

ASSEMBLY FINANCE COMMITTEE MINUTES - DRAFT

APRIL 5, 2023, AT 5:30 PM

ASSEMBLY CHAMBERS/ZOOM WEBINAR



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

A. CALL TO ORDER

This meeting was called to order at 5:40 pm by Chair Triem.

B. ROLL CALL

Committee Members Present: Carole Triem, Chair; Mayor Beth Weldon; Michelle Bonnet-Hale; Greg Smith; Alicia Hughes-Skandijs; Wade Bryson

Committee Members Present Virtually: Wáahlaal Gíidaak; Christine Woll

Committee Members Absent: Maria Gladziszewski

Staff Members Present: Rorie Watt, City Manager; Jeff Rogers, Finance Director; Adrien Speegle, Budget Manager

C. APPROVAL OF MINUTES

1. March 1, 2023

The March 1, 2023, minutes were approved as presented.

D. AGENDA TOPICS

2. Summary of FY24 Revised Budget

Rorie Watt, City Manager, reviewed the challenges that are to be faced in the upcoming year and how those challenges are reflected in the FY24 budget. The main theme of these challenges is inflation and how it will affect city operations. Mr. Watt summarized the Manager's Budget Message on pages 19-22 of the FY24 Revised Budget Book and applauded the Assembly's diligence in previous budget seasons.

Jeff Rogers, Finance Director, reviewed the budget development process. This process involves reviewing every line item of expense and revenue, department by department. Mr. Rogers directed the Assembly to supplemental financial documents at the back of the budget book (page DOC-1 through DOC-2). Mr. Rogers reviewed the Assembly Adopted Budget for FY23 and the summary of changes that were made post-adoption. Major changes in expenditures for FY23 included higher wage and benefit costs and a \$2.5 million appropriation for the Capital Civic Center. An additional expenditure that is pending Assembly consideration is the supplemental outside-the-cap funding request made by the Juneau School District (JSD) to correct prior year fund deficits and current year shortfalls.

Mr. Rogers discussed with the Assembly the unexpected amount of revenue received by the City in FY23, including \$16 million from the State of Alaska for previously unreimbursed school bond debt and additional one-time Federal funding from the American Rescue Plan Act totaling \$5.2 million. Additionally, sales tax projections exceed budgeted amounts by \$6.9 million. Total unbudgeted revenue is anticipated to reach just over \$31 million in FY23, as shown on DOC-1.

Mr. Rogers highlighted the unusual nature of receiving this amount of unanticipated revenue, stating that the Assembly should not expect this magnitude of one-time funding going forward into FY24.

Mr. Rogers answered committee questions.

Mr. Rogers walked the Assembly through the FY24 Budget Summary found on DOC-2 of the budget book. This summary shows the projected rise in revenues, most notably from sales tax and property taxes, compared with the projected increase in expenditures for FY24. Before factoring in one-time expenditures and revenues, the budget is balanced with consideration of a \$1 million lapse and a reduced mill rate of 10.28 mills.

Mr. Rogers answered committee questions.

Mr. Rogers discussed the additional expenditures that will occur in FY24 and highlighted that the maximum local contribution to schools will increase \$2.3 million in FY24 due to increased borough-wide assessed property valuations. The city is required by state law to pay 2.65 mills of the borough assessed value as determined by the State Assessor and can elect to pay an additional 2 mills of the assessed value, up to the maximum local contribution of 4.65 mills, towards education. Mr. Rogers noted that the Assembly has historically funded education up to the allowable amount under state law.

Mr. Rogers reviewed other expenditure increases on DOC-2, including inflationary increases to professional services and materials and commodities, increases in IT costs relating to Office 365, software licensing, and multi-factor authentication, and the addition of two employee recruitment and retention programs for dependent care assistance and deferred compensation employer match. Additionally, the manager's proposed budget includes 4.76 new FTEs to meet programmatic needs.

Mr. Rogers answered questions regarding community grants and how they are included in budgeted expenditures. Mr. Rogers clarified that all grants that are considered recurring are included in the budget and listed on page 84 of the budget book. Mr. Rogers stated that the Assembly will have an opportunity to hear from grantees later in the budget process and address any funding requests not included in the budget.

Mr. Rogers reviewed the non-recurring revenue that is expected to be received in FY24, producing \$1.7 million in additional funding for CBJ. Mr. Rogers and Mr. Watt noted the proposed one-time expenditures for FY24, the largest being an appropriation to set aside \$10 million as partial funding for a New City Hall. Other one-time expenditures include a \$4 million transfer to the Restricted Budget Reserve as well as \$2 million as partial funding for public safety radio system upgrades.

Mr. Rogers answered committee questions.

Mr. Rogers highlighted the unusual years that CBJ has faced financially, emphasizing the General Government Fund annual surplus and deficit swings that are reflected on the graph on DOC-3. FY22-FY24 have been difficult to predict and have seen substantial one-time infrastructure investments as a result of substantial one-time revenues from Federal stimulus funds and the reimbursement of previously unreimbursed school bond debt from the State. Mr. Rogers noted that the Assembly showed considerable budget restraint during the pandemic, which factored into the General Government fund balance growth.

Assemblymember Hale asked whether the projected amount of \$12 million in unrestricted fund balance compares well to other municipalities. Mr. Rogers stated that there is no clear amount that should be maintained in the available fund balance. The amount can be advantageous or disadvantageous depending on the strategy of the municipality regarding how they seek to make funding decisions. Some municipalities use debt service to fund capital improvements and others prefer a pay-as-you-go approach using fund balance to pay for improvements.

Mr. Watt stated that CBJ does employ both strategies and affirmed that CBJ is in an enviable financial position.

Mr. Rogers discussed the Restricted Budget Reserve contribution of \$4 million proposed in the budget and reflected on DOC-4, which will bring the balance of the reserve in line with the recommendation of 16.7% of operating revenues as of the FY22 audited financial statements.

The Committee recessed at 6:43 pm.

The Committee reconvened at 6:48 pm.

3. Overview of Major Revenues

Mr. Rogers reviewed the Sale Tax Actuals and Forecast charts found on DOC-5 which show steady growth in collected sales tax for CBJ. In large part, the rise in sales tax collected is a result of inflation as well as tourism normalizing post-pandemic.

Mr. Rogers answered questions regarding the growth of remote sales tax as part of the total sales tax collected. Remote sales tax has been a growing component of the total sales tax collected since FY20 with the projected revenue for FY24 being \$4 million. Collection of remote sales tax is limited by vendor cooperation in collecting sales tax. Mr. Rogers expects the total of remote sales tax collected to continue to grow in the coming years as additional sellers are registered with the Alaska Remote Seller's Sales Tax Commission, but that the tax will eventually plateau as all major sellers become registered.

Mr. Rogers answered committee questions regarding remote sales tax.

Mr. Rogers reviewed the Hotel Bed Tax Actuals and Forecast charts found on DOC-7, which show a steady rate of growth over the past eight years. Hotel bed tax is forecast to be \$3.42 million in FY24, an increase of \$1.33 million over the FY23 Adopted Budget. Mr. Rogers explained much of the growth in collected hotel bed tax is due to higher demand to visit Juneau which has resulted in higher hotel rates.

Mr. Rogers reviewed liquor, marijuana and tobacco taxes, which have been relatively consistent over the years; the forecast for these taxes considers inflation and the impact of summer visitation.

4. Assessor Valuation Report

Mr. Rogers introduced the Assessor's valuation report found on pages 8-44 of the committee meeting packet. This report shows a substantial increase in property valuations across Juneau with an average rise of 16% for single-family residential homes. This increase is largely driven by a high demand for homes, low supply of new homes, and rapidly rising building costs in Juneau.

Assemblymember Smith asked what the methods and standards are for assessing property values and how CBJ's Assessor's Office compares with these standards.

Mr. Rogers clarified that there are three different standards that can be used to determine the most accurate property value. These methods are examining the cost to produce the property, the price the property can be sold for, and any potential income that can be generated from the property.

Mr. Watt stated that CBJ primarily uses the price approach, as CBJ does not have significant land parcels that haven't been developed and often commercial owners don't want to disclose how much income a property generates, which is why having diminished information regarding property sale prices is so challenging.

5. Proposed Mill Rate

Mr. Rogers reviewed the calculation used for determining the proposed mill rate as shown on DOC-11. The manager's budget proposes a mill rate that provides the minimum amount of property taxes needed to fund city operations, after consideration of a \$1 million lapse at the end of the year.

Mr. Rogers reviewed the graphs on DOC-12 which show the difference in revenue that would be collected if the previous mill rate of 10.56 were to be carried over from FY23 and compares it to the revenue that will be collected at the proposed mill rate of 10.28 for FY24.

Mr. Watt emphasized that although he is proposing a reduced mill rate, it will still result in an increase in property taxes collected by the City as a result of higher borough-wide assessed property valuations.

Mr. Rogers discussed the components of the mill rate, stating that the mill rate is comprised of three service areas that fund government operations and a debt service component. Of the FY24 proposed operating mill rate of 9.08 mills, 4.65 will go towards school funding if the Assembly funds the maximum local contribution. The remaining 4.43 mills is used to fund general city operations. The FY24 proposed debt service mill rate is 1.2 mills.

Mr. Rogers and Mr. Watt answered committee questions.

Mr. Rogers confirmed that the current proposed operating mill rate is the lowest it has been since 1988.

6. Overview of Debt Service

Mr. Rogers reviewed the forecasted debt service model located on DOC-15. A large amount of debt service will be paid off in FY24, increasing CBJ's debt capacity and decreasing the debt service mill rate in FY25 unless new debt is issued. Mr. Watt confirmed that the Assembly's debt capacity is substantial and should be factored into consideration of bond propositions on the October ballot.

Assemblymember Hughes-Skandijs raised the question of using the debt capacity to fund additional affordable housing for the city. Mr. Rogers stated that general obligation debt can only be issued for city-owned facilities, but it would come down to what the City Charter will allow.

The Committee discussed the potential options for use of debt service to fund various community needs, especially the need for affordable housing in the community.

7. Cost Allocation Overview

Mr. Rogers reviewed CBJ's FY23 vs FY24 Full Cost Allocation located on DOC-17-26. These tables reflect the allocation of central service department costs to enterprise, internal service, and special revenue fund departments.

Mr. Rogers answered committee questions on how these expenses and revenues are assigned. Mr. Rogers stated that department allocations are based on central service usage metrics from two years prior. Allocations are also on a 3-year smoothing calculation to minimize the effects of a singular year requiring more of a particular service.

8. Info Only: AFC Budget Calendar

The Committee reviewed the schedule for Finance Committee meetings during the budget review process and discussed possible adjustments to topics contained therein.

F. NEXT MEETING DATE

7. April 12, 2023

G. ADJOURNMENT

The meeting was adjourned at 8:00 pm.