ASSEMBLY FINANCE COMMITTEE
THE CITY AND BOROUGH OF JUNEAU, ALASKA
Wednesday, February 6, 2019, 5:30 PM.
Assembly Chambers

I. CALL TO ORDER

II. ROLL CALL

III. APPROVAL OF MINUTES

a. **Wednesday, January 9, 2019**

IV. ITEMS FOR DISCUSSION

a. **FY18 Audit Presentation**

b. **Juneau School District - FY19 Local Contribution Discussion**

c. **Utility Rates - History & Financial Status**

V. INFORMATION ITEMS

a. **Marine Passenger Fee Recommendations**

b. **Amazon Sales**

VI. EXECUTIVE SESSION

a. **Employee Compensation Negotiations**

VII. NEXT MEETING DATE

a. **Wednesday, March 13, 2019**

VIII. ADJOURNMENT

ADA accommodations available upon request: Please contact the Clerk's office 72 hours prior to any meeting so arrangements can be made to have a sign language interpreter present or an audiotape containing the Assembly's agenda made available. The Clerk's office telephone number is 586-5278, TDD 586-5351, e-mail: city.clerk@juneau.org

City and Borough of Juneau
Minutes - Assembly Finance Committee Meeting
Wednesday, January 9, 2019, 5:30 p.m.
DRAFT

I. Call to Order

The meeting was called to order at 5:33 PM by Jesse Kiehl, Chair.

II. Roll Call

Committee Members Present: Loren Jones, Jesse Kiehl, Rob Edwardson, Carole Triem, Wade Bryson, Michelle Bonnet Hale and Mayor Beth Weldon.
Committee Members Participating Telephonically**:** Maria Gladziszewski.
Committee Members Absent: Mary Becker.

Staff Present: Rorie Watt, City Manager; Mila Cosgrove, Deputy City Manager; Bob Bartholomew, Finance Director; Theresa Winther, Deputy Treasurer; Sam Muse, Controller; and Elisabeth Jensen, Budget Analyst.

III. Approval of Minutes

The December 12, 2018, minutes were approved as presented.

IV. Investment Code Revisions

Mr. Bartholomew, Finance Director, discussed the information provided on pages 7-37 of the meeting packet, including a three page issue paper, the revised investment code 57.25, the existing investment code for comparison and the updated Investment Policy Statement (IPS) as approved by the City Manager.

Mr. Bartholomew answered questions from the Assembly members.

Mayor Beth Weldon, moved to direct staff to draft an ordinance to implement the proposed investment code changes including the modifications and introduce it to the full Assembly for action.
Without OBJECTION.

V. Committee Discussion of Potential New JACC Funding Options

Chair Kiehl stated that two members of the AFC had requested for this topic to be added to the agenda for discussion and reference.
Mr. Jones, being one of the AFC members requesting this topic be presented, spoke to the topic that had been discussed by the Assembly in August, 2018.

Minutes - Assembly Finance Committee Meeting
Wednesday, January 9, 2019, 5:30 p.m.

The Assembly members discussed the topic and assigned it to the Public Works and Facilities Committee to be tasked with talking with these groups and returning to the AFC by mid-April, 2019.

VI. Other

Ms. Gladziszewski expressed thanks to Chair Kiehl for his leadership on the AFC.
Chair Kiehl stated that his experience on the committee had been very rewarding.

Clerk's note: This meeting concluded Chair Kiehl's term on the AFC, as he transitions to the State of Alaska Senate District Q.

The meeting was adjourned.

VII. Next Meeting Date

Wednesday, January 9, 2019.

VIII. Adjournment

The meeting was adjourned at 6:02 PM.

City and Borough of Juneau

Elgee Rehfeld
Alaska's CPA Firm

Fiscal Year 2018 Audit Presentation

February 6, 2019

Karen Tarver, CPA
Sarah Griffith, CPA

Elgee Rehfeld, LLC

FY18 Audit Teams

- **CBJ – Karen Tarver**
  - Adam Sycks, April Conway, Mallorie Fagerstrom, Jill Smith, Ryan Beason, Cody Campbell, Tim Lewis
- **BRH – Sarah Griffith**
  - Adam Sycks, April Conway, Mallorie Fagerstrom, Berkleigh Brauer, Ryan Beason
- **CBJSD – Karen Tarver**
  - April Conway, Mallorie Fagerstrom, Jill Smith, Cody Campbell, Berkleigh Brauer

Elgee Rehfeld
Alaska's CPA Firm

When We Audit

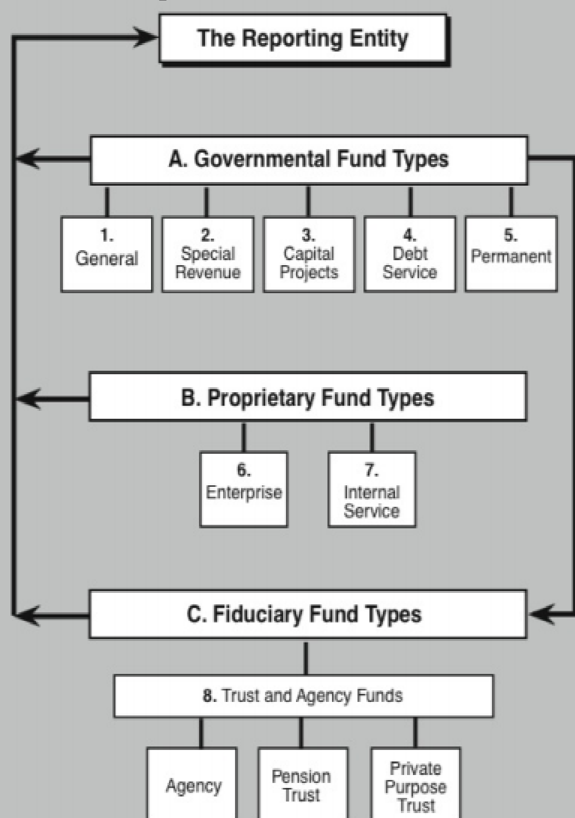
City and Borough of Juneau (CBJ)
August and October/November

Bartlett Regional Hospital (BRH)
September

Juneau School District (CBJSD)
June/July and September

What We Audit

Primary Government



CBJ

- **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**
- **Federal Major Programs**
- **State Major Programs**

What Our Reports Cover

- CBJ
  - CAFR (Comprehensive Annual Financial Report)
  - Federal and State Major Programs
  - FAA Passenger Facility Charges Schedule
- Bartlett Hospital
  - Financial Statements
- CBJSD
  - Financial Statements
  - Federal and State Major Programs
  - State of Alaska DEED Tuition Rate Report

Elgee Rehfeld
Alaska's CPA Firm

Audit Process

Planning and Risk Assessment

Testing of Significant Internal Control

Testing of Balances and Significant Transactions

Concluding on Work Completed

Drafting Reports and Financials

Issuance

Elgee Rehfeld
Alaska's CPA Firm

Juneau School District 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
  - New Accounting System
  - Online Payment Options and Student Activity Accounting
  - Medicaid Billing

- Presentation done at School Board Meeting

Elgee Rehfeld
Alaska's CPA Firm

Bartlett Hospital Audit Results

- Unmodified Opinion on Financial Statements
- Recommendations to the Hospital Board
  - Audit Preparation and General Ledger Review – prior year issue reported as resolved in FY18
- Detailed Presentation with the Finance Committee and Hospital Board

Elgee Rehfeld
Alaska's CPA Firm

CBJ Audit Results

- CAFR / Financial Statements
  - Unmodified opinions
- Federal and State Major Programs (compliance)
  - Unmodified opinions on Federal and State Major Programs
- FAA
  - Passenger facility charges schedule fairly presented

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Alaska's CPA Firm

Letter to the Assembly – Significant Accounting Policies

- Adoption of GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB).

- Changes to CAFR
  - Restatements related to OPEB liability

- Investments
  - Stated at market value at June 30, 2018
  - Assumes credit worthiness of counterparty
  - In compliance with CBJ code/policy

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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

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Alaska's CPA Firm

Letter to Assembly - Adjustments

- Uncorrected by Management
  - Accumulated Depreciation in Docks Fund overstated by $240,549 – will be corrected in FY19
- Material Corrections in Audit Process
  - Net Position: Restricted – Capital Projects
  - Schedule of Additional Information – Current Capital Projects by Category

Elgee Rehfeld
Alaska's CPA Firm

Letter to the Assembly - Internal Control Matters and Recommendations

Other Internal Control Matter - CAFR Review Process

- We recommend management develop a formal CAFR draft review process.

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Alaska's CPA Firm

Letter to the Assembly – Status of Prior Year Comments

Other Internal Control Matters:

- **Improve Review Monitoring Controls Over Financial Reporting**
  - Management has made significant progress and will address this further in FY19 as they formalize the CAFR review process.

- **Further Develop and Document Accounting Procedures**
  - Management has made significant progress documenting the routine monthly and annual financial close processes and will work on additional process documentation in FY19.

- **Aggregate, Record and Disclose CBJ Leases Receivable**
  - Management is addressing in FY19 as they work on preparing for implementation of GASB No. 87, *Leases*, in fiscal year 2020.

Elgee Rehfeld
Alaska's CPA Firm

Conclusion

- Thank you to the CBJ Finance and Treasury Departments, JSD Finance, and BRH’s Finance staff. All our interactions were professional and we appreciate how seriously each person takes their responsibilities.

- Special thanks to Bob Bartholomew for his service to CBJ and assistance in our audits. We wish him luck in his next adventure.

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

- Questions?

Elgee Rehfeld
Alaska’s CPA Firm

Presented by: The Manager
Introduced: March 4, 2019
Drafted by: Finance

ORDINANCE OF THE CITY AND BOROUGH OF JUNEAU, ALASKA

Serial No. 2018-12(A)

An Ordinance Appropriating and De-Appropriating Funds from the Treasury for FY19 School District Operations.

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

Section 2. Estimated Funding Sources. This Ordinance will make the following changes to the City and Borough of Juneau School District Operating Budget for the fiscal year beginning July 1, 2018, and ending June 30, 2019.

Estimated Revenue

State Support:	$ 536,284

CBJ Transfers In

General Governmental Fund School District Support:

Operations:	$ 123,415
Special Revenue:	$ 140,000
Total Changes	**$ 799,699**

Section 3. Appropriation. The following amounts are hereby changed for the fiscal year beginning July 1, 2018, and ending June 30, 2019.

General Operations:	$ 659,699
Kinder Ready Program:	$ 140,000
Total Changes	**$ 799,699**

Section 4. Effective Date. This ordinance shall become effective immediately upon adoption.

Adopted this ________ day of ____________, 2019.

____
Beth A. Weldon, Mayor

Attest:

____
Elizabeth J. McEwen, Municipal Clerk

City and Borough of Juneau
FINANCE DEPARTMENT
February 6, 2019

Information on Wastewater & Water (WW&W)Financial Status

Issue:
WW&W utilities are currently in a solid financial position from an annual cash flow and fund balance perspective. The financial challenge moving forward is how to fund an acceptable level of system infrastructure upgrades and replacements. This paper and the attached "financial dashboards", rate history and Utilities Advisory Board (UAB) annual report excerpt are intended to inform the assembly on the utilities financial status and upcoming decision on potential rate increases. No action is needed at the February AFC meeting.

Current Status:
On July 1, 2018 the last utility rate increase approved by the Assembly became effective. Five years of annual 8% increases, approved in 2014, for wastewater have brought the monthly base rate to $94.23 and similar 6.5% increases for water have resulted in a monthly base rate of $36.17.

At the end of FY2019 the Water Utility fund balance is projected to be $8,852,667. With the last rate increase, the revenue projections for the Water Utility are sufficient to cover projected annual operating costs and allow for an ongoing modest investment in CIP needs. The current projections indicate that the Water Utility account balance will carry an acceptable reserve level through FY2022 while covering both operational costs and contributing to several significant Water Utility CIP projects such as replacing the water main along Douglas Highway. This fund balance will be assisted by the inclusion of $1,000,000 in special voter approved sales tax funds for both 2020 and 2021.

On the Wastewater Utility account, the projected fund balance at the end of FY2019 is $10,388,650. As with the Water Utility, the revenues are projected to cover the annual operational costs but provide less available funding for CIP needs. As with the Water Utility, the Wastewater CIP needs will be partially funded through the special sales tax passed by voters. The Wastewater Utility is scheduled to receive $13,500,000, over 5 years, which began with $2,000,000 in 2019.

As we develop and refine a 10 year CIP for both the Water and Wastewater Utilities, it is obvious that there are more capital infrastructure needs than there are available resources. Our challenge remains to prioritize these needs to keep both Utility systems in a state of good repair so we can continue to provide the community with reasonable service at a reasonable cost.

CIP needs can be funded several ways, through rates charged to users, additional sales tax revenue dedicated to Utility projects and loans and grants through the Alaska Department of Environmental Conservation. The City and Borough of Juneau has used all of these funding sources in the past and will likely need to continue with a multifaceted funding approach to meet the upcoming CIP needs.

Looking at a strategy to maintain the purchasing power of the current rate structure leads us to a discussion about rate adjustments to compensate for the effects of inflation. This strategy, combined with sales tax revenues and reasonable incurrence of debt will allow the Utilities to maintain the current infrastructure while minimizing the costs increases utility customers see on their utility bills. This discussion is scheduled for the next Utilities Advisory Board meeting in early March and then back the AFC March 13.

Attachments:

1. WW financial dashboard\
2. W financial dashboard
3. 5 year trend WW&W utility monthly rates
4. Excerpt from the UAB 2018 annual report

CBJ Wastewater Utility Updated Rate Model

	REVENUE							EXPENSE					
Fiscal Year	**WW Utility Revenues**	**Bonds**	**DEC Grants**	**DEC Loans**	**Sales Tax***	**Passenger Fees**	**Additional Rate Revenue**	**CIP Spending**	**Debt Service**	**Operating Costs**	**Ending Fund Balance****	**Fund Balance Minimum 3 month**	**Fund Balance Target Range**
FY14	9,572,483	-	-	1,150,000	-	-	-	1,500,000	587,305	8,214,378	8,265,804	2,053,595	684,532
FY15	10,088,393	-	-	23,400	-	-	-	23,400	645,387	8,333,707	9,552,206	2,083,427	694,476
FY16	11,417,877	-	-	10,000,000	-	-	-	13,940,000	581,582	8,218,974	8,646,719	2,054,744	684,915
FY17	11,976,034	-	-	10,000,000	-	-	-	10,550,000	566,790	8,508,830	11,558,616	2,127,208	709,069
FY18	13,111,961	-	-	-	-	-	-	4,815,000	507,848	7,780,229	10,519,920	1,945,057	648,352
FY19	13,442,959	-	-	-	2,000,000	-	-	5,845,000	513,100	10,388,650	9,216,129	2,597,163	865,721
FY20	13,213,800	-	-	-	2,600,000	-	-	5,825,000	506,300	9,643,900	9,054,729	2,410,975	803,658
FY21	13,080,000	-	-	-	1,500,000	-	-	8,915,000	1,778,213	9,836,778	3,104,738	2,459,195	819,732
FY22	13,080,000	-	-	-	3,700,000	-	-	3,000,000	1,776,893	10,033,514	5,074,331	2,508,378	836,126
FY23	13,080,000	-	-	-	3,200,000	-	-	3,000,000	1,754,822	10,234,184	6,365,326	2,558,546	852,849
FY24	13,080,000	-	-	-	500,000	-	-	3,000,000	1,628,752	10,438,868	4,877,706	2,609,717	869,906
FY25	13,080,000	-	-	-	-	-	-	3,000,000	1,504,958	10,647,645	2,805,103	2,661,911	887,304
FY26	13,080,000	-	-	-	-	-	-	3,000,000	1,344,898	10,860,598	679,607	2,715,149	905,050
FY27	13,080,000	-	-	-	-	-	-	3,000,000	1,328,053	11,077,810	(1,646,255)	2,769,452	923,151
FY28	13,080,000	-	-	-	-	-	-	3,000,000	1,311,219	11,299,366	(4,176,840)	2,824,841	941,614
FY29	13,080,000	-	-	-	-	-	-	3,000,000	1,294,364	11,525,353	(6,916,557)	2,881,338	960,446

Assumptions:

Sales Tax 1% (FY25 thru FY29) (1=Y, 0=N)	-

*Special Sales Tax Funding FY19-23 projected $13.5M (needs Finance Committee approval, slated for 1/8/2018 meeting)

**Should have 3-4 months of operating expenses available (appox. 3-4 million)

***Financial Reserve (Operational $3M+ Capital $4M) Target = $7 million

CBJ Water Utility Updated Rate Model

	REVENUE							EXPENSE			
Fiscal Year	***Water Utility Revenues***	***Bonds***	***DEC Grants***	***DEC Loans***	***Sales Tax****	***Passenger Fees***	***Additional Rate Revenue***	***CIP Spending***	***Debt Service***	***Operating Costs***	***Ending Fund Balance*****
FY14	4,266,924	-	50,000	200,000				850,000	162,531	3,095,804	3,444,685
FY15	4,530,440	-	3,000,000	7,800,000	465,000	1,200,000		12,785,000	183,409	2,645,424	4,803,462
FY16	4,966,182	-	3,000,000		1,527,000			5,857,000	173,816	2,705,053	5,755,118
FY17	5,246,935	-	-	(5,270,000)				(4,380,000)	244,596	2,483,587	7,627,325
FY18	5,609,662	-	-					2,500,000	73,977	2,548,696	7,665,101
FY19	5,682,911	-	-		-			1,600,000	74,573	2,820,772	8,852,667
FY20	5,799,500	-	-		1,000,000		-	5,050,000	72,600	2,452,750	8,076,817
FY21	5,767,000	-	-		1,000,000		-	5,213,000	210,936	2,501,805	6,918,076
FY22	5,817,000	-	-		-		-	4,000,000	232,624	2,551,841	5,950,611
FY23	5,867,000	-	-		-		-	4,000,000	229,662	2,602,878	4,985,071
FY24	5,917,000	-	-		-		-	4,000,000	226,699	2,654,935	4,020,436
FY25	5,962,000	-	-		-		-	4,000,000	156,250	2,708,034	3,118,152
FY26	6,012,000	-	-		-		-	4,000,000	154,300	2,762,195	2,213,657
FY27	6,062,000	-	-		-		-	4,000,000	152,350	2,817,439	1,305,869
FY29	6,062,000	-	-		-		-	4,000,000	148,450	2,931,263	288,155

Assumptions:

Future Rate Increase (FY20 thru FY24):	0.00%
Future Rate Increase (FY25 thru FY29):	0.00%

Operational Cost Inflation (FY21 thru FY29	2.00%

Sales Tax 1% (FY25 thru FY29) (1=Y, 0=N)	-

*Special Sales Tax Funding FY19-23 projected $13.5M (needs Finance Committee approval, slated for 1/8/2018 meeting)

**Should have 3-4 months of operating expenses available (appox. 1-1.5 million)

***Financial Reserve (Operational $1M+ Capital $2M) Target = $3 million

Rates

Water and sewer utility rates are determined by the CBJ Assembly and become effective through an adopted CBJ ordinance.

Flat Rates

Water Utility Rate Schedule											
Customer Class	Monthly Allowance (Gallons)	RATES Effective 1/1/15		RATES Effective 7/1/15		RATES Effective 7/1/16		RATES Effective 7/1/17		RATES Effective 7/1/18	
		Base (per month)	Volume Charge (per 1,000 gallons)	Base (per month)	Volume Charge (per 1,000 gallons)	Base (per month)	Volume Charge (per 1,000 gallons)	Base (per month)	Volume Charge (per 1,000 gallons)	Base (per month)	Volume Charge (per 1,000 gallons)
Flat Residential	–	$28.12	–	$29.94	–	$31.89	–	$33.96	–	$36.17	–
Flat Commercial	–	$28.12	–	$29.94	–	$31.89	–	$33.96	–	$36.17	–
Percent Increase:		6.5%		6.5%		6.5%		6.5%		6.5%	

Wastewater Utility Rate Schedule											
Customer Class	Monthly Allowance (Gallons)	RATES Effective 1/1/15		RATES Effective 7/1/15		RATES Effective 7/1/16		RATES Effective 7/1/17		RATES Effective 7/1/18	
		Base (per month)	Volume Charge (per 1,000 gallons)	Base (per month)	Volume Charge (per 1,000 gallons)	Base (per month)	Volume Charge (per 1,000 gallons)	Base (per month)	Volume Charge (per 1,000 gallons)	Base (per month)	Volume Charge (per 1,000 gallons)
Flat Residential	–	$69.26	–	$74.80	–	$80.79	–	$87.25	–	$94.23	–
Flat Commercial	–	$69.26	–	$74.80	–	$80.79	–	$87.25	–	$94.23	–
Percent Increase:		8.0%		8.0%		8.0%		8.0%		8.0%	

Engineering & Public Works Department
155 South Seward Street
Juneau, Alaska 99801
Phone: 907-586-0800 | Fax: 907-463-2606

MEMORANDUM

DATE: April 30, 2018

TO: City and Borough of Juneau Assembly

FROM: Utility Advisory Board (UAB)

SUBJECT: UAB Annual Report to the Assembly for May 2017 – April 2018

BACKGROUND

The Water and Wastewater Utilities did not have a rate increase from 1991 to 2003. The Utilities were in a precarious financial position because of this long period with no rate increases. A rate study completed in 2003 recommended an immediate rate increase of 19% for water and 39% for wastewater and recommended additional specific rate increases over the next 10 years. The Assembly approved the 19% and 39%, increases and due to the public outcry from this "rate shock", the Mayor empaneled an Ad Hoc Utility Advisory Board (UAB) in February 2004. Made up of seven members of the public, the group's task was advising the mayor and Assembly on Water and Wastewater Utility issues, including rates, and making recommendations regarding the advisability of a permanent Advisory Board. The Ad Hoc UAB presented their report in December of 2004, recommending, among other things, establishment of a permanent Utility Advisory Board. In February 2005, CBJ Resolution 2299 created a permanent Utility Advisory Board, with seven members of the public, six of whom served on the Ad Hoc UAB. Since its establishment, the UAB has continued to advise the Mayor and Assembly on Utility issues in accordance with the original resolution.

PURPOSE

The purpose of the Utility Advisory Board is to advise the Assembly on issues relating to water and wastewater utilities. The Board's primary responsibilities concerning the status of water and wastewater utility issues are as follows: (a.) Review and make recommendations to the Assembly and Manager on all matters pertaining to the operation of the water system and the wastewater system, to the end that the consuming public is provided with the best possible service consistent with good utility management and cost containment; (b) Review annual budgets and funding plans and make recommendations for the efficient and economical operation of the water system and the wastewater system including bond issues, staffing, fiscal matters, and public relations; (c) Make recommendations on long-range planning for system expansion replacement, and priorities to meet future needs of the water and wastewater systems; (d) Make recommendations on water and wastewater utility rates to ensure that the rates are equitable and sufficient to pay for operation, maintenance, debt reduction, system replacement, and utility reserves necessary to ensure sustainable public utilities; (e) Make recommendations on measures to increase the efficiency and cost effectiveness of the water and wastewater utility operations; and (f) Perform such other duties and functions related to the utilities as the Assembly or Manager may request.

MAY 2017- APRIL 2018 BOARD MEETINGS AND MEMBERSHIP

Between May 2017 – April 2018, the Board held five regular meetings and one work session. Leon Vance served as chair throughout the year. Geoff Larson continued to serve as vice-chair. Andrew Campbell and Geoffrey Larson's terms expire in May 2018. They have re-applied for their seats.

The Board shall consist of seven members comprised of the listed qualifications:

> To the extent practicable, appointments shall be made as follows: one engineer registered in the State of Alaska, preferably with training and experience in water, wastewater, and/or utility systems design and operation; one accountant, preferably experienced with utility financial management practices; one general contractor, preferably experienced in the construction of water and/or wastewater utility systems; two commercial customers of the City and Borough water and/or wastewater utility; one residential customer of the City and Borough water and/or wastewater utility; and one member of the general public.

The following is list of May 2017 – April 2018 members with their area of membership qualification(s):

Kevin Buckland – Accountant, Commercial Utility Customer, and Residential Utility Customer
Andrew Campbell – Alaskan Registered Engineer, General Contractor, Commercial Utility Customer, and Residential Utility Customer
Bryan Farrell – Commercial Utility Customer and Residential Utility Customer
Janet Hall Schempf – General Public
Geoff Larson – Commercial Utility Customer
Grant Ritter – Residential Utility Customer
Leon Vance – Residential Utility Customer

WATER AND SEWER RATES

Recommendations

- UAB recommends an annual increase of 2.5% for wastewater utility rates for each of next five fiscal years.
- At this time no increase is recommended for water utility rates for the next five fiscal years.

The Board spent a significant amount of time over the last six months reviewing and analyzing water and wastewater funding and expenditures. This culminated in identifying the appropriate utility rate changes to secure the financial health of the Utilities through FY2024. The projections for capital project spending beyond FY2024 become more speculative as time projections increase. Historically, both utilities have undertaken larger capital funding episodes about every ten years, coinciding with major expansions or reconstructions of major systems. Examples include: construction of Wastewater's sludge incinerator in 1994; current construction of the Biosolids dryer and Headworks Improvements; Last Chance Basin Water Source Improvements 1993; Salmon Creek Disinfection Improvements 1998; Last Chance Basin Well Field Improvements 2014; and Salmon Creek Water Filtration 2016.

The Board identified a plan through FY2024 that continues the recommended rate increase of 2.5% for wastewater utility and no increase for water utility rates. This approach will allow the Utilities to maintain three to four months of operating cost and continue allocation to capital expenditure. However, this plan after 2024 will be unable to sustain fund balances that equal the financial reserve targets (three to four months operating costs + capital expenditure) as identified by the CBJ Finance Director. The UAB will continually monitor the financial health of the Utility and will make recommendations based upon any deviations from our forecast. Wastewater will fall below the $7 million ($3M operational + $4M capital) financial reserve target in FY2027. Water will fall below the $3 million ($1M operational + $2M capital) financial reserve target in FY2029.

Additionally, the financial reserve targets would be unmet in earlier years if periodic higher capital costs are experienced, such as in the past. While the CBJ's Capital Improvement Plan has a six year outlook for potential projects, the UAB's perspective regarding needed rate structure should adopt a ten year outlook as their horizon.

Objectives for May 2018 – April 2019

- Monitor financial health of the Utilities and make recommendations to the Assembly as needed
- Evaluate asset life expectancies
    - Begin implementing asset management software program
- Develop RFIs and/or RFPs for:
    - Asset evaluation/valuation model/assessment
    - Rate study with ten year outlook
        - Last rate study completed in 2014
        - 2014 rate study projections end in 2024

FURTHER INFORMATION

Engineering and Public Works staff for the UAB include:

Roger Healy – Engineering & Public Works Director
Autumn Sapp – Engineering & Public Works Business Manager
Holly Kveum – Administrative Assistant III

Information is also available on the Utility Advisory Board website at:
https://beta.juneau.org/engineering-public-works/utilities-division/utility-advisory-board

BOARD MEETING DATES

Meetings
November 9, 2017
January 11, 2018
January 19, 2018 (work session)
February 8, 2018
March 8, 2018
April 12, 2018

City and Borough of Juneau
FINANCE DEPARTMENT
February 6, 2019

Information on Services & Funding Options for Cruise Industry Support

Issue:
Based on Judge Holland's Order of Dec. 6, 2018 and Judgment of Jan. 25, 2019 staff is evaluating what services and infrastructure to recommend for funding from CBJ marine passenger fee(s) for fiscal year 2020 (begins July 1, 2019). The information below and attached is focused on the program/services for operations (staff, operational costs and contractors) and does not address the funding of future capital projects. Delivery of services to the cruise ship/passengers will begin in late April and last through September. Depending on decisions made by the Assembly, both the current FY19 and upcoming FY20 budgets could be impacted.

For services and program costs that are not recommended for MPF usage (if any), staff has been compiling an inventory of potential alternate funding options. CBJ has requested that CLIAA formally advise CBJ on two questions – what services do they believe are necessary and what funding source or mechanisms do they propose.

Background:
Since FY 2000 CBJ has expended the CBJ MPF fees to deliver services and infrastructure to support the cruise industry. The list of services has evolved over time based on dialogue between CBJ and CLIAA (and its predecessors). There have been additions and deletions from the list as needs and understanding of the law have evolved. The scope of expenditures has narrowed over time.

In the spring of 2016 CLIAA filed suit against CBJ arguing that our fees and expenditures are unconstitutional. Judge Holland ruled that the CBJ fees are constitutional and since the litigation was prospective, made no ruling on the constitutionality of any particular expenditure.

The CLIAA Director has suggested that CBJ should submit a list of proposed expenditures to CLIAA for approval. That idea is **completely backward**. Like any service user or fee payer, the cruise ships individually or through CLIAA are more than welcome to advise CBJ (preferably in writing) of their position(s). The decisions of what services to provide, and what fees and taxes are most appropriate (and of course legal) belong to the Assembly as a normal exertion of local control.

The CLIAA Director has advised that he believes that the Judge's ruling makes for a "bright line." We don't agree. Several times CLIAA asked that Judge Holland make specific decisions about categorical limitations, several times he declined. More specifically from the 1/25 Judgment, Judge Holland wrote that:

> *"Fees expended for projects and expenses that constitute or are based upon the reasonable cost of services to a vessel do not become unlawful under the RHAA [or the Tonnage Clause] because the services being provided may also incidentally benefit the general public or vessel passengers. But, fees imposed upon vessels but expended for*

> *services that benefit passengers only are unlawful under the RHAA [and the Tonnage Clause]."*

In his order of 12/6, Judge Holland provided extensive commentary in advance of his conclusion, including a comment that:

> *"services….which are of like kind to those services generally provided….and generally funded by municipal tax revenues are unlikely to qualify as services to a vessel,"*

and he introduces a new conceptual definition of a legal service:

> *"a service which advances the interstate marine enterprise of the vessel."*

In our correspondence with CLIAA regarding the Archipelago project, we cited the *Barber*[1] case out of Hawaii which was litigated to the 9th Circuit Court of Appeals. In *Barber*, a fee on vessels that was used to provide parking, bathrooms and trash was upheld as lawful. Notably, ships don't use parking lots, bathrooms and trash cans. Hence, the CBJ disagrees with any narrow reading of Judge Holland's decisions because such a narrow reading would be inconsistent with *Barber*, which still governs even in Alaska.

It is left to CBJ to interpret and implement or to appeal Judge Holland's ruling. It is left to CLIAA to participate in our budgeting process or litigate specific expenditures as it sees fit.

Current Status:

Based on this guidance, CBJ needs to decide on the following:

1. What services do we provide?

   We recommend that CBJ provide the same services as last year.

2. Should the Order and Judgment automatically shift the tax/fee burden from the ships to CBJ?

   No, it should not. Cruise ships and passengers should shoulder their appropriate tax burden. The legal ruling does not change the tax policy idea that to the extent practical the **cost causer should be the cost payer.** Unlike all of the other tax payers in CBJ, cruise ships do not pay any property tax, the CBJ does not recoup sales tax for on-board sales, and the CBJ does not collect the sales tax for the full cost of tours. Because ships are legally different than a fixed base hotels, tour operators and retailers (which pay property, hotel/bed and sales taxes), a different fee mechanism is appropriate. Judge Holland's rulings clarify the law but do not force the municipality to shift the tax burden away from the ships and passengers and onto its citizens.

3. What is the best fee method to impose?

   That is the topic to be discussed.

Additional data collection and analysis is underway to develop the pros & cons and dollar amounts for each option. The City Manager is having ongoing discussions with CLIAA.

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[1] *Barber v. State of Hawaii*, 42 F.3d 1185 (CA9 1994).

City & Borough of Juneau
Marine Passenger Fees

Expenditures & Funding Options
for Services to Vessels / Passengers
February 6, 2019

Operational Expenditures	**FY19 Budget**
1. General Support	$ 1,400,000
2. Best Management Practices Support	20,000
3. Crossing Guards	237,500
4. Downtown Foot/Bike Patrol	183,800
5. Downtown Restroom Maintenance	85,000
6. JCVB - Visitor Information Services	135,600
7. Downtown Sidewalk Cleaning	103,400
8. Downtown Security Program - Downtown Business Association	58,700
9. Seasonal BLS - EMS Transport Program	220,600
10. Docks and Harbors - General Operations Support	154,100
11. Docks and Harbors - TWIC	170,000
12. Docks and Harbors - Port Customs Office Building Maintenance	133,500
13. Franklin Dock Enterprises - Bathroom Cleaning	25,000
14. Franklin Dock Enterprises - Security Training	85,000
15. AJ Juneau Dock, LLC - Security Stuff	110,000
16. AJ Juneau Dock, LLC	19,600
17. Downtown Pay Phones	8,000
18. Library: Wireless Internet	-
19. Seawalk Maintenance to Overstreet Park Area	33,600
20. Tug Assist	10,000
21. Weather/Current Monitoring Systems (Ops & Mtnc)	30,000
Total Operations	**$ 3,223,400**

Funding Options

A. Use CBJ Fees for Expenditures in Compliance with Court Guidance.
B. Provide Additional MPF to Fund Dock Operations & Free up Non-Ship Revenue
C. CLIA to Pay Directly for Services
D. Onboard Sales Tax
E. Reduce MPF Funding to all Docks ($150K/Year)
F. Use State CPV (TBD)
G. Increase CBJ Docking Fees to Market Rates

155 S. Seward Street ▪ Juneau, Alaska 99801
Phone: 907-586-5278 ▪ Fax: 907-586-4552

INFORMATION RELEASE
January 23, 2019

Amazon now collecting local sales tax on certain orders

The City and Borough of Juneau Sales Tax Office recently received several reports of CBJ Sales Tax being charged on orders made through Amazon.com. The Sales Tax Office has contacted Amazon and verified that it does have a registration and sales tax collection requirement on certain orders shipped to Juneau.

Amazon's collection of sales tax is not the result of any change to the CBJ Sales Tax code; rather it's the result of corporate restructuring within Amazon. Prior to January 1, 2019, a subsidiary of Amazon already had a registration and sales tax collection requirement under the CBJ Sales Tax code. Effective January 1, 2019, due to some corporate restructuring, a larger portion of Amazon's business enterprise now has that requirement under the CBJ Sales Tax code. As a result, Amazon.com will be collecting the CBJ Sales Tax on the majority of orders shipped into Juneau. CBJ Sales Tax will not be charged on sales made by 3rd party sellers through Amazon.com.

Currently, other retailers that only conduct sales in Juneau via the internet are not yet subject to CBJ sales tax. A recent Supreme Court decision may change this though, but it will take a standardized Alaska local sales tax program. CBJ is participating in a working group of the Alaska Municipal League to address this issue. This effort is expected to take at least a year to complete.

If you have any additional questions, please contact the CBJ Sales Tax Office at 907-586-5265.

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For more information, contact Finance Director Bob Bartholomew at 586-0300 or Bob.Bartholomew@juneau.org.