

ASSEMBLY FINANCE COMMITTEE MINUTES - DRAFT

November 30, 2022 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

The meeting was called to order at 5:41 pm by Mayor Beth Weldon.

B. ROLL CALL

Committee Members Present: Mayor Beth Weldon, Chair; Maria Gladyszewski; Michelle Bonnet-Hale; Alicia Hughes-Skandijis; Wade Bryson

Committee Members Present Virtually: Wáahlaal Gíidaak; Carole Triem

Committee Members Absent: Christine Woll; Greg Smith

Staff Members Present: Rorie Watt, City Manager; Robert Barr, Deputy City Manager; Robert Palmer, City Attorney; Jeff Rogers, Finance Director; Adrien Speegle, Budget Manager

Others Present: Karen Tarver, Audit Partner at Elgee Rehfeld

C. APPROVAL OF MINUTES

1. November 2, 2022

The November 2, 2022 minutes were approved as presented.

D. AGENDA TOPICS

2. Juneau School District Audit

Karen Tarver, Audit Partner at Elgee Rehfeld, presented high-level findings from the FY22 Juneau School District audit on packet pages 28–29.

Elgee Rehfeld's audit identified two significant deficiencies; Ms. Tarver was present to discuss the deficiency related to Juneau School District's (the District) compliance with CBJ Charter § 13.7. The Charter prohibits the superintendent from obligating or making a payment without an appropriation, and the District cannot exceed the total budget without Assembly approval. Since 2018, the District has had expenditures in excess of revenue, creating an increasing deficit.

In FY22, the District's expenditures from the Operating Fund exceeded budgeted expenditures by \$506,679, actual revenues were \$1,150,430 less than budgeted revenues, and there was no unassigned fund balance available from FY21. As a result, the Operating Fund balance decreased by \$2,684,774, resulting in a \$620,407 deficit. All other governmental funds had a net \$27,317 decrease in fund balance, decreasing the District's total fund balance by \$2,712,091, resulting in an ending deficit balance of \$63,175 across all funds.

The Committee discussed the findings.

The funding the City and Borough of Juneau has provided to the District, including the Operating Fund, student transportation, food service, and non-major governmental funds, amounted to \$29,346,100 in FY22. In response to Committee questions, Jeff Rogers, CBJ Finance Director, clarified that State law caps the amount of money local jurisdictions can appropriate to school districts for operations. The City has contributed the capped amount of funding. If the Assembly appropriates more than the cap, the State's portion of education funding will be reduced, meaning that the total funding for education from both local sources and the State will remain flat.

To correct the FY22 ending Operating Fund deficit of \$620,407, the District needs to reduce spending or increase revenues by this amount to remedy the deficit by the end of FY23. Ms. Tarver stated that the fund balances need to be corrected and that overspending resources should not continue.

To correct the ongoing deficits, the District needs to identify cost-saving opportunities in the FY23 budget to actuals, specifically in the Operating Fund. The Operating Fund must be submitted to and approved by the Alaska Department of Education with a balanced budget. Because the District began its year with a deficit, they find themselves in a situation where they have to cut costs or increase revenues to create a balanced budget. Currently, the District does not have funds to cover unforeseen expenses in future years.

Ms. Tarver stated that Elgee Rehfeld's audit identified these expenditures in excess and brought them to the attention of the District. In return, the school board and district management are aware of the situation, and in their action plan, they have stated they will resolve this issue by the end of FY23.

Assemblymember Hale asked if there is any ongoing oversight or assistance the City and Borough of Juneau or Elgee Rehfeld can provide to avoid issues like this in the future. Ms. Tarver noted that other school districts in the State are experiencing the same, if not worse, deficit issues. Ms. Tarver stated that there is pressure on the State to increase the amount of per pupil funding, as education funding has remained flat for years while expenditures have increased.

Rorie Watt, City Manager, stated that it is the responsibility of the School Board to address and resolve the District's budgetary challenges and direct operations, not the City.

Ms. Tarver stated that the FY22 spending in excess remained unnoticed by the District and was brought to light during the Elgee Rehfeld audit. This audit occurred after FY23 began, meaning that the school district should have taken the FY22 deficit into account when creating and implementing the FY23 budget. Due to this oversight, the school district must correct the FY22 and FY23 budgets by the end of the current fiscal year (FY23). To avoid future spending in excess, the District needs to create a budget cadence for more timely and ongoing conversations about revenue and expenditures. The Assembly has yet to be active in school district budgetary conversations, but future discussions between the Assembly and School Board will be beneficial to ensure funds are spent accordingly to avoid additional deficits.

Assemblymember Hale reminded the Assembly that it is pertinent to acknowledge that the lack of education funding from the State is a significant component of the funding issues the District is experiencing. Following that comment, Mr. Watt noted that it is the State's constitutional duty to provide and financially support education to Alaska's children. Mr. Watt also acknowledged the District's ongoing staffing challenges.

Ms. Tarver stated that if the District does not address this deficiency, another deficit is inevitable, and the City and Borough could be affected by this through the borrowing of funds from the City's central

treasury. Additionally, it is pertinent to remember that the District must submit a balanced budget to the Department of Education for Early Development for FY24.

No action was required from the Committee

3. Update on FY22/FY23/FY24

Mr. Rogers provided an update to the Assembly on CBJ's FY22 year-end close, FY23 mid-year financial status, and a preview of FY24 budget considerations on packet pages 14-27.

Mr. Rogers began the presentation by discussing packet page 22, where he reviewed FY22 actuals. In FY22, the City and Borough ended the year with an \$18.7 million deficit after the Assembly invested \$37 million in infrastructure projects and funds. The Assembly made this decision knowing that CBJ would receive approximately \$16 million of previously unreimbursed school bond debt from the State of Alaska.

Mr. Rogers discussed expenditure variances from the FY22 adopted budget, including personnel and non-personnel lapses totaling \$4.5 million and \$2.0 million lapse of general funds to the Debt Service Fund for unreimbursed school bond debt. Mr. Rogers noted that FY22 experienced significant one-time federal and state revenues granted to stabilize the municipal government, including a hold-harmless appropriation of State Marine Passenger Fees to replace CBJ's lost revenue from a very limited cruise season in the summer of 2020 and 2021. As a result, \$17.9 million of unbudgeted revenues were received. CBJ also collected \$6.8 million in sales tax over the budget due to inflation, post-pandemic economic restoration, and growing remote sales tax revenue. After FY22's strategic investments influenced by the knowledge that the school bond debt reimbursement would be taking place, the unrestricted General Fund ended with a balance of \$8.7 million.

Mr. Rogers reviewed the FY23 budget on packet page 21 and stated the Assembly had done very minimal supplemental spending in FY23.

Mr. Rogers discussed the data on packet page 26, reviewing FY23 Q1 Sales Tax revenue compared to historical and current Sales Tax revenue by quarter. Q1 Sales Tax revenue exceeded projections due in part to inflation, especially fuel inflation. In response to Assemblymember Triem's question, Mr. Rogers explained that with the increase in Sales Tax revenue resulting from inflation, CBJ should anticipate higher expenditures in FY23, especially in fuel and freight. Another contributing factor to the increase in Sales Tax revenue is the increase in remote sales tax, which is projected to be \$600,000 more than budgeted. Mr. Rogers discussed packet page 25. At this time, CBJ projects that FY23 will see a surplus of \$21 million, which will be reduced if the Assembly makes additional supplemental appropriations this year.

Assemblymember Bryson asked if the restricted budget reserve should have funds transferred from the unrestricted balance in FY24. Mr. Rogers responded that this conversation should occur during the FY24 budget cycle, but that the City Manager may include a contribution to the reserve in his proposed budget.

Mr. Rogers proceeded with his presentation and discussed FY24 on packet page 24. FY24 will continue to see strong property value growth, with the potential of the market softening in the latter half of the year. The Finance Department is anticipating a 2.5% property tax growth overall as a starting point for FY24 budget planning, but this amount will be trued up once the Assessor finalizes property assessments in March. If Sales Tax projections hold up and are, in fact, a trend, then we will see a surplus in FY24 unless we see something change on the revenue front.

Assemblymember Triem left the meeting at 7:12 pm

Mr. Rogers discussed packet page 27, which provided a historical analysis of remote sales tax collected on items purchased from registered online sellers. FY23 has witnessed significant growth in remote sales tax due to increased filers with the Alaska Remote Sellers Sales Tax Commission (ARSSTC). One crucial remote sales tax business that has yet to register with ARSSTC is Google. Because of the estimated volume of Sales Tax revenue from Google, the Commission is seeking a lawsuit to collect remote sales tax from the company.

No action was required from the Committee.

F. NEXT MEETING DATE

7. January 4, 2023

G. ADJOURNMENT

The meeting was adjourned at 7:23 pm

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