



**DATE:** November 21, 2023  
**TO:** Assembly Finance Committee  
**FROM:** Angie Flick, Finance Director  
**SUBJECT:** Looking Ahead to FY 2025

155 Heritage Way  
Juneau, AK 99801  
Phone: (907) 586-5215

Looking ahead to the development of the FY 2025 budget brings many changes and firsts: a new City Manager, a new Finance Director, and new Assemblymembers! The CBJ is plotting a course through returned tourism, housing issues, aging infrastructure, continuing struggles with recruiting and retaining employees, as well as mitigating the impacts of mother nature and balancing the needs of both an aging population and a work-force population.

This look ahead and conversation regarding FY 2025 along with the direction provided at the Assembly retreat will set the direction for the FY 2025 and FY 2026 budget development – the first year of the biennial budget cycle. As the pandemic sunsets in the rear-view mirror, the look ahead will focus on the assumptions staff would make in building an FY 2025 budget and seek your guidance, concurrence and/or direction on these assumptions.

**Inflation** continues to be a headline topic, although the rate of increase is slowing. Actions of the Fed have been decisive and swift in recent times. We are seeing a break in interest rate changes currently even though the nation has not reached the Fed's desired inflation rate. For purposes of budgeting, we anticipate a 3.5% to 3.7% inflation rate for FY 2025. As inflation drives many costs associated with day-to-day operations as well as sales tax revenues, this is an indicator we continue to monitor closely. Additionally, we are not seeing consistent inflationary prices in all types of supplies and services. We will examine budget requests in detail to validate assumptions about inflation in the FY 2025 budget process.

**Tourism** returned in full force during the summer of 2023! Additionally, Centennial Hall renovations are complete, allowing the return of conferences and other events to Juneau. Independent travel continues to be strong as well. Overall, we anticipate the impact of tourism to be materially flat from FY 2024 to FY 2025.

**Salaries and Benefits** represent a significant expense and a precious resource for CBJ. The people who provide day-to-day city services are amazing and take pride in the work they do for their community. The FY 2025 wages are set at a 2% increase by the approved bargaining agreements. Benefits, particularly medical and pharmaceutical, continue to experience cost growth. We anticipate the employer-paid portion of the benefits to increase by 5% in FY 2025.

**Revenue projections** for sales-related taxes have been adjusted for current trends with an inflationary increase in sales tax of 3.5% over the FY 2024 projection. A more conservative increase of 2.5% was applied to revenue collected via general fund programs. This revenue represents permits, participation fees, and the like. It is too early to know the valuation of properties yet for property tax projections, however a 2.5% increase in values was used a placeholder. We will know the valuation prior to the start of the FY 2025 budget conversations with the Assembly. For purposes of building a budget for discussion, property tax revenue was the last piece calculated in order to create a structurally balanced budget – ongoing revenue supporting ongoing expenditures. For purposes of this budget discussion, we also assumed a \$1 million lapse overall in the expenditures of the general government.

The example budget in the attached pages associate numbers to the above assumptions. While there are several questions and points of direction anticipated at Saturday's retreat; we look forward to feedback on these assumptions which are summarized below:

FY 2025 Budget assumptions for retreat discussion:

- Inflation – anticipate ‘normal’ inflation overall for Alaska, perhaps some deflation in some sectors.
  - Impacts: commodities, supplies, services, sales tax revenue
- Tourism – anticipate cruise ship activity to be flat compared to summer 2023
- Salaries – 2% wage increases per the approved bargaining agreements
- Benefits – projecting an 5% increase to employer-paid benefit costs
- Property Assessments – too early in the assessment cycle to know, assume 2.5% value increase
- General Receipts – programmatic revenue (permits, participation fees, etc.) assume 2.5% growth
- General Fund Lapse – standard \$1M general fund lapse included in assumptions
- Structurally Balanced Budget – recurring revenue is sufficient to pay for recurring expenditures
  - Backing into property tax as the last piece of revenue to balance the budget.