

ASSEMBLY FINANCE COMMITTEE MINUTES

March 01, 2023

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 6:00 pm by Chair Triem.

B. ROLL CALL

Committee Members Present Virtually: Carole Triem, Chair; Mayor Beth Weldon; Michelle Bonnet-Hale; Wade Bryson; Greg Smith; Alicia Hughes-Skandijs; Maria Gladziszewski; Christine Woll, Wáahlaal Gídaak

Committee Members Absent: None

Staff Members Present Virtually: Rorie Watt, City Manager; Robert Barr, Deputy City Manager; Jeff Rogers, Finance Director; Adrien Speegle, Budget Manager; Sherri Layne, Acting Municipal Attorney; Katie Koester, Engineering and Public Works Director; Dr. Bridget Weiss, Juneau School District Superintendent; Ruth Kostik, Revenue Officer

Others Present Virtually: Karen Tarver, Elgee Rehfeld; Deedee Sorenson, Juneau School District Board Member

C. APPROVAL OF MINUTES

1. February 1, 2023

The minutes were approved as presented.

D. AGENDA TOPICS

2. CBJ/JSD/BRH Audit Presentation by Elgee Rehfeld

Jeff Rogers, Finance Director, introduced Karen Tarver, Audit Partner at Elgee Rehfeld, to present information on the status of the Fiscal Year 2022 audit report for the City and Borough of Juneau (CBJ), Juneau School District (JSD), and Bartlett Regional Hospital (BRH).

Ms. Tarver discussed the audit schedule that Elgee Rehfeld operates for CBJ and overviewed the general elements of the audit Elgee Rehfeld conducts for CBJ. Ms. Tarver discussed the importance of the Annual Comprehensive Financial Report (ACFR) and its contents, namely CBJ's Financial Statements, including fund financial statements for BRH and JSD, and Required Supplementary Information as outlined on packet page 98.

Ms. Tarver stated that Elgee Rehfeld is planning on issuing the audit report with an Unmodified Opinion Statement, indicating that the financial statements are presented fairly and accurately. The responsibility of Elgee Rehfeld and the purpose of the audit is to obtain a reasonable assurance that financial statements released by CBJ are reasonably free from error and mistake. Elgee Rehfeld operates in accordance with Generally Accepted Auditing Standards (GAAS) to make these determinations.

Ms. Tarver reviewed Elgee Rehfeld's audit process on packet page 107.

Ms. Tarver addressed the FY22 audit process delay, stating that the implementation of Government Accounting Standards Board (GASB) No. 87 - Leases, Covid funding, BRH audit risk findings, CBJ Treasury and Finance employee turnover impacting process flows, and budgetary compliance issues all added to the delay in issuing the FY22 financial statements and audit.

Ms. Tarver gave an update that the audits for BRH and JSD are complete and have been presented to the corresponding boards.

Ms. Tarver emphasized that although the full audit process is not yet complete, she is able to present several findings. Elgee Rehfeld will issue a Material Weakness in Internal Controls over Financial Reporting – ACFR Preparation Process finding, specifically relating to how the ACFR is pulled together and created by CBJ's Finance Department. Ms. Tarver recommended seeking out ways to update the preparation process for this document to ensure there are controls in place to mitigate the risks identified in the evaluation and to ensure accurate and timely preparation of the ACFR.

Ms. Tarver answered questions from committee members regarding how completing a formal evaluation of the ACFR process would look.

Ms. Tarver presented the second finding, Significant Deficiency in Internal Controls over Financial Reporting – Lease Standard Implementation Procedure Documentation. This finding indicates a significant deficiency in the internal controls of the financial reporting process relating to the change in GASB No. 87 regarding leases. Ms. Tarver recommended further development of the procedures relating to this new reporting standard. Ms. Tarver further recommended reviewing current policies and procedures regarding financial reporting.

Ms. Tarver answered committee questions.

Mr. Rogers discussed the ACFR process as it stands now and supported the finding of Elgee Rehfeld that the current ACFR process should be improved. Mr. Rogers thanked Ms. Tarver and the efforts of Elgee Rehfeld in the audit process and expressed commitment to taking the findings seriously.

The Committee recessed at 6:52 PM.

The Committee reconvened at 6:57 PM.

3. JSD Request for Supplemental FY23 Funding Outside-the-Cap

Dr. Bridget Weiss, Juneau School District Superintendent, presented JSD's request for supplemental FY23 funding outside of the local education funding cap. Dr. Weiss clarified that the request is to correct both prior and current year fund deficits in the School District's non-operational components, but does not correct the deficit in JSD's Operating Fund.

Dr. Weiss answered committee questions regarding the details of the request. Several committee members requested more information regarding the amounts being requested by JSD. The Committee expressed concern about the allowability of the summer school costs outside the cap, since summer school is instructional in nature. CBJ cannot provide additional support for instructional purposes in FY23, since CBJ already contributed up to the local funding cap in the FY23 budget.

Dr. Weiss responded to committee concerns, stating that JSD is working with the Alaska Department of Education and Early Development (DEED) on whether the costs are allowable outside the cap. Dr. Weiss stated that the request is based on a higher enrollment count and the costs associated with higher enrollment. The current basic student allocation from the State has remained the same since 2015, even as costs have increased, resulting in a higher deficit.

Dr. Weiss discussed staffing costs for RALLY being higher due to difficulty in recruiting staff, necessitating current employees working overtime to staff the RALLY program. Additionally, the Community School program, which is a program to allow the public use of school facilities, is costing more to operate due to lack of staffing, with current staff having to work overtime to cover that program, as well. Dr. Weiss stated that RALLY has had to shrink its program to make it more cost effective. However, the program is still producing a deficit leading to the current funding request containing a portion for the RALLY program.

Rorie Watt, City Manager, clarified that the funds requested by JSD are to pay deficits from FY22 and prior years, as well as anticipated shortfalls in the current fiscal year.

The Committee discussed the nature of funding these costs outside the cap and requested a report of the eligibility of funding the summer school program outside of the current funding cap.

Dr. Weiss reviewed the process for determining funding and cost eligibility by DEED. The School District's budget is submitted to DEED during the budgeting process and must be approved to be implemented. JSD has also submitted the current request for additional CBJ support to DEED for review and is working with them on cost eligibility.

Assemblymember Smith inquired what the consequences are of not granting the request.

Dr. Weiss responded that some of the amounts requested would be moved to the FY24 outside the cap funding request, and the School District would start looking at cutting the Community Schools program or transfer the operations of the program to CBJ's Parks and Recreation Department, to relieve the burden and cost of running the program on JSD.

Deedee Sorensen, Juneau School District Board Member, affirmed the importance of the programs that are being run by JSD to the community, stating that the benefits to the community outweigh the costs.

Assemblymember Bryson inquired regarding the efforts of the Juneau School Board to consult and discuss alternatives to fulfill their needs, rather than requesting additional funding from the Assembly.

Dr. Weiss stated that the funding predicament JSD is in is due to cost inflation and lack of increased funding at the state level to cover rising costs of operations. The School District is looking to the State for a long-term solution to school district funding shortfalls across the state.

Motion: by Assemblymember Woll to forward an ordinance for up to \$2,540,737 to the full Assembly for introduction, to be funded by general funds.

Objection: by Assemblymember Bryson.

Roll Call Vote

Ayes: Wáahlaal Gíidaak, Hale, Woll, Smith, Mayor Weldon, Chair Triem

Nays: Gladziszewski, Hughes-Skandijs, Bryson

Motion Passed: Six (6) Ayes, Three (3) Nays

The Committee recessed at 8:13 PM.

The Committee reconvened at 8:23 PM.

4. Impact of School Consolidation on State Funding

Mr. Rogers expounded on the nature of the Alaska School Foundation Formula (ASFF) as it relates to state funding for JSD, to clarify how closure of a school would result in a corresponding loss of funding from the State. The ASFF is the formula the State uses to determine the funding provided to JSD, which uses Average Daily Membership (ADM) as the basis for the calculation.

The factor of school size is not relative to square footage of school buildings but is determined by student enrollment amounts. Therefore, closing a school would result in a change to the size of the remaining schools to include the displaced student counts.

Mr. Rogers responded to the Committee's questions regarding the values found in red on packet pages 7-10. Mr. Rogers clarified that the values in red are simply the resulting loss of State funding that would be associated with the closure of a JSD school and are not reflective of the cost savings to JSD resulting from closure of a school.

Further discussion of this topic may be held during the Joint Facilities Committee meeting on April 13th at noon.

5. Harmari Short-Term Rental Data

Ruth Kostik, CBJ Revenue Officer, presented the results of short-term rental (STR) data collection performed by Harmari, a third-party consultant. The data collected shows a significant growth in the number of short-term rentals being listed in Juneau, with a sharp increase at the announcement of the 2022 Iron Man.

Ms. Kostik reviewed the challenges of the data gathering, primarily being that duplicate listings are often difficult to identify, inactive listings cannot be accounted for, and the difficulty of matching up listing with sales tax merchant records, as properties may be misidentified, or merchants may operate more than one property under one merchant record.

Ms. Kostik reviewed the benefits of STR registration or permitting for CBJ. These benefits include improving the quality of STR inventory data, the ability to ensure sales tax compliance, and potentially the ability to monitor STRs for housing/zoning code compliance.

Ms. Kostik answered committee questions regarding the accuracy of the number of active listings, the nature of individuals creating listings and how Harmari tracks listing bookings. At this time Harmari cannot tell if a property is booked or if the property is not available for bookings. The result being that the Committee has no way of knowing how many of the properties that are listed on STR sites are actively taking bookings.

Mr. Rogers noted that one of the major reporting issues with the properties is the lack of registration requirements with the city for the listings. Efforts have been made to request better metrics and tax collection from listing sites such as Air BnB, however these efforts have not been successful.

Motion: By Assemblymember Gladziszewski to have staff draft a registration program in the form of an ordinance.

Motion passed by unanimous consent.

Assemblymember Smith requested that in the post budget season, staff come back to the Committee with a selection of regulatory restrictions for future discussion.

The Committee recessed at 9:22 PM.

The Committee reconvened at 9:26 PM.

6. Capital Civic Center Appropriation

Mr. Watt introduced the appropriating ordinance for \$5 million for the Capital Civic Center project, funded by \$2.5 million in general funds and \$2.5 million in hotel-bed tax funds on packet page 37.

Motion: by Mayor Weldon to move Ordinance 2022-06(b)(AJ) to the full Assembly.

Katie Koester, Engineering and Public Works Director, answered committee questions relating to the legislative priority process, and how local funding contributions can signal to the Legislature that a community is serious about a project.

Mr. Rogers answered committee questions regarding the availability of hotel-bed tax funds, stating that due to higher than anticipated hotel-bed tax receipts, sufficient excess funding is available to provide partial funding for this request.

Objection: by Assemblymember Hughes-Skandijs.

Roll Call Vote

Ayes: Wáahlaal Gíidaak, Hale, Woll, Smith, Mayor Weldon, Chair Triem, Bryson, Gladziszewski

Nays: Hughes-Skandijs,

Motion Passed: Eight Ayes (8), One Nay (1)

7. General Obligation and Revenue Bond Ordinances

Mr. Rogers presented the structure of the bond ordinances listed on pages 47-88. One of the ordinances is for the \$6.6 million general obligation parks bond that was approved by voters on the October 2022 ballot. The other bond is a revenue bond for \$5 million for shore power, which pledges port development fees for the debt repayment.

Motion: by Mayor Weldon to forward Ordinance 2023-12 to the full Assembly.

Motion passed by unanimous consent.

Motion: by Mayor Weldon to forward Ordinance 2023-13 to the full Assembly.

Motion passed by unanimous consent.

8. Export Manufacturing Exemptions

Mr. Rogers directed the Assembly to the 2023 Export Manufacturing Exemption Applications for business personal property used in manufacturing on packet pages 89-90. He stated that these applications are for the Assembly's consideration and approval.

Motion: by Mayor Weldon to approve the applications listed on packet pages 89-90 for export manufacturing exemptions and asked for unanimous consent.

Motion passed by unanimous consent.

E. SUPPLEMENTAL MATERIALS

9. CBJ/JSD/BRH Audit Presentation

This topic contained presentation materials to accompany Agenda Topic #2.

10. JSD FY23 Adopted Budget Outside-The-Cap Funding

This topic contained materials to accompany Agenda Topic #3.

11. JSD Victim of Financial Fraud

Mr. Rogers disclosed information regarding a JSD fraud case that took place in October and November of 2022 resulting in a loss of \$269,077.40 to the district.

Mr. Rogers responded to committee questions regarding insurance coverage of the fraud, stating that at this time CBJ's Risk Management Department had not received sufficient information from JSD to submit a claim to insurance providers.

F. NEXT MEETING DATE

13. April 5, 2023

G. ADJOURNMENT

The meeting was adjourned at 9:56 pm.

ADA accommodations available upon request: Please contact the Clerk's office 36 hours prior to any meeting so arrangements can be made for closed captioning or sign language interpreter services depending on the meeting format. The Clerk's office telephone number is 586-5278, TDD 586-5351, e-mail: city.clerk@juneau.org.