

MEMORANDUM



DATE: May 17, 2023
TO: Assembly Finance Committee
FROM: Jeff Rogers, Finance Director
SUBJECT: Update on FY23 Sales Tax Actuals and FY24 Forecast

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FY23 Q3 (Jan-Mar) sales tax revenue fell short of forecast by about \$1.3M. That's a sizable deviation from the forecast, but there are several conflicting factors:

1. This new forecast has an increase of \$800k over the previous actuals for FY23 Q2 (Oct-Dec), which relates to timing factors around the 1st of the year (this timing difference likely reflects FY23 Q2 "stealing" some revenue from FY23 Q3)
2. Approximately \$500k of sales tax from FY23 Q3 (Jan-Mar) will be recorded in FY23 Q4 (Apr-July) because of the delayed timing of the FY23 Q3 filing deadline (this timing difference has the effect of FY23 Q4 "stealing" from FY23 Q2)
3. The forecast for FY23 Q3 was likely somewhat overestimated because of the very strong FY22 Q3 actual return of \$11.2M
 - a. Revenue for FY22 Q3 was partially inflated by timing anomalies (the opposite of what is happening in FY23 Q3)
 - b. The FY22 Q3 return is likely highly anomalous rather than reflective of any trajectory

The net result of the above adjustments is an implied sales tax shortfall of \$500k in FY2023 and the same in FY2024. However, the Finance Department is not recommending any change or update to the sales tax forecast at this time. It is possible (perhaps likely) that FY23 Q4 will exceed \$16.0M. There is enough remaining uncertainty that total FY23 sales tax could still reach the \$62.2M forecast. Any sales tax shortfall in FY23 would almost certainly be less than \$1.0M total.

In summary: FY23 Q3 sales tax is *soft*, but some of that softness comes from timing and reporting differences. No update to the revenue forecast is recommended at this time. However, conversely, this could be a very early sign that discretionary spending is starting wane.