

CITY OF UNALASKA
UNALASKA, ALASKA

ORDINANCE 2025-08

AN ORDINANCE OF THE UNALASKA CITY COUNCIL AMENDING UNALASKA CODE OF ORDINANCES, TITLE 6 WITH THE ADDITION OF A NEW CHAPTER 6.06, SUSTAINABILITY FUND

WHEREAS, the Council seeks long-term fiscal sustainability and to mitigate effects of the business cycle on the City's finances; and

WHEREAS, creating a Sustainability Fund is a component of long-term fiscal sustainability; and

WHEREAS, it is the Council's intention to persevere and grow City assets for present and future generations through returns on prudent investment of City funds; and

WHEREAS, so that future generations of Unalaska residents may benefit from the present use of resources, it is the Council's intention for City funds to be contributed to the Sustainability Fund on an ongoing basis when the City's finances are able to sustain such contributions; and

WHEREAS, responsible and prudent use of Sustainability Fund distributions to meet the needs and priorities of future generations should be determined by those persons without undue restriction from this Council;

NOW THEREFORE, IT IS ENACTED BY THE CITY COUNCIL OF THE CITY OF UNALASKA, as follows:

Section 1: Classification. This Ordinance is a Code Ordinance.

Section 2: Unalaska Code of Ordinances Title 6 REVENUE AND FINANCE is hereby amended with the adoption of a new Chapter 6.06 SUSTAINABILITY FUND to read as follows:

CHAPTER 6.06

SUSTAINABILITY FUND

Sections:

6.06.010	Sustainability Fund Established and Purpose
6.06.020	Contributions
6.06.030	Distributions
6.06.040	Fund Administration
6.06.050	Strategic Asset Allocation
6.06.060	Allowable Investments
6.06.070	Performance Measurement

§ 6.06.010 SUSTAINABILITY FUND ESTABLISHED AND PURPOSE.

(A) There shall be a Sustainability Fund of the City of Unalaska.

- (B) The purpose of the Sustainability Fund is to set aside and invest funds as the City's budget allows to maximize income for future capital and operating expenses of the City and to preserve assets of the City for present and future generations while protecting the principal from being diminished by inflation and distributions.

§ 6.06.020 CONTRIBUTIONS.

Contributions to the Sustainability Fund shall be made by non-code ordinance at the discretion of the Council.

§ 6.06.030 DISTRIBUTIONS.

- (A) In any fiscal year, the Council may appropriate from the Sustainability Fund not more than the maximum sustainable distribution rate of the five-year average market value of the Sustainability Fund, to be computed using the five prior fiscal year-end market values. The sustainable distribution rate shall be defined as the long-term expected return of the Sustainability Fund less inflation. The maximum sustainable distribution rate shall be determined by resolution.
- (B) Any distribution from the Sustainability Fund shall be paid into the City's general fund.
- (C) Notwithstanding subsection (A), there shall be no distribution from the Sustainability Fund prior to July 1, 2030.

§ 6.06.040 FUND ADMINISTRATION.

- (A) The Council shall administer the Sustainability Fund in accordance with this chapter.
- (B) The Council shall retain a bank custodian to hold all investment cash and securities in the name of the City's Sustainability Fund. The custodian shall render monthly reports regarding assets held at both book and market values, and individual transactions which have taken place. There shall be a written contract between the City and custodian.
- (C) The Council shall retain one or more professional investment managers to design portfolios and invest funds in accordance with the investment policies adopted in accordance with this chapter. The investment managers must be registered financial advisers with both the United States Securities and Exchange Commission and the state and may not serve in any multiple roles as investment manager or securities broker custodian. An investment manager shall serve as a fiduciary to the Sustainability Fund and carry professional liability insurance in the minimum amount of \$5,000,000. There shall be a written contract between the City and investment managers.
- (D) The Council, investment managers, and custodians shall exercise the judgment and care under the circumstances then prevailing which an investor of ordinary prudence, discretion and intelligence exercises in the management of large investments

entrusted to it, not in regard to speculation, but in regard to the long-term investment of funds considering the probable safety of capital as well as probable income.

- (E) An accounting of all Sustainability Fund contributions, distributions, earnings, and expenses shall be maintained and available for public inspection.

§ 6.06.050 STRATEGIC ASSET ALLOCATION.

- (A) The Sustainability Fund's strategic asset allocation shall be determined based upon the desired return, risk tolerance, and other investment parameters (liquidity needs, time horizon, etc.). The appropriateness and characteristics of the asset allocation strategy shall be reviewed by the Council and confirmed by resolution on an annual basis.
- (B) The strategic asset allocation guides the investment manager in creating a portfolio that best reflects the risk posture, expected return, and other investment parameters. In addition, the allocation constraints allow the investment manager to rebalance the portfolio at strategically advantageous times without undue administrative burdens. The allocation ranges also allow the investment manager to obtain higher investment returns and/or lower investment risks (within the constraints) in response to market conditions.

§ 6.06.060 ALLOWABLE INVESTMENTS.

- (A) *GENERAL*. Assets of the Sustainability Fund shall be invested in investment vehicles that provide exposure to asset classes or implementation strategies which have been approved as part of the strategic asset allocation. All investments must comply with the fund-level investment guidelines and product-level investment guidelines established by this section.
- (B) *FUND LEVEL INVESTMENT GUIDELINES*. The Sustainability Fund shall use low cost, efficient investment vehicles (index mutual funds and/or ETPs - Exchange Traded Products) for all equity exposure. For the fixed-income portion of the portfolio, the investment manager may use both mutual funds/ETPs or individual fixed income securities. The Sustainability Fund shall achieve its objective via long-only, unlevered investments. The Sustainability Fund shall be prohibited from engaging in direct short sales or margin transactions.
- (C) *PRODUCT LEVEL INVESTMENT GUIDELINES*. The Sustainability Fund shall have a conservative posture on derivative securities to maintain a risk-averse nature. Since new derivative products may be created each year, the intention of this code is not to specifically list prohibited derivatives, but rather to establish a general policy on derivatives. Derivatives may be utilized within investment vehicles as a portfolio management tool. Derivative use within a product shall be permitted for the purpose of creating, enhancing, or mitigating exposure to an asset class or implementation strategy. Due to the inherent characteristics of derivatives, embedded leverage shall be permitted when fully collateralized. Net exposure exceeding the asset value of the investment vehicle shall be prohibited. Exposure shall be net long at all times.

§ 6.06.070 PERFORMANCE MEASUREMENT.

- (A) The Council shall monitor performance of the investment program and review an objective performance evaluation of the investment program not less than once annually. The Council may, by resolution, adopt additional requirements and standards for performance monitoring and measurement.
- (B) The investment manager shall provide objective measurement of the performance of the investment program against appropriate indices.
- (C) The Council may retain an independent performance measurement consultant whose contractual purpose shall be to provide objective measurement of the performance of investment managers and the portfolio against appropriate indices, as recommended by the consultant and adopted by the Council. Such consultant may not manage in any capacity any portion of the portfolio.

Section 3: Effective Date. This ordinance is effective upon adoption.

PASSED AND ADOPTED by a duly constituted quorum of the Unalaska City Council on July 8, 2025.


Vincent M. Tutiakoff, Sr.
Mayor

ATTEST:


Estkaelen 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