City and Borough of Juneau
Minutes - Assembly Finance Committee Meeting
Wednesday, April 06, 2022, 5:30pm

I. CALL TO ORDER

The meeting was called to order at 5:32 pm by Carole Triem, Chair.

II. ROLL CALL

Committee Members Present: Chair Carole Triem; Maria Gladziszewski; Wáahlaal Gíidaak; Christine Woll; Michelle Bonnet-Hale*;* Alicia Hughes-Skandijs; Wade Bryson

Committee Members Present Virtually: Greg Smith

Committee Members Absent: Mayor Beth Weldon

Staff Members Present: Rorie Watt, City Manager; Robert Barr, Deputy City Manager; Jeff Rogers, Finance Director; Adrien Speegle, Budget Analyst

Staff Members Present Virtually: Robert Palmer, City Attorney

III. APPROVAL OF MINUTES

The March 12, 2022 minutes were approved as presented.

IV. AGENDA TOPICS

a. Summary of FY23 Proposed Budget

Jeff Rogers, Finance Director, acknowledged the dedication from the Manager's Office and the Finance Department that goes into creating the Biennial Budget each year. He specifically praised Adrien Speegle, Budget Analyst, for her meticulous technical skill and re-imagination of the budget workbook that allowed for a more intuitive and streamlined budget process across the city.

Mr. Rogers summarized the City Manager's Budget Message on page 19 of the FY23-24 Proposed Budget Book introduced April 4, 2022 (Budget Book).

Mr. Rogers presented Budget Book DOC 1 and reviewed FY22 supplemental appropriations and anticipated variances that affected the final projected budget. He noted that supplemental appropriations in FY22 were high because the Assembly was initially conservative in the budget process which allowed for a higher fund balance than originally anticipated. This provided the opportunity for significant forward motion with Assembly goals through supplemental appropriations.

In response to Committee questions, Mr. Rogers stated that, historically, the budget reflects a projected $2M lapse, but the actuals over the last few years have easily doubled the projection. He highlighted significant lapses in Personnel Services due to vacancies in several departments (largely Police) and programs that were diminished by the pandemic. Mr. Rogers reminded the Committee that the $1.98M "*Lapse GF (General Fund) Transfer to Debt Service Fund in FY22*" under Supplemental Appropriations is due to the Assembly's decision to follow Mr. Roger's recommendation not to transfer General Funds to the Debt Service Fund to cover unreimbursed school bond debt which was originally included in the budget. This effectively saved the Assembly about $2M in FY22.

Rorie Watt, City Manager, noted that the COVID-19 pandemic significantly altered the "normal" budget process. He stated that a goal for the Committee should be to get back to a more disciplined budget process for the Assembly and the community with fewer supplemental appropriations.

Mr. Rogers reviewed the FY23 Manager's Proposed Budget Summary on Budget Book DOC-2 and provided brief explanations of revenues and expenditures to be discussed in greater detail over the next few weeks.

Mr. Rogers highlighted the transition to charge 100% rather than 85% of allocated costs to enterprises and non-general funds excluding Eaglecrest. He explained that previous administrations were subsidizing enterprise and fund level activities by 15%, and he suggested that there are more transparent ways for the Committee to subsidize activities.

In response to Chair Triem's question, Mr. Roger clarified that Eaglecrest will still be charged 85% because it is not like any other enterprise in that they are still essentially funded by the General Fund, and this year, their allocated costs are already going up. The ultimate goal is to move them to 100% over time. Mr. Watt explained that the change in cost allocation practice reflects a contracted study conducted by an independent accountant hired by the city who provided precision information and accurate methods for cost allocation.

Robert Palmer, City Attorney, responded to Assemblymember Hale's question confirming the legal requirement for the cost of insurance of school buildings to be paid for by the school district as part of their educational expense which would be subject to "the cap" (the maximum allowable local contribution by state law). He stated he will provide a statuary reference to the Committee by April 8th, 2022. The Juneau School District is scheduled to present their budget to the Committee on April 13th, 2022.

Chair Triem expressed concern that the Committee may need to take corrective action to address a structural deficit specifically citing that the last few budgets the Assembly passed were unbalanced. Mr. Watt stated that it is hard to know if or when corrective action may be necessary due to the volatility of economic indicators as the city adjusts to the lasting effects of COVID19.

Mr. Rogers presented Budget Book DOC-3 and stated that the current, large Unrestricted Fund Balance may now be an unnecessarily large cushion. He reminded the Committee of about $20M of supplemental appropriations (currently not reflected in the budget) that would spend down the Unrestricted Fund Balance were introduced at the Regular Assembly Meeting on April 4th, 2022. He clarified that if those appropriations were introduced for public hearing and passed on April 25th, 2022, they would be included in FY22.

b. Overview of Major Revenues

Mr. Rogers presented Budget Book DOC-4-DOC-9 and stated that he does not plan to be as conservative in his projections as previous Finance Directors, and he is confident in his forecasts.

Mr. Rogers briefly reviewed FY22 actuals and forecasted $48.6M in sales tax revenue which is $3.6M over the original forecast. This increase is partly due to the out-performance of remote sales tax in each quarter, the effects of inflation, and the assumption of a successful start to the tourism season in Juneau in Q1.

In his explanation of the highest sales tax forecast ever in FY23-24 compared to FY19-20 actuals which were high tourism revenue years, Mr. Rogers reiterated the direct effect of inflation on sales tax. He also reminded the Committee that the city will see some revenue from sales tax on cruise ships due to the Assembly repealing their exemption earlier this year.

Mr. Rogers noted that the Alaska Remote Sellers Sales Tax Commission (ARSSTC) continues to register more and more sellers which will increase revenue from online purchases. In response to Chair Triem's question about the volume and business size of registered sellers, Mr. Rogers shared that the RSC registered 2,000 sellers thus far with many small businesses. Google will be the largest return once they register, but the RSC continues to have trouble registering them. Eventually, the RSC may force register Google and sue them for the returns owed to the city.

Mr. Rogers noted that there will be a large over-performance in Hotel Bed Tax in FY22 due to a big influx of independent travelers and inflation.

Liquor, Marijuana and Tobacco taxes are relatively consistent and forecasted considering inflation.

c. Assessor Valuation Report

Mr. Rogers presented the Residential and Commercial Assessor Valuation reports on packet pages 8-37. He noted that the average residential property assessment went up about 9.2% with highest prices contained in the downtown neighborhoods. Mr. Rogers directed the Committee to a summary on packet page 28 and highlighted that last year, the Assessor's office determined a 50% increase to the base value of all commercial land to bring them into more equitable valuation with residential properties. This year, smaller adjustments (2% increase outside of downtown, 2% decrease inside of downtown, and 35% increase on the Rock Dump) are aimed to make commercial property assessments more equitable to each other.

d. Proposed Mill Rate

Mr. Rogers presented packet page 38-39.

The Manager's Proposal is to take the mill rate back to its historical norm of 10.66 which would result in FY23 property tax revenue just under $60M which would be $4.1M over the prior year.

Mr. Rogers answered Committee questions.

e. Overview of Debt Service

Mr. Rogers presented the CBJ Debt Service Model on packet pages 40-42 and reviewed the math in the FY23 column which shows the Net Required Debt Service will be $4.9M. The Debt Service paid by a 1.2 Mill Rate is $6.9M which would ultimately correct a $2M negative fund balance being pushed forward to FY23.

Mr. Rogers clarified that the Assembly made the decision to push $2M of Required General Fund Subsidy into FY23 because it saved $2M for the general fund in FY22. Also, if the Assembly had not pushed the subsidy forward, the Debt Service Mill Rate would have greatly fallen in FY23. Mr. Rogers reminded the Committee that they still have time to change this decision.

Mr. Rogers noted that the Mill Rate will drop considerably from FY23 to FY24 due declining CBJ indebtedness, which is largely the result of CBJ not having issued very much new school debt since the moratorium on state school bond debt reimbursement was adopted. Mr. Rogers recommended the Committee retain a flat Debt Service Mill Rate coming into FY23.

f. Cost Allocation Overview

Mr. Rogers presented packet pages 43-52 as information materials for the Committee. Risk rates, insurance, and health insurance rates are not reflected in the packet materials as the rate setting is a separate process both for the risk fund and for Building Maintenance. The full cost allocation only applies to the central service agencies.

As an outcome of the CBJ/Cruise Line International Association of Alaska (CLIAA) settlement the finance department hired a third party cost allocation consultant to work on the marine passenger fee allocation. At the same time, they worked on the “full cost allocation” which is the allocation of CBJ costs out to the enterprises and funds. CBJ has had this consultant for the last three years.

Mr. Rogers used the example of Eaglecrest buying a Gondola in FY22. That action requires a lot of time from the Manager’s Office, Law Department, and Finance Department. That level of support from central services in FY22 will be billed to Eaglecrest through the full cost allocation process in FY24

The plan going forward is to use three years of past cost allocation data to smooth costs overall each year, which will make budget impacts less severe and more predictable.

Mr. Watt and Mr. Rogers answered committee questions.

g. AFC Budget Calendar

Mr. Rogers presented packet page 53 and spoke briefly to the “Investment Update” that did not make it onto the April 6, 2022 AFC agenda.

Mr. Rogers warned that CBJ’s investments have been doing terribly recently, and stated he will prepare a summary CBJ’s investments over the last couple of years to illustrate how investments even out over time.

V. NEXT MEETING DATE

a. April 13, 2022

VI. ADJOURNMENT

The meeting was adjourned at 8:16pm.