work sessions.

The FY 2022 goal represents no change from the approved FY 2021 budget goal.

General Fund Surplus/Deficit

Goal: The General Fund operations will be budgeted without a deficit. The Council may appropriate additional funds from surplus to cover costs of capital projects.

The FY 2022 goal represents no change from the approved FY 2021 budget goal.

Proprietary Funding

Goal: Staff will continue to seek ways to balance budgets in the proprietary funds.

The FY 2022 goal represents no change from the approved FY 2021 budget goal.

Operating Expenses

Goal: The City Manager's proposed FY22 General Fund budget shall not increase more than 3 percent for non-personnel expenditures.

Goal: The total amount available to fund the Community Support Program grants will follow the formula of up to 3.50% of the five-year average revenue for the General Fund and up to all of the Bed Tax Fund fund balance for the most recently completed fiscal year. (Revenues do not include Other Financing Sources.)

Goal: City management shall continue to examine ways to reduce expenditures without significantly impacting the level and quality of services to the public.

Goal: City management shall continue to examine ways to reduce inventory without significantly impacting the level and quality of services to the public.

The FY 2022 goals represents no change from the approved FY 2021 budget goals.

Capital Projects

Goal: New capital assets or maintenance of existing capital assets will be limited to projects approved by Council in the CMMP, which will include projects that are mandated or required by statute, projects that maintain our existing infrastructure, projects that address life, safety, or health issues, and projects that support the economic development of Unalaska.

Goal: The replacement and maintenance plans for all existing capital assets will be reviewed annually.

Goal: The vehicle and heavy equipment fleet requirements will be reviewed annually and reduced where appropriate without significantly impacting services provided to the public.

The FY 2022 goals represents no change from the approved FY 2021 budget goals.

Revenues

Goal: Proprietary Fund rate studies will be completed every three years and presented to council.

Goal: The mil rate will be reviewed annually to establish an appropriate mil rate to maintain infrastructure and operations.

The FY 2022 goals represents no change from the approved FY 2021 budget goals.

Debt Service

Goal: The City will not incur new debt without appropriate analysis to show impacts to rates or taxpayers, and will not incur new debt unless the capital asset is eligible for a debt reimbursement program; is mandated by State or Federal government; or is needed to address life, safety or health issues.

Goal: The City may incur debt for its Proprietary Funds provided there is a documented plan to pay the debt through rate adjustments.

The FY 2022 goals represents no change from the approved FY 2021 budget goals.

CITY OF UNALASKA
UNALASKA, ALASKA

RESOLUTION 2021-07

A RESOLUTION OF THE UNALASKA CITY COUNCIL APPROVING THE COUNCIL'S
GOALS FOR THE FY22 BUDGET

WHEREAS, budget guidelines help to ensure that the budget is prepared in a manner consistent with City Council desires; and

WHEREAS, the City Council has discussed and selected the attached set of budget goals for FY22; and

WHEREAS, management will utilize the adopted goals as guidelines when developing the FY22 budget.

NOW THEREFORE BE IT RESOLVED that the Unalaska City Council adopts the attached goals as a guideline for developing the FY22 budget.

PASSED AND ADOPTED by a duly constituted quorum of the Unalaska City Council on February 9, 2021.

Vincent M. Tutiakoff, Sr.
Mayor

ATTEST:

Marjie Veeder, CMC
City Clerk