

MEMORANDUM



DATE: November 30, 2022
TO: Assembly Finance Committee
FROM: Jeff Rogers, Finance Director
SUBJECT: Mid-Year Update on FY2023

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

This memo should be reviewed side-by-side with the Budget Summary document, particularly the section of changes from the FY23 Assembly Adopted Budget and the FY23 Final Year-End Projected. Additionally, you should also review the updated Consolidated Revenue Forecast document.

The fiscal year started with an unexpectedly strong Sales Tax quarter. The first quarter of FY23 (July-Sept) yielded \$20.2 million in Sales Tax vs. \$17.9 million forecast. Inflation is definitely the most significant factor here. Prior forecasts did assume elevated inflation, but far less than Juneau actually experienced in the July-Sept quarter. Of particular note, Juneau fuel prices alone drove significant additional sales tax revenue. A review of fuel distributors showed *almost double* the total taxable value of fuel sold, which we believe is predominantly related to fuel prices and not to an increase in consumption (if anything, high fuel prices should have diminished consumption). Otherwise, assumptions that went into the prior sales tax forecast largely held true: Juneau received approximately the number of ships and passengers forecast, and Juneau residents appeared to be back to “pre-pandemic” local consumption levels, particularly at food and beverage establishments.

The strong performance in the first quarter likely indicates that Juneau’s economy is performing at pre-pandemic levels. I have no particularly reason to believe that the sales tax performance in the July-Sept quarter was an anomaly, as there is no indication that prices are falling or will fall in the coming quarters (deflation). Hence, significant adjustments have been made to the remaining quarters of the FY23 sales tax forecast. These adjustments indicate that total FY23 sales tax will be \$62.7 million, which will be \$7.0 million higher than budgeted last spring. That is a considerable upward shift in sales tax revenue, and you might rightly take it with a grain of salt. When the Manager’s introduces the budget in April, we will have the benefit of knowing the Oct-Dec quarter sales tax performance. That quarter could confirm the continued trend, or it could suggest that the first quarter of the year was indeed anomalous.

Remote sales tax also continues to grow faster than forecast, and based on monthly returns, FY23 forecast remote sales tax is increased to \$3.5 million, which is \$600,000 higher than budgeted. As with local sales tax, much of this unexpected growth can be attributed to inflation; but also, the Alaska Remote Sellers Sales Tax Commission (ARSSTC) continues to register large new filers every month. Of note, Google (Alphabet) has still failed to register with the ARSSTC, and commission staff are now force-filing the company and will initiate legal action to collect sales taxes due. The ARSSTC believes that Google alone will materially increase total remote sales tax collections.

In comparison to recent years, the Assembly has shown extraordinary restraint with supplemental appropriations in FY23. To date, the Assembly has approved just \$155,000 of supplemental general fund expenditures, all of which were one-time rather than ongoing costs. However, the Assembly is on course to approve a \$3.1 million supplemental for wages and benefits resulting from the successful negotiation of labor contracts with CBJ’s bargaining units. This appropriation also funds the according cost increases for unrepresented employees. These costs were anticipated but could not be included in the FY23 budget upon adoption.

While there have been minimal supplemental appropriations for unanticipated expenditures, CBJ has continued to benefit from one-time revenues. A state grant of \$16.0 million for previously unreimbursed school bond debt was

known in FY22, but it was not received until FY23. Approximately \$3.9 million of ARPA revenue was shifted from FY22 to FY23 due to technical timing issues. Approximately \$1.0 million of pandemic-related support for transit will be received in FY23. And the state's Community Assistance Program (i.e. revenue sharing) payment to CBJ was higher than budgeted by about \$770,000.

All of those changes together turn a budgeted \$6.0 million deficit into a projected \$21.3 million surplus for FY23. This surplus would increase unrestricted general fund balance from \$8.7 million at the end of FY22 to \$30.1 million at the end of FY23.