

ASSEMBLY FINANCE COMMITTEE MINUTES

March 5, 2025, at 6:30 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 6:41 pm by Chair Christine Woll.

B. ROLL CALL

Committee Members Present: Chair Christine Woll; Greg Smith; Paul Kelly; Maureen Hall; Neil Steinger; Ella Adkison; Alicia Hughes-Skandijs; Wade Bryson

Committee Members Present Virtually: Mayor Beth Weldon

Committee Members Absent: None

Staff Members Present: Katie Koester, City Manager; Angie Flick, Finance Director; Adrien Wendel, Budget Manager; Joey Deluca, Controller

Staff Members Absent: Robert Barr, Deputy City Manager

Other Members Present: David Witthohn, Insight Investment Senior Portfolio Specialist

Other Members Present Virtually: Karen Tarver, Certified Public Accountant/Partner at Elgee Rehfeld

C. APPROVAL OF MINUTES

1. February 5, 2025

The February 5, 2025 minutes were approved as presented.

D. AGENDA TOPICS

2. Investment Update (page 2)

Chair Woll introduced David Witthohn, Insight Investment Senior Portfolio Specialist.

Mr. Witthohn shared that his division of Insight Investment works strictly with the public sector by advising on investments. He pointed the Committee to page 3 of the packet, which shows a graph of real GDP growth of the world's leading countries. He explained that the U.S. Economy had done very well, the best of all other countries featured, since recovering from the effects of the COVID-19 pandemic. He continued to explain how the last two years of GDP growth was an entire percentage point above the average growth from the decade before the pandemic. He shared that GDP growth in 2025 was expected to slow and could be dramatically slower due to the current administration's increase in tariffs and mass federal employee layoffs.

Mr. Witthohn discussed the trend in the U.S. labor market from the last year and shared that these numbers appeared to point towards an economic slowdown. He stated that the current unemployment rate of four percent was still healthy. He shared that the number of job openings versus number of people looking for

work had balanced significantly from previous years. He discussed the U.S. inflation trend from the last few years and shared that inflation had come down significantly from the post pandemic spike. He explained how inflated housing prices made up a significant portion of total inflation. If housing was removed from the calculation, the inflation rate would actually be just below the Federal Reserve's two percent target rate.

Assemblymember Bryson asked what economic indicators Juneau could look for to see a leveling off of inflation and more stability in its housing market.

Mr. Witthohn replied that housing has been a huge problem all over the country since the great recession and that anyway to get more housing units built would help alleviate the housing crisis in Juneau.

Mr. Witthohn continued by discussing the real positive returns for the portfolio. He shared that his team was now seeing the nominal rate generated by the portfolio at a higher level than inflation. This scenario hadn't been seen in more than a decade. He explained the graph on page nine of the packet which shows trade deficits and tariff differentials between the United States and its trade partners. He shared that the Federal Reserve had dropped interest rates one percent in 2024 and that his team predicted the Federal Reserve would drop interest rates by another half of a percent in 2025. He stated that while that drop is good for borrowers, it's not good for the portfolio. He reiterated that the returns for the portfolio are very good and would remain relatively high even with the predicated 2025 interest rate drop.

Assemblymember Kelly asked that because of the unpredictable nature of the current administration's policy on tariffs, was there any activity that could be recommended, especially in terms of housing.

Mr. Witthohn stated that the current situation with the tariffs was a wild card and that any solutions to mitigate against any negative effects from them were unknown. He shared that part of the strategy of the recent tariffs was to bring back manufacturing within the United States and that the total GDP of manufacturing in this country was currently at about ten percent.

Mr. Witthohn continued by discussing CBJ's portfolio. He stated that one-year performance had been strong. The three-year and five-year performance were lower due to the near zero interest rates during the pandemic.

Assemblymember Steininger stated that he noticed the graph on the current slide showed returns in gross of fees. He asked if the graph was shown in net of fees, what would the earnings above the benchmark look like.

Mr. Witthohn stated that CBJ's fee structure was around four basis points, so it would show a drop by four points.

Mr. Witthohn discussed the next slide on page fifteen of the packet which shows the portfolio asset allocation. He shared that corporate bonds were running at 31% of the portfolio and government agencies were at 19%, which was lower than desired. He stated that the portfolio had some government-backed mortgage-backed securities, with about 15% between the government issued commercial mortgage-backed securities and the regular mortgage-backed securities combined.

Angie Flick, Finance Director, stated that the Committee had seen presentations in the past from Three+One, a company who works with CBJ to help analyze their banking, investments, liquidity, and produce cash forecasting. She shared that at the beginning of the year, CBJ was able to restructure some of their rates with the custodial bank that holds the actual funding that Insight invests. Through that restructuring, CBJ was able to free up about \$23 million. These funds were transferred to Insight to have them include in the portfolio.

The Committee recessed at 7:17 pm.

The Committee reconvened at 7:25 pm.

3. FY24 CBJ/BRH/JSD Audit (page 76)

Karen Tarver, Certified Public Accountant/Partner at Elgee Rehfeld, directed the Body to page 102 of the packet and began presenting the FY24 CBJ, Bartlett Regional Hospital (BRH), and Juneau School District (JSD) audits. She shared that for the upcoming FY25 audit, Elgee Rehfeld would only be auditing CBJ's financials. BRH and JSD will be audited by other firms. She stated that the audits produce the Annual Comprehensive Financial Report (ACFR), an audited financial statement, compliance reports for the State and federal compliance schedules, and the FAA passenger facility charge report.

Ms. Tarver expressed that this meeting's conversation would only be on the ACFR and financial statement audits. She highlighted the different sections of the ACFR and explained how the work her team had done was an opinion on CBJ's basic financials which include government-wide and fund financials. She explained that the supplemental information covered governmental funds and proprietary funds, but that there would not be an opinion given on these. She described what was considered major funds, which include the general fund, general debt service, certain special revenue funds, and enterprise funds.

Ms. Tarver explained the timeline of how the different audits were conducted. She stated that the audit work consists of mostly analytical procedures, tests of controls, and substantive procedures using other sources to verify the accuracy of the information reported in the financial statements. She shared that planning and risk assessment were also a part of the audit. She stated that, for the FY24 CBJ audit, the firm issued unmodified opinions which meant the amounts reported in the financial statements were materially correct.

Ms. Tarver stated that the financial statements were also produced with assistance from Elgee Rehfeld, which created a risk of self-review. She expressed that safeguards were put into place to ensure that only Elgee Rehfeld employees outside of the audit team were working on the financial statements.

Ms. Tarver discussed the BRH FY24 audit and stated that there was one significant deficiency, which was a control weakness that could lead to a material misstatement. She shared that this was due to a lack of internal controls implemented for the merger of Wildflower Court, Inc into BRH operations. She shared that a prior year finding at BRH related to the implementation of a new standard had been significantly resolved. She shared that there was another control matter this year related to leases and explained that BRH had elected to not make certain adjustments during the year for their leases, opting to instead make those adjustments at the end of the year.

Ms. Tarver stated that there was another small item related to inventory count which was a result of human error. She recommended that those controls be looked at to ensure that correct inventory information would be accounted for. She discussed carryover items from the previous years.

Ms. Tarver discussed the JSD audit and shared that Elgee Rehfeld had issued an unmodified opinion on JSD's financial statements. She shared that there were two significant deficiencies, including one State finding and one financial statement finding. She stated that there had been a lot of improvement in FY25 from FY24. She shared details on the prior year's findings and how they had been partially resolved.

Ms. Tarver directed the Committee to page 150 of the packet which shows Elgee Rehfeld's letter to the Assembly regarding the audits. She discussed some of the highlights of the letter and shared that there had been a new accounting standard added this year regarding accounting changes and error corrections. She

mentioned that there were corrected and uncorrected misstatements included in the letter. She explained how last year's audit finding was very broad in nature as it related to the overall lack of preparedness for the audit. She stated that the difference this year was that the finding was very focused on these specific corrections that were proposed as a result of the audit. This was a vast improvement in understanding from last year.

Ms. Tarver explained the reason for a significant deficiency in this year's finding was that Elgee Rehfeld found, if they had not conducted their audit procedures, specific CBJ accounts would have been misstated in the ACFR. The second finding was related to the presentation of lease and Subscription-Based Information Technology Arrangements (SBITA) and it being incorrectly reported. She discussed findings that were repeated from the previous year and findings from last year that had been resolved.

Ms. Flick introduced Joey Deluca, Controller, and shared that Joey had recently been promoted to the CBJ Controller position after recently moving to Juneau and working as the Finance Department's Treasury Revenue Officer. She addressed a few findings that Ms. Tarver discussed and mentioned that the CBJ accounting team was fully staffed with many of the members being brand new in their roles within the last year. She shared that there was a lot of backlog to work through in closing out FY24. She discussed how, with help from Elgee Rehfeld in producing the financial statements, a lot of process improvements that needed to be corrected were discovered. A lot of work had been completed to bring the system up to date.

4. Export Manufacturing Exemptions (page 161)

Ms. Flick directed the Committee to page 161 of the packet which shows a memo from the City Assessor with information on the export manufacturing exemptions. She explained how every year the Assembly is asked to approve these exemptions. There were no significant changes from last year's requests to this year's.

Assemblymember Hall asked who all was eligible for this exemption and if the list of applicants could be missing other companies in the community who might be eligible.

Ms. Flick answered that the businesses who were eligible for this exemption were fully aware and were sure to take advantage of the exemption.

Motion: by Assemblymember Smith to move that the Assembly Finance Committee approve the export manufacturing exemptions as presented and ask for unanimous consent.

Motion passed by unanimous consent.

5. Topics and Priorities for AFC Discussion (page 167)

Chair Woll directed the Committee to page 167 of the packet which shows an outline of possible Assembly topics to prioritize for upcoming discussions during the budget cycle. She shared that it was unlikely that the Body would be able to tackle all these items before they approve the FY26 budget. She stated that some of the items could be discussed after the budget was approved.

Ms. Flick mentioned that on the last page of the packet the budget season calendar was included and, because of the full day meeting on Saturday April 5, 2025, a couple of the Wednesday meetings could be skipped if the discussion didn't require them. The calendar was built to include blocks of time for additional discussion if needed, to add extra flexibility.

Chair Woll opened the floor for assemblymember questions.

Assemblymember Smith asked that because property tax exemptions weren't impactful until January 1 of the next year, would it make sense to change the timing of sales tax exemptions to also go into effect on January 1.

Ms. Flick replied that because sales tax exemptions are part of CBJ code, they would need to follow the normal ordinance process. She shared that it would be important to gauge how much public participation would be necessary to bring merchants into the conversation, to make sure they are able to adjust to the new timeline.

Chair Woll asked what amount of Staff's time would be necessary to research and gather information on the possibility of removing sales tax from food in Juneau and how that might tie into the possibility of a seasonal sales tax.

Ms. Flick shared that some research and calculations on this idea were done a few years back. She stated that while the calculations could be revisited using current data, it would be hard to pin down the amount of time needed without knowing the specific desires of what the Body was asking for.

Assemblymember Bryson stated that the conversation about looking into removing sales tax from food had already occurred a few years back and it was found to be too complicated of a topic to derive clear answers to act on. He asked if it was the will of the Body to revisit this and repeat that analysis.

Mayor Weldon expressed concern with the idea of a seasonal sales tax due to the timing of the temporary sales tax expiring and the new temporary sales tax initiative being on the ballot in the upcoming election.

Ms. Flick stated that on June 30, 2027 the three percent temporary sales tax would expire. She shared that the one percent sales tax that typically goes to Capital Projects would expire on September 30, 2028. She stated that the three percent temporary sales tax would be back on the ballot in 2026.

Assemblymember Smith asked if the three percent temporary sales tax and a seasonal sales tax could be structured together on a ballot initiative so it would be simpler for the voters.

Ms. Flick answered that the restructuring of temporary and seasonal sales tax could be done. The Assembly would need to care for the timing of implementation with respect to annual or quarterly cycles.

Assemblymember Bryson shared that he felt the dollar amount of all CBJ and community needs on the list this budget cycle far outweighed CBJ's funding capacity. He mentioned the HESCO barrier project as one anomaly of a few that the City would not normally be looking to fund in a typical year. He expressed that it would be a very tough season for the budget process and that it would be crucial to keep a steady mill rate in mind during these discussions.

Assemblymember Hughes-Skandijis shared that the two items on the list that stood out to her were the visitor activity revenue and the exemptions, credits, and other foregone revenue. She stated that because there were increasing asks this year, the Body should be looking at other revenue sources.

Assemblymember Adkison agreed with Assemblymember Bryson's sentiment that pursuing a seasonal sales tax would require a long public outreach process that was not feasible during this budget season. She stated

that it would be important to respond to the community's desire for making tourism work for everyone and work to solve revenue issues.

Assemblymember Kelly mentioned that at a recent conference he attended he learned about a construction exception to the seasonal sales tax that Sitka, Alaska collects. He expressed that the Body should look into that as a possibility.

Assemblymember Smith expressed that he wanted the Committee to look into the possibility of a seasonal sales tax this year early enough for it to potentially be put on the fall ballot.

Assemblymember Hall expressed agreement with other assemblymembers' sentiment on the need to focus on revenue, including visitor activity revenue, seasonal sales tax, and exemption credits. She shared concern for the proposed utility rate increases.

Assemblymember Steininger expressed support for making the visitor activity revenue top priority of the Committee conversations for the upcoming budget season. He stated that it was integral for the community to figure out how to best utilize that resource without causing negative effects to the tourism industry.

Mayor Weldon shared that she was interested in looking at the sales tax exemptions and felt that it would be best to save the discussion on seasonal sales tax for a later time.

Chair Woll shared that she felt it was not possible for the Body to find resolutions for seasonal sales tax, two bond initiatives, the conversation on Eaglecrest funding, and the issue on water and wastewater utilities in this budget season before it became necessary for some items to be put on the fall ballot. She agreed that looking into visitor activity revenue should be prioritized. She expressed that going forward she would like to see some of the items slated for a ballot initiative dropped. She stated that action on the utility conversation needed to happen this year.

Assemblymember Hughes-Skandijs reiterated that there was not enough time to accomplish all the budget goals. She expressed that she would like to see a tax ballot initiative this year instead of one or two bond proposals. She shared that it wasn't clear what action the Assembly should take to tackle the issue of the utility rate increase.

Ms. Koester pointed out that if the Assembly did not adopt a utility rate increase, then there would not be an increase because there was no default increase scheduled.

Assemblymember Adkison expressed that she did not believe the Committee had the capacity to look at seasonal sales tax for the upcoming ballot. She stated that she preferred to focus on the water and wastewater utility bond for the upcoming ballot.

Assemblymember Bryson shared that while he wouldn't choose the utility bond as his top priority, he was comfortable with focusing on it during the budget season conversations. He shared that it was his priority to preserve the City's bond capacity in case they needed to match a future project, such as the North Douglas Crossing. He stated that support for some of Eaglecrest's large asks was not among his top priorities. He shared that one of the unforeseen consequences of a seasonal sales tax would be to raise the food bill for families in Juneau during the summer. He stated that focusing on increasing visitor revenue through increased tourism activities would be better for the community.

Assemblymember Kelly stated his priority was to focus on seasonal sales tax over bond initiatives because seasonal sales tax has the ability to bring in more revenue from outside of the community, whereas bond initiatives raise the cost of living within the community.

6. Information Only

Budget Calendar (Page 169)

Ms. Flick directed the Body to page 169 of the packet which shows the upcoming budget cycle calendar. She stated that the first Assembly Finance Committee (AFC) meeting to kick off the budget cycle would be Saturday, April 5th. She asked the Body if everyone could confirm whether they would be physically present or present on Zoom, as this would determine the physical location of the meeting.

All assemblymembers and Staff confirmed they would be physically present for the upcoming Saturday AFC meeting.

Assembly Grants Process Reminders – Sponsored Assembly grant requests are due to staff by March 15

Ms. Flick shared that, as part of the Assembly grant process, the deadline for the required community request forms was March 15th. These forms confirm that an assemblymember has agreed to sponsor a funding request from a person or group within the community. The form also outlines the details of that request and how it aligns with Assembly community goals. She explained the details of how the process works and included dates for when specific actions would be taken.

E. NEXT MEETING DATE

7. April 5, 2025

F. SUPPLEMENTAL MATERIALS

8. February 5, 2025 Minutes

G. ADJOURNMENT

The meeting was adjourned at 9:03 pm.