City and Borough of Juneau
Minutes - Assembly Finance Committee Meeting
Zoom Webinar & Facebook Live Stream
Wednesday, November 4, 2020

I. CALL TO ORDER

The AFC meeting was called to order at 6:02 PM by Carole Triem, Chair.

II. ROLL CALL

Committee Members Participating Virtually: Mayor Beth Weldon; Carole Triem, Chair; Loren Jones; Alicia Hughes-Skandijs; Wade Bryson; Michelle Bonnet Hale; Marie Gladziszewski; Greg Smith; Christine Woll

Committee Members Absent: None

Staff Present Virtually: Rorie Watt, City Manager; Mila Cosgrove, Deputy City Manager; Jeff Rogers, Finance Director; Adrien Speegle, Budget Analyst; Rob Palmer, City Attorney; Patty Wahto, Airport Manager

Others Present Virtually: None.

III. APPROVAL OF MINUTES

a. The September 30, 2020 minutes were approved as presented.

IV. ITEMS FOR DISCUSSION

a. Sales Tax Update (FY21 Q1 & Forecast)

Mr. Rogers presented a memo to the Committee regarding actual revenue and projected forecasts in sales taxes, explaining that from FY16 to FY19, sales tax receipts increased by $4.8 million, more than 10%. Conversely, property taxes have been stable, but have trended to increase at just 1.5% to 2% annually. As sales taxes have risen, CBJ expenditures have risen in turn. The increase in revenue funded investments in police and emergency services, as well as negotiated wages. These substantial sales tax receipts also allowed the Assembly to fund several priority community projects and fortify general fund reserves.

Mr. Rogers added that the pandemic not only resulted in a global halt in cruising, but also a radical diminishment of air travel. These factors led to reduced sales tax revenue. However, other factors such as federal and state stimulus, an early Permanent Fund Dividend, and enhanced unemployment benefits helped to support overall sales tax receipts.

Mr. Rogers drew the Committee's attention to the FY20 projection, noting that sales tax receipts came in at $46.7 million - $3.7 million lower than FY19, but also $3.7 million higher than budgeted expectations. For Q1 in FY21, $9.4 million is projected in sales tax receipts. Estimates for Q2 and Q3 of FY21 have been re-forecast at $8.5 million each quarter. The estimate for Q4 is highly dependent on whether or not Juneau sees a cruise season; given recent reports from Cruise Lines International Association (CLIA) and others, the forecast has been lowered for Q4 FY21 from $12.0 million to $10.0 million. Given these actuals and projections, they represent a $12.8 million reduction in total annual sales tax from FY19 to FY21. Given the uncertainty about when ships will again port in Juneau, the forecast for Q1 FY22 has been reduced by $3.0 million and Q4 FY22 by $0.8 million. Q2 and Q3 of FY22 will remain unadjusted until Juneau's economic environment becomes clearer. Taken together, these adjustments reduce FY22 sales tax by $3.8 million.

Mr. Rogers responded to committee questions.

b. **Update on Remote Sales Tax Collection**

Mr. Rogers presented a memo to the Committee regarding CBJ's successful imposition of sales taxes on remote (i.e. online) sales, noting that the measure was intended to create tax equity between local and remote sellers. Secondarily, the measure is generating more than $1.0 million per year in sales tax revenue. After administrative costs are taken into account, CBJ has received $419,780 in remote sales tax receipts to date. FY21 totals are projected to be $1.2 million; FY22 total forecast is projected to be $1.5 million.

Mr. Rogers responded to committee questions.

c. **Impact of Non-General Fund Shortfalls**

Mr. Rogers presented a memo to the Committee on the potential impact of non-general fund shortfalls. Specifically, Hotel Bed Tax receipts and Marine Passenger fees, which are highly dependent upon tourism and visitation to Juneau. Given the effects of the pandemic, the Hotel Bed Tax and Passenger Fee funds are significantly depressed in FY21 and will remain so for the foreseeable future.

Mr. Rogers noted that if the Assembly wishes to avoid substantial general fund subsidies to the funds currently lacking revenue, one option is a central treasury loan. The primary difference between using a central treasury loan and subsidizing these funds with general funds is that the central treasury loan would be paid back in future years. This may be more attractive with the two Passenger Fee funds because in a typical year, those funds could have sufficient revenue to pay back a loan resulting from a prior year without visitors. The Hotel Bed Tax fund, however, may not be a good candidate for a central treasury loan as they have typically not significantly exceeded necessary annual expenditures.

Mr. Rogers responded to committee questions.

d. **Update on $15M G.O. Bond**

Mr. Rogers presented a memo updating the Committee on the $15.0 million General Obligation Bond. Resulting from an Alaska Supreme Court decision, the Alaska Municipal Bond Bank Authority (AMBBA) is not currently proceeding with new bond issues. The State has asked the Alaska Supreme Court for clarification about its authority to sell bonds as a conduit for municipal debt. Until this is resolved, CBJ cannot sell a bond through the AMBBA. However, CBJ is not required to use AMBBA; rather, CBJ may sell a bond directly into the market without the AMBBA as a conduit. For previous bonds, there were advantages to using the bond bank, including the State's credit rating, and the economies of scale that come from the bond bank selling one larger bond for multiple municipalities.

Mr. Rogers added that the biggest issue with going direct-to-market is the small size of the bond and the 20-25 year term. Institutional investors tend not to purchase bond maturities this small, which drives up overall interest costs. An alternative is "direct placement." CBJ Finance is exploring this option. Direct placement allows CBJ to sell a bond directly from an identified private bank. Direct placement avoids most of the effort required in selling to public markets; it usually results in slightly higher interest costs, but those costs are offset by savings on administrative and legal costs. CBJ Finance will continue to explore direct placement as an efficient option for selling the $15.0 million bond.

Mr. Rogers responded to committee questions.

The meeting recessed at 6:59 PM.
The meeting reconvened at 7:10 PM.

e. **Review Debt Service Schedule**

Mr. Rogers presented the updated CBJ Debt Service Model to the Committee. The Debt Service Model is a tool that is intended to aid in the projection and management of current and future debt service. Mr. Rogers added that given the State's reimbursement rate of School Bond Debt being lower than previous years and how that impacts debt service, the Committee will likely have several meetings in the upcoming months to discuss how best to manage CBJ's debt service going forward.

Mr. Rogers responded to committee questions.

The Committee decided to table this topic and put it on a future agenda.

f. **Update on FY20/FY21/FY22**

Mr. Rogers presented a memo to the Committee detailing FY20's year-end closing status, noting that the financial statements are being finalized and the auditors have begun their initial review. The main takeaway is a resulting $3.5 million surplus after a budgeted $1.2 million draw to the unrestricted general fund balance. Several factors improved the overall financial outcome of FY20, such as federal emergency funding from various sources, sales tax receipts coming in $3.9 million higher than expected, and investment income. Mr. Rogers added that these numbers may move slightly as the Controller completes supporting financial statements, but a surplus in the ballpark of $3.5 million is safely expected.

Mr. Rogers responded to committee questions.

Mr. Rogers presented a memo to the Committee detailing FY21's current status, projections, and impact on the unrestricted general fund balance. CBJ continues to use CARES Act and FEMA funds in FY21 for all allowable expenditures related to emergency operations. This includes substantial police and fire payrolls, costs of the Emergency Operations Center, information technology infrastructure to support remote meetings and telework, and some building maintenance expenditures. Mr. Rogers noted that the table in the memo forecasts $3.0 million of unreimbursed emergency operations costs in FY21 for the period from January to June. The table includes a credit of $1.5 million in anticipation that the Assembly will likely consider using bond proceeds to offset general fund expenditures. All of the changes together turn a budgeted $3.1 million deficit into a projected $9.9 million deficit for FY21. This deficit would reduce the unrestricted general fund balance from $22.0 million at the end of FY20 down to $12.2 million at the end of FY21.

Mr. Rogers responded to committee questions.

Mr. Rogers presented a memo to the Committee regarding the outlook for FY22, noting that the amount of uncertainty about FY22 remains exceedingly high. Mr. Rogers stated that the Macro Budget Tool indicated a number of important policy decisions for the Assembly, including a presumptive increase to the Property Tax Mill Levy in FY22 and a delay of renovations to the Augustus Brown Pool from FY21 to FY22. The Assembly signaled the desire to reduce status quo capital spending by $1.5 million, which will be implemented by Public Works and Engineering as it prepares the FY21 Capital Improvement Plan (CIP).

Mr. Rogers added that this update is limited to just a few items. The most recent sales tax forecast reflects a $3.8 million reduction in sales tax revenue in FY22 from the assumptions during the budget process. Additionally, it may be prudent to assume that school bond debt will not be reimbursed at all (0% reimbursement). Further, the Assembly is likely to need to support other non-general funds with general fund subsidies as detailed in an earlier memo. What is most likely to change this trajectory is additional federal support; many observers presume that more funds will be made available to states and local governments at a later date.

Mr. Watt recommended that the Assembly request a status quo budget for FY22 with the budget changes modeled in the Macro Budget Tool in June 2020. Such a budget would incorporate all existing programs and services. Given the revenue projections, it is very likely that there will be a need for a broad discussion about budget reductions in this fiscal cycle within the next few months when there is more information available. In difficult budget times, it has to be a contextual conversation about what CBJ can afford and what the tradeoffs are.

Mr. Rogers and Mr. Watt responded to committee questions.

The meeting recessed at 8:20 PM.
The meeting reconvened at 8:30 PM.

V. ITEMS FOR ACTION

a. Alaska Committee Grant – Ordinance 2020-09(X) – $300,000 General Funds – Introduced 10/26/20 & Public Hearing 11/23/20

Mr. Rogers presented Ordinance 2020-09(X), which would appropriate $300,000 from the General Fund’s fund balance to the Alaska Committee to coordinate and support public accommodations during the 2021 Alaska state legislative session.

Mr. Watt added that there have been many conversations about hotels and hotel space. The Baranof is closed and likely will be until May 2021. CBJ has been in regular communications with Legislative Affairs about the potential special session next week and the regular session next year. Options are being explored for regular testing of legislators and how Juneau can support that during the regular session. Mr. Watt stated that CBJ needs to ensure there is sufficient and safe accommodation available for the Legislature. Mr. Watt recommended that funds be disbursed to the Alaska Committee to oversee these efforts as they seem the best situated to do so.

Mr. Rogers and Mr. Watt responded to committee questions.

Motion: by Mayor Weldon to move Ordinance 2020-09(X) to the full Assembly for public hearing.

Motion passed by unanimous consent.

VI. INFORMATION ITEMS

a. Teacher Excellence Fund Update

Mr. Rogers presented an update from the Juneau Community Foundation (JCF) regarding the Teacher Excellence Fund (TEF) as of June 30, 2020. The TEF is a grant from the JCF to the School of Education (SoE) at the University of Alaska Southeast (UAS). This annual update that the JCF provides to CBJ is a requirement as a grantee.

Mr. Jones added that when the School of Education was going through structural changes in the University of Alaska System, CBJ committed to contributing $1.0 million through JCF for the support of the SoE being headquartered at UAS. Mayor Koelsch wanted to raise as much as he could of that commitment through businesses and private contributions. Mr. Jones stated that he believed the Assembly has contributed close to $750,000.

b. FY19 GFOA CAFR Award

Mr. Rogers congratulated CBJ Controller Sam Muse and his team for the Award of Financial Reporting received from the Government Finance Officers Association. This is in recognition of CBJ's Comprehensive Annual Financial Report. Mr. Rogers commented that receiving these awards each year means CBJ is on the right track; this is a great achievement.

The Committee expressed their appreciation for the Controller's Office and the work they do for the City.

c. Airport Terminal Reconstruction Project Update

Mr. Rogers updated the Committee on the financing strategy of the Juneau International Airport's Northern Terminal Project. Originally, the Assembly worked through the process of putting out to market a $24.0 million revenue bond. That bond was going to be repaid in part by general obligation and part of it was a revenue bond. Passenger Facility Charges (PFCs), would have repaid the revenue portion in part and it would have been paid by Airport Improvement Program (AIP) grants. The Federal Aviation Administration (FAA) has issued unprecedented grants that were meant to supplant future PFCs and also expected AIP receipts.

Ms. Wahto added that the Juneau International Airport was anticipating collecting four years' worth of the FAA AIP as opposed to receiving discretionary funds. This bond was initially set up for four years of entitlement with the FAA eligible portion; the remaining eligible portion would be coming from PFCs. While the Airport was looking at funding this project as a small hub, its hub status changed to a non-hub, which meant it was now eligible for discretionary money for terminal projects. With that status change, the FAA was able to combine funds from residual discretionary funds from 2019 as well as funds from 2020. In this particular CARES Act fund, anything that received AIP funds for Federal FY20 also received match funds. This funding in a sense gives the Airport the ability to pay off the revenue bonds.

Ms. Wahto responded to committee questions.

The Committee noted that Ordinance 2020-09(H), which would appropriate $14,858,227 to fund the Juneau International Airport's terminal construction revenue bond debt, has been introduced but needs to be moved to the full Assembly. Funding for this ordinance would be provided by the Federal Aviation Administration Airport Improvement Program.

<u>Motion</u>: by Mayor Weldon to move Ordinance 2020-09(H) to the full Assembly.

Motion passed by unanimous consent.

VII. NEXT MEETING DATE

a. Tuesday, November 10, 2020.

VIII. ADJOURNMENT

The meeting was adjourned at 9:07 PM.