

CITY OF UNALASKA
UNALASKA, ALASKA

RESOLUTION 2025-45

A RESOLUTION OF THE UNALASKA CITY COUNCIL ESTABLISHING AUTHORIZED INVESTMENTS, INVESTMENT ALLOCATIONS, AND PERFORMANCE BENCHMARKS FOR THE CITY'S SUSTAINABILITY FUND FOR FISCAL YEAR 2026

WHEREAS, pursuant to UCO § 6.06.050(A), the Council shall, by resolution, annually establish an Asset Allocation Plan for investment of the City's Sustainability Fund; and,

WHEREAS, UCO § 6.06.060 authorizes Sustainability Fund investment in various asset classes and establishing asset allocation criteria for these various asset classes is in the best interest of the City; and,

WHEREAS, UCO § 6.06.070 requires the Council to monitor investment performance and authorizes Council to adopt, by resolution, performance benchmarks and criteria; and,

WHEREAS, UCO § 6.06.03(A) provides that the maximum sustainable distribution rate shall be determined by resolution;

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL FOR THE CITY OF UNALASKA, ALASKA:

Section 1: Asset Allocation. The Asset Allocation Plan for Fiscal Year 2026 shall be as follows:

The Asset Allocation Plan and Target Weightings with range restrictions are:

Asset Class	Target	Min	Max
EQUITY	47%		
U.S. Large-Cap Equity	22%	12%	32%
U.S. Mid-Cap Equity	10%	5%	15%
U.S. Small-Cap Equity	5%	0%	10%
International Developed Equity	6%	0%	12%
Emerging Markets Equity	4%	0%	8%
ALTERNATIVES	21%		

Real Estate	3%	0%	6%
Infrastructure	5%	0%	10%
Commodities	3%	0%	6%
Alternative Beta	10%	0%	15%
FIXED INCOME	32%		
U.S. Fixed Income	18%	8%	28%
U.S. High Yield Credit	5%	0%	10%
TIPS	2%	0%	10%
International Fixed Income	5%	0%	10%
Cash	2%	0%	10%

Section 2: Performance Benchmarks. Performance of the Sustainability Fund shall be measured as follows:

- A. Performance measurement of the U.S. Large-Cap Equity allocation will be measured against the Target weighting, using the Standard & Poor's 500 Index or a substantially similar index for the benchmark.
- B. Performance measurement of the U.S. Mid-Cap Equity allocation will be measured against the Target weighting, using the Standard & Poor's 400 Mid-Cap Index or a substantially similar index as the benchmark.
- C. Performance measurement of the U.S. Small-Cap Equity allocation will be measured against the Target weighting, using the Standard & Poor's 600 Small-Cap Index or a substantially similar index as the benchmark.
- D. Performance measurement of the International Developed Equity allocation will be measured against the Target weighting, using the MSCI EAFE Index or a substantially similar index for the benchmark.
- E. Performance measurement of the Emerging Markets Equity allocation will be measured against the Target weighting, using the MSCI Emerging Markets Index or a substantially similar index as the benchmark.
- F. Performance measurement of the Real Estate allocation will be measured against the Target weighting, using the Standard & Poor's US REIT Index or a substantially similar index as the benchmark.

- G. Performance measurement of the Infrastructure allocation will be measured against the Target weighting, using STOXX Global Broad Infrastructure Index or a substantially similar index as the benchmark.
- H. Performance measurement of the Commodity allocation will be measured against the Target weighting, using the Bloomberg Commodity Index or a substantially similar index as the benchmark.
- I. Performance measurement of the Alternative Beta allocation will be measured against the Target weighting, using the Wilshire Liquid Alternative Index or a substantially similar index as the benchmark.
- J. Performance measurement of the U.S. Fixed Income allocation will be measured against the Target weighting, using the Bloomberg Barclays US Aggregate Bond Index or a substantially similar index for the benchmark.
- K. Performance measurement of the U.S. High Yield Credit allocation will be measured against the Target weighting, using the Bloomberg Barclays U.S. High Yield Very Liquid Index or a substantially similar index as the benchmark.
- L. Performance measurement of the US Treasury Inflation Protected Securities (TIPS) allocation will be measured against the Target weighting, using the Bloomberg Barclays 0-5 Tear Treasury Inflation Protected Securities Index or a substantially similar index as the benchmark.
- M. Performance measurement of the International Bonds allocation will be measured against the Target weighting, using the Bloomberg Barclays Global Aggregate ex-USD Float Adjusted RIC Capped Index or a substantially similar index as the benchmark.
- N. Performance measurement of the Cash allocation will be measured against the Target weighting, using the Citi Group 90 Day T-Bill Index or a substantially similar index as the benchmark.
- O. Should the investment manager be required to select a strategic benchmark when implementing a discretionary strategic asset allocation adjustment, the performance will be measured against a commonly accepted performance benchmark that adequately measures the strategy and is unambiguous, measurable, and specified in advance.

Section 3. Maximum Distribution Rate. The maximum sustainable distribution rate based upon this strategic asset allocation is 4.0% over the long-term. The maximum annual distribution shall be determined by applying this rate to the five-year average market value of the Sustainability Fund, computed using the five prior fiscal year-end market values of the Sustainability Fund.

Section 4. Effective Date. This resolution takes effect upon the later of passage and July 1, 2025.

PASSED AND ADOPTED by a duly constituted quorum of the Unalaska City Council on June 24, 2025



Vincent M. Tutiakoff, Sr.
Mayor

ATTEST:



Estkarlen P. Magdaong, CMC
City Clerk



MEMORANDUM TO COUNCIL

To: Mayor and City Council Members
From: William Homka, City Manager
Date: June 24, 2025
Re: Fiscal Sustainability Fund

SUMMARY: The City Council began work nearly five years ago on a fiscal sustainability strategy to determine the best path forward for managing and/or investing surplus funds to ensure stability of current and future City operations and infrastructure. Tonight is a work session that has all of the documents necessary for creating the Sustainability Fund, including the resolution, ordinance, and fund policies that all need to happen prior to considering what amount to invest into the fund.

PREVIOUS COUNCIL ACTION: City Council passed a Directive to the City Manager on February 27, 2024 to initiate the development of an Investment Policy Statement for the establishment of the permanent fund. It should be noted that since this directive was passed it has been decided not to refer to the fund as a 'permanent fund' to avoid confusion with an action that would take approval of the voters. Sustainability fund will be used from this point forward throughout this memo.

BACKGROUND: Numerous discussions and presentations have happened at City Council meetings over the past five years concerning how to proceed with investing City funds. Initially we heard from Alaska Permanent Capital Management and our representatives Evan Rose and William Lierman about creating a Sustainability Fund. The idea is to open an account with a significant but to be determined investment amount that the City doesn't currently need for operations or capital projects. The investment would be left alone for an initial period of at least five (5) years before withdrawing any of the earnings.

Last fall, Joy Merriner who is a partner of BDO (the City's Certified Public Accounting Firm) made a presentation to City Council about the need to establish policies before rushing into a decision about investing our reserve funds. Her recommendations are based on the Government Finance Officers Association (GFOA) and include establishing a formal policy on the level of unrestricted fund balance that should be maintained, a process for changes in this balance over time, and how resources will be directed to replenish fund balance if levels fall below the adopted policies.

Copies of their presentations are attached to this memo.

DISCUSSION: A draft of fund balance and reserve policies has been prepared and is attached to this memo. The document proposes fund balance and reserve policies for the City of Unalaska and will guide financial decisions and ensure the maintenance of core services amidst economic fluctuations. They include:

- Purpose of Fund Balance Policies: These policies provide guidelines for the City Council and staff to ensure financial stability and maintain excellent credit standing while adapting to community needs.

- **Definitions of Fund Balances:** The document defines various types of fund balances including Non-spendable, Restricted, Committed, Assigned, and Unassigned, each with specific limitations and purposes.
- **Spending Order for Fund Balances:** The City will prioritize spending restricted funds before less restricted funds, following a specific order from Non-spendable to Unassigned.
- **Reserves and Their Uses:** Reserves are established to provide financial flexibility for emergencies, economic downturns, and one-time capital expenditures, with a focus on maintaining a healthy unassigned fund balance.

Also attached to this memo are draft instruments for the City Council to create the sustainability fund. The first is a resolution that establishes the authorized investments, allocations, and performance benchmarks for the Sustainability Fund for Fiscal Year 2026 and sets forth:

- **Asset Allocation Plan:** The resolution outlines a detailed asset allocation plan specifying target weightings and range restrictions across various asset classes including equity, alternatives, and fixed income. For instance, equity is allocated 47%, alternatives 21%, and fixed income 32% with specific distributions among subcategories.
- **Performance Benchmarks:** The document sets performance benchmarks for each asset class, indicating that performance will be measured against standard indices relevant to each allocation. For example, U.S. Large-Cap Equity will be benchmarked against the S&P 500 Index.
- **Maximum Distribution Rate:** The resolution states that the maximum sustainable distribution rate from the fund is 4.0% over the long term, calculated based on the five-year average market value of the Sustainability Fund.

The second is an ordinance to establish a Sustainability Fund aimed at promoting long-term fiscal sustainability and safeguarding city assets for future generations. In particular this ordinance sets forth:

- **Sustainability Fund Purpose:** The Sustainability Fund is created to invest city funds to maximize income for future capital and operating expenses while protecting assets from inflation.
- **Contributions to the Fund:** Contributions will be made at the discretion of the City Council through non-code ordinances, based on the city's financial capacity.
- **Distribution Guidelines:** The Council may appropriate distributions from the fund based on a sustainable distribution rate, calculated as the long-term expected return minus inflation, with no distributions allowed before July 1, 2030.
- **Fund Administration:** The Council is responsible for administering the Sustainability Fund, retaining a bank custodian for investments and professional investment managers for portfolio management.
- **Investment Guidelines:** The fund will utilize low-cost investment vehicles and maintain a conservative approach to derivatives, with a focus on long-term investment strategies.
- **Performance Monitoring:** The Council will monitor the investment program's performance at least annually and may engage an independent consultant for objective evaluations.

Together, the ordinance, resolution and policies establish the fund, identify the purpose and operation guidelines and policies for the fund, and provide the framework for city council to be able to next consider the amount of funding it desires to commit which will be discussed at a meeting in the near future.

ALTERNATIVES: City Council can decide against creating the fund or direct staff to consider another alternative to creating a sustainability fund.

FINANCIAL IMPLICATIONS: None at the moment.

LEGAL:

STAFF RECOMMENDATION: Adopt the resolution, ordinance and corresponding policies to create the Sustainability Fund.

PROPOSED MOTION: I move to adopt Resolution 2025-45.

CITY MANAGER COMMENTS: The City Council has been deliberate and methodical so far in evaluating and considering how to best put aside excess reserves. When the Council began this project we had about \$160 million in reserves and liquidity. We have invested and earned additional interest that amounts to nearly \$200 million, the difference being the \$40 million number that was initially being discussed as an investment into the sustainability fund five years ago.

ATTACHMENTS:

- BDO Presentation
- APCM Presentation
- Draft Fund Balance and Reserve Policies
- Draft Resolution Adopting Sustainability Fund Policies
- Draft Ordinance Creating Sustainability Fund