
MEMORANDUM TO COUNCIL

To: Mayor and City Council Members
From: Jim Sharpe, Interim Finance Director
Through: Erin Reinders, City Manager
Date: January 24, 2022
Re: FY23 Revenue Projections

SUMMARY: The primary focus tonight is FY23 Revenue Projections for the General Fund. For fiscal year 2023, Staff is proposing a total General Fund revenue budget of \$30,829,401 for your consideration. This is a 5.94% increase or \$1,729,852 from the fiscal year 2022 Budget. This is the first step in the budget process and we are open to suggestions from Council as we move forward. The budget amounts before you are not fixed and may require adjustment based on feedback and additional information received.

PREVIOUS COUNCIL ACTION: Each year the revenues are adjusted. This is the first time that Council has seen this estimate for the fiscal year 2023 budget process.

BACKGROUND: There are many external factors affecting City revenues; however, the primary driver is the fishing industry as it impacts so much of the City's tax revenue. Fish tax revenues are based on both historical information and fishing season 2022 quotas allocated for the sustainable fishery resources of the Bering Sea and Aleutian Islands that are landed in Unalaska, and the prices paid for that product to the harvesters by the processors.

DISCUSSION: Historically, the City has budgeted conservatively with respect to revenues, especially the major revenue sources. Over the last 10 fiscal years (FY 2012 to FY 2021), the City has exceeded their revenue budget seven times with the only exceptions FY 2015, FY 2016 and FY 2018. Overall, during the last 10 fiscal years, revenue has exceeded budget by an average of \$1,673,000 or 5%, annually.

The current economic environment feels different than in years past. Therefore, given the need to "sharpen our pencil" on the expense side, it is also appropriate to take the same approach for revenue projections.

A significant portion of tonight's discussion will center on the following major General Fund revenue sources: **Real and Personal Property Taxes, Sales Tax, Raw Seafood Tax, Alaska Fisheries Business Tax, and Alaska Resource Landing Tax.**

Historically, the revenue projection presentation has included investment income. However, with the expected creation of a Permanent Fund and a separation of investments related to Emergency Operations, the amount of income provided by investments is expected to become a much less significant contributor to the City's

operating revenues. Along with the exclusion of investment income, the revenue source listed as “Everything Else” will not be discussed as part of this presentation. For reference purposes, the more significant line items (projected to be in excess of \$100,000 each) of that revenue source are:

- Payment in Lieu of Taxes (PILT)
- State Corrections Contract
- PERS Non-employer Contributions
- State Revenue Sharing
- Tideland Lease Revenue

Two new funds were created in FY 2022, E911 Enhancement and Tobacco Excise Tax. Activity related to both funds will be tracked separately from the General Fund; therefore, revenue discussed in this memo does not include an estimate for either item.

It is estimated that the major revenue sources (Real and Personal Property Taxes, Sales Tax, Raw Seafood Tax, Alaska Fisheries Business Tax, and Alaska Resource Landing Tax) analyzed below will comprise approximately 90% of the City’s FY 2023 General Fund revenue. The following table summarizes the FY 2023 General Revenue projections followed by a more detailed explanation for each major revenue source.

	<u>FY 2022</u>	<u>FY 2023</u>	<u>\$ Change</u>	<u>% Change</u>
Real Property Tax	\$ 4,750,000	\$ 6,000,000	\$ 1,250,000	26.32%
Personal Property Tax	2,350,000	2,350,000	-	0.00%
Sales Tax	6,000,000	7,650,000	1,650,000	27.50%
Raw Seafood Tax	4,200,000	3,400,000	(800,000)	-19.05%
State Fisheries Business Tax	3,300,000	3,770,000	470,000	14.24%
State Fisheries Resource Landing Tax	3,900,000	4,500,000	600,000	15.38%
Investment Income	1,800,000	400,000	(1,400,000)	-77.78%
Everything Else	<u>2,799,549</u>	<u>2,759,401</u>	<u>(40,148)</u>	-1.43%
	<u>\$ 29,099,549</u>	<u>\$ 30,829,401</u>	<u>\$ 1,729,852</u>	5.94%

Real Property Tax - \$6,000,000

The amount proposed represents a \$1,250,000 or 26.3% increase from the FY 2022 budget amount. As of December 31, 2021, the City has recorded \$4,803,916, or 101% of FY 2022 budget (\$4,750,000).

Staff consulted with the City’s outsourced tax assessor to obtain the property value change from 2021 to 2022, which was estimated at a 29.15% increase from 2021.

The increase in real property values is due in large part to land value increases, both vacant (47.82% increase) and as part of a commercial (31.98%) or industrial (93.45%) building. Taxable residential real property values increased by a more modest amount (13.24%). We have requested additional explanation for the increases in commercial and industrial properties.

Personal Property Tax - \$2,350,000

The amount proposed represents no increase from the FY 2022 budget amount due to insufficient information. Personal property tax is calculated based on self-reported information. Once that information has been received, value and estimated tax will be determined. As of December 31, 2021, the City has recorded \$2,872,857, or 122% of FY 2022 budget (\$2,350,000).

Sales Tax - \$7,650,000

The amount proposed represents a \$1,650,000 or 27.5% increase from the FY 2022 budget amount. As of December 31, 2021, the City has recorded \$4,472,945, or 75% of FY 2022 budget (\$6,000,000).

Staff reviewed previous sales tax projection methodologies in an effort to determine the most effective projection technique. Prior to fiscal year 2021, staff used a model that estimated annual sales tax revenue based on the average price per barrel of Alaska North Slope (ANS) Crude, as published in the States Fall Revenue Book. However, during the fiscal year 2021 revenue projection calculations, that model broke down due to fluctuations in the price of ANS Crude in the previous two fiscal years. Therefore, other methods were employed to estimate the City's Sales Tax revenue.

For FY 2023, staff revisited the prior model, while incorporating two additional models that used the same thought process. These models are as follows:

Model #1: Price per barrel of ANS crude compared to annual sales tax collections

– model used prior to FY 2021 to demonstrate a correlation between historical information (i.e., FY 2021 average price per barrel of ANS crude oil compared to FY 2021 actual sales tax collections). This information is then extrapolated to project sales tax revenue for the subsequent year.

Model #2: Projected price per barrel of ANS crude compared to annual sales tax collections

– a slight variation to previous model, using projected ANS crude oil per barrel price from prior year's Fall Revenue Book to historical sales tax (i.e., projected FY 2021 price per barrel of ANS Crude, from 2020 Fall Revenue Book, was compared to actual sales tax collections for FY 2021). This information is then extrapolated to project sales tax revenue for the subsequent year.

Model #3: Raw seafood tax collections compared to annual sales tax collections

– Given the historical significance of the fishing industry to the City of Unalaska, this methodology was included in an effort to establish a relationship between historical raw seafood tax collections and sales tax collections (i.e., FY 2021 raw fish tax collections compared to FY 2021 sales tax collections).

Data for each model above was entered into Microsoft Excel in order to calculate a correlation coefficient over a 10-year period. Briefly, a correlation coefficient indicates that a relationship between two sets of data may or may not exist. That relationship ranges

from -1 (inverse relationship) to +1 (positive relationship). The closer the coefficient is to 1 or -1 the stronger the relationship. A coefficient at or near zero indicates there is not a relationship between the data sets. An amount in excess of 0.8 demonstrates a strong or very strong relationship between the data sets. It is important to note that while a correlation coefficient may exceed 0.8, therefore demonstrating a strong relationship, it does not explain cause and effect. In essence, two sets of data may have a strong relationship to each other but that relationship may not represent a cause and effect. However, as noted above, it is believed that each model used includes data that appear to be closely connected.

Results – Method #2 calculated a correlation coefficient of 0.869, indicating the strongest relationship of the three methods tested. Method #1 was close behind at 0.844 while Method #3 indicated almost no relationship with a correlation coefficient of 0.055. Since Method #2 indicated the strongest correlation, a 10-year average factor (sales tax collected divided by per barrel price of ANS crude) was calculated and then multiplied by the estimated price per barrel of ANS crude for FY 2023. The resulting amount of \$12,392,523 was compared to historical data for reasonableness and then adjusted by 2/3 to properly reflect the General Fund portion (2%) of total sales tax collected. The remaining 1/3 will be budgeted for the 1% Sales Tax Fund. The calculated projected sales tax amount of \$8,533,585 was further evaluated and reduced by 10% to account for the amount of economic uncertainty going forward, yielding a General Fund budget amount of \$7,650,000.

Raw Seafood Tax - \$3,400,000

The amount proposed represents an \$800,000 or nearly 20% reduction from the FY 2022 budget amount. As of December 31, 2021, the City has recorded \$2,922,643, or 86% of FY 2022 budget (\$4,200,000). The fiscal year 2023 estimate is based on two components:

- 2022 fishing season allocations published in December by the North Pacific Fishery Management Council (NPFMC), as they relate to Unalaska, Alaska
- Estimated prices based on recent information reported to the City of Unalaska by the processors.

The estimate of the raw seafood tax is most likely the most challenging fish tax to forecast as it requires applying data that is specific to fishing season 2022 to the 2023 fishing season. Since October 2021, staff has been in regular communication with Frank Kelty, fisheries consultant, to determine the impact of reductions/cancellations on local fisheries. It is expected that given the uncertainty going forward, we will continue to meet regularly and adjust tax projections as necessary.

Based on the information obtained, staff developed a projection of \$3,690,418 for FY 2023; however, given the current industry challenges, we determined that a conservative approach was necessary, and discounted the projection by 8% to arrive at a budget amount of \$3,400,000.

Alaska Fisheries Business Tax – \$3,770,000

The amount proposed represents a \$470,000, or 14% increase from the FY 2022 budget amount (\$3,300,000). As of December 31, 2021, the City has recorded \$3,775,900, or 114% of FY 2022 budget (\$3,300,000).

Given that this tax amount is paid to the City based 100% on historical data, staff followed that same approach to estimate an amount for the FY 2023 budget. The FY 2023 budgeted amount was calculated using calendar year 2021 shore value information reported to the City monthly by local processors. The FY 2023 estimate includes shore value to the City through November 30, 2021 as it is not expected that December 2021 will provide much additional value.

In an effort to determine the reliability of the information provided by the local processors, staff evaluated six years (2015 to 2020) of historical shore value data reported to the City, comparing expected amounts to actual amounts received. In five of the six years evaluated, the City received in excess of 100% of the expected amount. The remaining year provided just under 90% of the expected amount. Therefore, staff determined that the historical information could be relied upon, with a fairly high degree of certainty.

Through November 30, 2021, total shore value reported to the City of Unalaska related to the calendar year 2021 fishery was \$264,753,219. Using that shore value amount, the City is projected to receive approximately \$3,970,000 in fiscal year 2023, which was reduced by 5% to account for any uncertainty.

Alaska Fisheries Resource Landing Tax - \$4,500,000

The amount proposed represents a \$600,000 or 15% increase from the FY 2022 budget amount (\$3,900,000). As of December 31, 2021, the City has recorded \$4,549,661, or 117% of FY 2022 budget.

The estimate for Alaska Fisheries Resource Landing Tax is based on total catch amounts reported by the NPFMC through November 6, 2021 and the State price book, last published in 2020. The actual amount paid to the City, however, is based on information provided to the State by the fishing vessels. While the City has requested additional detail related to amounts paid, the State has not been willing to provide such information.

Historically, the amount paid to the City has been between 75% and 80% of projection, which will be the same approach used for FY 2023. Using data defined above, staff projected Alaska Fisheries Resource Landing Tax to be \$5,773,256, which was discounted 22% to arrive at a budget estimate of \$4,500,000.

Supplemental Tables & Graphs

In addition to the above analysis, the following tables and graphs have been provided:

1. **Total General Fund Revenue Budget to Actual – FY 2012 to FY 2021:** An historical overview of how the City’s General Fund revenue has fluctuated over the last 10 years along with a comparison to budgeted amounts.
2. **Total General Fund Revenue Budget to Actual – FY 2012 to FY 2021 (excluding investment activity):** Same as above, removing investment activity as it significantly skewed results in FY 2019 and FY 2020.
3. **Revenue Percentage: FY 2016, FY 2021, 10-Year Average, FY 2023:** This table and graph provides two historical dates in time (5-year difference), 10-year average and projected FY 2023 revenue projections.
4. **Annual Revenue Compared to Average – FY 2012 to FY 2023:** These graphs provide a snapshot for each major revenue source and can help identify trends compared to averages for the last 10 fiscal years.
5. **Sales Tax Budget to Actual – FY 2012 to FY 2021:** Graph provides a snapshot with respect to budget to actual amounts from FY 2012 to FY 2021.
6. **Historical Sales Tax Collections vs. Price of Oil:** Graphs provide a visual representation of how the 55-gallon barrel price of Alaska North Slope crude has moved, in comparison with City of Unalaska Sales Tax Collections over last 10 years and over last 20 years
7. **Enterprise Fund Charges for Services FY2012 to FY2023:** Table displays annual Charges for Services amounts recorded for each Enterprise Fund; amounts include those based on the annually approved fee schedule.

ALTERNATIVES: This is a work session item for discussion.

FINANCIAL IMPLICATIONS: These General Fund projections provide preliminary information regarding the City’s revenue projections for FY 2023. Staff will continue to monitor any items that will impact projections discussed this evening, and make necessary adjustments. Council will see any change in the draft budget later in the budget cycle. Council will also have an opportunity to revisit enterprise projections later in the budget cycle while reviewing and approving rates and fees.

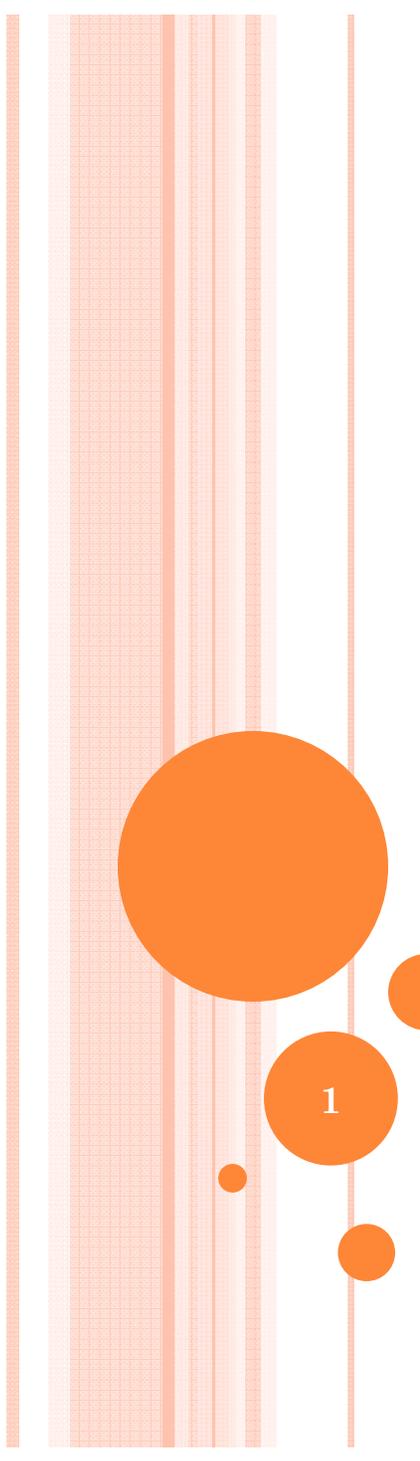
The City’s full schedule of budgeted revenue accounts, including proprietary funds, 1% Sales Tax, Bed Tax, Tobacco Tax, E911 Enhancement and the Permanent Fund, will accompany budget documents presented to Council in April 2022. That information will also provide greater detail with respect to General Fund revenue accounts not fully detailed within this memo.

LEGAL: There are no legal implications.

STAFF RECOMMENDATION: No staff recommendation; this is a discussion item only. Revenue projections will be incorporated in future Budget drafts shared with City Council.

PROPOSED MOTION: No action required.

CITY MANAGER'S COMMENTS: I thank our Interim Finance Director, staff and our fisheries consultant for taking a deep dive into our revenue projections.



FY23 REVENUE PROJECTIONS - GENERAL FUND

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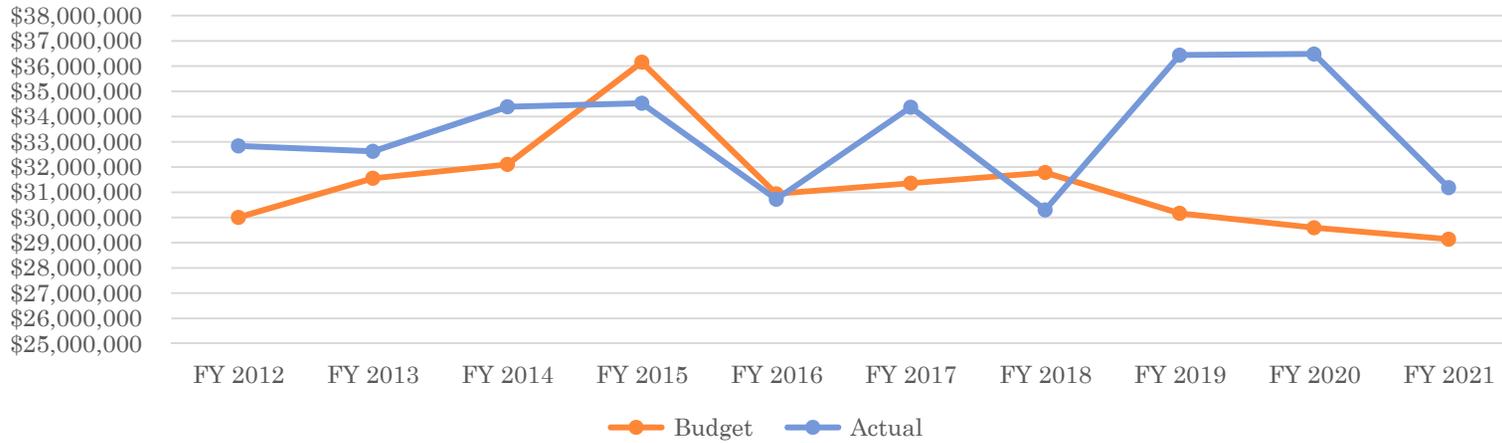
PURPOSE OF GENERAL FUND REVENUE PROJECTIONS

- Sustainability
 - Ensure that General Fund operating budget does not exceed projected General Fund revenue
- Comparison of Budget to Actual
 - Reconciliation of what we anticipated in prior years vs. actual revenues received

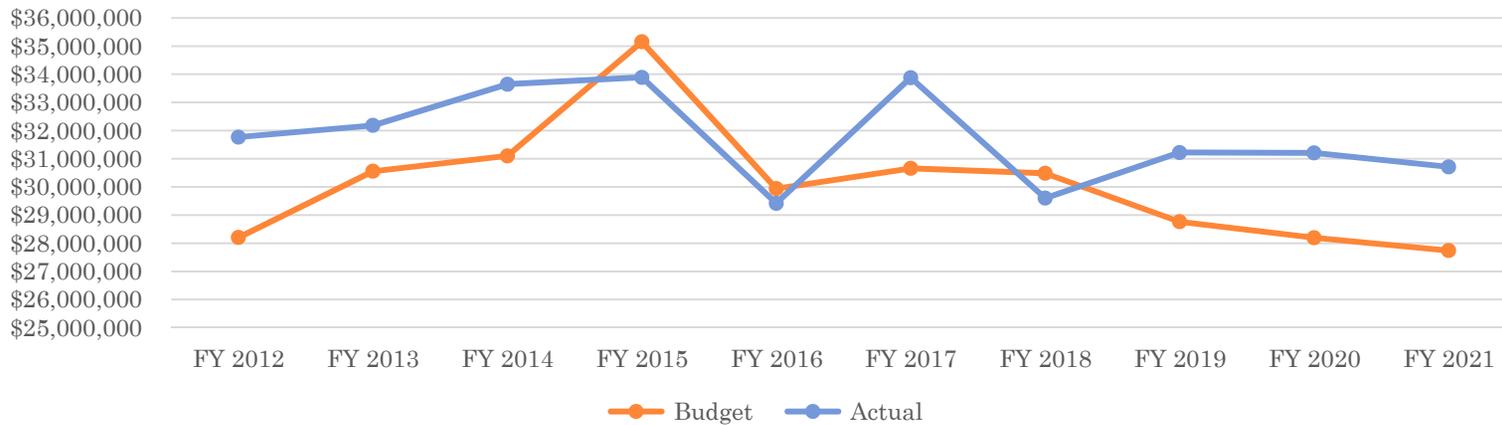
GENERAL FUND REVENUE BUDGET TO ACTUAL

- From FY 2012 to FY 2021, actual revenue exceeded annual budget seven times
- For entire 10 year period, revenue has exceeded budget by:
 - \$21,000,000, investments included (106.74% of budget)
 - \$16,700,000, investments excluded (105.56%)

Total Revenue Budget to Actual - FY 2012 to FY 2021



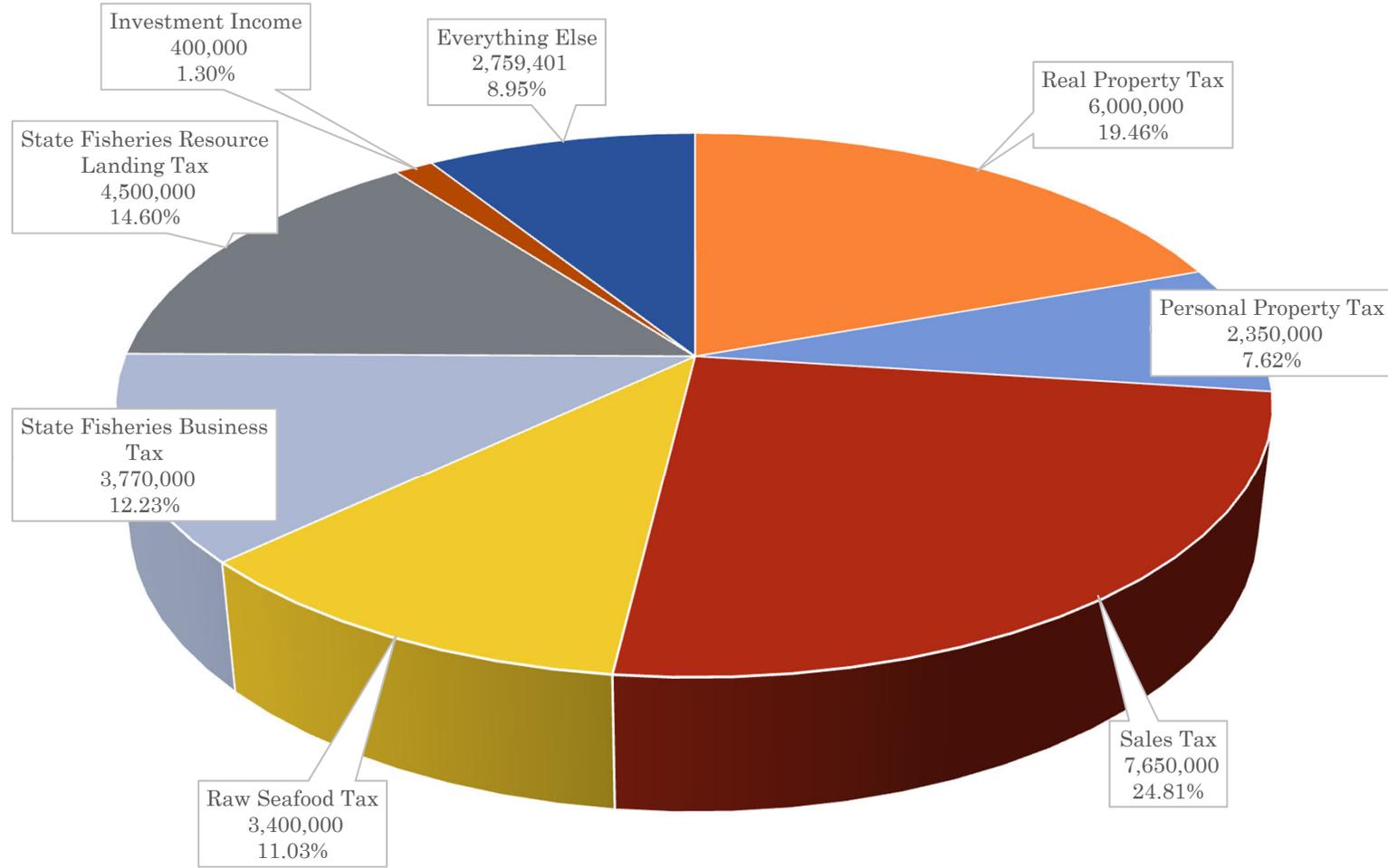
Revenue Budget to Actual - FY 2012 to FY 2021 (exluding investments)



FY 2023 GENERAL FUND PROJECTION

Real Property Tax	\$6,000,000
Personal Property Tax	2,350,000
Sales Tax	7,650,000
Raw Seafood Tax	3,400,000
State Fisheries Business Tax	3,770,000
State Fisheries Resource Landing Tax	4,500,000
Investment Income	400,000
Everything Else	<u>2,759,401</u>
Total	\$30,829,401

FY 2023 General Fund Revenue



- Real Property Tax
- Raw Seafood Tax
- Investment Income
- Personal Property Tax
- State Fisheries Business Tax
- Everything Else
- Sales Tax
- State Fisheries Resource Landing Tax

MAJOR REVENUE SOURCES

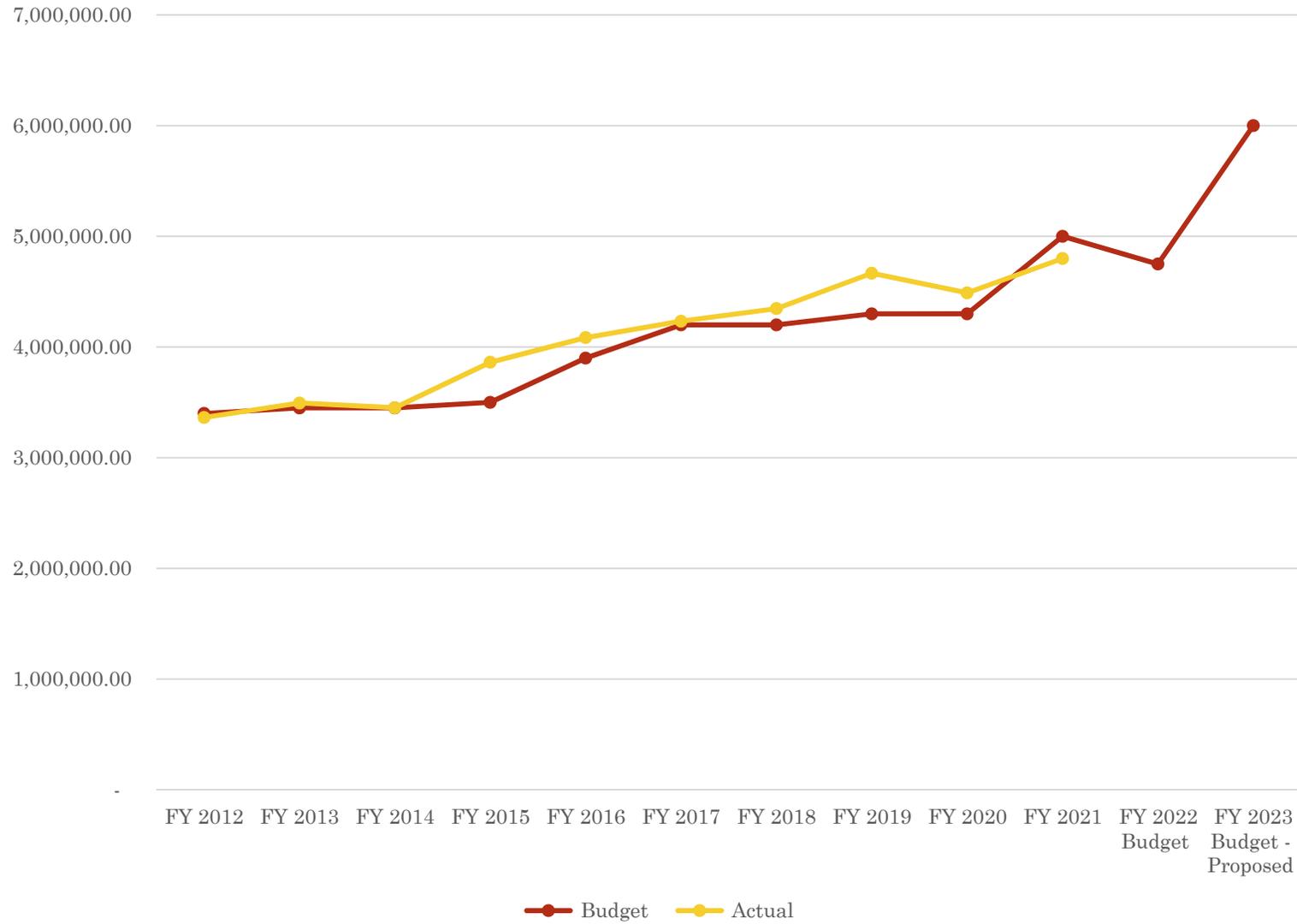
- Real Property Tax
- Personal Property Tax
- Sales Tax
- Raw Seafood Tax
- Alaska Fisheries Business Tax
- Alaska Fisheries Resource Landing Tax

- Over last 10 fiscal years, these taxes have comprised 83.09% of General Fund revenues
- For FY 2023, estimated to account for 89.75% of General Fund revenues

MAJOR REVENUE SOURCE – REAL PROPERTY TAX

- Mill Rate – 10.5
- Last adjustment – 2009 (reduction from 11.79 mills)
- Since FY 2012: Average of 12.22% of GF Revenue
- General upward trend during that time
- FY 2022 budget – \$4,750,000 (16.32% of GF Rev)
- FY 2023 budget – \$6,000,000 (19.46%)

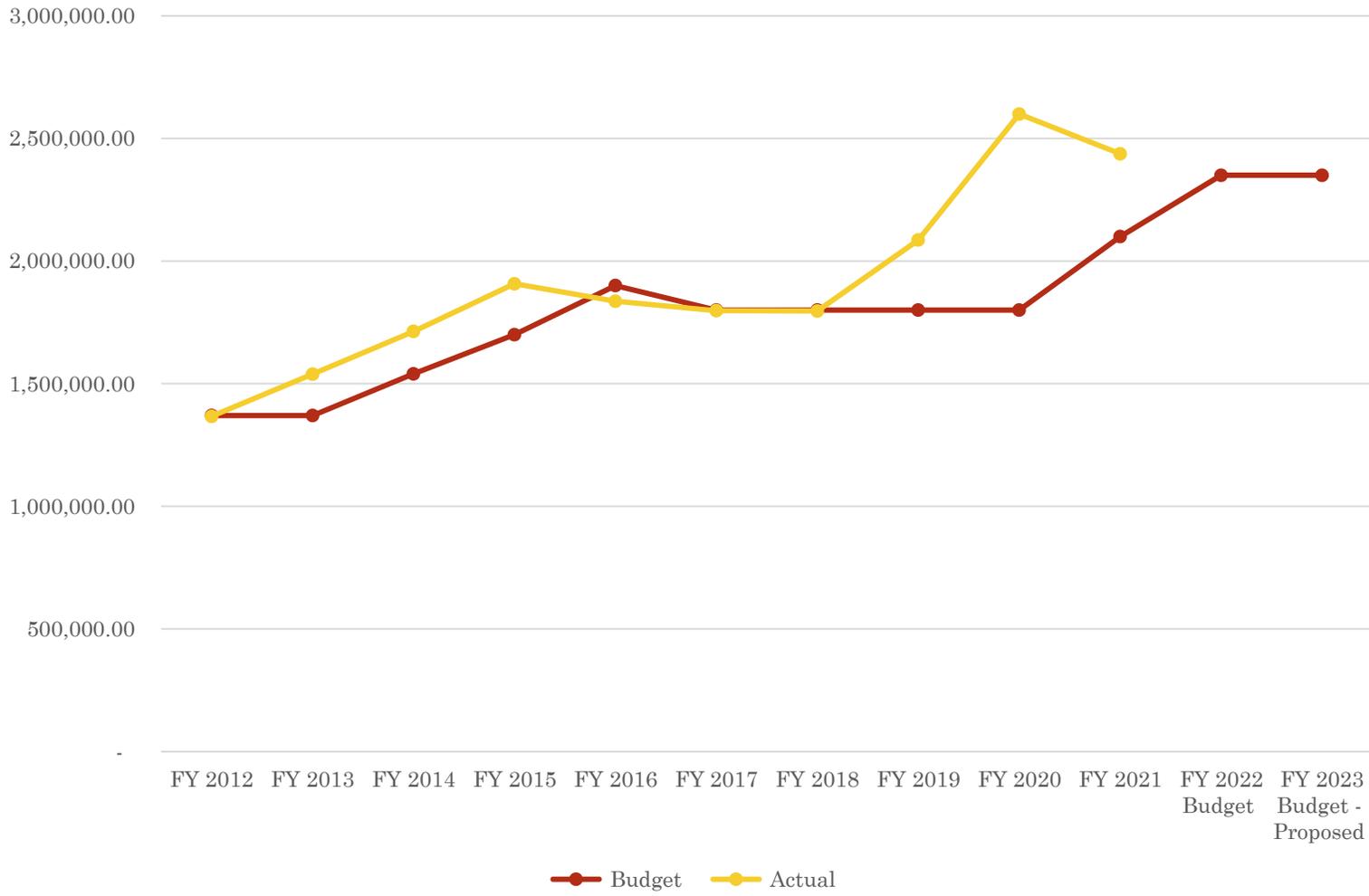
Real Property Tax Budget vs Actual FY2012 - FY2023



MAJOR REVENUE SOURCE – PERSONAL PROPERTY TAX

- Mill Rate – 10.5
- Last adjustment – 2009 (reduction from 11.79 mills)
- Since FY 2012: Average of 5.71% of GF Revenue
- General upward trend during that time
- FY 2022 budget – \$2,350,000 (8.08%)
- FY 2023 budget – \$2,350,000 (7.62%)

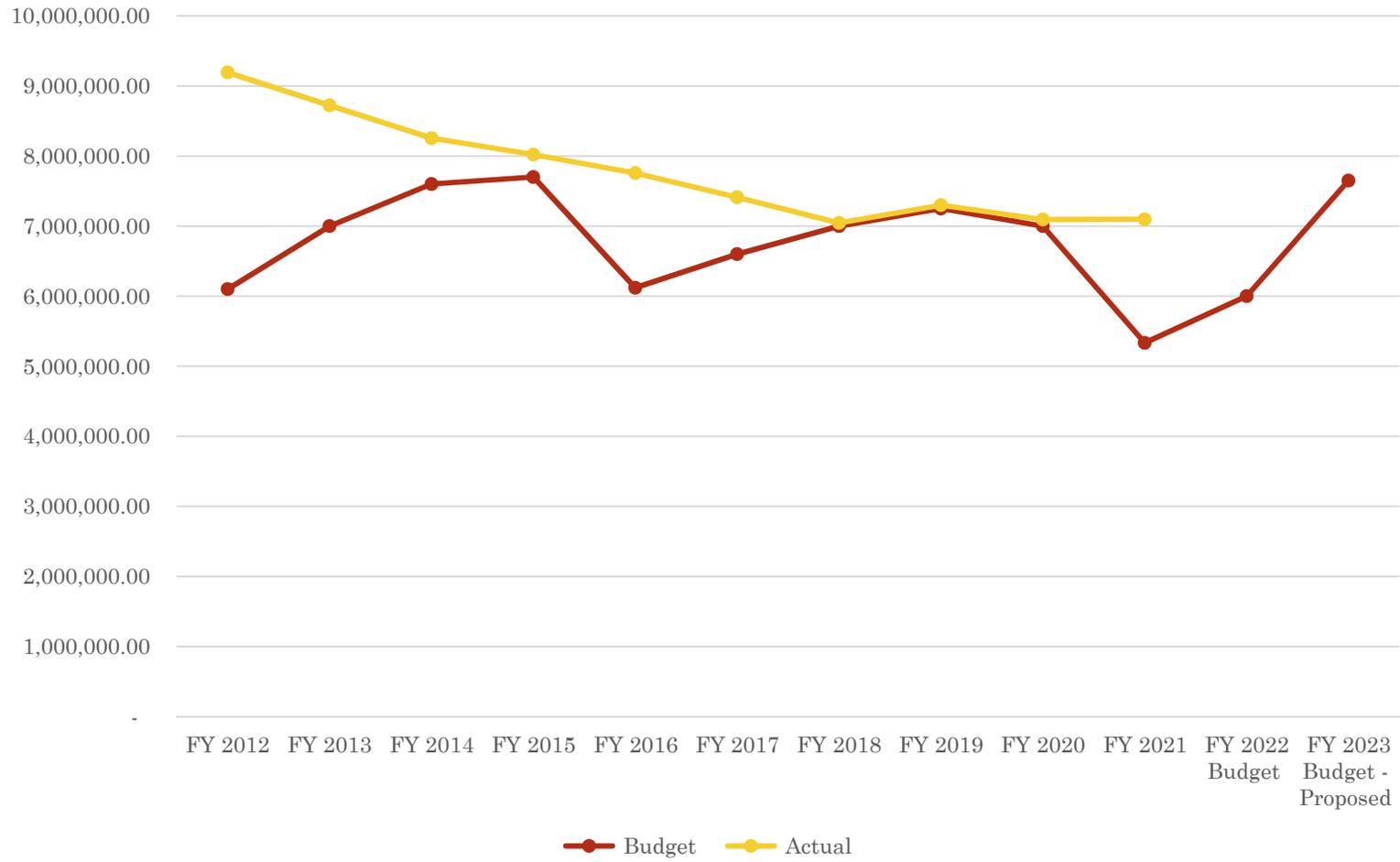
Personal Property Tax Budget vs Actual FY2012 - FY2023



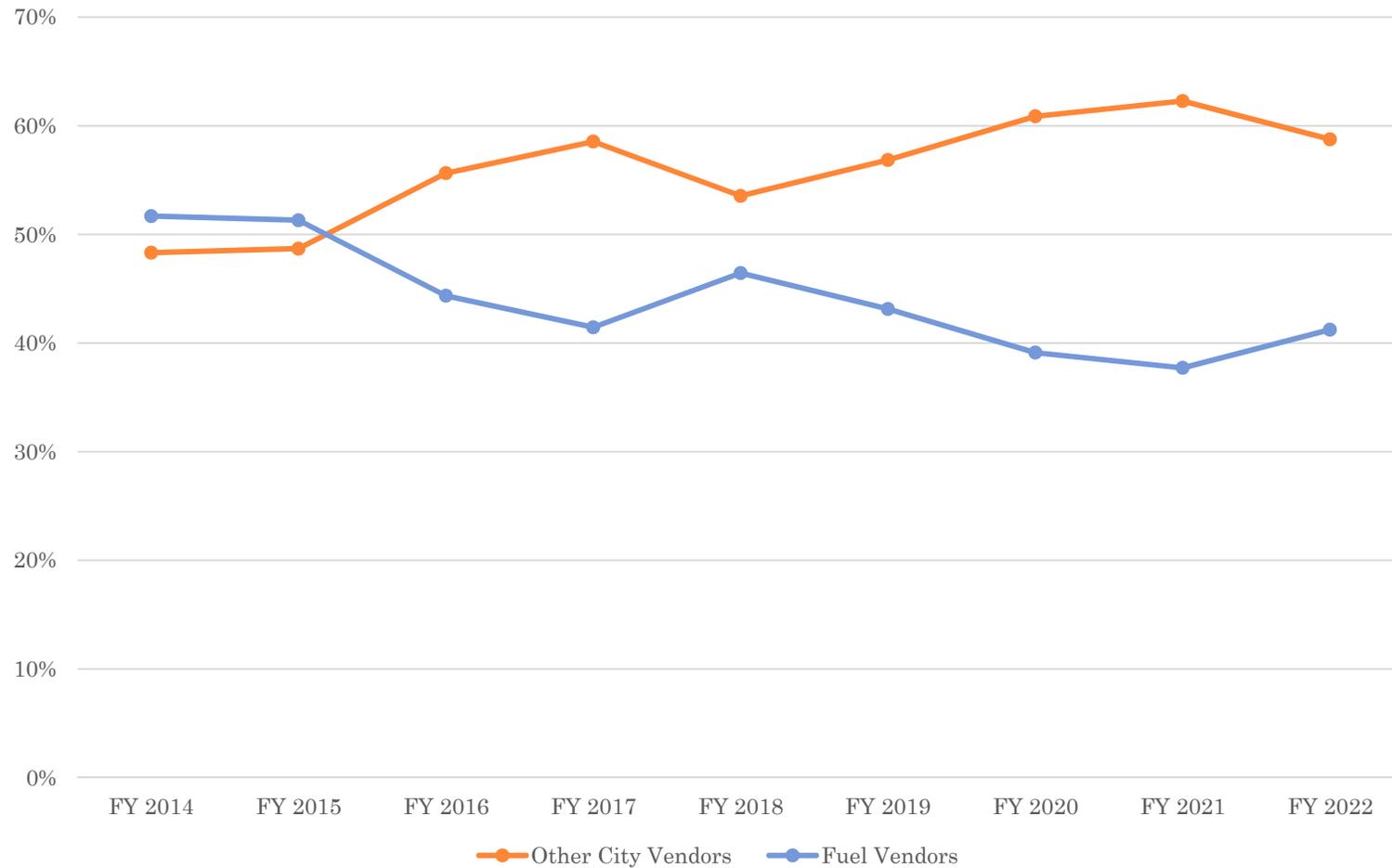
MAJOR REVENUE SOURCE – SALES TAX

- Current Rate – 3%
 - General Fund Portion – 2%
 - 1% Sales Tax Fund – 1%
- Since FY 2012: Average of 23.33% of GF Revenue
- General downward trend during that time
- Strong correlation to Alaska North Slope Crude
- FY 2022 budget – \$6,000,000 (20.62%)
- FY 2023 budget – \$7,650,000 (24.81%)

Sales Tax Budget vs Actual FY2012 - FY2023



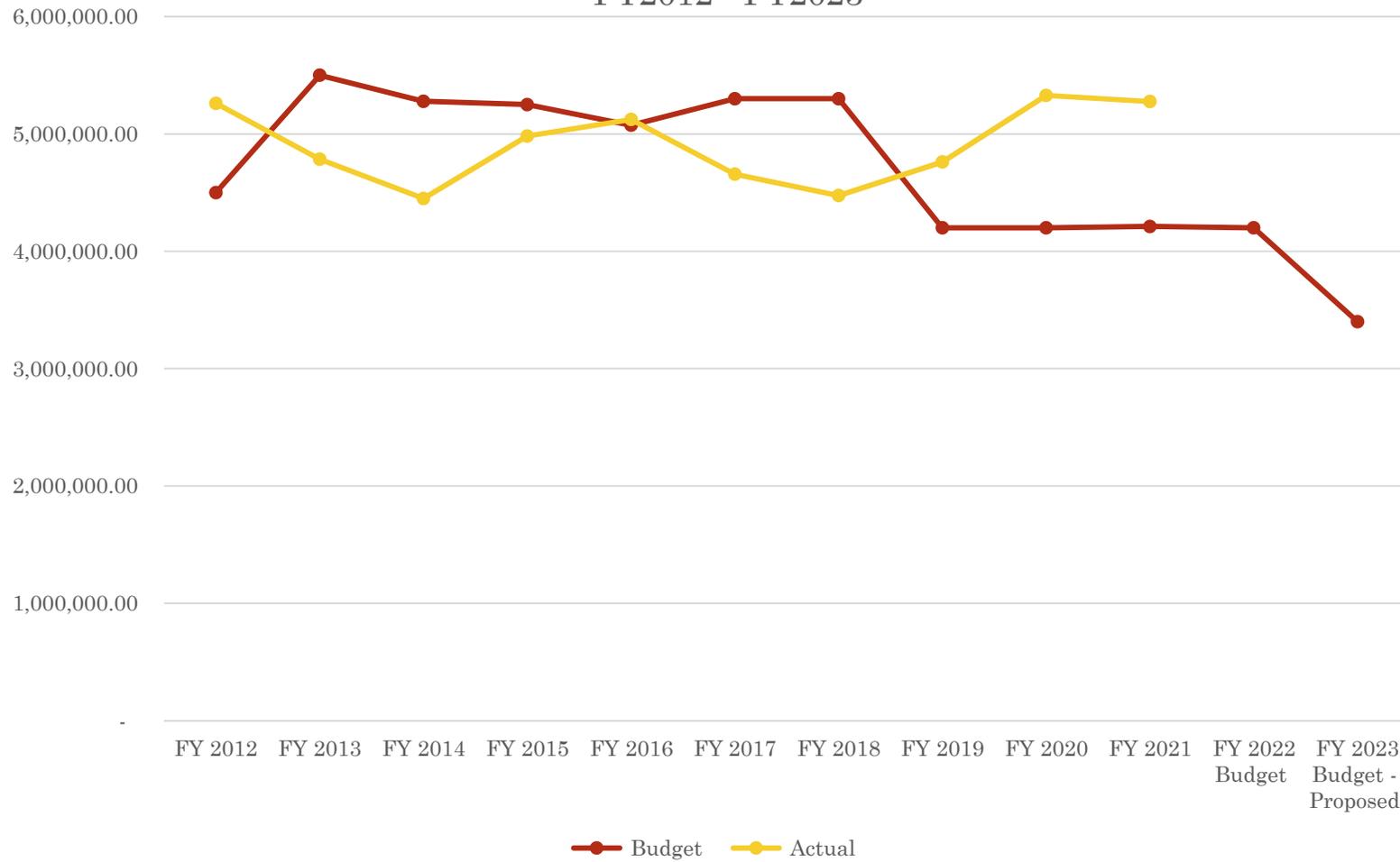
Fuel Sales impact on Sales Tax



MAJOR REVENUE SOURCE – RAW SEAFOOD TAX

- Current Rate – 2%
- Since FY 2012: Average of 14.71% of GF Revenue
- Fairly volatile during that time
- Difficult to forecast
- FY 2022 budget – \$4,200,000 (14.43%)
- FY 2023 budget – \$3,400,000 (11.03%)

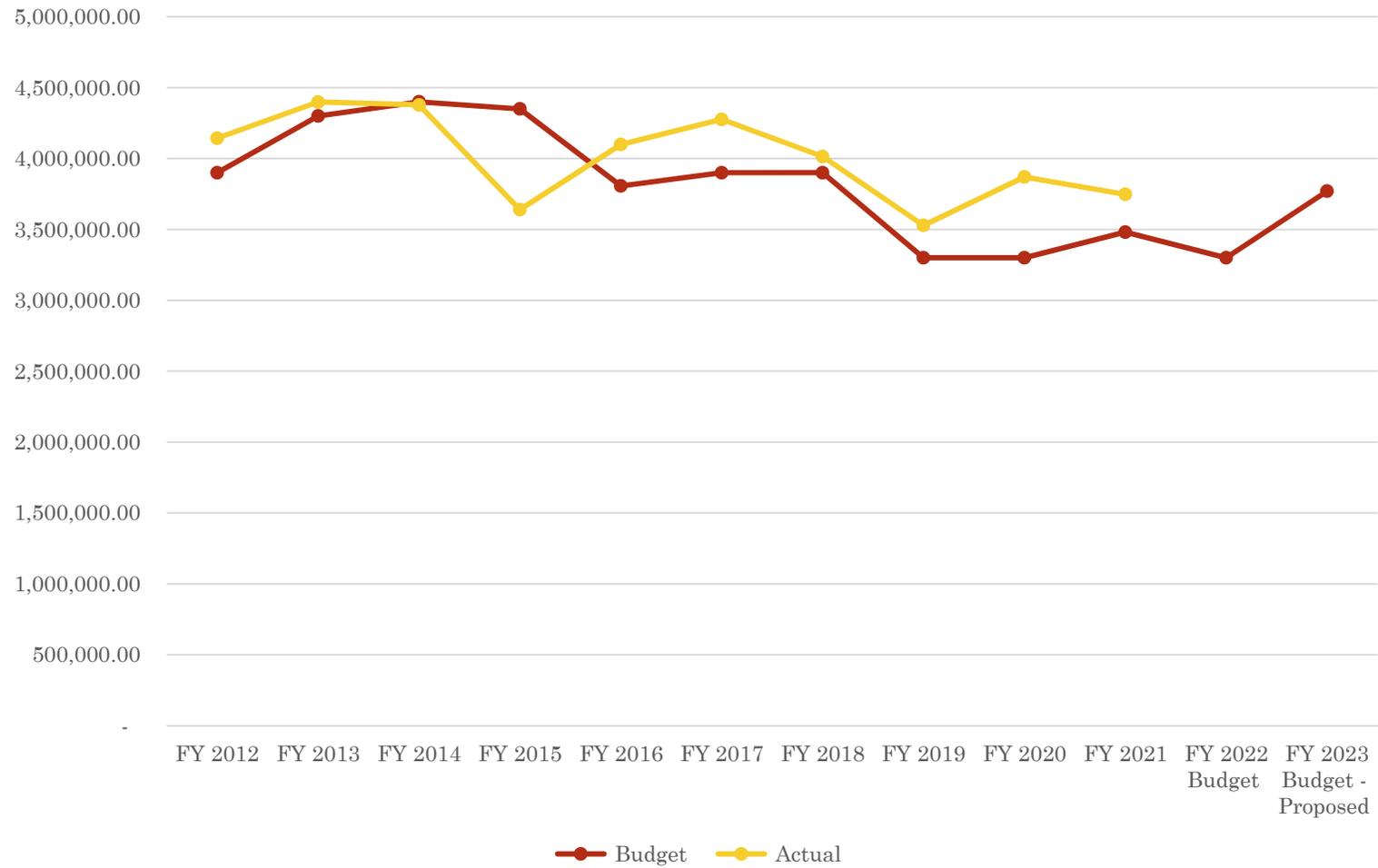
Raw Seafood Tax Budget vs Actual FY2012 - FY2023



MAJOR REVENUE SOURCE – STATE FISHERIES BUSINESS TAX

- Current Rate – 1.5%
- Since FY 2012: Average of 12.01% of GF Revenue
- Fairly straight forward calculation
- Based on prior calendar year fishery data
- FY 2022 budget – \$3,300,000 (11.34%)
- FY 2023 budget – \$3,770,000 (12.23%)

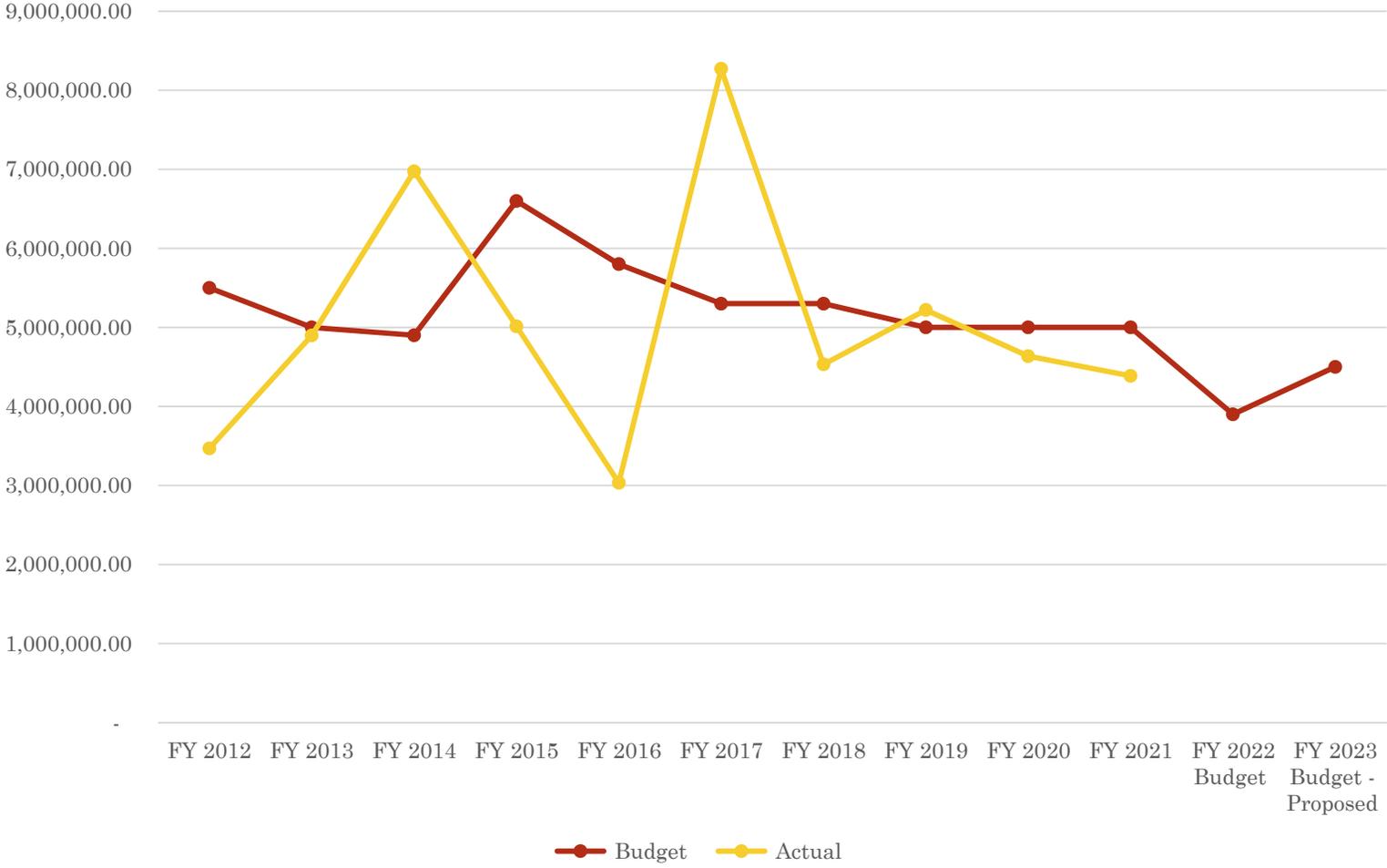
State Fisheries Business Tax Budget vs Actual FY2012 - FY2023



MAJOR REVENUE SOURCE – STATE FISHERIES RESOURCE LANDING TAX

- Current Rate – 1.5%
- Since FY 2012: Average of 15.11% of GF Revenue
- Difficult to predict with accuracy
- Based on:
 - Prior calendar year fishery data reported to the State
 - State published price book
- FY 2022 budget – \$3,900,000 (13.40%)
- FY 2023 budget – \$4,500,000 (14.60%)

State Fisheries Resource Landing Tax Budget vs Actual FY2012 - FY2023



Revenue Percentage: FY 2016, FY 2021, 10 Year Average, FY 2023



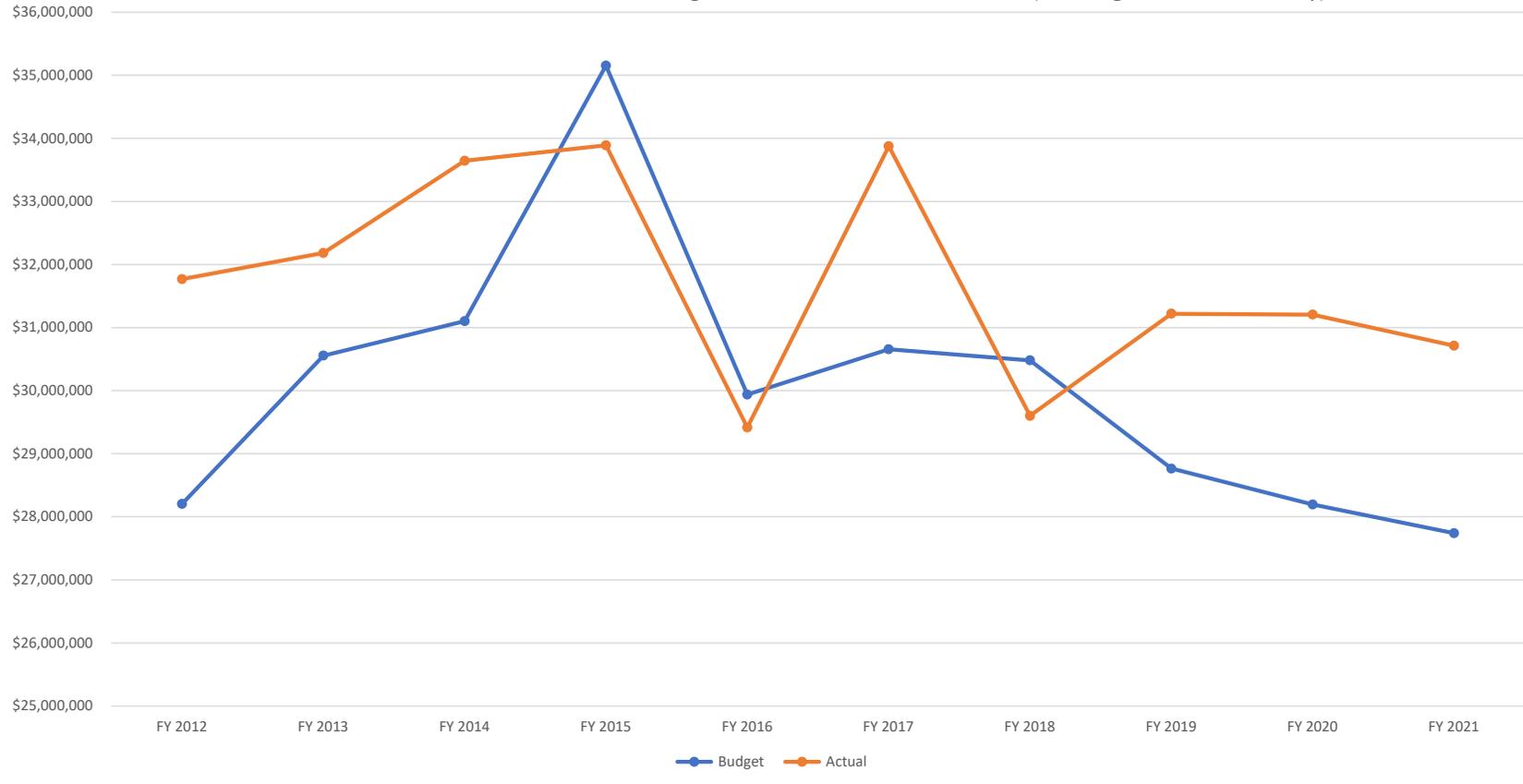
QUESTIONS

Total General Fund Revenue Budget to Actual - FY 2012 to FY 2021



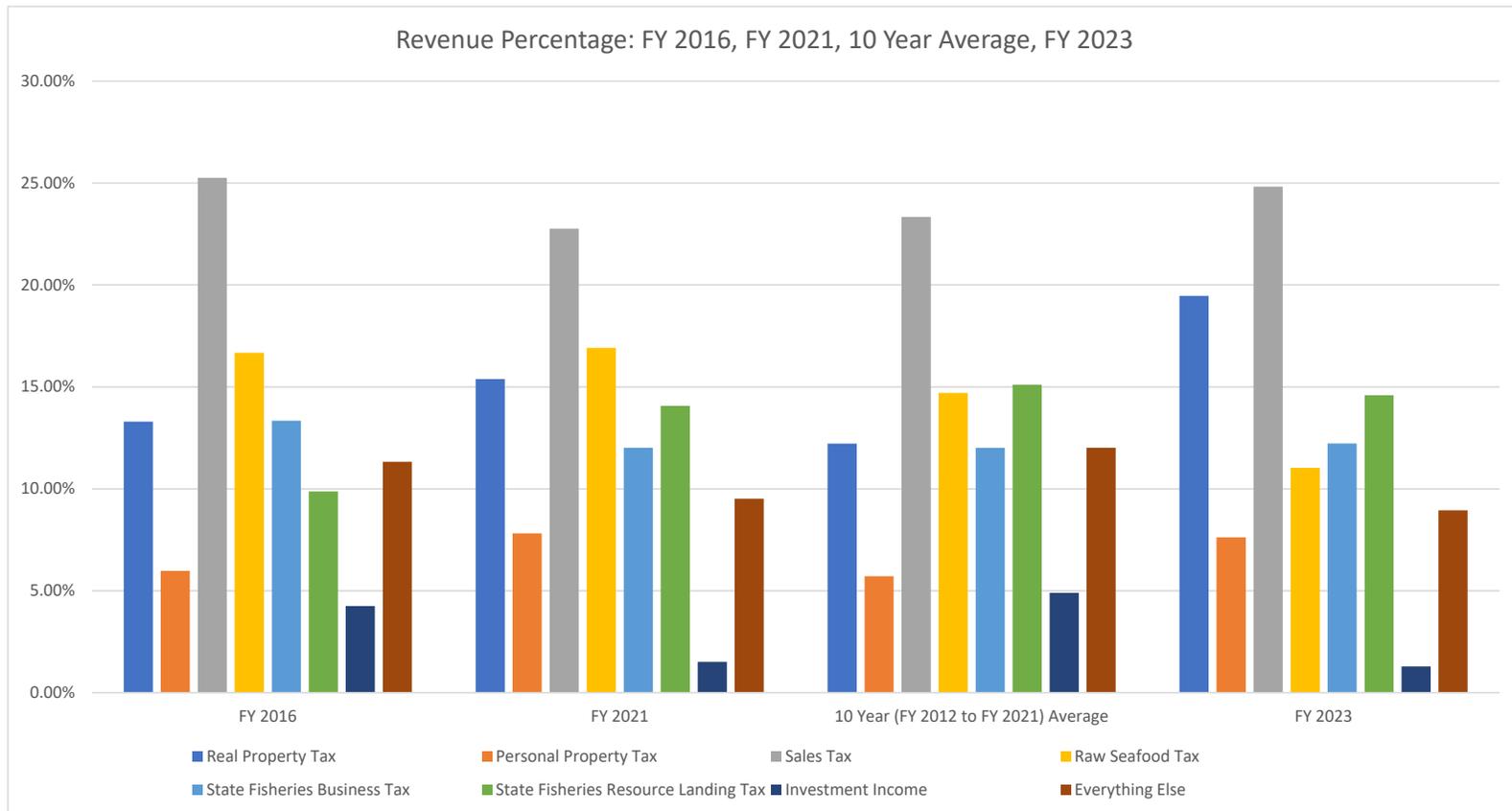
	<u>Budget</u>	<u>Actual</u>	<u>Difference</u>	<u>Pct</u>
FY 2012	\$ 30,003,700	\$ 32,835,916	\$ 2,832,216	109.44%
FY 2013	31,555,103	32,619,176	1,064,073	103.37%
FY 2014	32,101,456	34,385,794	2,284,338	107.12%
FY 2015	36,153,188	34,525,170	(1,628,018)	95.50%
FY 2016	30,937,803	30,723,626	(214,177)	99.31%
FY 2017	31,357,134	34,371,441	3,014,307	109.61%
FY 2018	31,781,160	30,300,957	(1,480,203)	95.34%
FY 2019	30,164,158	36,433,043	6,268,885	120.78%
FY 2020	29,594,258	36,478,643	6,884,385	123.26%
FY 2021	29,139,571	31,185,491	2,045,920	107.02%
	<u>\$ 312,787,531</u>	<u>\$ 333,859,257</u>	<u>\$ 21,071,726</u>	<u>106.74%</u>

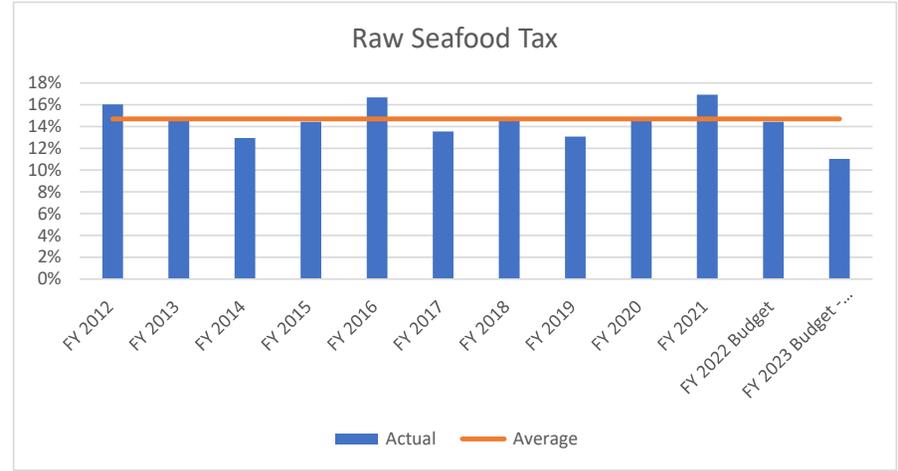
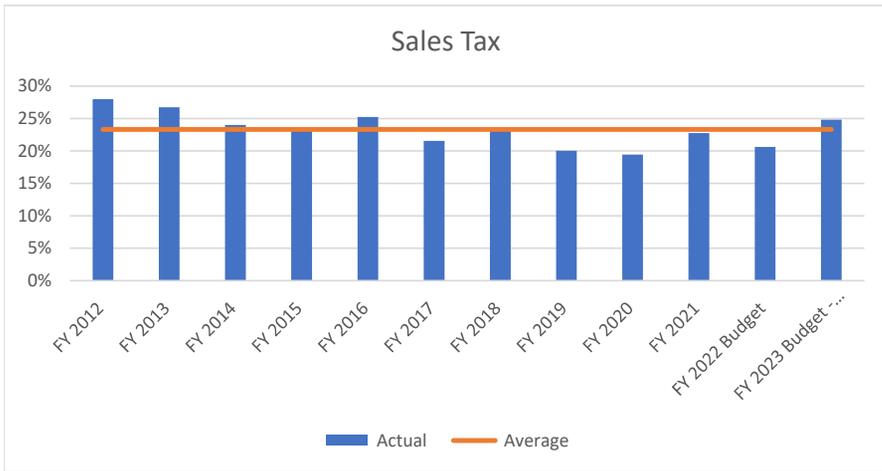
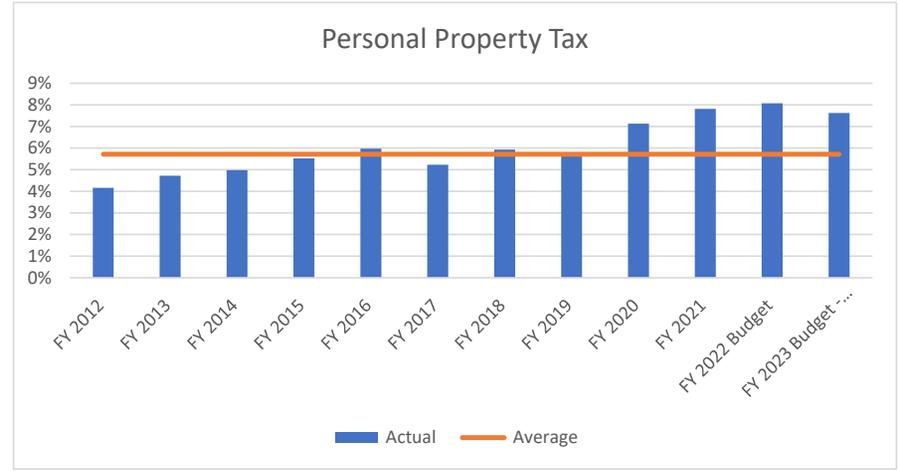
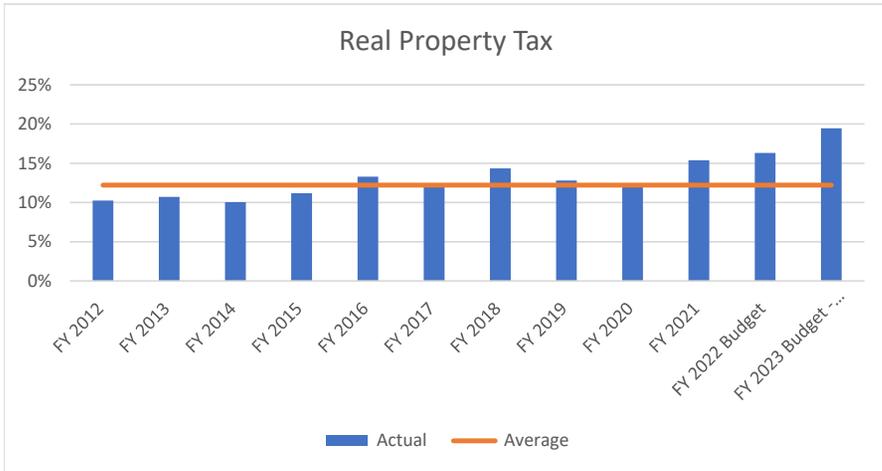
Total General Fund Revenue Budget to Actual - FY 2012 to FY 2021 (excluding investment activity)



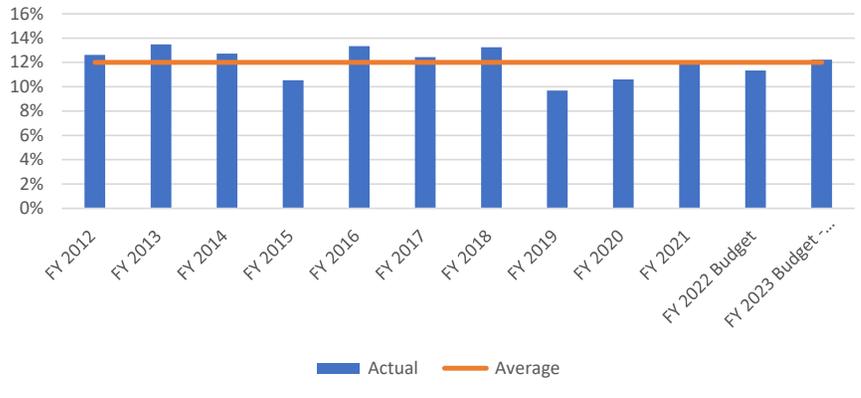
	<u>Budget</u>	<u>Actual</u>	<u>Difference</u>	<u>Pct</u>
FY 2012	\$ 28,203,700	\$ 31,768,621	\$ 3,564,921	112.64%
FY 2013	30,555,103	32,183,163	1,628,060	105.33%
FY 2014	31,101,456	33,644,122	2,542,666	108.18%
FY 2015	35,153,188	33,889,330	(1,263,858)	96.40%
FY 2016	29,937,803	29,416,486	(521,317)	98.26%
FY 2017	30,657,134	33,876,612	3,219,478	110.50%
FY 2018	30,481,160	29,600,912	(880,248)	97.11%
FY 2019	28,764,158	31,219,577	2,455,419	108.54%
FY 2020	28,194,258	31,205,816	3,011,558	110.68%
FY 2021	<u>27,739,571</u>	<u>30,712,238</u>	<u>2,972,667</u>	110.72%
	<u>\$ 300,787,531</u>	<u>\$ 317,516,877</u>	<u>\$ 16,729,346</u>	105.56%

	10 Year (FY 2012 to FY 2021) Average			
	FY 2016	FY 2021	2021) Average	FY 2023
Real Property Tax	13.30%	15.39%	12.22%	19.46%
Personal Property Tax	5.98%	7.82%	5.71%	7.62%
Sales Tax	25.25%	22.76%	23.33%	24.81%
Raw Seafood Tax	16.68%	16.92%	14.71%	11.03%
State Fisheries Business Tax	13.34%	12.02%	12.01%	12.23%
State Fisheries Resource Landing Tax	9.88%	14.07%	15.11%	14.60%
Investment Income	4.25%	1.52%	4.89%	1.30%
Everything Else	11.33%	9.52%	12.02%	8.95%

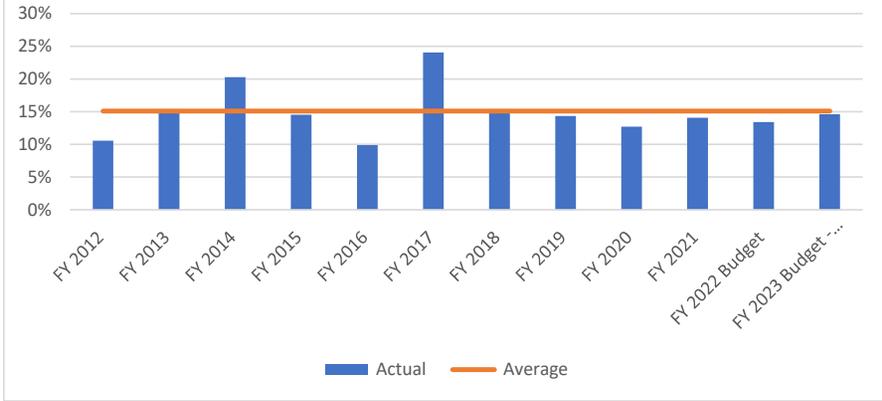




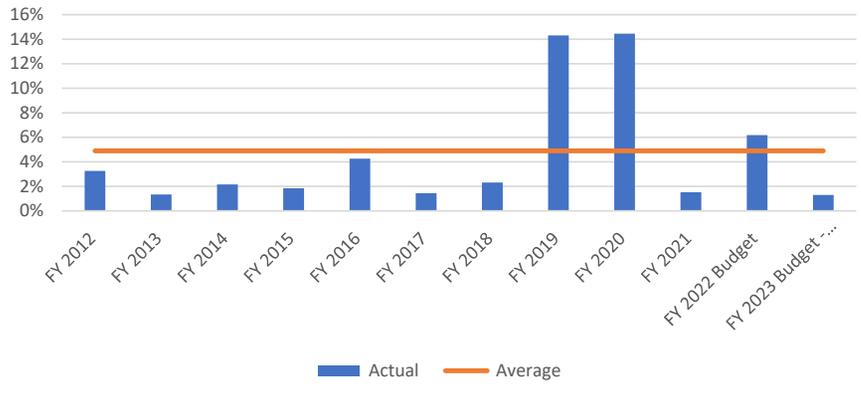
State Fisheries Business Tax



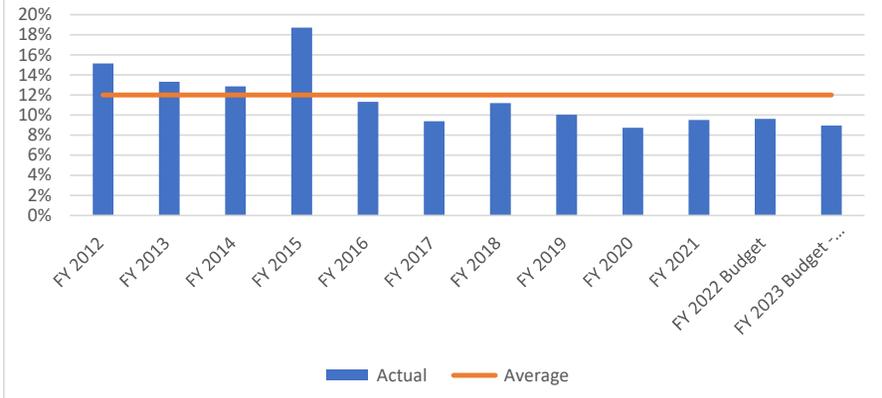
State Fisheries Resource Landing Tax



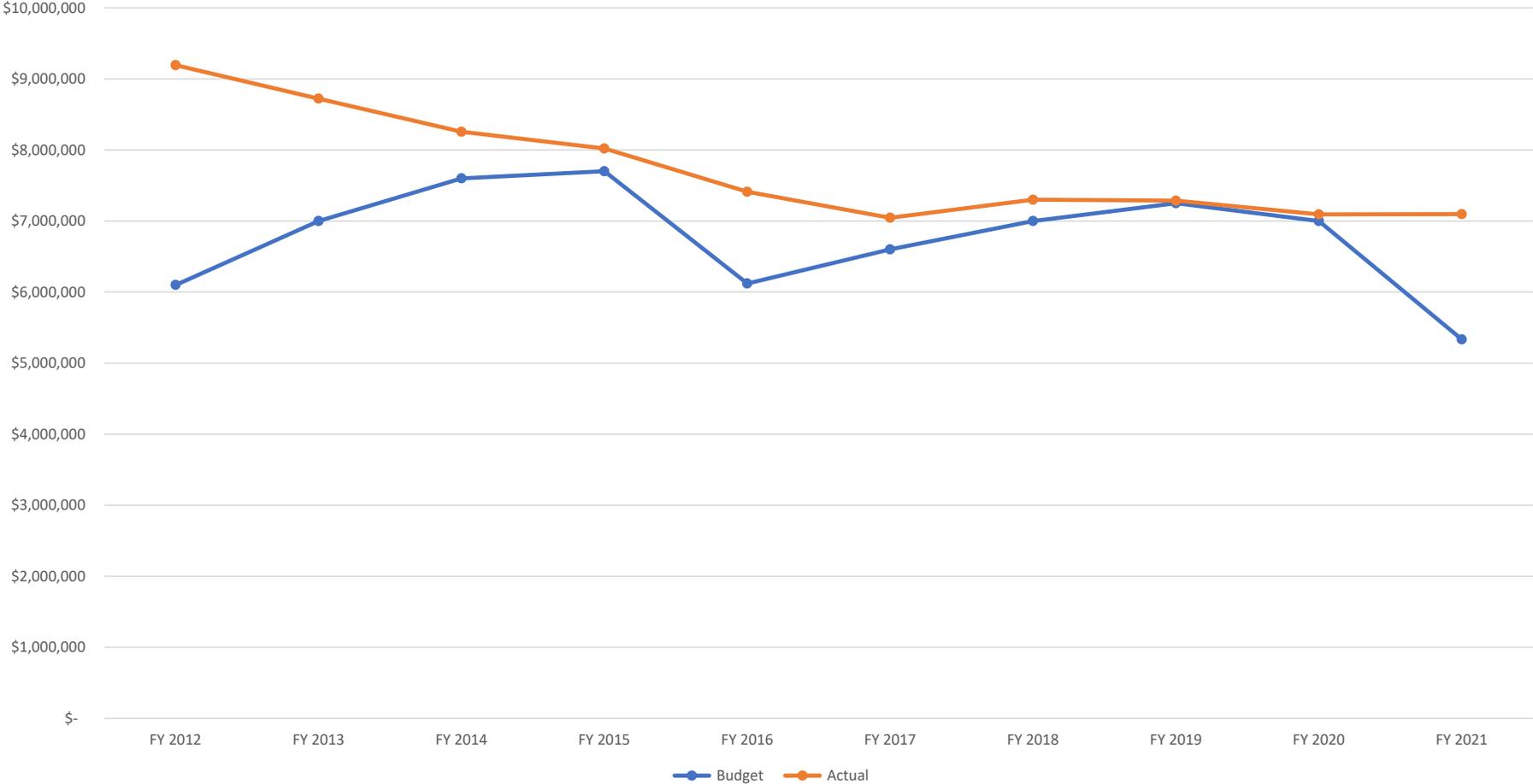
Investment Income



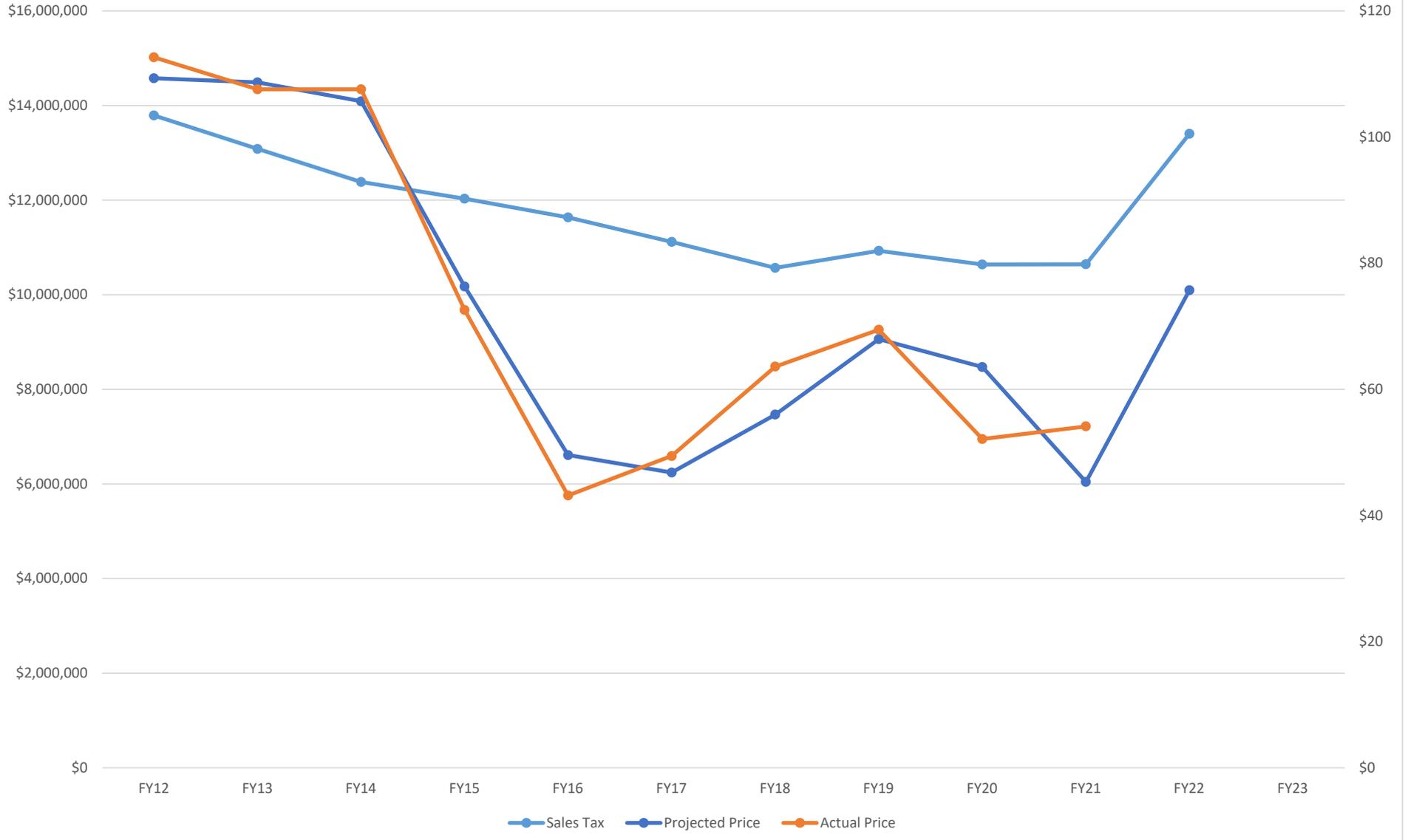
Everything Else



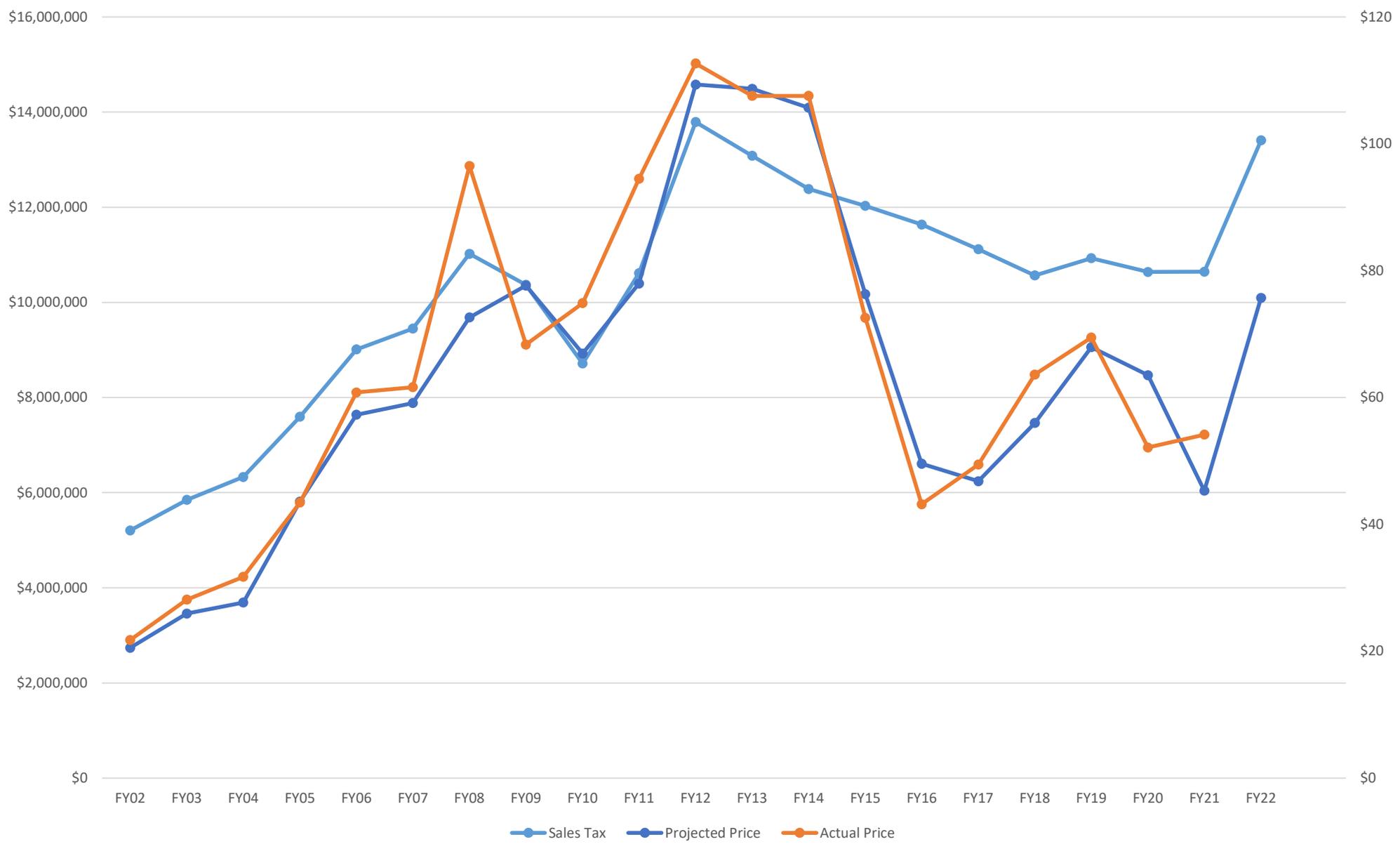
Sales Tax Budget to Actual - FY 2012 to FY 2021



Historical Sales Tax Collection vs. Price of Oil



Historical Sales Tax Collection vs. Price of Oil



Enterprise Fund Charges for Services - FY2012 to FY2023

	<u>FY 2012 Actual</u>	<u>FY 2013 Actual</u>	<u>FY 2014 Actual</u>	<u>FY 2015 Actual</u>	<u>FY 2016 Actual</u>	<u>FY 2017 Actual</u>	<u>FY 2018 Actual</u>
Electric	\$ 18,295,210	\$ 17,389,996	\$ 18,825,315	\$ 16,659,113	\$ 13,527,048	\$ 17,198,440	\$ 18,488,317
Water	2,214,578	2,323,158	2,208,261	2,560,104	2,878,194	2,810,292	2,600,534
Wastewater	1,815,346	1,898,264	2,082,266	2,260,022	2,372,356	2,361,222	2,301,402
Solid Waste	1,555,306	1,630,045	1,817,012	2,196,546	2,654,241	2,275,046	2,273,121
Ports and Harbors	5,458,748	5,784,924	6,426,534	6,538,078	6,633,687	6,639,832	7,114,490
Airport	456,991	472,107	480,846	511,371	572,921	517,530	486,590
Housing	183,681	237,666	244,973	259,217	276,506	236,193	242,325

	<u>FY 2019 Actual</u>	<u>FY 2020 Actual</u>	<u>FY 2021 Actual</u>	<u>FY 2022 Budget</u>	<u>FY 2023 Budget</u>	<u>FY 2022 Actual through 12/31/21</u>
Electric	\$ 18,041,246	\$ 16,488,293	\$ 12,787,747	\$ 11,487,017	\$ 13,236,775	\$ 8,576,526
Water	2,704,109	2,623,908	2,933,144	2,482,312	2,506,500	1,270,043
Wastewater	2,441,712	2,465,586	2,537,520	2,412,344	2,413,525	1,227,000
Solid Waste	2,357,326	2,470,460	2,654,129	2,347,730	2,445,975	1,313,177
Ports and Harbors	6,557,218	6,921,195	6,649,714	8,587,891	8,464,362	4,033,487
Airport	489,482	485,446	481,450	553,500	548,000	234,904
Housing	250,292	234,735	257,616	248,500	248,500	125,075