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## MEMORANDUM TO COUNCIL

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To: Mayor and City Council Members  
From: Jim Sharpe, Interim Finance Director  
Through: William Homka, City Manager  
Date: February 25, 2025  
Re: FY 2026 Revenue Projections

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**SUMMARY:** The focus tonight is FY 2026 Revenue Projections for the General Fund. For fiscal year 2026, Staff is proposing a total General Fund revenue budget of \$39,075,050 for your consideration. This is a \$245,433 (0.63%) increase from the FY 2025 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 2026 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 2024-25 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. Due to those factors, we consulted with Frank Kelty on those revenue and he can answer any questions you may have.

**DISCUSSION:** Historically, approximately 80% of the City's revenue has been derived from taxes (property, sales and seafood). For the sake of this discussion, the accounts below are collectively referred to as major revenue sources:

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

During the last 10 fiscal years (FY 2015 to FY 2024), the City has exceeded their Major revenue budget six times with the only exceptions being fiscal years 2015, 2016, 2018, and 2024. During this period, revenue has exceeded budget by an average of approximately \$1,713,877 or 6.28% annually.

It is estimated that the major revenue sources analyzed below will comprise approximately 90% of the City's FY 2025 General Fund revenue. Historically, the City budgets little investment income, due to volatility and non-cash nature of changes in unrealized gains and losses in the City's investment portfolio. As a result, major revenue's actual contribution to total revenue is less than what is budgeted.

While a significant portion of tonight's discussion will center on the major General Fund revenue sources, other revenue categories presented include

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

The following table summarizes the FY 2025 General Revenue projections followed by a more detailed explanation for each major revenue source.

	FY2025 Budget	FY2025 through 01/24/25	FY2026 Proposed
Real Property Tax	\$ 6,100,000.00	\$ 6,053,059.00	\$ 6,150,000.00
Personal Property Tax	3,000,000.00	2,797,565.00	2,800,000.00
General Sales Tax 2%	9,500,000.00	5,347,078.00	9,500,000.00
Raw Seafood Sales Tax	4,000,000.00	2,945,727.00	6,000,000.00
Fisheries Business Tax	4,000,000.00	3,862,881.95	4,500,000.00
Fisheries Resource Landing Tax	5,900,000.00	4,416,676.02	6,000,000.00
Investment Income	3,000,000.00	5,152,624.15	2,000,000.00
Everything Else	3,329,617.03	1,933,102.37	2,125,050.00
<b>Total Revenues</b>	<b>\$ 38,829,617.03</b>	<b>\$ 32,508,713.49</b>	<b>\$ 39,075,050.00</b>

**Real Property Tax - \$6,150,000**

The amount proposed represents a \$50,000 or 0.82% increase from the FY 2025 budget amount. As of January 24, 2025, the City has recorded \$6,053,059, or 99.23% of the budgeted amount. The small budget increase represents the expected annual increase due to non-assessment year property value adjustments. Later during the budget cycle, Council will have an opportunity to review the Mil rate, which is currently 10.5 and was last adjusted from 9.0 in 2023 during the FY 2024 budget cycle.

**Personal Property Tax - \$2,800,000**

The amount proposed represents a \$200,000 decrease from the FY 2025 budget and is directly tied to the amount reported and received during FY 2025. Personal property tax is calculated based on self-reported information from local businesses. Once that information has been received, value and estimated tax will be determined. As of January

24, 2025, the City has recorded \$2,797,565, or 93.25% of the budgeted amount. Later during the budget cycle, Council will have an opportunity to review the Mil rate, which is currently 10.5 and was last adjusted from 9.0 in 2023 during the FY 2024 budget cycle.

**Sales Tax - \$9,500,000**

The amount proposed represents no change from the FY 2025 budget amount. As of January 24, 2025, the City has recorded \$5,347,078 or 56.29% of the budgeted amount, which projects to minimally (less than \$6,000) eclipse the FY 2025 budgeted amount.

**Raw Seafood Tax - \$6,000,000**

The amount proposed represents a \$2,000,000 or 50.00% increase over the FY 2025 budget amount. As of January 24, 2025, the City has recorded \$2,945,727, or 73.64% of the budget amount. During FY 2024, the City had recognized a similar amount through January 31, 2024 and ended up recording more than \$4,600,000 in raw seafood tax during the fiscal year, which exceeded the annual budget by more than \$600,000. Based on Frank Kelty's analysis, it is expected that the City should receive approximately \$4,600,000 in fiscal year 2025. The fiscal year 2026 estimate is based on two components:

- 2024-25 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 2024 to the 2025 fishing season. Staff communicates on a regular basis with Frank Kelty, fisheries consultant in order to develop an expectation surrounding the fisheries that will impact the estimate for fish-related taxes. While an increase, the amount proposed is in line with the City's conservative approach to budgeting.

**Alaska Fisheries Business Tax – \$4,500,000**

The amount proposed represents a \$500,000, or 12.50% increase from the FY 2025 budget amount. As of January 24, 2025, the City has recorded \$3,862,882, or 96.57% of the FY 2025 budget.

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 2026 budget. The proposed budget amount was calculated using calendar year 2024 shore value information reported to the City monthly by local processors. The FY 2026 estimate includes shore value to the City through November 30, 2024 as it is not expected that December 2024 will provide much additional value.

Frank Kelty can elaborate on how we developed the projection for FY 2026.

**Alaska Fisheries Resource Landing Tax - \$6,000,000**

The amount proposed represents a \$100,000 or 1.69% increase from the FY 2025 budget amount. As of January 24, 2025, the City has recorded \$4,416,676, or 74.86% of the FY 2025 budget.

The estimate for Alaska Fisheries Resource Landing Tax is based on total catch amounts reported by the NPFMC through November 6, 2024, and the State price book, last published in 2023. 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. Frank Kelly can weigh in with details as needed.

**ALTERNATIVES:** This is a work session item for discussion.

**FINANCIAL IMPLICATIONS:** General Fund revenue projections provide preliminary information regarding the City's FY 2026 budget and will help guide staff as they establish departmental expenditure budgets for the upcoming fiscal year. Staff will continue to monitor any items that will impact projections discussed this evening and make necessary adjustments. City Council will see any change in the draft budget later in the budget cycle. The Council will also have an opportunity to review proprietary fund 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, and E911 Enhancement will accompany budget documents presented to City Council in April 2025. 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. Staff will continue to monitor factors that impact these projections and will provide any necessary updates in future Budget drafts shared with City Council.

**PROPOSED MOTION:** No action required.

**CITY MANAGER'S COMMENTS:** This report serves as an integral tool for developing our FY26 budget.



# FY26 REVENUE PROJECTIONS - GENERAL FUND

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# PURPOSE OF GENERAL FUND REVENUE PROJECTIONS

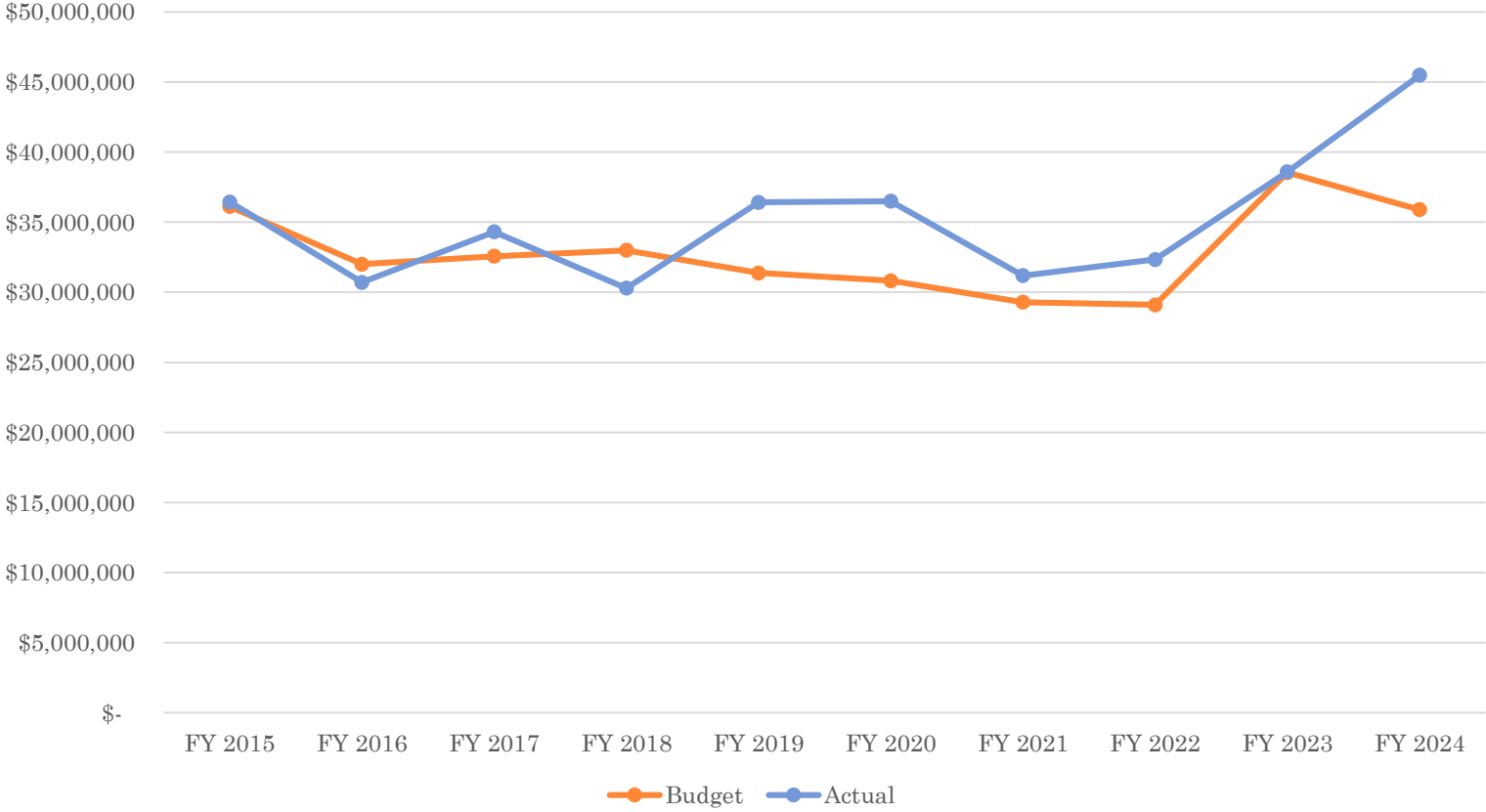
- Sustainability
  - Ensure that General Fund operating budget does not exceed projected General Fund revenue
- Comparison of Budget to Actual
  - Reconciliation of what we anticipated in prior years vs. actual revenues received

# GENERAL FUND REVENUE BUDGET TO ACTUAL

10-Year period (FY 2015 to FY 2024)

- Actual amount exceeded budget 8 times
- In total, actual amount has exceeded budget by approximately \$23,575,000 (7.17%)

# 10-Year Total Revenue to Budget

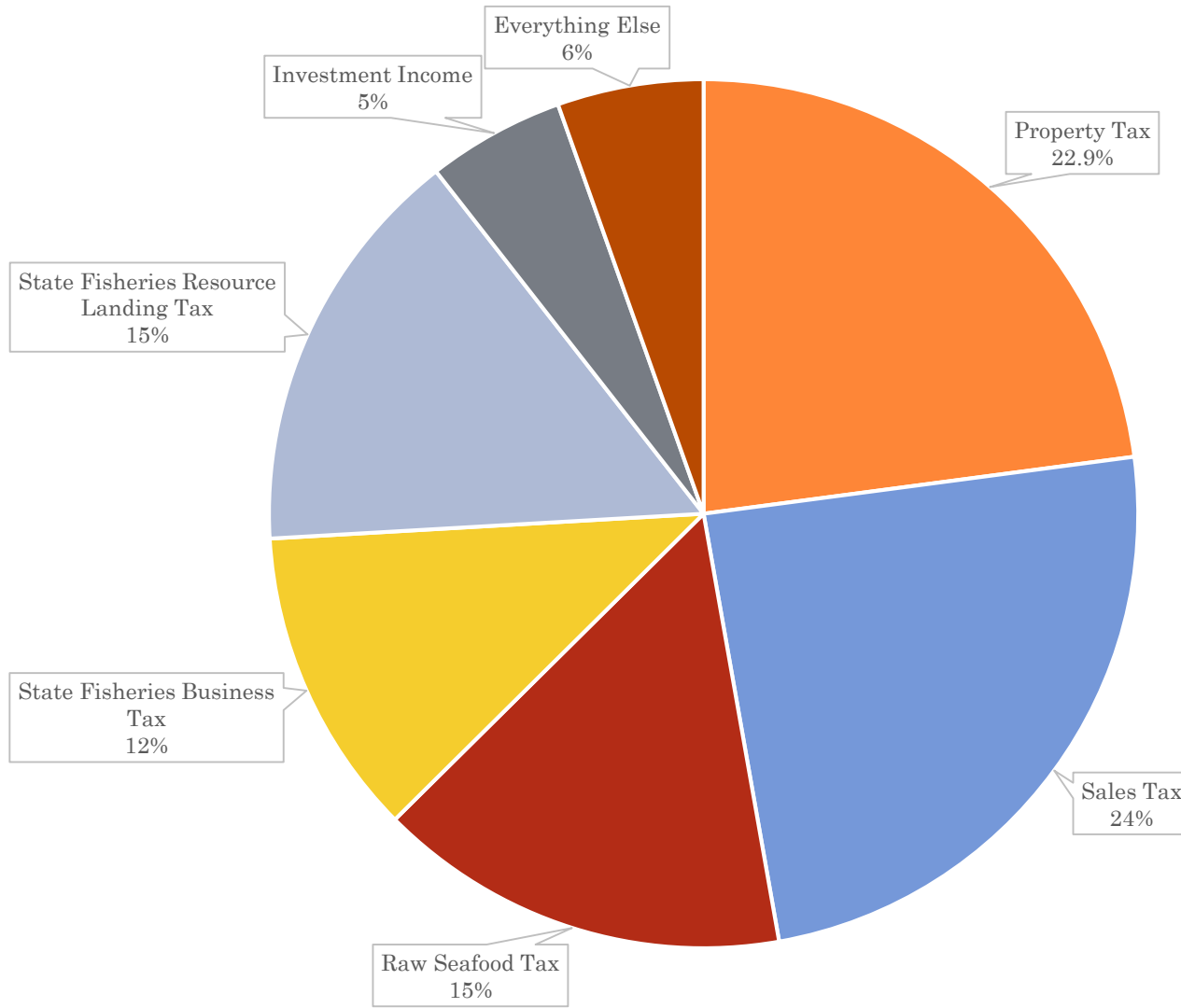




# FY 2026 GENERAL FUND PROJECTION

Real Property Tax	\$6,150,000
Personal Property Tax	2,800,000
Sales Tax	9,500,000
Raw Seafood Tax	6,000,000
State Fisheries Business Tax	4,500,000
State Fisheries Resource Landing Tax	6,000,000
Investment Income	2,000,000
Everything Else	<u>2,125,050</u>
Total	\$39,075,050

# FY 26 Revenue Budget by Category



# MAJOR REVENUE SOURCES

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

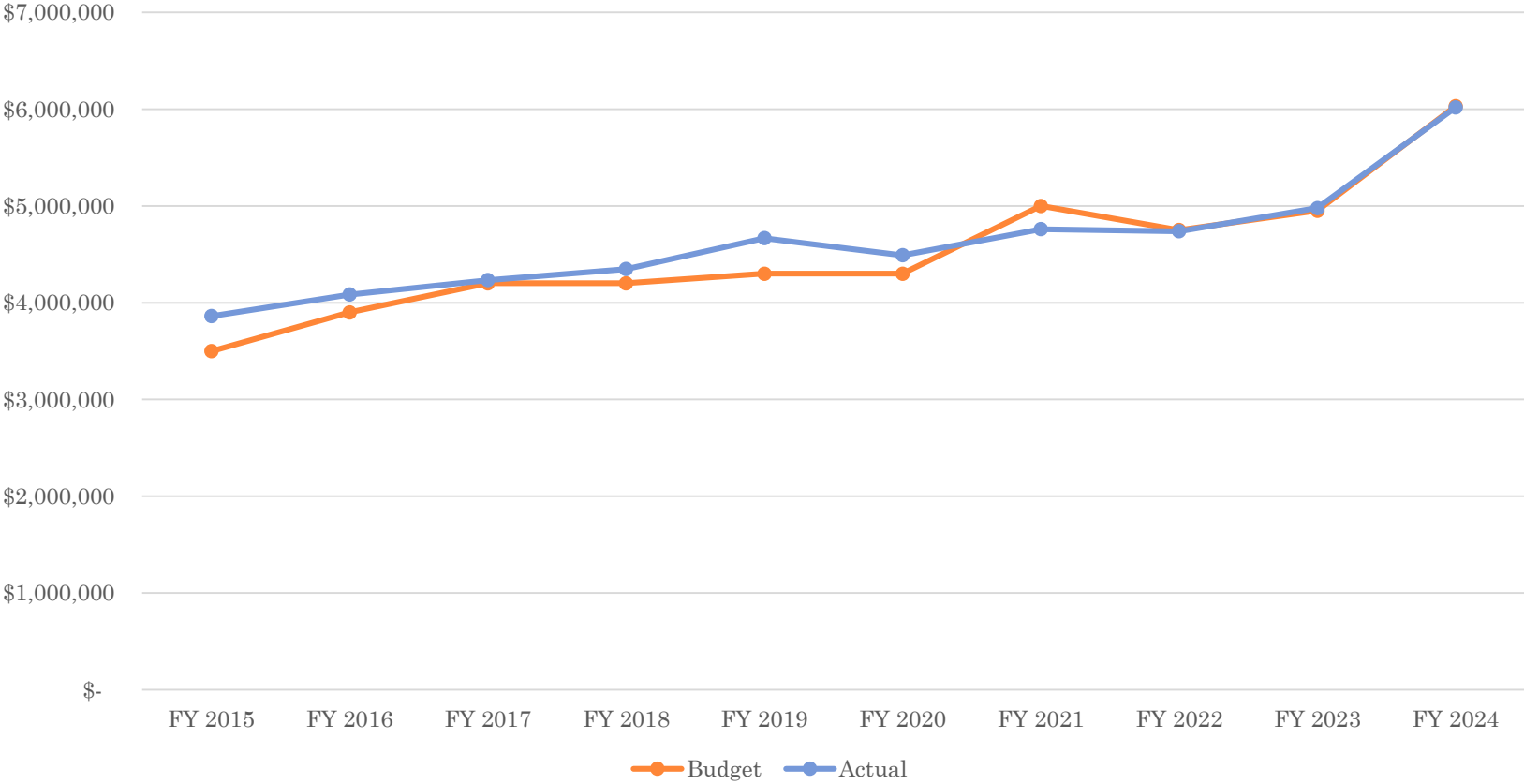
Over last 10 fiscal years, these taxes have accounted for 82.13% of all General Fund revenue

For FY 2026, estimated to account for 87.21% of General Fund revenues

# MAJOR REVENUE SOURCE – REAL PROPERTY TAX

- Mill Rate – 10.5
- Last adjustment – FY 2024 (increase from 9.0 mills)
- Since FY 2015: Average of 13.05% of GF Revenue
- General upward trend during that time
- FY 2025 budget – \$6,100,000 (17.18% of GF Rev)
- FY 2026 budget – \$6,150,000 (15.35%)

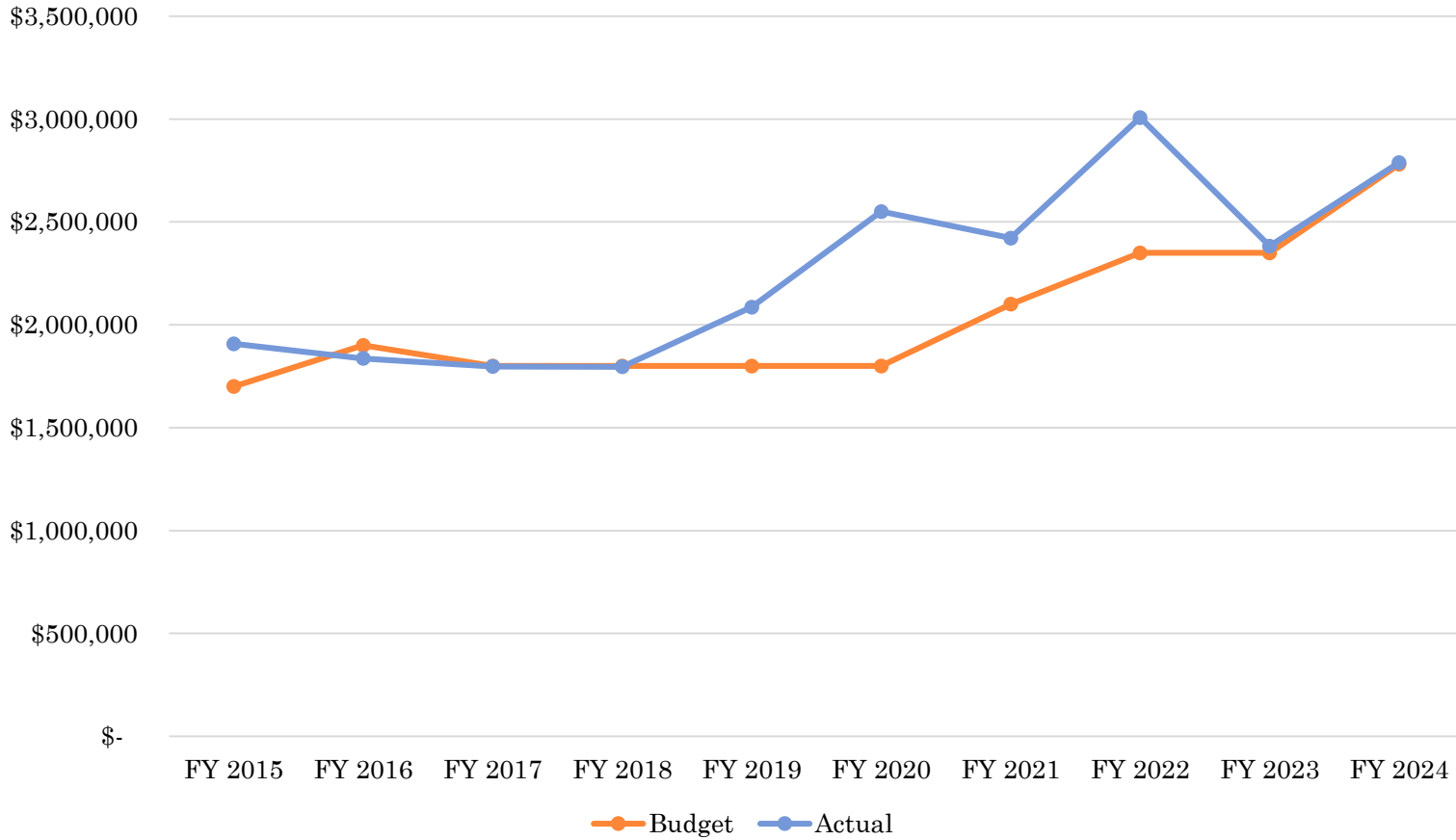
# 10-Year Budget to Actual - Real Property Tax



# MAJOR REVENUE SOURCE – PERSONAL PROPERTY TAX

- Mill Rate – 10.5
- Last adjustment – FY 2024 (increase from 9.0 mills)
- Since FY 2015: Average of 6.39% of GF Revenue
- General upward trend during that time
- FY 2025 budget – \$3,000,000 (8.45%)
- FY 2026 budget – \$2,800,000 (6.99%)

### 10-Year Budget to Actual - Personal Property Tax

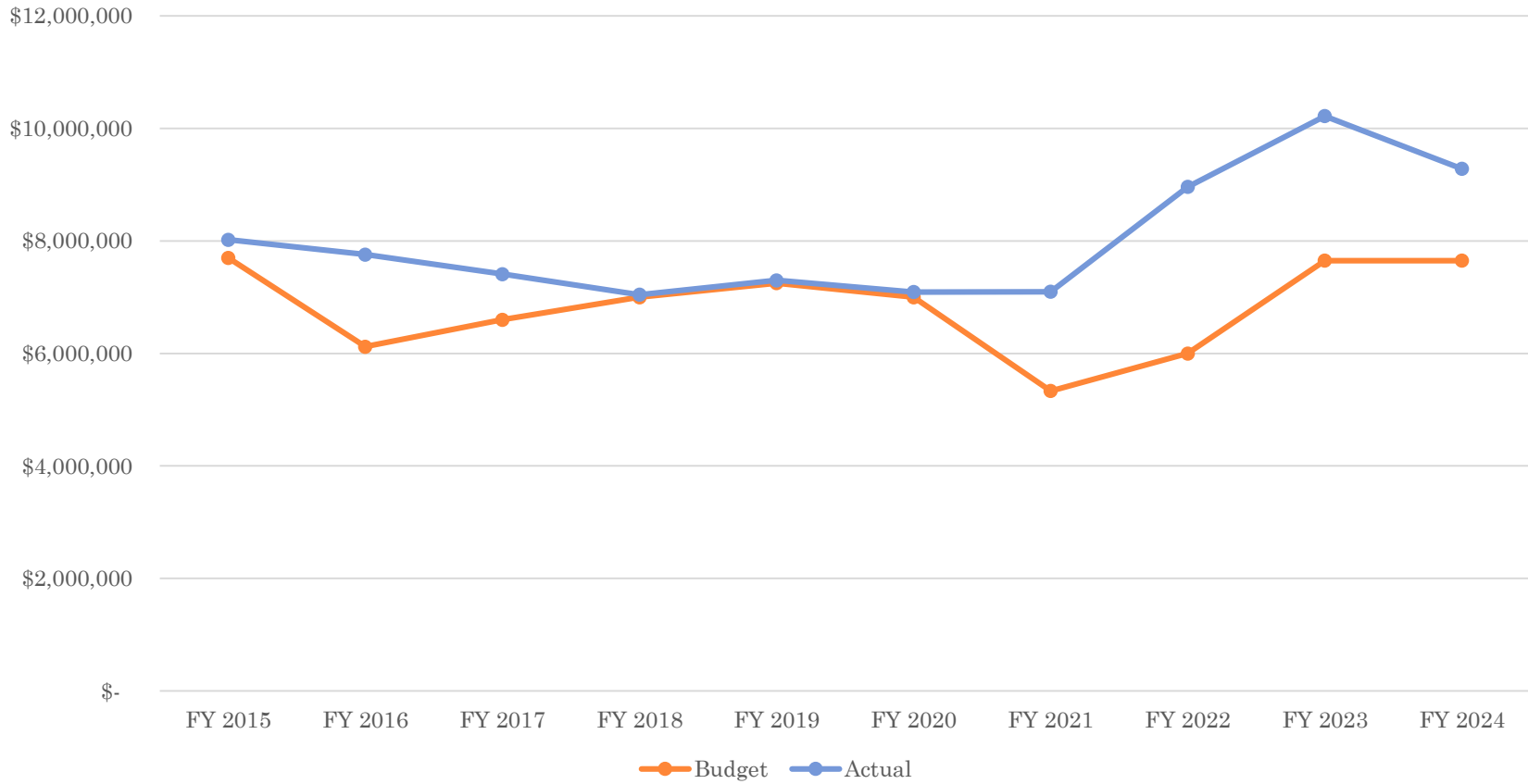


# MAJOR REVENUE SOURCE – SALES TAX

- Current Rate – 3%
  - General Fund Portion – 2%
  - 1% Sales Tax Fund – 1%
- Since FY 2015: Average of 22.66% of GF Revenue
- FY 2025 budget – \$9,500,000 (26.76%)
- FY 2026 budget – \$9,500,000 (23.71%)



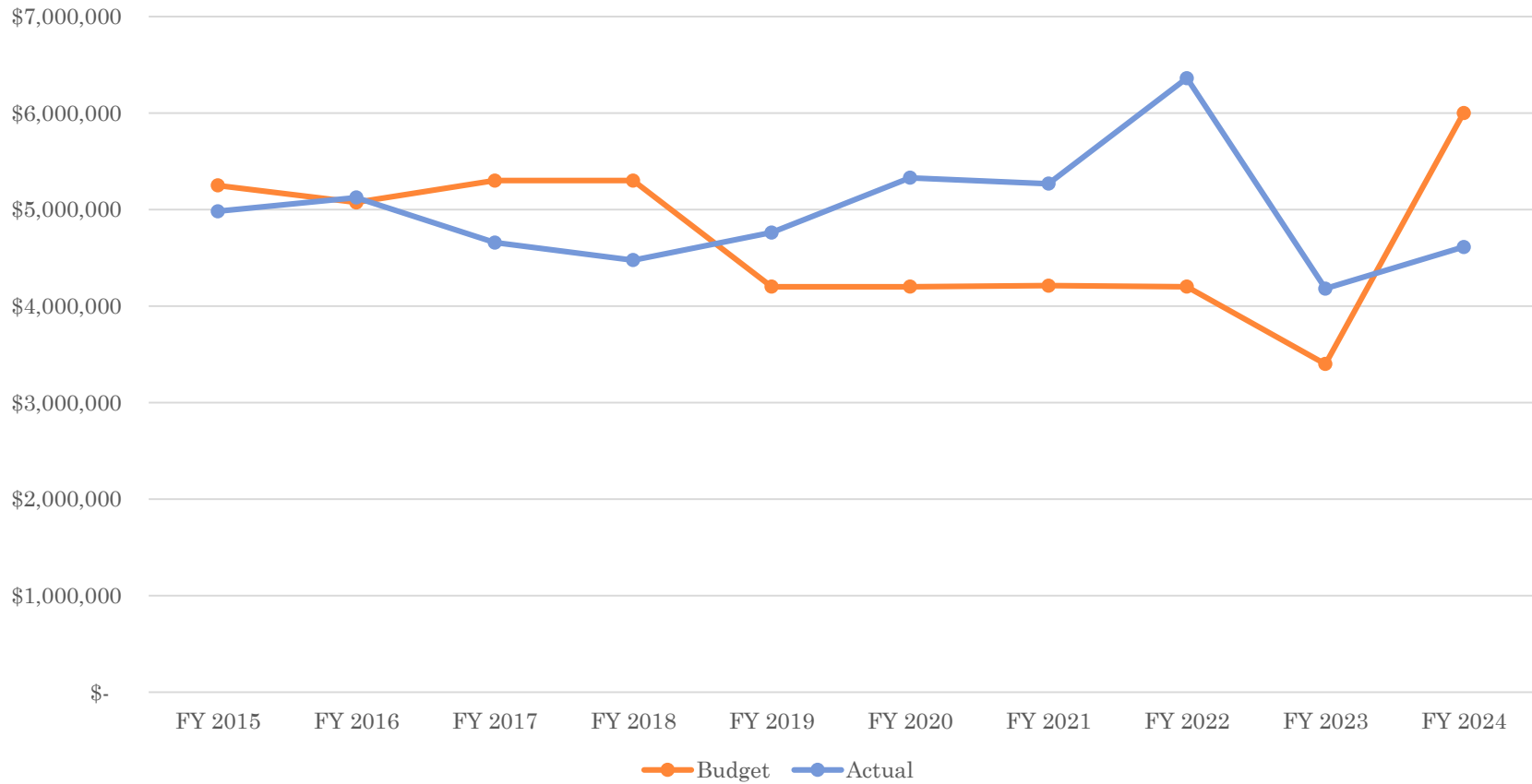
### 10-Year Budget to Actual - Sales Tax



# MAJOR REVENUE SOURCE – RAW SEAFOOD TAX

- Current Rate – 2%
- Since FY 2015: Average of 14.06% of GF Revenue
- Relatively consistent during that time
- FY 2025 budget – \$4,000,000 (11.27%)
- FY 2026 budget – \$6,000,000 (14.97%)

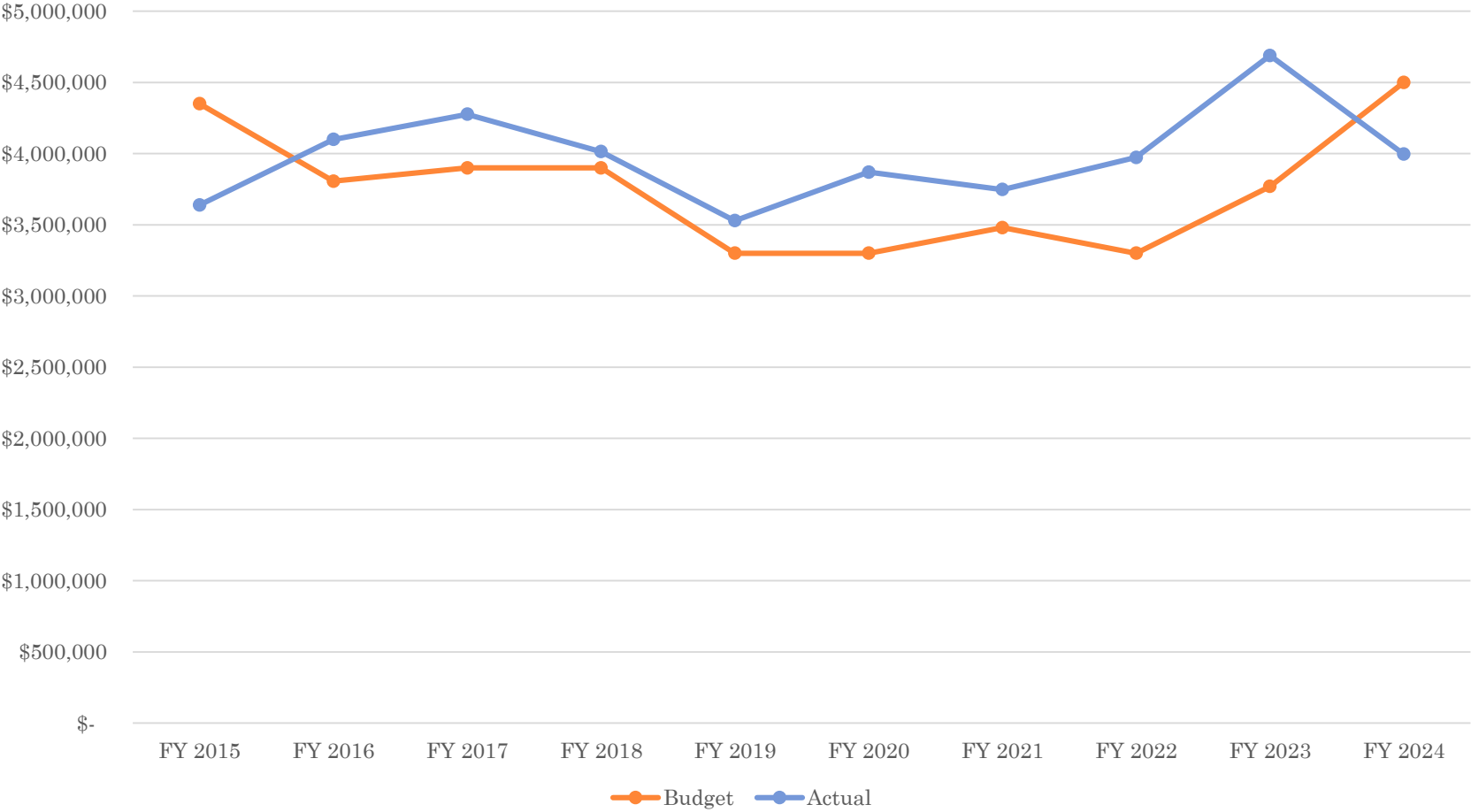
## 10-Year Budget to Actual - Raw Seafood Tax



# MAJOR REVENUE SOURCE – STATE FISHERIES BUSINESS TAX

- Current Rate – 1.5%
- Since FY 2015: Average of 11.26% of GF Revenue
- Fairly straight forward calculation
- Based on prior calendar year fishery data
- FY 2025 budget – \$4,000,000 (11.27%)
- FY 2026 budget – \$4,500,000 (11.23%)

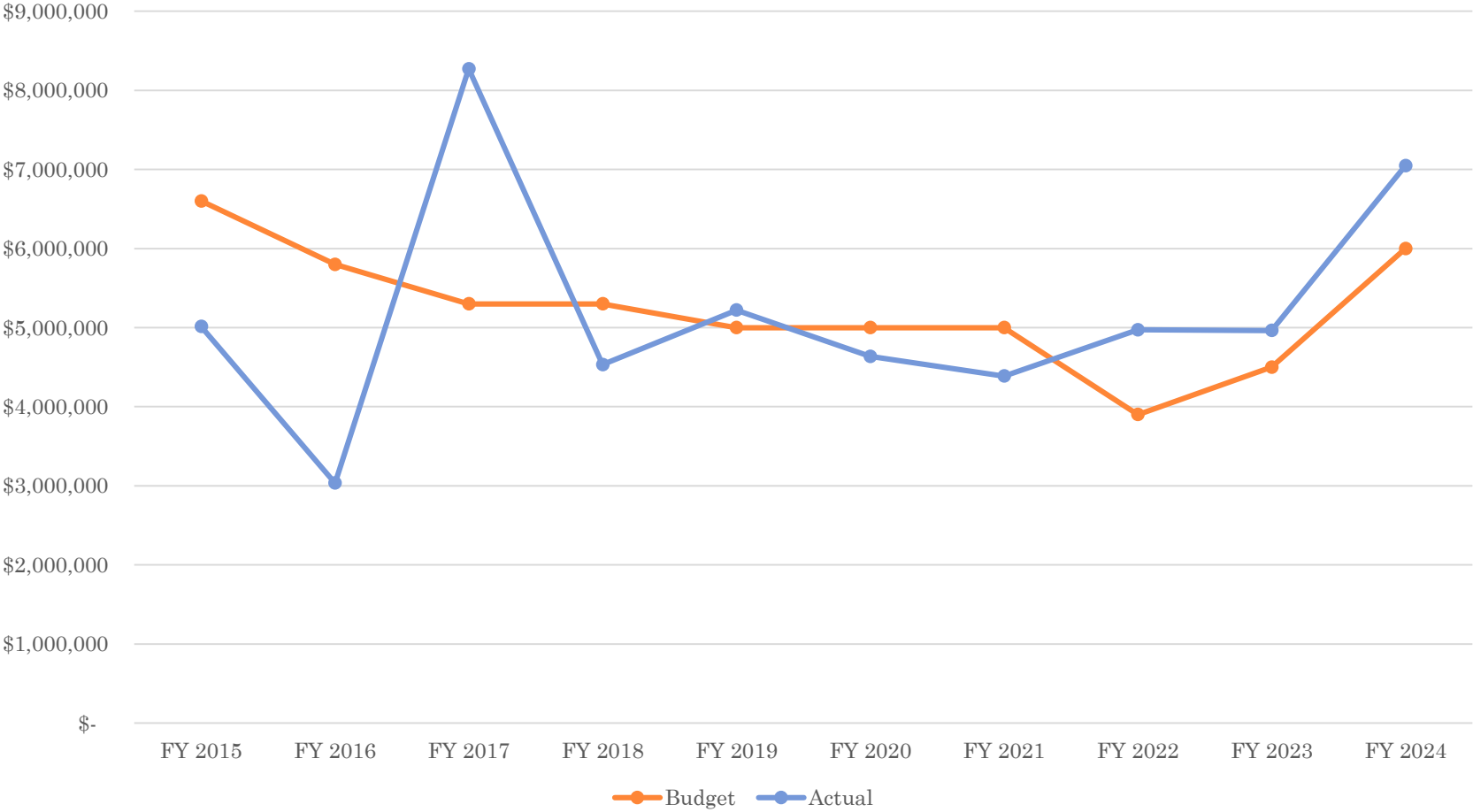
### 10-Year Budget to Actual - State Fisheries Business Tax



## MAJOR REVENUE SOURCE – STATE FISHERIES RESOURCE LANDING TAX

- Current Rate – 1.5%
- Since FY 2015: Average of 14.72% of GF Revenue
- Can be difficult to predict
- Based on:
  - Prior calendar year fishery data reported to the State
  - State published price book
- FY 2025 budget – \$5,900,000 (16.62%)
- FY 2026 budget – \$6,000,000 (14.97%)

# 10-Year Budget to Actual - State Fisheries Resource Landing Tax



# QUESTIONS