

**ASSEMBLY STANDING COMMITTEE
ASSEMBLY FINANCE COMMITTEE
THE CITY AND BOROUGH OF JUNEAU, ALASKA**

January 5, 2022, 6:00 PM.

Zoom Webinar

<https://juneau.zoom.us/j/93917915176> or call 1-253-215-8782 Webinar ID: 939 1791 5176

This meeting will be virtual only.

AGENDA

I. CALL TO ORDER

II. ROLL CALL

III. APPROVAL OF MINUTES

A. December 1, 2021

IV. AGENDA TOPICS

A. FY21 Audit Presentation by Elgee Rehfeld

B. Capital Projects – Big Picture Planning

C. Capital Civic Center Appropriation (Ord. 2021-08(b)(am)(S))

D. Augustus Brown Pool Appropriation (Ord. 2021-08(b)(am)(T))

E. Centennial Hall Renovation Appropriation (Ord. 2021-08(b)(am)(U))

F. Eaglecrest Compensation

G. Electrical Power Cost Sales Tax Exemption (Ordinance 2022-01)

V. NEXT MEETING DATE

VI. SUPPLEMENTAL MATERIALS

A. February 2, 2022

VII. ADJOURNMENT

ADA accommodations available upon request: Please contact the Clerk's office 36 hours prior to any meeting so arrangements can be made for closed captioning or sign language interpreter services depending on the meeting format. The Clerk's office telephone number is 586-5278, TDD 586-5351, e-mail: city.clerk@juneau.org

DRAFT
City and Borough of Juneau
Minutes - Assembly Finance Committee Meeting
Wednesday, December 1, 2021

I. CALL TO ORDER

The meeting was called to order at 6:35 pm by Carole Triem, Chair.

II. ROLL CALL

Committee Members Present in Chambers: Chair Carole Triem; Mayor Beth Weldon; Maria Gladyszewski; Greg Smith; Christine Woll; Alicia Hughes-Skandijs; Wade Bryson

Committee Members Present Virtually: Wáahlaal Giidaak (present for part of the meeting)

Committee Members Absent: Michelle Bonnet-Hale

Staff Present: Rorie Watt, City Manager; Robert Barr, Deputy City Manager; Adrien Speegle, Budget Analyst; Carl Uchytel, CBJ Port Director

Staff Members Present Virtually: Jeff Rogers, Finance Director; Robert Palmer, City Attorney

Others Present: Don Etheridge, Docks and Harbors Board Chair

III. APPROVAL OF MINUTES

The November 3, 2021 minutes were approved as presented.

IV. AGENDA TOPICS

a. Update on FY21/FY22/FY23

Jeff Rogers, Finance Director, presented an overview of the last fiscal year, the current fiscal year, and the upcoming fiscal year on packet pages 22-29, and the accompanying memos on packet pages 14-21.

Mr. Rogers reviewed the changes that occurred in FY21 since the adopted budget, which included \$11.5 million in supplemental appropriations, \$1.8 million in additional revenue, and \$6.7 million in expenditure authority lapses. These changes combined resulted in a \$1.9 million surplus at the end of the fiscal year, which was down from the anticipated \$5.0 million surplus in the FY21 adopted budget. The unrestricted General Fund balance increased from \$25.6 million to \$27.5 million.

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The major changes to revenue in FY21 included \$1 million less in sales tax collection, \$1.2 million in lost user fees and charges for services, \$3.1 million additional use of federal CARES Act funding for core city services and a Transit grant, and \$2.9 million application of federal American Rescue Plan Act (ARPA) funding for the replacement of lost revenue.

The major changes to expenditures in FY21 included a \$5.9 million transfer of general funds to the Debt Service Fund as a result of not receiving reimbursement for school bond debt from the State of Alaska, \$4.9 million in supplemental community grants, and a \$6.7 million expenditure authority lapse. Nearly half of the expenditure lapse was unspent personnel service authority from CBJ facility closures and staff being substantially diverted due to the pandemic, which federal stimulus funding paid for.

Mr. Rogers reviewed the actual and anticipated changes in FY22 since the adopted budget on packet pages 15 and 24. The changes include \$10.7 million in supplemental appropriations, \$14.3 million in additional revenue, and \$1.5 million in expenditure authority lapse. These changes combined are projected to result in a \$26,000 surplus at the end of the fiscal year. The unrestricted General Fund balance is projected to remain flat at \$27.5 million.

The major revenue changes include an additional \$3.4 million in anticipated sales tax receipts based on a strong first quarter and the continuous rise of remote sales tax collections. Additionally, \$11.9 million in ARPA funds were received from the State of Alaska to help replace lost state marine passenger fee revenue.

The major expenditure changes include \$5.5 million for the Statter Harbor Phase IIIC and Seawalk capital improvement projects and \$2.8 million for the purchase of the Juneau Fisheries Terminal from the University of Southeast Alaska (UAS), which are both still pending final Assembly consideration. Additionally, \$1 million was appropriated for Emergency Operation Center costs in FY22 to fund CBJ's continued response to the pandemic.

Assemblymember Woll asked about allocation of funds from Resolution 2972 adopted earlier in the evening during the Special Assembly meeting. The State allocated funds to the Local Government Lost Revenue Relief Program from their allocation of federal ARPA funds. The resolution authorizes the Manager to execute any necessary grant agreement with the State for the City and Borough of Juneau to receive this additional American Rescue Plan Act funding. Adrien Speegle, Budget Analyst, clarified that \$50M is appropriated to the program, but final allocation of funding for local municipalities has not yet been released. Mr. Rogers speculated that CBJ's allocation could be in the range of \$5 million depending on other communities' eligibility. However, it could be more since

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Juneau did experience greater hardship than other communities due to the severe impact of the pandemic on Juneau's cruise ship season. Ms. Speegle stated per staff calculations, CBJ experienced an approximate 12.7% revenue loss through December 31, 2020, which amounts to about \$34 million.

Mr. Rogers presented preliminary information to the Assembly relating to FY23 on packet page 17.

Per conversations with the Cruise Line Industry Association (CLIA), there is capacity for 1.5 million cruise passengers to come to Juneau in the summer of 2022. CLIA did clarify that they will be sailing at a reduced capacity of 5-10% to account for COVID safety. As a comparison, this past summer, ships sailed at a range of capacities between 35-85%. Mr. Rogers and Rorie Watt, City Manager, are taking a conservative approach to these estimates and advised the Assembly that at this time, a 1.15 million passenger estimate will be used for FY23 budget planning purposes.

(Assemblymember Wáahlaal Giidaak signed off zoom at 7:12pm and was unable to rejoin the meeting.)

Mr. Rogers stated that no additional federal relief funds are anticipated in FY23, which means the CBJ budget must be balanced principally by municipal revenues. However, the federal Infrastructure Investment and Jobs Act was signed into law, potentially bringing billions to Alaska. It is unknown what allocation of funds will come to Juneau, but early indications are that these funds will require a 20% local match.

Mr. Rogers stated that CBJ will see inflationary cost growth through the end of the current fiscal year and into FY23. CBJ should expect to see costs rise across the board, especially in relation to labor shortages that will drive up the cost of professional services (architects, engineers, etc.) and non-professional services (custodial, shipping/freight, transit/logistics, etc.). Mr. Rogers stated that it's likely too early to predict the impacts on the FY23 budget, but higher costs will require additional general funds or service reductions.

Mr. Rogers notified the Assembly that CBJ is entering into negotiations with its three labor unions starting in December or January. These negotiations could include significant wage increases as a result of the labor shortage and the impact of inflation on consumer's buying power. These potential increases have not been included in projections for the FY23 budget.

Mr. Rogers stated that the Finance Department is trying to better understand why projections for sales tax have consistently been below actual returns. It's possible that the department may be under appreciating inflation. Mr. Rogers prepared a

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calculation that considers cruise ship passenger numbers and the impact of inflation over time in relation to sales tax receipts. Prices will rise as inflation increases and, while it's easy to think that consumption will drop as prices rise that may not be the case in terms of summer visitation in Juneau. Presumably, each visitor will continue to purchase goods, services, and attractions that cost more, generating additional sales tax as a percentage of cost of goods and services sold.

Mr. Rogers noted that ultimately sales tax will go up with inflation even as supply costs rise. The only reason that CBJ would think that sales tax would go down is because of economic contraction or a reduction in wages. Currently, there is no reason to think that will occur.

CBJ plans to use a 2.5% property valuation growth rate for planning purposes in the FY23 budget until the Assessor finalizes the 2022 assessments in March. The Finance Department will use 50% as an estimate for the amount of eligible school bond debt that will be reimbursed from the State in FY23. This number could fluctuate from 0% to 50%, as in FY20/21/22 the amount reimbursed was 50%, 0%, and 42% respectively. Mr. Rogers stated that it was hard to imagine that CBJ would receive more than 50% reimbursement.

Mr. Rogers noted that there is a lot of optimism around the state being able to fund lots of local community support projects and pay out a decent dividend with current elevated oil prices.

With preliminary projections of sales tax receipts and cost growth, the FY23 budget is currently estimated at a \$2.1 million deficit without the consideration of negotiated wage increases.

Mr. Rogers stated that ultimately the unrestricted General Fund balance is at a healthy amount, and the next step for the Assembly could be to consider spending this balance down through investment in large capital improvement projects.

The committee recessed at 7:48 PM.

The committee reconvened at 8:00 PM.

b. Resolution Opposing a Statewide Sales Tax

Mr. Rogers presented the newest draft of Resolution 29XX opposing a statewide sales tax on packet page 30. This draft was workshopped by Mr. Rogers, Mayor Beth Weldon, Assemblymembers Hale and Smith.

Motion: by Mayor Weldon to move Resolution 29XX to the full Assembly.

Motion passed by unanimous consent.

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c. Update: Status of Commercial Property Appeals

Mr. Rogers presented a table on packet page 32 listing the status of commercial property appeals in Juneau. In particular, he noted that there are 45 more complex appeals on which the Assessors' office is still working. Those may or may not go to the Board of Equalization (BOE) for consideration.

Mr. Rogers stated the commercial appeals process is complicated and has consumed a lot of resources for both CBJ and the appellants. At the time of the meeting, the BOE had not yet voted in favor of any appellant as the law clearly states that the burden of proof lies with the appellant. While compelling arguments were made, significant proof of incorrect assessment has not been proven. Mr. Rogers clarified that BOE meetings and appeals are unlikely to end until after the holidays in January. A more exact date of completion is not currently possible because only 10 appeals are heard each week.

Four cases are advancing to the Alaska Superior Court.

Mr. Rogers reminded the Assembly that CBJ's property assessment process is typical. The value of property will (likely) go up in price each year for various reasons and, under State law, the Assessor's office must try to assess each property at fair market value. The 50% increase to the assessed value of commercial land in 2021 is an attempt to correct these properties from being under-assessed for the last ten years. Mr. Rogers stated that he believes the previous city Assessor did not raise the value of commercial land for fear of lack of information.

Joe Casey, State Assessor, was on-boarded to give advice and review the Assessor's method for determination. Mr. Rogers expects a report this week from Mr. Casey. Marty McGee, former State Assessor, is not under contract with CBJ but he has been widely available to the City Assessor to answer any questions she has.

Mr. Rogers answered committee questions.

d. Purchase of 2.8 Acres from UAS (Ordinance 2021-08(b)(am)(P))

Mr. Rogers presented the ordinance on page 33-35 of the packet. The ordinance would appropriate \$2.88 million of general funds for the purchase of approximately 35,000 square feet of uplands and two acres of tidelands from UAS. The short history is that Docks and Harbors leased this property from UAS to support commercial fisheries and commercial boat repair activity. The 33 year lease was negotiated at a "sweetheart deal" fixed market rate since CBJ had donated funds to UAS in the past. Continuation of the lease after expiration in May

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2022 will result in significant increases in leasing costs to the Docks and Harbors enterprise which cannot be recovered through existing subleases, as UAS intends to lease at market rate.

Investment in the purchase of this property will reduce ongoing operating costs and alleviate pressure on Docks and Harbors user fees.

Motion: by Mayor Weldon to move Ordinance 2021-08(b)(am)(P) to the full Assembly.

Amendment #1: by Mayor Weldon to split the cost of the property equally between general funds and Harbors funds.

Objection: by Ms. Woll, stating that she believes CBJ can afford to purchase the property with general funds without requiring the Harbors Department to increase rates.

The committee discussed the amendment.

Assemblymember Gladziszewski supported Mayor Weldon's amendment, stating that other communities pay for dock usage at a much higher rate than Juneau.

Don Etheridge, Docks and Harbors Board Chair, stated that no matter what, dock rates are subject to increase, as the enterprise needs to recover more of their costs. He clarified that if Docks and Harbors must come up with \$1.4 million dollars to help pay for the property, then nearly all of those funds would come from higher dock fees. He stated his concerns about the impact higher rates will have on dock patrons. Whatever increase this new property is going to bring may also affect other projects (new lighting, ramps, etc.).

Carl Uchityl, CBJ Port Director, clarified that the Dock Enterprise and the Harbors Enterprise are separate entities financially.

Mayor Weldon removed the original amendment.

Amendment #2: by Mayor Weldon to split the cost of the property \$2 million from the General Fund and \$880,000 from the Harbors Fund.

Objection: by Ms. Woll, reiterating the reasons for her previous objection.

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Roll Call Vote:

Ayes: Smith, Gladziszewski, Weldon, Bryson, Triem

Nays: Hughes-Skandijs, Woll

Motion passed. Five (5) Ayes, Two (2) Nays.

V. NEXT MEETING DATE

a. January 5, 2022

VI. AJOURNMENT

The meeting was adjourned at 8:47pm.

CITY AND BOROUGH OF JUNEAU



**Fiscal Year 2021 Audit
Presentation**

January 4, 2022

Karen Tarver, CPA

Elgee Rehfeld, LLC

FY21 AUDIT TEAMS

CBJ – Karen Tarver

Adam Sycks, Jill Smith, Cody Campbell, Tim
Lewis, William Paneak, Eric McDonald, Batsuren
Ganbat, Sami Good

BRH – Sarah Griffith

Adam Sycks, Tim Lewis, William Paneak, Sami
Good

CBJSD – Karen Tarver

Jill Smith, William Paneak, Cody Campbell,
Batsuren Ganbat, Eric McDonald, Sami Good

WHEN WE AUDIT AND ISSUED

City and Borough of Juneau (CBJ)

Fieldwork August and October January

FY21 FS issued in December

FY21 Compliance Audits will be completed in January 2022

Bartlett Regional Hospital (BRH)

Fieldwork August and September

FY21 FS issued in December

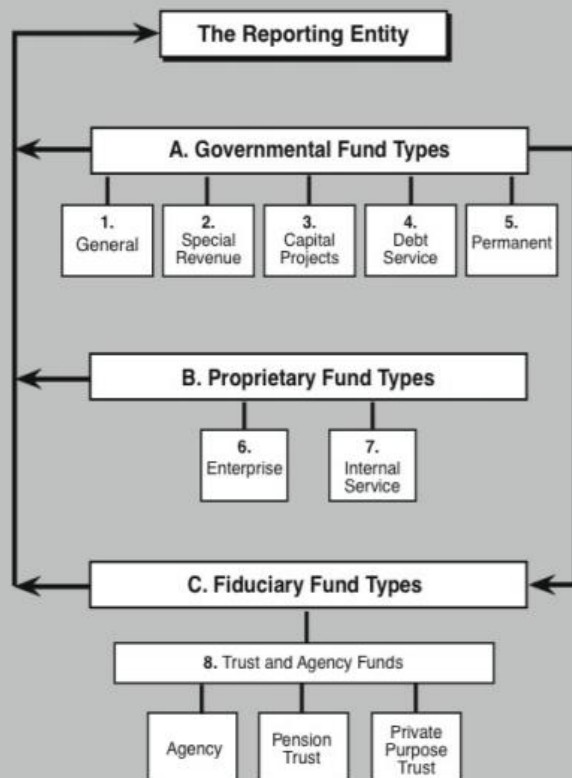
Juneau School District (CBJSD)

Fieldwork July and September

FY21 FS & Compliance Audits issued in November

CBJ – PRIMARY GOVERNMENT

Primary Government



- **Governmental Activities**
- **Business Type Activities**
- **Discretely presented component unit (CBJSD)**
 - *Includes separately issued audit*
- **Each Major Fund**
 - *Includes separately issued audit on the Hospital (BRH) Enterprise Fund*
- **Aggregate Remaining Fund Information**
- **Compliance**
 - *Federal Major Programs*
 - *State Major Programs*
 - *FAA Pass. Fac. Charge*

CBJ'S ACTIVITIES AND FUNDS

Governmental Activities

- General Fund

- General Debt Service

- Special Revenue Funds – 11 (2 major)

- Capital Project Funds - 5

- Permanent Fund

Business-Type Activities

- Enterprise Funds – 7 (all major)

Other

- Internal Service Funds – 3 (allocated into Governmental and Business-Type Activities)

- Fiduciary Funds - 2

ANNUAL FINANCIAL REPORTS OF CBJ

CBJ

- ❑ ACFR (Annual Comprehensive Financial Report)
- ❑ Compliance Reports (will be issued in 2022)
 - ❑ Federal and State Major Programs & Schedules
 - ❑ FAA Passenger Facility Charges Program and Schedule

Bartlett Hospital

- ❑ Financial Statements

CBJSD

- ❑ Financial Statements
- ❑ Compliance Reports
 - ❑ Federal and State Major Programs & Schedules
 - ❑ State of Alaska DEED Tuition Rate Report

FINANCIAL SECTION

- **Independent Auditor's Report**
- **Management's Discussion and Analysis**
- **Basic Financial Statements**
 - **Government-wide Financial Statements**
 - **Fund Financial Statements**
 - **Notes to the Financial Statements**
- **Required Supplementary Information**
- **Combining Fund Statements and Schedules**
- **Governmental Individual Fund Statements and Schedules**
- **Proprietary Individual Fund Statements and Schedules**
- **Capital Assets Used in the Operation of Governmental Funds**

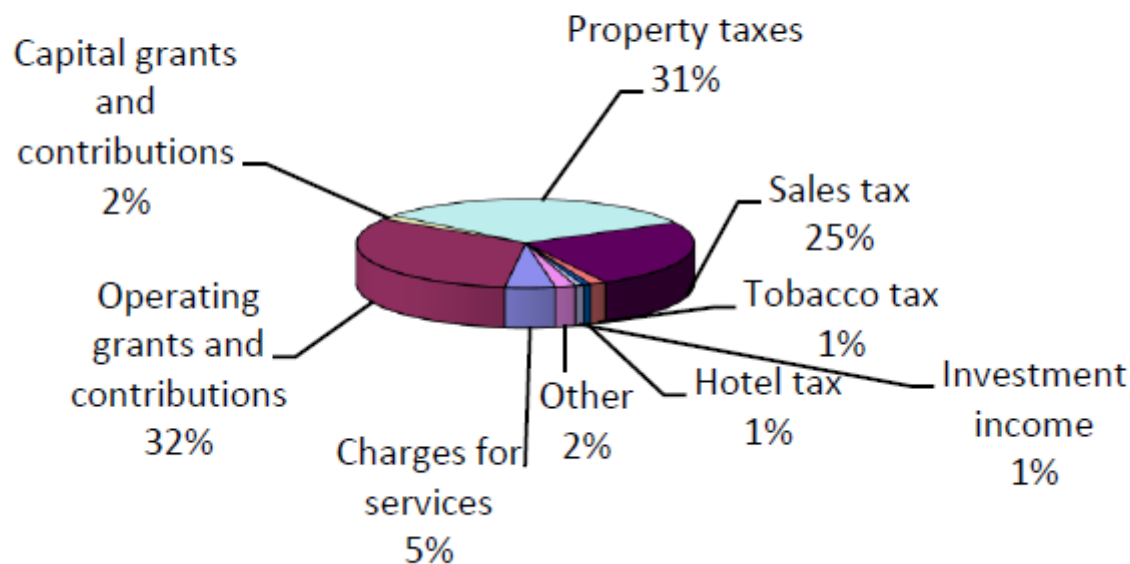
"ACFR"
ANNUAL
COMPREHENSIVE
FINANCIAL REPORT

CBJ ACFR CONTENTS

Basic Financial Statements	MD&A	Management's Discussion and Analysis (required supplementary information)	
		Government-wide Financial Statements (pages 15-16)	Fund Financial Statements (pages 18-38)
		Notes to the Basic Financial Statements (pages 39-90)	
	RSI	Required Supplementary Information (pages 91-102)	
Supplementary Information		Governmental Funds - Special Revenue Funds, Debt Service Fund, Capital Projects Funds, Fiduciary Funds and Permanent Fund (pages 103-148)	
		Proprietary Funds - Enterprise Funds and Internal Service Funds (pages 149-176)	
		Capital Assets Used in the Operation of Governmental Funds (pages 177-182)	Additional Information (pages 183-192)
		Statistical Section (unaudited) (pages 193-234)	

FINANCIAL RESULTS – GOVERNMENTAL ACTIVITIES - REVENUES

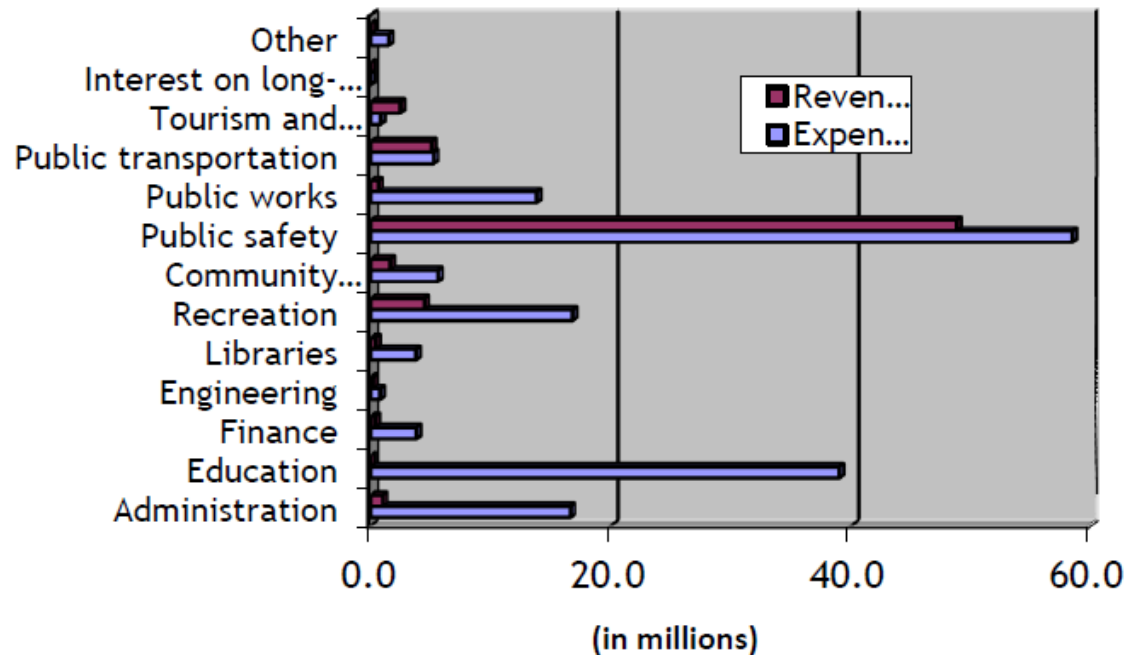
Revenues - Governmental Activities
Fiscal Year Ended June 30, 2021



FINANCIAL RESULTS

GOVERNMENTAL ACTIVITIES

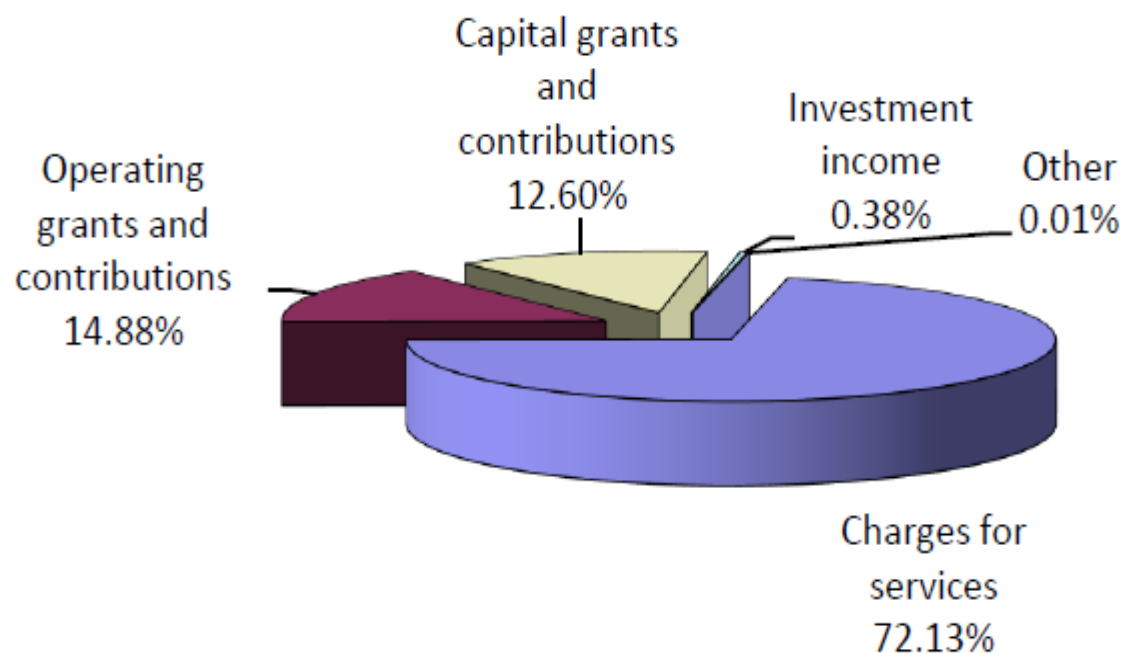
Expenses and Program Revenues -
Governmental Activities
Fiscal Year Ended June 30, 2021



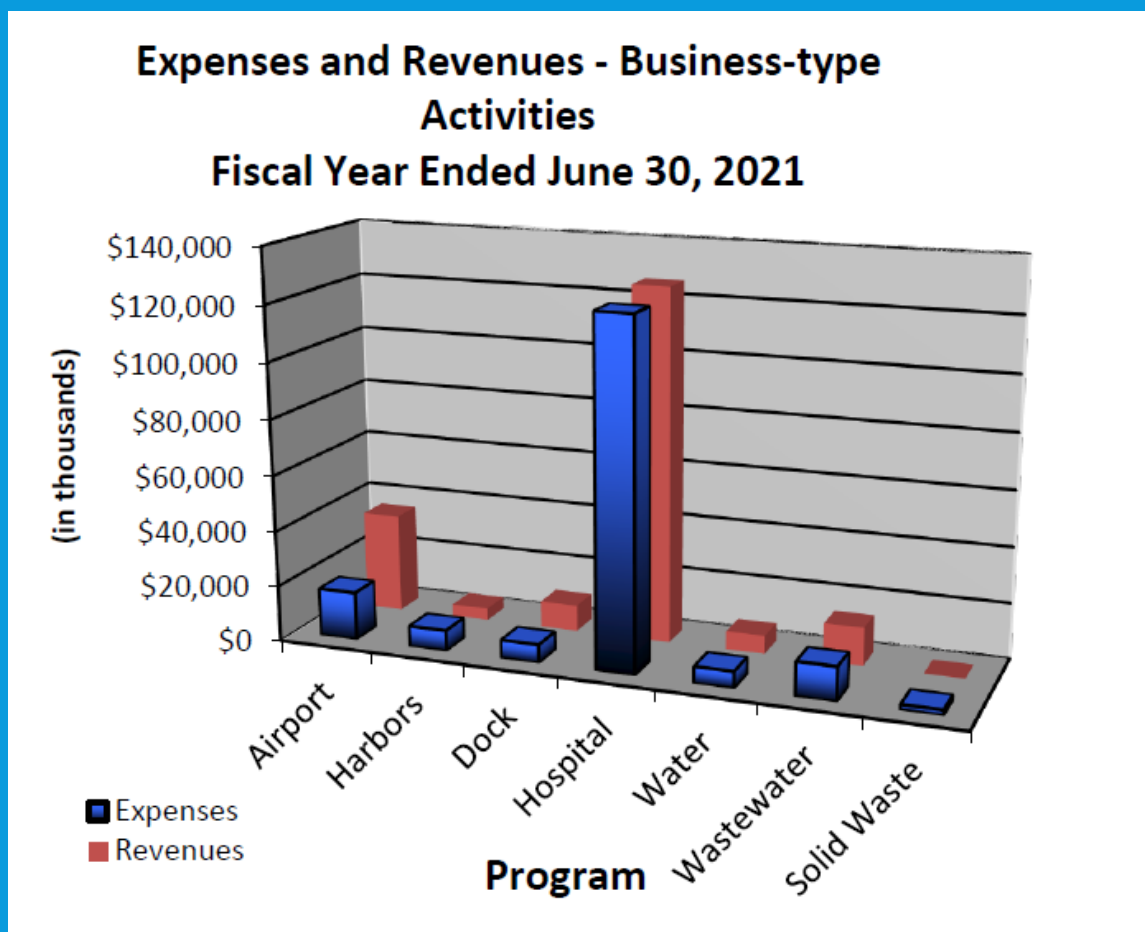
FINANCIAL RESULTS

BUSINESS-TYPE ACTIVITIES - REVENUE

Revenues - Business-type Activities Fiscal Year Ended June 30, 2021



FINANCIAL RESULTS – BUSINESS-TYPE ACTIVITIES



CBJ INDEPENDENT AUDITOR'S REPORT – WHAT WE AUDIT



Elgee Rehfeld
Alaska's CPA Firm

Founders: George Elgee, CPA & Robert Rehfeld, CPA

Partners

Janelle Anderson, CPA
Ryan Beason, CPA
Sarah Griffith, CPA
Mark Mesdag, CPA
Adam Sycks, CPA
Karen Tarver, CPA

INDEPENDENT AUDITOR'S REPORT

To the Members of the Assembly
City and Borough of Juneau, Alaska

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City and Borough of Juneau, Alaska (City and Borough), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City and Borough's basic financial statements as listed in the table of contents.

CBJ INDEPENDENT AUDITOR'S REPORT – MANAGEMENT'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

Management's Responsibility for the Financial Statements

The City and Borough's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

CBJ INDEPENDENT AUDITOR'S REPORT – AUDITOR'S RESPONSIBILITY

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

AUDIT PROCESS

Testing of Significant Internal Controls

Testing of Balances and Significant Transactions
and Disclosures

Concluding on Work

Drafting Auditor Reports

Issuance

CHANGES IN FISCAL YEAR 2021

CARES & ARPA funding

CBJ – Pandemic Relief Special Revenue Fund

Other COVID-19 funding added to existing programs

BRH – Provider Relief Funds

CBJSD – CARES funding for Education

Increased audit risk identified in immaterial account balances at BRH

Prior period restatement for DEC loans

SIGNIFICANT TRANSACTION CYCLES

CBJ and CBJSD

Treasury – Cash, Investments, Taxation (CBJ), other Revenue and Related Receivables

Capital Assets (CBJ only)

Debt Instruments (CBJ only)

Expenditure – Purchasing, Accounts Payable, Inventory and Supplies, and Payroll

Budget

Risk (Concentrated at CBJ)

Financial Reporting

Compliance – Legal, General Grant and Specific (Passenger Facility Charges and Tuition Rate Report)

BRH

Revenue Cycle – Patient/consumer services revenue from admissions through billing including related management of contractual and bad debt recording

Property, plant and equipment

Expenditure – Purchasing, Accounts Payable, Inventory and Supplies, and Payroll

Financial Reporting

Compliance – Legal, General Grant and Specific

BARTLETT REGIONAL HOSPITAL FY21 AUDIT RESULTS

Unmodified Opinion on Financial Statements

Recommendations to the Hospital Board

Significant Deficiency 2021-001 – Internal controls over Financial Reporting – Purchasing Process (BRH)

Other internal control matter – Gift Card use

Detailed Presentations with the BRH Finance Committee and Hospital Board

JUNEAU SCHOOL DISTRICT FY21 AUDIT RESULTS

Unmodified Opinions on Financial Statements and Federal and State major Programs

No findings or questioned costs

No audit adjustments to the financial statements

Recommendations to the School Board

No new recommendations for FY21

Informal communications with management
regarding:

Billing for services

Student Activities Special Revenue Fund
budgeting

GASB No. 97 - *Leases*

Presentation to the School Board

CBJ – FY21 FINANCIAL STATEMENT AUDIT RESULTS

ACFR / Financial
Statements
Unmodified
opinions

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City and Borough, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

CBJ – FY21 COMPLIANCE AUDITS (STILL IN PROGRESS)

State Major Programs

9 major programs

96% of total state assistance for FY21

26% Hospital related

74% Governmental and enterprise funds

Federal Major Programs

4 major programs

89% of total federal assistance for FY21

36% Airport related

64% Covid related funding

18% Hospital related

82% Governmental and enterprise funds

FAA Passenger Facility Charges Schedule

LETTER TO THE ASSEMBLY

Auditor Responsibility

Planned Scope and Timing
of Audit

Compliance Regarding
Independence

Entity's Significant
Accounting Policies Aspects

- Significant Accounting Policies –
Use & Changes
- Significant Accounting Estimates
- Significant Disclosure

Uncorrected and Corrected
Misstatements

Disagreements,
Representations and
Consultations with or by
Management

Other Significant Matters,
Findings or Issues



Riggs Renford
Alaska's CPA Firm

LETTER TO THE ASSEMBLY – SIGNIFICANT ACCOUNTING POLICIES

Adoption of GASB:

*No. 93, Replacement of Interbank
Offered Rates*

*No. 89, Accounting for Interest Costs
Incurred before the End of a
Construction Period*

Prior Period Adjustment to ACFR

Restatements related to the reclassification of the Water and Wastewater Enterprise Funds contributed capital (net position) to long-term debt for financial statement presentation (totaling \$20,004,270)

LETTER TO ASSEMBLY - SIGNIFICANT ESTIMATES

Pension and OPEB Assets, Liabilities, Deferred In/Outflows

Based on information provided by the State of Alaska

Accounts, Taxes, Assessments and Other Receivables

Based on historical collection, market conditions

Assumes ability to collect

Accuracy of allowance for doubtful accounts

Self-insurance reserves for claims liabilities

Represents reserves for reported and unreported losses

Based on an estimated (by an actuary) ultimate cost of settling the claims

Provider Relief Funds (BRH)

Based on guidance made available by U.S. Department of Health and Human Services, at time financials were issued.

LETTER TO
ASSEMBLY –
UNCORRECTED
AND
CORRECTED
MISSTATEMENTS

Corrected

\$13,260,200 change in presentation of fund balance between committed and unassigned in the General fund to conform with GASB No. 54 reporting requirements.

Uncorrected

Wastewater and Water enterprise funds - Accrued interest payable not posted as part of prior period adjustment for DEC loans not in repayment, totaling \$465,878. Impacted accounts are accrued interest and interest expense.

A \$1,142,281 prepayment for delivery of a fire truck, the delivery of which is not scheduled to occur until fiscal year 2022, was capitalized and depreciated during fiscal year 2021. Impacted accounts are prepaid expenses, equipment, accumulated depreciation and depreciation expense.

LETTER TO THE
ASSEMBLY - INTERNAL
CONTROL MATTERS
AND
RECOMMENDATIONS

**Finding 2021-001: Significant
Deficiency in Internal Controls over
Financial Reporting – Purchasing
Processes, Bartlett Regional Hospital
Enterprise Fund**

We recommend management complete a formal evaluation of the risks and controls associated with the purchasing cycle, as well as all other financial functions, and ensure controls are in place to mitigate the risks identified.

LETTER TO THE ASSEMBLY – STATUS OF PRIOR YEAR FINDING & COMMENTS

Finding 2020-001: Major Program Non-Compliance and Significant Deficiency over Compliance – Allowable Costs

Finding resolved in FY21.

Other Internal Control Matters:

Further Develop and Document Accounting Procedures

We recommend management continue to formalize documentation, including the controller's ACFR review procedures.

Aggregate, Record and Disclose CBJ Leases Receivable

Comment resolved in FY21.

CONCLUSION

Thank you to the CBJ Finance and Treasury Departments, JSD Finance, and BRH's Finance staff for their assistance in completing our audits.

We are happy to sit down with members of the Assembly to discuss any items related to our audits.

Questions?

CITY AND BOROUGH OF JUNEAU, ALASKA

LETTER TO THE ASSEMBLY

Year Ended June 30, 2021

December 28, 2021



Elgee Rehfeld Alaska's CPA Firm

Founders: George Elgee, CPA & Robert Rehfeld, CPA

Janelle Anderson, CPA
Ryan Beason, CPA
Sarah Griffith, CPA
Mark Mesdag, CPA
Adam Sycks, CPA
Karen Tarver, CPA

December 28, 2021

The Members of the Assembly
City and Borough of Juneau, Alaska

Dear Members:

We have audited the financial statements of the City and Borough of Juneau, Alaska (City and Borough or CBJ) as of and for the year ended June 30, 2021, and have issued our report thereon dated December 28, 2021. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated May 11, 2021, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City and Borough solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our financial statement audit consistent with the planned scope and timing we previously communicated to you. We delayed the completion of the compliance audits as federal guidance, necessary for completion of our audit procedures, was not available until after the timeframe we originally planned.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City and Borough is included in Note 1 to the financial statements.

As described in Note 19 to the financial statements, during the year, the City and Borough changed aspects of its financial statement presentation by adopting Governmental Accounting Standards Board (GASB) *Statement No. 93, Replacement of Interbank Offered Rates* and GASB *Statement No. 89, Accounting for Interest Costs Incurred before the End of a Construction Period*. As a result, CBJ reviewed its activities and did not identify any circumstances requiring CBJ to terminate hedge accounting when it renegotiates or amends a critical term of a hedging derivative instrument and did not identify any instances of interest costs incurred for construction that should be recognized as an expense in the current period.

As described in Note 21 to the financial statements, during the year, CBJ determined that Alaska Drinking Water Fund and Alaska Clean Water Fund federal loans, administered by the Alaska Department of Environmental Conservation (DEC), for which CBJ's past practice was to only record the loan when the project officially closed and the loan went into repayment, should instead be presented as a liability that the City and Borough is obligated to repay, irrespective of the given project's completion. This resulted in a prior period adjustment of \$20,004,270 by increasing long-term debt to reflect DEC loan balances as of June 30, 2020. The Water and Wastewater enterprise funds recognized a prior period adjustment of \$840,175 and \$19,164,095, respectively, by increasing long-term debt to reflect DEC loan balances as of June 30, 2020.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

Management's estimate of the net pension liability, OPEB asset, OPEB liabilities, related deferred inflows, and related deferred outflows are based on information provided by the State of Alaska. We evaluated the key factors and assumptions used to develop the net pension and OPEB liabilities and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Management's estimates of the net realizable value of accounts, taxes, assessments and government agency receivables are based on historical collections of these receivables, current market conditions and management's assessment of the collectability of the various individual and classes of receivables. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole. Actual results could differ from those estimates.

Management's estimate of the reserves for losses and loss adjustment expenses represent (a) individual case estimates for reported losses, (b) estimates for unreported losses based on past experience modified for current trends, and (c) estimates of expenses for investigating and settling claims. The reserves are based on the estimated ultimate cost of settling the claims, including the effects of inflation and other societal and economic factors. These estimates are limited to the appropriate per occurrence retention for the coverage and policy year. We evaluated the key factors and assumptions used to develop the reserve for losses and loss adjustment expenses in making our determination whether they are reasonable in relation to the financial statements taken as a whole.

Management's estimate of the net realizable value of the Provider Relief Funds, in Bartlett Regional Hospital enterprise fund, is based on the guidance made available by the Department of Health and Human Services, at the time the financial statements were issued. The guidance outlining requirements on how to recognize these funds may change subsequent to the date of audit issuance, which may impact the ability of the Hospital to retain some or all of the distributions received. We evaluated the key factors and assumptions used to develop the above-mentioned values in determining that it was reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures

The financial statement disclosures are neutral, consistent and clear.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate, and communicate to the appropriate level of management:

- All known and likely misstatements identified during the audit, other than those that we believe are trivial.
- All material, corrected misstatements that were brought to the attention of management as a result of our audit procedures.
- The effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

The following material adjustment identified as a result of our review of the draft financial statements was brought to the attention of, and corrected by, management in the issued financial statements:

- \$13,260,200 change in presentation of fund balance between committed and unassigned in the General fund to conform with GASB No. 54 reporting requirements.

The following summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each major fund:

- Wastewater fund accrued interest payable amount of \$431,350 and Water fund accrued interest payable amount of \$34,528 was not recorded as part of the prior period adjustment for DEC loans not in repayment, resulting in a \$465,878 understatement of interest expense and accrued interest payable at June 30, 2021.
- A \$1,142,281 prepayment for delivery of a fire truck, the delivery of which is not scheduled to occur until fiscal year 2022, was capitalized and depreciated during fiscal year 2021, resulting in an overstatement of Internal Service fund capital assets and understatement of prepaids of \$1,142,281 and an overstatement of depreciation expense and accumulated depreciation of \$95,190.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the City and Borough's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management related to the financial statements, which are included in the attached letter. When the reports for the federal and state single audit compliance audits are issued, this letter will be updated and an updated management representation letter will be attached.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the City and Borough, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City and Borough's auditors.

Other Information in Documents Containing Audited Financial Statements

Pursuant to professional standards, our responsibility as auditors for other information in documents containing CBJ's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards, we have made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

Internal Control and Other Matters

Significant Deficiency in Internal Controls over Financial Reporting

As described in our *Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency, as listed below:

2021-001: Significant Deficiency in Internal Controls over Financial Reporting – Purchasing Processes, Bartlett Regional Hospital Enterprise Fund

Internal controls over purchasing were not sufficiently designed and implemented to ensure that physical assets purchased with credit cards, including artwork, furnishings, IT equipment, and gift cards, were tracked and safeguarded. Tested credit card, employee reimbursement, and travel purchases were not adequately supported, nor was the business purpose of transactions sufficiently documented in some cases.

Prior Year Significant Deficiency in Internal Controls over Compliance Findings

As described in our prior year *Independent Auditor's Report on Compliance for each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance*, we identified major program noncompliance and a deficiency in internal control over compliance that we considered to be a significant deficiency, as described below:

2020-001 Major Program Noncompliance and Significant Deficiency in Internal Controls Over Compliance – Allowable Costs

Internal controls over compliance were not sufficiently designed and implemented to ensure that allowable costs were calculated correctly as of June 30, 2020 for the U.S. Department of the Treasury, Coronavirus Relief Fund.

The finding was resolved in fiscal year 2021.

Internal Control Matters Noted During the Prior Audit and Their Current Status

During our prior audits we noted other internal control matters that were opportunities for strengthening internal controls and operating efficiency. Following are the recommendations we made in the prior years that were reported as unresolved as of June 30, 2020, and the current status of those recommendations:

Further Develop and Document Accounting Procedures:

In prior year, we recommended management document the tasks associated with the annual close of CBJ's accounting records, and the production of its financial reports used in the annual comprehensive financial report (ACFR).

Status: Management has continued to improve the documentation of accounting procedures to close the accounting year, produce ACFR and review the ACFR prior to providing the ACFR for us to audit. We continue to recommend management formalize and complete the documentation for the controller's ACFR review procedures.

Aggregate, Record and Disclose CBJ Leases Receivable:

In prior year, we recommended CBJ aggregate its leases and evaluate how leases are recorded and disclosed.

Status Management has purchased and implemented use of lease software and anticipates that the software will produce all necessary journal entries for the City and Borough to be in compliance with GASB No. 87 in fiscal year 2022. Comment considered resolved.

This information is intended solely for the use of the Assembly, federal and state granting authorities and management of the City and Borough and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Elgee Rehfeld



Address: 155 Municipal Way, Juneau, AK 99801
Phone: 907-586-5278, Fax: 907-586-4552

December 28, 2021

Elgee Rehfeld, LLC
9309 Glacier Highway, Suite B-200
Juneau, Alaska 99801

City and Borough of Juneau Assembly Members,

This representation letter is provided in connection with your audit of the financial statements of the City and Borough of Juneau, Alaska (City and Borough) as of June 30, 2021 and for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, of the various opinion units of the City and Borough in accordance with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of December 28, 2021:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated May 11, 2021, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. We acknowledge our responsibility for compliance with the laws, regulations, and provisions of contracts and grant agreements.
5. We have reviewed, approved, and taken responsibility for the financial statements and related notes.
6. We have a process to track the status of audit findings and recommendations.
7. We have identified and communicated to you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
8. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
9. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
10. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
11. The effects of uncorrected misstatement summarized in Letter to the Assembly and aggregated by you during the current engagement are immaterial, both individually and in the aggregate, to the applicable opinion units and to the financial statements as a whole.
12. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
13. The component unit, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
14. All funds and activities are properly classified.
15. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local*

Governments, GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus* as amended, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.

16. All components of net position, nonspendable fund balance, and restricted, committed, assigned, and unassigned fund balance are properly classified and, if applicable, approved.
17. Our policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position/fund balance are available is appropriately disclosed and net position/fund balance is properly recognized under the policy.
18. All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
19. All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
20. All interfund and intra-entity transactions and balances have been properly classified and reported.
21. Special items and extraordinary items have been properly classified and reported.
22. Deposit and investment risks have been properly and fully disclosed.
23. Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
24. All required supplementary information is measured and presented within the prescribed guidelines.
25. With regard to investments and other instruments reported at fair value:
 - a. The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
 - b. The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
 - c. The disclosures related to fair values are complete, adequate, and in accordance with U.S. GAAP.
 - d. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.

Information Provided

26. We have provided you with:
 - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
 - b. Additional information that you have requested from us for the purpose of the audit; and
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
27. All transactions have been recorded in the accounting records and are reflected in the financial statements.
28. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
29. We have provided to you our analysis of the entity's ability to continue as a going concern, including significant conditions and events present, and if necessary, our analysis of management's plans, and our ability to achieve those plans.
30. We have disclosed to you all information that we are aware of in relation to fraud or suspected fraud that affects the entity and involves:
 - a. Management;
 - b. Employees who have significant roles in internal control; or
 - c. Others where the fraud could have a material effect on the financial statements.
31. We disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
32. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.
33. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
34. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
35. The City and Borough has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

36. We have disclosed to you all guarantees, whether written or oral, under which the City and Borough is contingently liable.
37. We have disclosed to you all nonexchange financial guarantees, under which we are obligated and have declared liabilities and disclosed properly in accordance with GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, for those guarantees where it is more likely than not that the entity will make a payment on any guarantee.
38. For nonexchange financial guarantees where we have declared liabilities, the amount of the liability recognized is the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. Where there was no best estimate but a range of estimated future outflows has been established, we have recognized the minimum amount within the range.
39. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62 (GASB-62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
40. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
41. There are no:
 - a. Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
 - b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.

- d. Continuing disclosure consent decree agreements or filings with the Securities and Exchange Commission and we have filed updates on a timely basis in accordance with the agreements (Rule 240, 15c2-12).
- 42. The City and Borough has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
- 43. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

Required Supplementary Information

With respect to the required supplementary information accompanying the financial statements:

- 44. We acknowledge our responsibility for the presentation of the required supplementary information in accordance with accounting principles generally accepted in the United States of America.
- 45. We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with accounting principles generally accepted in the United States of America.
- 46. The methods of measurement or presentation have not changed from those used in the prior period.
- 47. We believe the significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.

Use of Specialist

- 48. We agree with the findings of specialists performing actuarial services and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

The Uniform Guidance and State of Alaska Awards

With respect to federal and state awards, we represent the following to you:

49. We are responsible for understanding and complying with and have complied with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as applicable, and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*.
50. We are responsible for the preparation and presentation of the schedule of expenditures of federal awards (SEFA) in accordance with the Uniform Guidance and the schedule of state financial assistance (SSFA) in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*.
51. The methods of measurement or presentation have not changed from those used in the prior period.
52. We believe the significant assumptions or interpretations underlying the measurement or presentation of the SEFA and SSFA, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.
53. We have identified and disclosed all of our government programs and related activities subject to the Uniform Guidance and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* compliance audits.
54. We have notified you of federal awards and funding increments that were received before December 26, 2014, and differentiated those awards from awards and funding increments received on or after December 26, 2014, and subject to the audit requirements of the Uniform Guidance.
55. As the SEFA and SSFA are not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA and SSFA no later than the date of issuance by the entity of the SEFA and SSFA and the auditor's report thereon.
56. We have provided to you our interpretations of any compliance requirements that have varying interpretations.

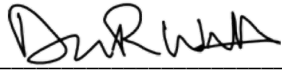
57. We have made available to you all federal and state awards (including amendments, if any) and any other correspondence relevant to federal or state programs and related activities that have taken place with federal or state agencies or pass-through entities.
58. We have received no requests from a federal or state agency to audit one or more specific programs as a major program.
59. We have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal and state awards, including the results of other audits or program reviews, or stated that there was no such noncompliance. We also know of no instances of noncompliance with direct and material compliance requirements occurring subsequent to period covered by the auditor's report.
60. We have disclosed to you any communications from federal awarding agencies and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received to the date of the auditor's report.
61. We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal and state program financial reports and claims for advances and reimbursements.
62. Federal and state program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared.
63. The copies of federal and state program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the respective federal or state agency or pass-through entity, as applicable.
64. We have monitored subrecipients, as necessary, to determine if they have expended subawards in compliance with federal and state statutes, regulations, and the terms and conditions of the subaward and have met the other pass-through entity requirements of the Uniform Guidance and *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*.
65. We have issued management decisions for audit findings that relate to federal and state awards we make to subrecipients and such management decisions are issued within six months of acceptance of the audit report by the FAC or State. Additionally, we have followed-up ensuring that the subrecipients have taken the appropriate and timely action on all deficiencies detected through audits, on-site reviews, and other means that pertain to the federal and state award provided to the subrecipient from the pass-through entity.

66. We have considered the results of subrecipients' audits and have made any necessary adjustments to our own books and records.
67. We have properly classified amounts claimed or used for matching in accordance with related guidelines in the Uniform Guidance, as applicable.
68. We have charged costs to federal and state awards in accordance with applicable cost principles.
69. We are responsible for and have prepared the summary schedule of prior audit findings to include all findings required to be included, and we have provided you with all information on the status of the follow-up on prior audit findings by federal and state awarding agencies and pass-through entities, including all management decisions.
70. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
71. We have disclosed all contracts or other agreements with service organizations and disclosed to you all communications from these service organizations relating to noncompliance at the organizations.
72. We have disclosed to you the nature of any subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the reporting period.

In addition:

73. We are responsible for understanding and complying with the requirements of federal and state statutes, regulations, and the terms and conditions of federal and state awards related to each of our federal and state programs.
74. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal and state programs that provide reasonable assurance that we are managing our federal and state awards in compliance with federal and state statutes, regulations, and the terms and conditions of the federal and state award that could have a material effect on our federal and state programs. Also, no changes have been made in the internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by management

with regard to significant deficiencies and material weaknesses in internal control over compliance, have occurred subsequent to the period covered by the auditor's report.



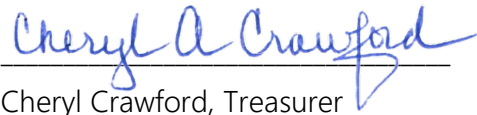
Rorie Watt, City Manager



Jeff Rogers, Finance Director



Sam Muse, Controller



Cheryl Crawford, Treasurer



Elgee Rehfeld Alaska's CPA Firm

Founders: George Elgee, CPA & Robert Rehfeld, CPA

Janelle Anderson, CPA
Ryan Beason, CPA
Sarah Griffith, CPA
Mark Mesdag, CPA
Adam Sycks, CPA
Karen Tarver, CPA

INDEPENDENT AUDITOR'S REPORT

To the Members of the Assembly
City and Borough of Juneau, Alaska

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City and Borough of Juneau, Alaska (City and Borough), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City and Borough's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The City and Borough's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City and Borough, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, major funds budget and actual schedules, and pension and OPEB information schedules on pages 3-14, 93-95, and 96-101, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City and Borough's basic financial statements. The combining and individual fund financial statements and schedules and the introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated December 28, 2021 on our consideration of the City and Borough's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City and Borough's internal control over financial reporting and compliance.

Elgee Rehfeld

December 28, 2021



Elgee Rehfeld Alaska's CPA Firm

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Members of the Assembly
City and Borough of Juneau, Alaska

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City and Borough of Juneau, Alaska (City and Borough) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City and Borough's basic financial statements, and have issued our report thereon dated December 28, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City and Borough's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City and Borough's internal control. Accordingly, we do not express an opinion on the effectiveness of the City and Borough's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2021-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City and Borough's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Elgee Rehfeld

December 28, 2021

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CITY AND BOROUGH OF JUNEAU, ALASKA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2021

**2021-001 Significant Deficiency in Internal Controls over Financial Reporting –
Purchasing Processes, Bartlett Regional Hospital Enterprise Fund**

Criteria: Internal controls should be properly designed and implemented to efficiently conduct business, safeguard assets, prevent or detect misstatement, errors, or fraud, ensure completeness and accuracy of financial records, and timely preparation of the financial statements.

Condition: Internal controls over purchasing were not sufficiently designed and implemented to ensure that physical assets purchased with credit cards, including artwork, furnishings, IT equipment, and gift cards were tracked and safeguarded. Tested credit card, employee reimbursement, and travel purchases were not adequately supported, nor was the business purpose of transactions sufficiently documented in some cases.

The current written policies and procedures are not sufficiently designed to respond to the risks to the organization, nor are they representative of current practices.

Context: In many instances, documentation related to credit card purchases or employee reimbursement, including reimbursement for travel, reviewed by us, did not provide sufficient audit evidence to conclude on the appropriateness of costs. In certain instances, asset purchases with credit cards, such as artwork, furnishings, IT equipment, and gift cards, did not provide enough evidence to conclude that the assets were purchased for a valid business purpose. The pool of costs not sufficiently documented are not material to the financial statements; however, the weaknesses in internal controls could allow for undetected error or fraud.

We observed many of the finance policies and procedures are outdated and do not represent actual current practices. The existing policies and current practices do not adequately address the risks to the organization. We specifically observed that the credit card and travel policy is several years old and is not being followed, and policies over other key areas, such as gift card usage and purchase of IT equipment, do not exist.

Effect (or potential): Without sufficient internal controls over the purchasing processes, risk significantly increases that errors and fraud, including misappropriation of assets, could occur and not be detected within a timely basis.

Cause: Turnover during the past several years has resulted in deferral of updating policies and procedures, as it has not been a top priority. Lack of clear policies and procedures has resulted in weaknesses in the organization's internal controls, providing opportunities for undetected errors or fraud, and a lack of sufficient documentation to support the business purpose of certain financial transactions.

Packet Page 60 of 81
CITY AND BOROUGH OF JUNEAU, ALASKA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2021

Recommendation: Management and the Board should complete a formal evaluation of the risks and controls associated with the purchasing cycle, as well as all other financial functions. In response to the identified risks and evaluation of existing or missing controls, updates, development and implementation of controls to mitigate the risks of the organization should be completed and documented. The evaluation of risks and related controls for each significant financial function should be completed on a pre-scheduled basis, with exceptions to the schedule when changes occur to the risks or practices.

View of responsible officials: Management concurs with this finding.

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Corrective Action Plan

In response to the finding of a “Significant Deficiency in Internal Controls” Bartlett Regional Hospital recognizes the need to update the internal control policies and procedures. Though the past years audits found no material weakness in internal controls, processes had also changed during this time. There was increased use of BRH credit cards for procurement of supplies and services. The practice and policies needed maintain appropriate internal controls also needed to be revised to address these changes.

In preparation for reviewing policies there was a joint session with CBJ and BRH to discuss the procurement and appropriation process within CBJ. Increased understanding would confirm the changes would be consistent and in compliance with CBJ municipal rules.

Finance Internal Control changes

Current Changes:

1. As of July 1st, BRH went live on M-files for Accounts Payable. M-files is a system that digitizes invoices for storage and processing. M-files allowed BRH to improve document retention, virtual approval and internal control of invoice payment. With invoices tracked and approved virtually, documentation and proper approval of invoices occurs prior to payment. This change also allowed BRH to eliminate manual routing of invoice by folder or email.
2. During the hiring process for a new grant manager, BRH transitioned this position under Finance rather than Behavioral Health to establish better align grant reporting with grant applications and awards.
3. As of July 1st, a process for scope review of invoices via M-files by the grant manager is made prior to approval by manager to pay with grant funding. This additional control ensures that all invoices paid with grant funding is within the scope of the grant.
4. Starting the month of November, a final review of credit card receipts were transitioned to the Executive Assistant for CFO. This transition allows a second check for appropriateness of the purchase. The invoice is also

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validated against the credit card statement for vendor name and amount. To ensure separation of duties, accounts payable staff review CFO card receipts.

5. Starting the month of November, cash or cash equivalent gifts will be processed through payroll, to tax employees appropriately per IRS regulation. The annual holiday employee gift card from BRH will be processed as a bonus starting current year to tax employees appropriately per IRS regulation. A new written policy will be implemented soon on this process change.
6. Starting current month, a new process has also been added in M-files for IT director approval on software and IT equipment purchases. This process is similar to grant scope approval by grant manager.
7. Starting mid-March, payroll processing time will be extended from one week to two weeks (payroll processing time will be consistent with CBJ). Currently payroll staff have 3 to 4 days to process payroll and pay employees by Friday of the following week. If technology or personnel emergencies occur, there is a potential risk of not accurately paying employees on time. COVID pandemic has especially been a challenging time for payroll staff to process payroll on time and accurately. Along with this risk, BRH also currently experience internal control issues on approval of timecards by supervisors. There is inadequate time to train and enforce supervisors to approve timecards accurately. With this extended time, supervisors will have adequate time to review and accurately approve time cards.

Future Changes:

1. Revision of the Spending Authority Policy to include new departments and managers.
2. Review and revision as needed all policies in finance. With this policy update, internal controls will be in place to safeguard assets, prevent or detect misstatement, errors or fraud.
3. Once complete and external review of policies and procedures will be completed to determine that a "Significant Deficiency in Internal Controls" no longer exists and that strong internal controls are in place.

MEMORANDUM



DATE: January 5, 2022

TO: Assembly Finance Committee

FROM: Jeff Rogers, Finance Director

SUBJECT: Funding Available for Large Projects

155 Municipal Way
Juneau, AK 99801
Phone: (907) 586-5215
Fax: (907) 586-0358

The Assembly will face a large number of funding decisions in the coming years. This memo attempts to be as inclusive as possible in identifying potential sources of funding and potential projects under consideration. Only the Assembly, with technical support from staff, can decide which projects should advance and how they will be paid for. There's no "right" way to accomplish this alignment. There will need to be a balance between strategic decision-making (funding projects starting with the highest priority and working down the list) and opportunism (funding projects that are fully ripe or emergent even if they're not the highest priority).

In summary, Juneau has access to five significant sources for project funding:

- Unrestricted General Government Fund Balance ~\$25 million currently available
- Renewal of Temporary 1% Sales Tax ~\$55 million available over five years
- General Obligation Bond Debt \$50-100 million debt funding available as needed
- State, Federal, and 3rd Party Grants *Unknown* (potentially \$100 million+ in the next 5-10 years)
- Passenger Fees \$10-15 million annually dependent on passenger counts

Likewise, Juneau is current in some phase of consideration for all of the following projects (not exhaustive, and in no particular order):

- Capital Civic Center
- New City Hall
- Pool deferred maintenance
- North SOB Parking Garage
- Second Channel Crossing
- West Douglas infrastructure
- School deferred maintenance
- School major maintenance
- Street/road maintenance
- Water/Wastewater imprvmnt
- Park/trail improvements
- Eaglecrest improvements
- Seawalk expansion
- Shore power
- Harbor/ramp improvements
- Police/Fire equipment
- Museum relocation
- Housing support
- Telephone hill development
- Pederson hill development
- Energy conservation projects

Who Pays for What

In conversation, it is common for staff and the Assembly to bifurcate thinking about projects into two categories: projects that CBJ would pay for with local taxes, and projects that would largely be paid for by federal, state, or other revenues. However, ultimately, almost all projects will require some amount of CBJ funds (match, pre-development, etc), and most general funded projects will also receive some amount of external support. Hence, with regard to allocating funds, the Assembly will need to make strategic decisions about both general-fund projects and grant-funded projects—likely in a unified process. Any 3rd party funding does add the complexity of award timing and how much might need to be spent prior to application and award.

Funding Source: Unrestricted General Government Fund Balance

With more than \$27 million available to be spent or obligated from CBJ's unrestricted general government fund balance, some people have started to ask if that level of fund balance is too high. Strictly speaking: No, Juneau's fund balance isn't too high. Our rating agencies see high levels of fund balance as insulation against financial risk, and this level of fund balance helps us achieve the lowest possible cost of debt. Many communities in Alaska have large endowment-type or permanent-fund-type funding pools. Those funding pools are highly restricted, aggressively invested, and their earnings are allocated annually to priority projects. Other communities are on the financial knife's edge, effectively living paycheck to paycheck with little room for fiscal error. There's no right amount of unrestricted fund balance, but Juneau's fund balance is certainly larger than in recent memory and it appears to be growing somewhat each year.

This level of unrestricted fund balance is not by accident—it is the result of temperate and deliberative decision making by the Assembly. Based on various conversations that have happened over the past several years, it would appear that the Assembly has used unrestricted fund balance as a temporary holding account for funds for large aspirational projects rather than as a general savings account. To put it another way, this fund balance has been accumulated with the intention to allocate it to high-priority projects, rather than just letting it persist indefinitely. Looking at the list above, the most costly projects could easily absorb every penny of CBJ's unrestricted fund balance. Or conversely, the fund balance could be allocated to fund (or partially fund) many of those projects.

In terms of both scope and timing, general fund balance is the most flexible funding source—it can be allocated to any project at any time. General funds never have "strings" or requirements. And, unlike 1% sales tax and GO debt, the Assembly can appropriate general fund balance without a public vote. The Assembly may recognize that some municipal infrastructure projects are important to the future of CBJ

but could be uninspiring at the ballot box—those projects may be ideal candidates for fund balance. Also, allocating general government fund balance is far more nimble and responsive than other funding sources so it is likely the funding source of choice for time-sensitive and emergent projects.

The Assembly has at least two options for “reserving” fund balance for future capital spending. First, the Assembly could appropriate funds prospectively to projects that are not yet ripe, and at the same time, direct the manager not to move forward with those projects until the Assembly has consented. Second, the Assembly could simply transfer an amount of unrestricted general funds into the Capital Projects fund, without allocating it to any specific projects. Doing this would remove those funds from the general fund balance and effectively earmark them for future capital projects. Individual project allocations would still require appropriating ordinances from that fund for the specific projects. I recommend against the second approach because it would likely reduce the transparency of the city’s available funds—questions of “how much money is available” would be obscured by the fact that some funds have been temporarily squirreled away.

Funding Source: Renewal of Temporary 1% Sales Tax

The current temporary 1% sales tax expires on January 1, 2023 unless it is renewed by voters on the October 2022 ballot. Assuming that the Assembly intends to place this question on that ballot, the Manager’s Office, Engineering and Public Works Department, and Finance Department will lead the Assembly through a process of considering and determining projects to be included on that proposed initiative. This process has happened many times in CBJ’s history, but it will be new to most Assembly members. The outcome of the process is relatively straightforward: the Assembly will make final determination on a list of projects that totals approximately \$55 million, and voters will vote to renew the 1% sales tax with the understanding that the Assembly’s intent is to allocate 1% sales tax revenue to those projects. This funding stream extends out over 5 years, with about \$11 to 12 million available each year for projects. Historically, staff have determined the most optimal timing for funding of the designated projects after the public vote.

Strategically, the 1% sales tax renewal is likely best utilized for projects that have vocally supportive constituencies in the community. Since members of the community utilize different services and municipal facilities, the process will aim to balance the project list so that various constituencies feel like their needs are being recognized and funded. In recent cycles, it has been common for some amount of 1% sales tax to support (i.e. subsidize) enterprise activities, particularly Water/Wastewater upgrades and local match requirements for Airport improvement projects.

Funding Source: General Obligation Bond Debt

With the Governor’s introduction of a state budget that fully funds school bond debt reimbursement in FY23, CBJ’s debt service mill rate calculation changes considerably. If school bond debt had been reimbursed in FY23 at less than 100% of the state’s share, a general fund subsidy would have been required if the Assembly had maintained the 1.20 debt service mill rate. However, with 100% reimbursement in the Governor’s budget, the debt service mill is forecast to fall to 0.94 (or lower) in FY23. This could reduce the total mill rate from 10.56 to 10.30 (or lower). Hence, CBJ could issue some amount of additional debt in the coming months without increasing the debt service mill rate or the total mill rate. Based on preliminary calculations, the Assembly could issue another \$20-25 million of debt over 20 years, without raising the debt service mill rate above 1.20 mills. An additional \$20-25 million of debt could be issued in FY25 and still retain a debt service mill rate at or below 1.20 mills going forward. And then an additional \$10-15 million of debt could be issued in FY26—all while keeping a debt service mill rate at or below 1.20 million. Using the 1.20 debt service mill rate as a ceiling for debt capacity, CBJ is able to issue \$50-65 million of new debt in the next five years. However, CBJ’s true capacity for new debt is significantly greater (likely \$100 million+), but only if the Assembly were comfortable with the debt service mill rate exceeding 1.20.

Funding Source: State, Federal, and 3rd Party Grants

This picture isn’t as good as it was just a few weeks ago. President Biden’s plan for another massive federal appropriations bill (often referred to as “Build Back Better”) appears to be dead in the water, at least for now. But, still, with the recent passage of the Bipartisan Infrastructure Law, states and municipalities are expecting significant federal dollars to flow to local projects. As discussed elsewhere, this could be as much as \$3,500/resident. If Juneau receives a proportionate share, then Juneau could see \$100 million+ in federal projects in the next five to ten years. That level of spending will certainly benefit Juneau’s economy and local workforce, but it’s too early to tell what CBJ projects are ideally aligned with those funds. At this time, we expect that some of these federal dollars will come with a requirement of local match, potentially as much as 20-25%. Hence, even “federally funded projects” could require significant CBJ general funds. Further, most large federally funded projects would require a significant up-front investment environmental, permitting, design, and engineering—and these preliminary phases may or not be eligible for federal funding.

Funding Source: Passenger Fees

Passenger Fees have been severely curtailed for the past two fiscal years, but passenger visitation is expected to normalize in FY23 and FY24. These fees generate roughly \$13/passenger, yielding about \$16 million annually at peak visitation. A portion of these fees is spent each year on essential municipal services that support the waterfront, but the majority are available for appropriation to allowable waterfront projects. Generally speaking, it wouldn’t be strategic to spend local tax dollars on any waterfront project that can reasonably be funded with passenger fees—including infrastructure for shore power. Hence, in many ways, the consideration of waterfront projects and passenger fees is on a wholly separate track from the consideration of general funds, 1% sales tax, and GO debt. But, in the interest of consolidating and coordinating the thinking about large project funding, it is worth including here. Additionally, regarding Passenger Fees, the Assembly has the opportunity of a Revenue Bond to be repaid by future Passenger Fees. For example, the Assembly could move forward with a Revenue Bond (likely up to \$100 million) that would be repaid over 20 to 25 years. This was the funding mechanism for the 16B dock realignment, and it could be a mechanism for any similarly scaled waterfront infrastructure project.

Cost Inflation

As discussed at the December Finance Committee meeting, cost inflation is upon us. Most recent readings of inflation are above 6% year-

over-year, and there is not a clear consensus among economists about whether to expect higher than normal inflation in the coming years also. Cost inflation affects both project costs and operating costs, but the impact will be most pronounced on infrastructure projects that were designed and estimated several years ago but that are being bid now or in the future. Director of Engineering and Public Works, Katie Koester, is already advising the Assembly on the issue of cost overruns on current projects that will require additional appropriations in order to move forward. These cost overruns on current projects likely cannot be ignored. In fact, cost overruns (resulting from inflationary pressure) on current projects could consume as much as \$5 million to \$10 million of current fund balance to follow-through on the projects already authorized. High construction costs can also be the result of having too many large projects under construction in the community at once. Hence, CBJ may be able to reduce project costs by delaying projects until such time that the contractor community is less over-committed.

CBJ Operating Budget

This memo has largely focused on capital projects and ignored the operating budget. But, general government operating deficits (or surpluses) do directly affect general government fund balance. As of this memo, the Finance Department expects that the Manager's Proposed FY23 and FY24 Budget will have deficits in both years. The result of labor negotiations is likely to increase those deficits into the multi-millions. Recently, Assembly members have asked "does CBJ have a structural deficit?" That's a very good question. A structural deficit would be a persistent circumstance in which ongoing future revenues are forecast to exceed ongoing future expenditures. It's too early to tell. Juneau's economy is forecast to continue experiencing the lingering economic impacts of the pandemic well into FY23 and FY24. These economic impacts are likely to diminish tourism revenues including sales tax, but they also affect many minor CBJ revenues for services and facility use. It would be prudent for the Assembly to assume that the operating budget will use several million dollars of fund balance each year for the next several years. Eventually, the Assembly will need to zero-in on a "normalized" budget that responds to the new post-pandemic economy in FY25 or later. Only time will tell. However, at this time, I have no reason to suggest that CBJ's anticipated near-term deficits are structural or will persist into the future.

Putting it All Together

So, what do you do? The Assembly alone has the authority to set property tax rates, place tax and debt questions before the voters, and appropriate funds to projects. It is my observation that the Assembly has been exceedingly cautious appropriating significant fund balance (more than \$5 million) to large infrastructure projects, but at the same time has been generally comfortable appropriating smaller amounts of fund balance (less than \$3 million) to various smaller scale projects. It's hard to commit big dollars, but big projects also move the community forward into the future in a way that small projects may not.

You can think of the unrestricted general government fund balance as a pie; and in the spirit of the holidays, it may be time for the Assembly to start serving it up slices of varying size. Again, prior Assemblies worked hard to build this fund balance for the purpose of funding these aspirational projects. And what an enviably position for the Assembly to be in; to be able to invest substantial accumulated resources in community infrastructure projects big and small that move the community forward into the future.

Director Koester has provided the Public Works and Facilities Committee with a diagram that illustrates the relationship between historical planning documents, the Legislative Priority List, the 6-Year CIP, and the 1% Sales Tax. Additionally, she is facilitating a prioritization process for the Legislative Priority List. Ultimately, these documents should be backbone of the Assembly's decision-making process. For any project that the Assembly agrees is ripe for funding, the Finance Department can present a range of options for funding that project.



City and Borough of Juneau
City & Borough Manager's Office
155 South Seward Street
Juneau, Alaska 99801
Telephone: 586-5240 | Facsimile: 586-5385

TO: Chair Bryson and Assembly Public Works and Facilities Committee

DATE: November 23, 2021

FROM: Rorie Watt, City Manager

RE: Capital Projects – Big Picture Planning

I recommend that the Assembly take a little bit of time to consider strategic approaches to consideration of capital project funding. There are several concurrent processes that are overlapping, each of which provides the Assembly decision-making opportunities. They include:

- A. Management of General Fund Balance, the Assembly has some opportunity to use fund balance as one one-time funding for capital projects. Fund balance (not including the \$16M restricted budget reserve as defined by Assembly Resolution) is in excess of \$20M.
- B. Allocation of ARPA funds, ~\$12M. Replacement CPV funds from the State are largely unrestricted, the Assembly has decided to treat them as General Fund, and introduced an appropriation Ordinance of \$5.5M at the 12/13 Assembly meeting.
- C. 6-Year CIP – Provides necessary maintenance funding for roads, utilities, roofs, buildings for most departments, parks facilities, etc. Process for FY23 is about to commence.
- D. 1% Sales Tax – During the October 2022 municipal election, the Assembly has the opportunity to propose to extend 1% of the Sales Tax, traditionally proposed for a five year period. If approved, 1% for five years would collect in excess of \$50M.
- E. Management of Municipal Debt Capacity – CBJ is in a very good position with regard to debt. Historic borrowing is coming off of the books and by independent analysis, CBJ can prudently take on significant borrowing for capital improvements without increasing our traditional mil levy rate for debt. Such borrowing could be managed to advance Assembly goals and to allow CBJ citizens to enjoy the benefits of those improvements sooner.

None of this is to imply that we do not face economic and budgetary headwinds. Upcoming operating budgets face difficult trends in the forms of inflation, increased fuel, employee and commodity costs as well as escalating insurance premiums. Ongoing operational costs should be met with enduring revenue sources. This memorandum primarily contemplates the use of one-time fund balance to meet deferred or new capital needs that either advance community goals and/or reduce operating or maintenance costs or fund unanticipated cost increases that have resulted from a COVID19 disrupted supply chain. I have asked Director Koester to prepare a preliminary report of anticipated increases in project costs for ongoing projects, this will be reported to PWFC. At this time, two projects face obvious issues.

Augustus Brown Pool: Delaying renovation of the August Brown Pool has substantially increased costs due to inflation, supply chain problems, current lack of competition. In May of 2020, I recommended that the Assembly pause that project (pandemic and economic uncertainty, concern for evolving air handling standards). We did, however, expend funds and replaced the failing roof.

In 2016, CBJ commissioned a condition survey from JYW Architects which determined that renovation needs would cost \$5.15M and the Assembly subsequently included the project in the ballot information for 1% Sales Tax extension in 2017 for \$5M of funding. The project was delayed to the end of the sales tax funding cycle and the roof repair was split out, increasing costs due to having multiple construction projects and several years of inflationary increases. Unfortunately cost estimates have risen, and completing the contemplated scope of work would require an additional \$2.5M.

Timing Notes: The ABP project is out to bid, with a bid opening on 12/7. The bid is structured with alternates to allow the Assembly to award, with or without major project components. In bid processes, contractors are only required to hold prices for a limited period of time, though protocol is to let them know as soon as possible so that they can lock in material and subcontractor pricing. With the direction of the Committee, we will introduce an appropriation Ordinance on 12/13 with Public Hearing set for January 10th. If the Assembly wished to discuss this project funding or a bigger picture financial discussion, it should choose AFC on 12/1 or 1/5 or the COW on 12/20.

Centennial Hall: Design and bid process for the renovations to Centennial Hall are proceeding, and again costs are escalating. Seismic bracing, a project betterment has been identified as an additional improvement. In order to proceed with the contemplated project scope an additional \$500K is requested.

For both the ABP and Centennial Hall projects, the Assembly can decide to provide further funding, or direct that improvements be scaled to meet the abilities of the project budgets. I recommend that the Assembly take a supportive stance in providing additional funding to the projects. When we renovate a municipal facility, it is most efficient to get the job done, give the facility its due. Building maintenance needs will always proceed apace, incomplete renovations will place more pressure and costs on the maintenance budgets.

Recommendation:

The Assembly should begin to make incremental decisions to expend accumulated fund balance on key community priorities while keeping a focus on the bigger financial pictures. Several necessary steps include:

In the short run: Consider allocating an additional \$2.5M to the ABP and \$500,000 to the Centennial Hall Renovation projects. Provide recommendation(s) to the Assembly and/or Finance Committee.

In the medium term: The Assembly Finance Committee should have a big picture conversation about how to manage fund balance with regard to capital projects. One obvious concept is to consider allocation of a significant portion towards the City Hall project, which ultimately will reduce operating costs.

When appropriate: Discuss with the Finance Committee the level of fund balance that should be maintained to buffer against revenue volatility and uncertainty, cash flow needs.

After the Budget: Set aside time for consideration of large projects that may be funded by unrestricted fund balance, a 1% Sales Tax extension, and/or new general obligation debt.

CBJ Debt Service Model

Updated 12/30/2021

	Actual		Projected	Forecast			
	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
Debt Service Fund Balance	\$ 5,156,600	\$ 974,938	\$ 300,222	\$ -	\$ 31,953	\$ 31,953	\$ 31,953
Required Debt Service	\$ 13,903,271	\$ 13,706,111	\$ 12,899,393	\$ 8,839,091	\$ 6,248,113	\$ 4,708,825	\$ 3,553,025
Reimbursements/Subsidies							
SOA SBDR %	50%	0%	42%	100%	50%	50%	N/A
SOA SBDR	\$ (3,441,732)	\$ -	\$ (2,350,496)	\$ (3,368,874)	\$ (823,206)	\$ (504,300)	\$ -
Bond Proceeds	\$ -	\$ (286,000)	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Subsidy	\$ (184,804)	\$ (83,000)	\$ -	\$ -	\$ -	\$ -	\$ -
Interest Income	\$ (38,294)	\$ (74,198)	\$ -	\$ -	\$ -	\$ -	\$ -
Airport Reimbursement	\$ -	\$ (602,375)	\$ (662,625)	\$ -	\$ -	\$ -	\$ -
Hotel Bed Tax Subsidy	\$ -	\$ -	\$ (277,700)	\$ (280,000)	\$ (284,200)	\$ (288,463)	\$ (292,790)
Other Financing Sources (Uses)	\$ (73,961)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Required Debt Service	\$ 10,164,480	\$ 12,660,538	\$ 9,608,572	\$ 5,190,217	\$ 5,140,707	\$ 3,916,062	\$ 3,260,235
Debt Service Paid by Mill Rate	\$ 5,982,818	\$ 6,085,822	\$ 6,504,000	\$ 5,222,170	\$ 5,140,707	\$ 3,916,062	\$ 3,260,235
Debt Service Fund Net Gain/(Loss)	\$ (4,181,662)	\$ (974,938)	\$ (300,222)	\$ 31,953	\$ -	\$ -	\$ -
Required General Fund Subsidy	\$ -	\$ 5,599,778	\$ 2,804,350	\$ -	\$ -	\$ -	\$ -
Voluntary General Fund Subsidy	\$ -	\$ 5,900,000	\$ 2,804,350	\$ -	\$ -	\$ -	\$ -
Debt Service Mill Rate (Status Quo)	1.20	1.20	1.20	0.94	0.91	0.68	0.56



MEMORANDUM

ENGINEERING & PUBLIC WORKS
230 S. Franklin Street, Suite 315
Juneau AK 99801

DATE: December 30, 2021

TO: Assembly Finance Committee

FROM: Denise Koch, Engineering & Public Works Deputy Director

RE: Assembly Ranking of the Legislative Priority List

Background:

Katie Koester, Engineering & Public Works Director, most recently included the draft FY2023 Legislative Priority list on the agenda at the December 20, 2021 Public Works and Facilities Committee (PWFC) meeting. Director Koester had assembled the Legislative Priority list based upon including both the previously adopted list for FY2022 as well as the FY2023 nominations from advisory boards and commissions.¹ Advisory bodies were given the opportunity to support two projects from last year's list, submit two (2) new projects for approval, or a combination of both. The list is a landing place for longer term capital projects that cost over \$1 million in total project cost with a lifespan of 20 – 50 years. During the December PWFC meeting, the committee requested that projects that did not meet that criteria be indicated on the list with a strikethrough.

After the PWFC meeting, the full Assembly was asked on December 20th to rank their priorities on the overall list. Six (6) Assembly members provided their input. Here is the average ranking of the top five projects.

1. Lemon Creek Multimodal Path
2. Second Channel Crossing
3. Pederson Hill Development
- 4 & 5. New City Hall and Shore Power (tied)

The Systemic Racism Review Committee (SRRC) reviewed the Legislative Priority list prior to the December 20th PWFC meeting. Chair World commented that when the SRRC looks at infrastructure projects that they are looking for projects that promote health, housing, and transportation. The SRRC is scheduled to review the list a second time on January 11th.

Requested Action:

Assembly Finance Committee discuss and assign final priority to Legislative Priority list.

¹ Bartlett, Airport, and Passenger Fee projects are not part of this list because they have other funding streams and processes for prioritizing projects.

FY 2022 State Legislative Priority List (adopted 3/2-2021)

Rank	Project Name:	Purpose:	Amount:	Goal:	Page #
1	Lemon Creek Multimodal Path (Planning Commission Priority No. 1)	Design, Permitting, Property	\$2M	Advance Long-term Goal of a New Non-Motorized Route	7
2	Second Channel Crossing (Planning Commission Priority No. 2)	Economic Impact Analysis and/or PEL Study	\$3M \$7M	Economic Development	10
3	Pederson Hill Development	Development	\$3M	Increase housing and development opportunities	12
Tie 4/5	New City Hall	Partial Funding	\$5M	Reduce CBJ Operating Cost, Free up/create housing	14
Tie 4/5	Shore Power at Dock 16B	Final design and construction	\$25M	JCOS: Priority No. 1	33
Tie 6/7	West Douglas Extension	Future Development	\$3M	Long Term Development Support	18
Tie 6/7	Eaglecrest Expansion and Summer Operations Development	Phase one construction of new Gondola	\$6.5M	Eaglecrest Board; only priority	23
8	Capital Civic Center	Partial Funding	\$5M	Support Convention and Visitor Economy	15
9	Mendenhall River Community School Renovation	Major Renovation	\$20M	JSD Facilities Committee: Priority No. 2	49
10	Telephone Hill	Site work	\$2M	Prepare for Redevelopment	13
11	Marie Drake Renovation	Major Renovation	\$3.1M	JSD Facilities Committee: Priority No. 1	45
12	Aurora Harbor Phase III	Design, Permitting	\$250K	Replace critical infrastructure and support maritime economy	8
13	North State Office Building Parking	Partial Funding	\$5M	State/legislative Parking, Auke District infill Development	9

14	Auke Bay New Breakwater	Match Potential Federal Funding	\$5M	Increase Moorage and Renovate old Economic Development	16
15	Waterfront Juneau Douglas City Museum	Partial Funding	\$1M	Reduce CBJ Operating Cost, Expand Capital Campus	19
16	Trail Maintenance and Development	Improve trail network in CBI	\$5M	PRAC: only priority	29
17	North Douglas Boat Ramp Expansion	Planning, research, permitting	\$250K	Improve safety and expand boating access and transportation	11
18	Auke Bay Seawalk	Design, Permitting, Property	\$250K	Improve Non-Motorized Route	17
	Energy Efficient Improvements to Juneau Housing	Program Development, agency coordination	\$5M	JCOS: Priority No. 1	35
	Seawalk Guard Railing	Design and construction	\$1.2M	Docks and Harbors: Priority No. 1	37
	Wayside Float Maintenance Dredging	Dredging to improve recreational access	\$500K	Docks and Harbors: Priority No. 2	42
	Deferred Maintenance	Construction	\$20M	Planning Commission New Priority (See Memo)	52

Ordinance 2021-08(b)(am)(S)
Manager's Report

An Ordinance Appropriating \$2,000,000 to the Manager for the Capital Civic Center Capital Improvement Project; Funding Provided by General Funds.

This ordinance would appropriate \$2,000,000 of general funds for the Capital Civic Center CIP. This project is an expansion of Centennial Hall that will include upgrades to satisfy the goals of the business community, the travel industry, and the arts economy. This appropriation would provide funds for a 30% complete plan set that would adequate for a more detailed cost estimate of the entire project.

The Committee of the Whole reviewed this request at the November 29, 2021 meeting.

Presented by: The Manager
Introduced: December 13, 2021
Drafted by: Finance

ORDINANCE OF THE CITY AND BOROUGH OF JUNEAU, ALASKA

Serial No. 2021-08(b)(am)(S)

An Ordinance Appropriating \$2,000,000 to the Manager for the Capital Civic Center Capital Improvement Project; Funding Provided by General Funds.

BE IT ENACTED BY THE ASSEMBLY OF THE CITY AND BOROUGH OF JUNEAU, ALASKA:

Section 1. Classification. This ordinance is a noncode ordinance.

Section 2. Appropriation. There is appropriated to the Manager the sum of \$2,000,000 for the Capital Civic Center Capital Improvement Project (D12-051).

Section 3. Source of Funds

General Funds	\$2,000,000
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Section 4. Effective Date. This ordinance shall become effective upon adoption.

Adopted this _____ day of _____, 2022.

Beth A. Weldon, Mayor

Attest:

Elizabeth J. McEwen, Municipal Clerk

Ordinance 2021-08(b)(am)(T)
Manager's Report

An Ordinance Appropriating \$2,500,000 to the Manager for the August Brown Pool Capital Improvement Project; Funding Provided by General Funds.

Delaying renovation of Augustus Brown Pool has substantially increased costs due to inflation, supply chain issues, and limited competition in the pool specialty trade. This ordinance would provide \$2,500,000 of general funds to satisfy the additional funding needs of completing the project scope of work.

The Public Works and Facilities Committee reviewed this request at the November 29, 2021 meeting.

Presented by: The Manager
Introduced: December 13, 2021
Drafted by: Finance

ORDINANCE OF THE CITY AND BOROUGH OF JUNEAU, ALASKA

Serial No. 2021-08(b)(am)(T)

An Ordinance Appropriating \$2,500,000 to the Manager for the August Brown Pool Capital Improvement Project; Funding Provided by General Funds.

BE IT ENACTED BY THE ASSEMBLY OF THE CITY AND BOROUGH OF JUNEAU, ALASKA:

Section 1. Classification. This ordinance is a noncode ordinance.

Section 2. Appropriation. There is appropriated to the Manager the sum of \$2,500,000 for the Augustus Brown Pool Capital Improvement Project (P44-086).

Section 3. Source of Funds

General Funds	\$2,500,000
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Section 4. Effective Date. This ordinance shall become effective upon adoption.

Adopted this _____ day of _____, 2022.

Beth A. Weldon, Mayor

Attest:

Elizabeth J. McEwen, Municipal Clerk

Ordinance 2021-08(b)(am)(U)
Manager's Report

An Ordinance Appropriating \$500,000 to the Manager for the Centennial Hall Renovation Phase 2 Capital Improvement Project; Funding Provided by General Funds.

The design and bid process for renovations to Centennial Hall are proceeding, but as a result of inflation and supply chain issues, the costs are estimated to be higher than anticipated. Seismic bracing has also been identified as an additional recommended improvement. This ordinance would provide \$500,000 of general funds to satisfy the additional funding needs of completing the project scope of work.

The Public Works and Facilities Committee reviewed this request at the November 29, 2021 meeting.

Presented by: The Manager
Introduced: December 13, 2021
Drafted by: Finance

ORDINANCE OF THE CITY AND BOROUGH OF JUNEAU, ALASKA

Serial No. 2021-08(b)(am)(U)

An Ordinance Appropriating \$500,000 to the Manager for the Centennial Hall Renovation Phase 2 Capital Improvement Project; Funding Provided by General Funds.

BE IT ENACTED BY THE ASSEMBLY OF THE CITY AND BOROUGH OF JUNEAU, ALASKA:

Section 1. Classification. This ordinance is a noncode ordinance.

Section 2. Appropriation. There is appropriated to the Manager the sum of \$500,000 for the Centennial Hall Renovation Phase 2 Capital Improvement Project (P47-073).

Section 3. Source of Funds

General Funds	\$500,000
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Section 4. Effective Date. This ordinance shall become effective upon adoption.

Adopted this _____ day of _____, 2022.

Beth A. Weldon, Mayor

Attest:

Elizabeth J. McEwen, Municipal Clerk

MEMORANDUM



DATE: January 5, 2022

TO: Assembly Finance Committee

FROM: Jeff Rogers, Finance Director

SUBJECT: Eaglecrest Compensation

155 Municipal Way
Juneau, AK 99801
Phone: (907) 586-5215
Fax: (907) 586-0358

As you are aware, CBJ has received many questions recently regarding the rates of pay at Eaglecrest. This memo is not exhaustive, but it attempts to put several factors into context.

Eaglecrest Structure and Authorities

Eaglecrest is a quasi-Enterprise, unique among all CBJ organizations. CBJ Enterprises operate as “business-type” organizations and make business-oriented operational decisions—generally speaking, they are required to balance planned expenditures with forecasted revenue. Those other Enterprises do not receive regular general fund operating support, but they do occasionally receive special funding for capital improvements or specific initiatives. On an accounting basis, Eaglecrest is a Special Revenue Fund, which specifies that revenue earned by Eaglecrest will be spent on Eaglecrest services. On a governance basis, Eaglecrest has a fully empowered board that appoints its own chief executive. Hence, the City/Borough Manager has no direct authority over Eaglecrest operations. Importantly, the Eaglecrest Board has the sole authority to authorize and implement wage increases and other compensation measures. Eaglecrest’s governance and management structure stands in contrast to the Aquatics/Pools Program, for example, which has an Advisory Board but is under the executive authority of the City/Borough Manager, follows the CBJ Personnel Rules, and uses the MEBA/Un-Rep salary schedule to set wages.

Eaglecrest Salary Schedule

Eaglecrest has its own unique salary schedule with 13 ranges (from 101 to 117) and 20 steps (from 1 to 20). As has been noted in the media, a Range 101 Step 1 employee at Eaglecrest would earn \$8.50/hour. However, in current practice, employees are not hired at ranges 101 or 102. Lift operators and non-certified ski instructors are the lowest compensated employees on the mountain and they are hired at range 103. Also, many Eaglecrest employees are frequently hired at range 3 or 4 upon entry. Lift operators and non-certified ski instructors earn \$9.50/hour at step 1, \$10.00/hour at step 2, \$10.50/hour at step 3, and \$11.00/hour at step 4. Of all currently active Eaglecrest employees, three employees currently earn \$9.50/hour and six employees currently earn \$10.00/hour. Hence, in practice, only nine Eaglecrest employees earn a base wage of less than Alaska minimum wage of \$10.34/hour.

Additional Monetary and Non-Monetary Compensation

Additionally, the Eaglecrest Board authorizes several compensatory perks for Eaglecrest employees. First, a year-end bonus is one tool that incentivizes employees to continue working through the end of the season. Last year, those year-end bonuses averaged out to about \$1/hour for seasonal hourly employees. Second, Eaglecrest offers employees a free ski pass and various discounts for mountain services. The ski pass alone is worth in excess of \$500—which for most seasonal employees equates to a non-monetary benefit of about \$1/hour. Hence, the year-end bonus and the free ski pass can add approximately \$2/hour to the total compensation received by all seasonal employees. Taking these into consideration, the lowest compensated employee at Eaglecrest is making \$9.50/hour in wages and receiving \$2/hour of other compensation, for a total hourly compensation of approximately \$11.50/hour—which exceeds Alaska minimum wage of \$10.34/hour. Again, importantly, decisions about these compensation measures are fully and wholly within the authority of the Eaglecrest Board. For example, the board could decide at any time to raise the lowest hourly wage from \$9.50/hour to \$11.50/hour by eliminating the year-end bonus and free ski passes—with little net impact on the budget.

Alternative Structures for Determining Wages

Because Eaglecrest is exempt from the CBJ Personnel Rules and does not use the MEBA/Un-Rep salary schedule, the Eaglecrest Board is not required to implement wage increases negotiated between CBJ and MEBA. The Eaglecrest Board has not authorized an increase to base wages since 2014. The Assembly could take action to require Eaglecrest to follow CBJ Personnel Rules and use the MEBA/Un-Rep salary schedule. The lowest hourly wage currently on the MEBA/Un-Rep schedule is \$11.19/hour. Placing all Eaglecrest employees on the MEBA/Un-Rep schedule would also result in Eaglecrest wages increasing in the future by the amount of the increases annually negotiated with MEBA (assuming that the Assembly continues its past practice of applying MEBA negotiated increases to un-represented employees). This would result in direct wage parity between Eaglecrest employees and other similarly situated CBJ employees (recreation aides, lifeguards, landscape staff, mechanics, equipment operators, etc). However, placing all Eaglecrest employees on the MEBA/Un-Rep schedule would come at significant additional cost to the ski area—current estimates indicate at least \$300,000 of new wage cost. Additionally, Eaglecrest currently enjoys significant flexibility in recruiting and hiring, and that flexibility would largely be lost under the CBJ Personnel Rules.

Direct % Wage Increase

Alternatively, the Assembly could allow Eaglecrest to remain exempt from the Personnel Rules and to retain its own salary schedule, and it could direct the Eaglecrest Board to implement an across-the-board wage increase of some amount. Eaglecrest management has been

discussing the possibility of a 22% wage increase as part of the FY23 budget process. 22% was selected because it would raise the \$8.50/hour wage (which no employee is actually paid) up to Alaska minimum wage of \$10.34/hour. Implementing a 22% increase to wages across the board for all employees would result in a wage increase of \$290,000 annually. However, it has been suggested that Eaglecrest would also move employees backward in steps at the same time that wages were increased—doing so could keep many current employees' wages flat while making the overall wage schedule more competitive for new hires. Any increase to the Eaglecrest wage schedule needs to be equally applied to all ranges/steps to maintain pay equity under CBJ 44.05.010(b). One alternative to an across the board increase would be to contract for a 3rd party salary study/survey that could result in a different (but still demonstrably equitable) stratification of wages based on market factors.

An across the board wage increase (via a direct % wage increase, or conversion to the MEBA salary schedule) would come at substantial new cost. Eaglecrest management has indicated that implementation of a wage increase would need to be paid for by the CBJ Assembly via an increase to the amount of annual general funds support. Hence, the wage increase described above would require something on the order of \$300,000 of new general fund support. FY22 general fund support for Eaglecrest totals \$1,150,000 (\$875,000 operating and \$275,000 capital). Over the past decade, general fund support for Eaglecrest operations (ignoring capital) has ranged from 28.3% to 37.1% of expenditures and has averaged 31.5%. It could be amenable for the Assembly to work with the Eaglecrest Board on a wage increase under the conceptual understanding that additional general support would pay for approximately 30% of the wage increase while Eaglecrest would need to increase revenue to pay the other 70%. Doing so would preserve the relative level of cost recovery currently in place.

Re-Stepping the Eaglecrest Salary Schedule

It has been suggested that Eaglecrest could increase wages for just those positions that pay less than Alaska minimum wage, but such a strategy would fail to maintain pay equity between Eaglecrest positions which would violate the “merit principle” codified in CBJ 44.05.010(b). However, it may be possible to adjust the existing Eaglecrest salary schedule upward for all ranges by eliminating the wage at the lower steps and reestablishing step 1 at a higher wage for all ranges. For example, Eaglecrest could eliminate the wages at steps 1-3 and establish the current step 4 wage as the new step 1 wage. Current employees in those three eliminated steps would be placed at the new step 1 wage, which is today's step 4 wage. Those low-step employees (including all those currently working for less than Alaska minimum wage) would receive a wage increase. However, most longer-term employees (already at higher steps) would not see a pay increase. This solution may be the most straightforward for a near-term fix to the issue of Alaska minimum wage with a relatively modest total financial impact, but it may not fix Eaglecrest's broader concerns about the competitiveness of wages. Such a change to “re-step” the salary schedule is wholly within the authority of the Eaglecrest Board.

Eaglecrest Budget History

Snowfall is the largest determinant of Eaglecrest's total spending in any season, which makes year-to-year budget comparisons fraught and potentially misleading. But, as with all CBJ departments, expenditures have trended upward. FY14 was the last big snow year before the poor FY15 and FY16 seasons. Total expenditures in FY14 were \$2.65 million. The most recent fiscal year FY21 saw record-breaking earned revenue as well as extraordinary general fund support related to the pandemic. FY21 expenditures followed suit and totaled \$3.08 million—an increase of 16% over FY14, about 2.25% annualized. Eaglecrest management has already reported that FY22 earned revenues are likely to break last year's record (resulting in part from this year's record early snow), which is likely to result in total expenditures at or above FY21 spending.

In short, Eaglecrest's total expenditures have gone up, but wages have not. Obviously, Eaglecrest faces the same largely unavoidable non-personnel cost increases as every CBJ department—service contracts, commodities, fuel, allocated administrative costs, facility maintenance, etc. But Eaglecrest also makes countless independent business decisions about how to operate the mountain. A careful analysis of historical expenditures and revenues may be warranted but is outside the scope of this memo.

Next Steps

The Assembly will receive the Eaglecrest budget request in April 2022 with all of CBJ's budget proposals. You should likely expect that the budget will indicate some aspiration for a wage increase in FY23. The Assembly may need to confront the following questions:

- Is additional general fund support is warranted for wage increases?
- Should Eaglecrest to pay for a portion of that wage increase with earned revenue?
- Is Eaglecrest's exemption from the CBJ Personnel Rules and from the MEBA/Un-Rep Salary schedule is in the best interest of...
 - the City and Borough?
 - Eaglecrest employees?
- Is Eaglecrest's unique governance and financing structure continues to be in CBJ's best interest, or is a reconsideration of the governance structure warranted?

In 2008, a massive avalanche damaged the hydroelectric lines and electrical power costs for CBJ residents and businesses increased dramatically. The Assembly responded and temporarily exempted the cost of power adjustments on electrical power from sales tax. (Em. Ord. 2008-17; Ord. 2008-31). However, the exemption has inadvertently remained in the sales tax code. Because the Assembly in 2008 only intended the exemption for cost of power adjustments to be temporary, this ordinance would repeal that sales tax exemption.

The Manager recommends the Assembly introduce this ordinance, refer it to the Finance Committee on January 5, and set it for public hearing at the next regular Assembly meeting.

Presented by: The Manager
Presented: 12/13/2021
Drafted by: R. Palmer III

ORDINANCE OF THE CITY AND BOROUGH OF JUNEAU, ALASKA

Serial No. 2022-01

**An Ordinance Repealing the Temporary Sales Tax Exemption for Sales of
Cost of Power Adjustments on Electrical Power.**

BE IT ENACTED BY THE ASSEMBLY OF THE CITY AND BOROUGH OF JUNEAU, ALASKA:

Section 1. Classification. This ordinance is of a general and permanent nature and shall become a part of the City and Borough of Juneau Municipal Code.

Section 2. Amendment of Section. CBJC 69.05.040 Exemptions is amended to read: CBJC 69.05.040 Exemptions. The tax levied under this chapter shall not apply to the following transactions:

...

~~(43) Sales of cost of power adjustments on electrical power.~~

Section 3. Effective Date. This ordinance shall be effective 30 days after its adoption.

Adopted this _____ day of _____, 2022.

Beth A. Weldon, Mayor

Attest:

Elizabeth J. McEwen, Municipal Clerk