MEMORANDUM

DATE: November 30, 2022

TO: Assembly Finance Committee

FROM: Jeff Rogers, Finance Director

SUBJECT: **Update on FY2022 Year-end Close**

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This memo should be reviewed side-by-side with the Budget Summary document, particularly the section of changes from the FY22 Assembly Adopted Budget and the FY22 Final Year-End Projected. Note that due to staffing shortages and turnover, the Controller has not yet completed the FY22 financial statements. The FY22 Final Year-End balances should be considered projected, not audited, but are believed to be materially accurate.

The main takeaway is a $18.7 million deficit after the Assembly invested a total of $37 million in various infrastructure projects and funds, including New City Hall, Statter/Seawalk, deferred maintenance, Affordable Housing Fund, Augustus Brown Pool, Boat Yard, Eaglecrest Gondola, Capital Civic Center, IT Upgrades, Teal Street Center, Lemon Creek Multi-Modal Path, JPD/CCFR radio system upgrades, North Douglas crossing, and the Ballot Processing Center. That is a very impressive and very significant investment in CBJ's infrastructure and community priorities. I will note the Assembly made these extraordinary investments with the knowledge that CBJ would receive approximately $16.0 million of previously unreimbursed school bond debt from the State of Alaska. Those funds were granted in FY22 but were formally received by CBJ in FY23. So, considering those funds, the FY22 budget would be much closer to balanced.

In addition to Assembly spending, there were other changes to expenditures. Most significantly, the CBJ general fund operating budget lapse is a record $4.5 million--$3.7 million in personnel and $800,000 in non-personnel. This very significant lapse resulted from lingering pandemic closures and staffing shortages. And while a large lapse is also expected in FY23, the Assembly should not assume that such a large lapse will continue indefinitely into the future. In addition to the personnel and non-personnel expenditure lapse, the Assembly also accepted the recommendation from the Finance Department not to transfer general funds to the debt service fund, as had been budget, which resulted in a $2.0 million expenditure savings.

The FY22 budget benefits significantly from unexpected one-time federal and state revenues granted to stabilize municipal government. All considered, $17.9 million of unbudgeted revenues were received from a variety of sources. As documented in the revenue history/forecast, CBJ also collected $6.8 million in sales tax in excess of the budget. Many factors contributed to this substantial windfall of sales tax revenue, including inflation, rapid post-pandemic economic restoration, and growing remote sales tax revenues. The Finance Department will continue to attempt to forecast sales tax revenues sufficiently high to account for these factors in the future. Property tax revenues were approximately $0.5 million lower than budgeted due to the Assembly's decision to reduce the mill rate by 0.1 mill at the same meeting that it adopted the final CBJ operating budget.

After several years of super-sized investment returns, CBJ's overall investment portfolio produced a staggering $3.6 million general fund loss in FY22, which results in a net revenue difference of $5.3 million from positive budgeted income. As discussed several times previously, this loss resulted entirely from rising interest rates. As interest rates fall, investment returns are higher than normal; and as rates rise, investment returns become sluggish. If interest rates stabilize in the current range, CBJ investment income will stabilize also. And as interest rates fall to typical levels, investment income will outpace normal returns, which will likely recoup some of these losses. Note that this is not the result of poor investment management: CBJ's fixed income portfolio manager continues to out-perform the relevant market benchmark.

The anticipated $18.7 million deficit decreases the unrestricted general fund balance from approximately $27.5 million at the end of FY21 to approximately $8.7 million at the end of FY22. The restricted budget reserve has increased from $14.6 million at the end of FY21 to approximately $15.6 million at the end of FY22 resulting from JEDC's return of funds from the COVID-19 small business loan program. This yields a total combined general fund balance of $24.3 million at the end of FY22.