

DRAFT
City and Borough of Juneau
Minutes - Assembly Finance Committee Meeting
Wednesday, September 7, 2022, 6:00 pm

A. CALL TO ORDER

The meeting was called to order at 6:00 pm by Chair Triem.

B. ROLL CALL

Committee Members Present Virtually: Carole Triem, Chair; Maria Gladziszewski; Christine Woll; Michelle Bonnet-Hale; Wade Bryson; Greg Smith

Committee Members Absent: Mayor Beth Weldon; Alicia Hughes-Skandijs; Wáahlaal Gíidaak

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

Others Present Virtually: Jason Celente, Insight Investment Senior Portfolio Manager

C. APPROVAL OF MINUTES

1. August 3, 2022

The August 3, 2022 minutes were approved as presented.

D. AGENDA TOPICS

2. Investment Performance Updates

Jeff Rogers, Finance Director, introduced Jason Celente, Senior Portfolio Manager at Insight Investment, the City and Borough of Juneau's investment manager.

Mr. Celente discussed how the state of the economy has impacted CBJ's portfolio, noting the magnitude of current inflation at 40-year highs. Mr. Celente stated that Insight is projecting lower inflation around 3% Core CPI on the forecast horizon, still higher than the Federal Reserve's 2% target, as reflected on packet page 11.

Mr. Celente summarized the labor market and the Federal Reserve's policy rates on packet pages 12-15. He explained that higher policy rates result in higher Treasury yields, causing fixed income investments and financial assets to undergo

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a repricing. Between June 2021 and June 2022, this repricing resulted in a portfolio return of negative 5.04% compared to the industry benchmark of negative 5.20%.

On packet page 19, Mr. Celente explained the relationship between recognized versus realized losses. He noted that Insight intends to offer training and working sessions to CBJ staff so they can track the status of the portfolio themselves.

3. Updates to Investment Policy Statement

Mr. Rogers stated that the proposed changes to CBJ's Investment Policy Statement include both clean-up items and the incorporation of Sustainability and ESG (Environmental, Social, and Governance) into CBJ's overall investment strategy. Insight has proposed adding Sustainability as a fourth objective, after Safety, Liquidity, and Yield.

Assemblymember Gladziszewski asked for clarification on the language under the Sustainability objective, and specifically what powers the Assembly would be giving the Finance Director and Treasurer.

Mr. Rogers stated that the language allows the Finance Director or Treasurer to direct Insight to take a specific approach or action on the portfolio in the interest of sustainability. Mr. Rogers stated that these are widely known as "side letters," and while not included in the Investment Policy Statement, still act as clear direction from the client to the investment manager that allows or disallows them from taking a specific position, approach, or strategy on the portfolio. Mr. Rogers noted that he does not believe he would ever act on this language unless directed so by the Committee.

Assemblymember Hale cautioned the Committee about allowing for specificity as it relates to Sustainability investments, as providing distinct direction may lead to unintended financial consequences for the portfolio.

Mr. Celente responded that the language was intended to allow for flexibility when appropriate and when the three primary objectives of Safety, Liquidity, and Yield have already been met. The side letter language provides the Assembly an avenue to make specific changes to the portfolio strategy as areas of focus or concern arise in the community.

Mr. Celente summarized the remaining proposed changes to the Investment Policy Statement on packet pages 48-59.

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Motion: by Assemblymember Gladziszewski to direct the Manager to make the appropriate ordinance changes as prescribed by the updated investment policy, including bringing the policy for Assembly approval, and update packet page 49 (page 2 of the policy) by adding the words “upon authorization by the Assembly” before the second sentence in the Sustainability objective section.

Objection: by Assemblymember Hale for the purpose of a question, later removing her objection.

Motion passed by unanimous consent.

4. Property Tax Abatement Program (Ord. 2022-42)

Mr. Rogers stated that this topic was discussed during the July 7 and August 3 Assembly Finance Committee meetings, and the ordinance is being brought back to the Assembly with changes for consideration. Mr. Rogers stated that principally the ordinance limits the borough-wide property tax abatement program to apartment buildings that remain on one property with one common owner, per the Assembly’s direction at the August 3 meeting. Mr. Rogers explained the specific language changes to the ordinance on packet page 63-71.

In response to Assemblymember Smith’s question, Mr. Watt clarified that common ownership does not apply to a condominium association, since with an association, an individual owns each unit, and the land is under common ownership by the association. Mr. Watt reminded the Committee that the tax abatement statute passed by the State only allows tax abatement for economic development. Generally, you can only abate improvements on the land, not the land itself.

The Committee discussed the sunset date for high-density residential and downtown multifamily tax abatement.

In response to Assemblymember Gladziszewski’s question, Mr. Rogers noted that the tax abatement runs for twelve years, and CBJ abates down to 2.65 mills, which is the required educational mill levy. The value of the abatement depends entirely on the value of the property the abatement is applied to.

Motion: by Assemblymember Hale to amend the ordinance by adding the sunset date of October 31, 2032 to the downtown multifamily Section (a)(2) on packet page 64, and move the ordinance, as amended, to the full Assembly. Assemblymember Hale clarified that the sunset date should not be applied to Section (a)(1).

Objection: by Assemblymember Gladziszewski.

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Roll Call Vote:

Ayes: Hale, Smith, Bryson, Woll, Triem

Nays: Gladziszewski

Motion passed. Five (5) Ayes, One (1) Nay.

5. Gastineau Lodges Pre-Development Loan (Ord. 2022-06(b)(P))

Mr. Watt stated that this topic was discussed at the August 3 meeting, at which the Assembly's direction was to bring back an ordinance for consideration. The ordinance on packet page 72 largely reflects the memo dated July 29 from the August Assembly Finance Committee packet.

Assemblymember Bryson inquired whether the developer has met the conditions necessary for financing a project of this magnitude.

Mr. Watt responded that he does not believe the developer has the financing in place. The proposal is to apply for U.S. Department of Housing and Urban Development (HUD) financing. On this project proposal, the hurdle is doing the preliminary work to see if HUD financing is possible. Mr. Watt stated that it has been a very long time since anyone has considered doing this kind of new development downtown. Mr. Watt does not believe that there is appetite for this developer or any developer to marshal venture capital to build something of this size, which is why HUD financing and a pre-development loan from CBJ is necessary.

In response to Committee questions regarding the risk associated with a pre-development loan, Mr. Watt directed the Committee to the memo dated July 29 from the August 3 meeting packet that outlines the loan parameters intended to mitigate some of that risk, which are also reflected in the ordinance on packet page 72.

Assemblymember Hale and Chair Triem expressed their support for the project, noting that some risk will be required to resolve Juneau's housing crisis.

Motion: by Assemblymember Smith to move Ordinance 2022-06(b)(P) to the full Assembly for public comment and Assembly action and asked for unanimous consent.

Motion passed by unanimous consent.

6. The Glory Hall Grant (Ord. 2022-06(b)(R))

Mr. Watt introduced the memo on packet page 76. As The Glory Hall moved to their new facility, they missed the deadline to apply for non-profit property tax

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exemption for their old facility. The Glory Hall submitted an appeal to the Assembly for consideration, however the Assessor has to assess properties based on fair market value on January 1, at which time the facility was listed on the market for sale as commercial property. Since The Glory Hall receives a large amount of funding from CBJ for their annual operations, any taxes due on the property are likely to result in an additional request for funding from CBJ. Instead of going through the lengthy appeal process, Mr. Watt proposed The Glory Hall be required to pay their property taxes and in turn, CBJ would provide them a grant in the amount of the taxes owed.

Mr. Watt and Mr. Rogers responded to questions relating to the use of the property on January 1, and how the Assessor determines partial use for charitable purposes in relation to the assessment of the property.

Motion: by Assemblymember Gladziszewski to move Ordinance 2022-06(b)(R) to the full Assembly.

Objection: by Chair Triem.

Amendment: by Assemblymember Hale to change the funding source of the ordinance from general funds to the Affordable Housing Fund.

Amendment passed by unanimous consent.

Roll Call Vote on Original Motion:

Ayes: Gladziszewski, Hale, Woll, Bryson, Smith

Nays: Triem

Motion passed. Five (5) Ayes, One (1) Nay.

7. Revenue Forecast Update

Mr. Rogers summarized the revenue forecasts on packet pages 78-79. He noted that actual sales tax revenue exceeded projections by \$3.2 million in FY22, likely as a result of the effects of inflation on the price of goods and services. Mr. Rogers stated similar inflationary effects can be seen for hotel bed tax, with FY22 actuals coming in \$510,000 higher than projections, reflecting the rise in cost of lodging and the increase of independent travelers. Mr. Rogers stated that he has not updated FY23 and FY24 forecasts, but will once FY23 Q1 actual revenue collections are available.

In response to Chair Triem's question, Mr. Rogers noted that approximately 13% of hotel bed tax comes from non-hotel lodging, such as short-term rentals.

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8. Reallocation of Hotel Bed Tax to Affordable Housing Fund

Mr. Rogers summarized the memo on packet page 80. The consideration of this topic was initiated through a resident's email to the Assembly expressing concern that hotel-bed tax revenues collected from short-term rentals were not being used to ameliorate the housing crisis in Juneau. The memo provides the Committee two options for allocating taxes collected from short-term rentals to the Affordable Housing Fund, if that is the will of the Assembly.

Assemblymember Hale suggested the Committee hold this topic, stating that this discussion is premature since the Assembly is queuing up a larger conversation relating to short-term rentals in Juneau. In addition, any conversation about changing the allocation of hotel bed tax requires consideration of Travel Juneau and Centennial Hall.

Chair Triem noted that considering the large increase in hotel bed tax revenue, a different allocation may not result in lower than historical allocations to Travel Juneau and Centennial Hall.

E. NEXT MEETING DATE

9. November 2, 2022

F. ADJOURNMENT

The meeting was adjourned at 8:13 pm.