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TO: City and Borough Assembly  
FROM: Katie Koester, City Manager  
Robert Barr, Deputy City Manager  
Angie Flick, Finance Director  
DATE: February 7, 2024  
RE: Recommendation in Response to Juneau School District's FY24 and FY25 Ask

This memo is in response to the Juneau School District (JSD) letter dated 2-7-2024 regarding their financial ask due to their funding crisis. The request is similar to the hypothetical cost sharing scenario presented by Superintendent Hauser in the joint Assembly/School Board meeting held on 1-30-2024.

The community needs a successful school district. The School Board has complex decisions to make to ensure success of the school district and its students. JSD is working to gather community, teacher and student input as well as finalized enrollment predictions for the upcoming years. The magnitude of the decisions facing the School Board is beyond those faced during normal times.

### **Summary of 1-30-24 Meeting**

Below is a quick outline of the CBJ recommendation from last week's joint meeting and JSD's ask.

CBJ Manager Recommendation	JSD School Board Formal Request
<ul style="list-style-type: none"><li>Loan, Amount to cover balance, payment starting in year 3 of 5-year loan<ul style="list-style-type: none"><li>Condition of Financial Awareness</li><li>Condition of JSD plan to pay back</li></ul></li></ul>	<ul style="list-style-type: none"><li>Loan, Amount to cover balance (\$3.9M), 0% interest, payment starting in year 3 of 5 year loan</li></ul>
<ul style="list-style-type: none"><li>Facility Maintenance provided by CBJ</li><li>Community School administration provided by CBJ</li></ul>	<ul style="list-style-type: none"><li>JSD retains all control, scope and staff</li><li>CBJ pay the majority of costs deemed non-instructional</li></ul>

### **Request from JSD for direct support in FY 24 and FY25 = \$7.94M**

Category	Maximum Amount based on forecast	% Request from JSD	Amount Paid by CBJ
Facilities Maintenance	\$1,650,405	75%	\$1,237,804
Utilities	\$2,062,000	66%	\$1,360,920
Property Insurance	\$1,291,700	75%	\$968,775
Operations/Custodial	\$4,023,497	10%	\$402,349
<b>TOTAL</b>			<b>\$3,969,848</b>

### **Manager's Office Proposal**

The Manager's Office recommends only assisting JSD with a loan and Facility Maintenance in FY24, FY25 and beyond. Utilities, property insurance and operations/custodial costs have been considered part of the instructional costs historically by JSD, CBJ and DEED. The current financial crisis does not change the nature

of these costs. CBJ has zero control of these items. CBJ owns the facilities utilized by JSD and therefore maintenance of the facilities seems appropriate for CBJ owned property. Furthermore, I am concerned that after FY25 it will be difficult for these costs (utilities, insurance, operations) to revert to the district which puts pressure on CBJs operating budget and will necessitate a cut in CBJ services, mill rate increase, or some combination of the two. The \$4M ask from JSD represents .65 mills.

#### Manager's Proposal

Category	FY2024	FY2025	FY2026
Facilities Maintenance JSD Operated/offset for FY24&25	\$1,650,405	\$1,650,405	\$1,650,405 (expenditure JSD will not have to come up with in FY26 and beyond)
Facilities Maintenance CBJ Operated			\$3,500,000
Utilities	0	0	0
Property Insurance	0	0	0
Operations/Custodial	0	0	0
Full time CBJ Finance Staff		\$130,000	\$130,000
Loan	\$6.3M		JSD begins repayment of loan (\$2.63M annually for 3 years)

#### Expectations of JSD during FY25

- The Maintenance Supervisor is not covered by the JESS bargaining agreement. During the first half of FY25; this position will transition to be under the supervision of CBJ Facilities Maintenance.
- JSD will provide full access to relevant facility maintenance data, contracts, files and details as requested by CBJ.
- Community Schools will begin a transition to CBJ resulting in a CBJ program to be fully in place by July 1, 2025 (FY26) and included in the Manager's Recommended budget for FY26.
- None of the committed FY25 funding will be provided to JSD before Oct 15, 2024 and the following conditions must be met or substantially accomplished:
  - Presentation of a structurally balance budget for FY26 and beyond
  - Resolution of the Facility Maintenance issue

#### If the Assembly wants to do more than the Manager's recommendation

If the Assembly wants a path to provide as much cash relief as possible to JSD, the below is the best staff could do to formulate justifications. It is important to note that the Assembly, the School Board and DEED must all agree with and approve the funding support.

#### FY24 & FY25 JSD Financial Support

CBJ pay the following from fund balance for JSD actual expenditures for FY24 & FY25:

Category	Maximum Amount based on forecast	Percent Paid by CBJ	Amount Paid by CBJ
Facilities Maintenance	\$1,650,405	100%	\$1,650,405
Utilities	\$2,062,000	78.9%	\$1,626,532
Property Insurance	\$1,291,700	50%	\$645,850
Operations/Custodial	\$4,023,497	0%	\$0
<b>TOTAL</b>			<b>\$3,922,787</b>

## **Justification for Non-Instructional Support:**

**Facilities Maintenance:** while respecting the school district's limitations and timing restrictions from fully engaging in a plan to shift responsibility of maintaining the facilities owned by CBJ; CBJ's intentions are made clear by covering all the facility maintenance costs as currently forecasted by JSD.

**Utilities:** in order to justify the costs of utilities that are consumed during non-instructional time, CBJ has utilized the JSD academic calendar. The School Year 2023-24 calendar notes there are 185 Teacher Days (173 student days and 180 contract days). Working on an assumption that 10 hours of each Teacher Day results in utility usage at the schools, we can assume for those 185 days, that 41.67% of the utility costs are related to free public education. The remainder of those days and the rest of the calendar days are therefore non-instructional which brings us to a feasible amount of \$1,626,532 of the FY24 expected utilities being paid by CBJ. The full calculation is included at the end of this memo.

**Property Insurance:** rates for property insurance are based on a blended rate: 97% based on square footage and 3% based on experience. The School Board has control over the square footage. Experience reflects the claims which are tied directly to human behavior, maintenance and upkeep. The official ask of the School Board is requesting CBJ to bear 100% of the cost of which CBJ has 0% control or influence. As CBJ assumes maintenance for all the facilities it owns, taking on costs related to property insurance makes more sense. At most, CBJ staff finds it plausible to share this cost with JSD at 50%.

**Operations/Custodial:** These costs predominantly represent daily costs to JSD addressing needs while students are at the facilities or because students have been in the facilities. CBJ staff do not feel paying any costs in this category would be appropriate.

### **What about Beyond FY2025?**

JSD's request is silent on CBJ continued assistance beyond FY25. The Manager's proposal recommends relieving JSD of Facilities Maintenance which will result in an operational savings for JSD of \$1.6M for FY26 and beyond. However, that will increase CBJ operating budget by \$3.5M. Based on square footage alone, CBJ anticipates the need for a far greater investment in routine facility maintenance than the school district has been able to provide within their operating budget.

### **How to Pay for Direct Cash Relief**

-Increase in the mill rate. The full ask from JSD is \$4M annually and represents .65 mills.

-Decrease the debt service mill rate. The debt service mill rate is 1.2 mills. Consensus at the retreat was to maintain this for the large amount of capital needs CBJ has, paramount among them is investment in schools.

-Fund as one-time expenditures from unrestricted general fund (UGF) balance. The argument to fund FY24 from UGF is solid, most of the expenditures have already happened. However, moving forward the Manager's recommendation is that Facility Maintenance be rolled into the CBJ operating budget to the tune of approximately \$3.5M. Furthermore, if the Assembly funds additional FY24 and FY25 cash relief (utilities, property insurance), it will be difficult to reverse that trend.

Keep in mind we are hoping for an increase to the base student allocation which will increase the local contribution required to fund to the cap in FY25 and beyond.

### **Loan for JSD's FY24 projected deficit**

Assuming full recognition of the anticipated FY24 revenue and expenditure, along with JSD's prior year deficit, a loan in the amount of \$3.9M to \$6.3M is needed for JSD to be structurally balanced in FY24. Staff recommends a zero percent interest loan with a not to exceed amount based on the Assembly's direction. The loan will be issued in FY24, and no payments are required in FY25.

As part of the loan conditions, CBJ will hire a finance professional to work in the JSD Finance and Budget portion of administration and will report to the CBJ Finance Director. This partnership will allow both financial awareness for CBJ and assistance and expertise for JSD as both parties navigate the JSD financial crisis. This will result in a \$130K increase to CBJ's operating budget.

As part of bringing forward a FY26 balanced budget, JSD will be required to present their loan payback schedule for the remaining three years (FY26, FY27 and FY28).

CBJ can use funds for the loan from unrestricted general fund balance or the Restricted Budget Reserve. The guidelines for the Restricted Budget Reserve are established in Resolution 2629 and require the expenditure to be an emergency with a plan to pay it back, both of which are met with the loan plan as outlined.

### **Recommendations**

The Assembly will need to direct staff to introduce three separate ordinances. The ordinances will be introduced at a special meeting before the Committee of the Whole on 2-26-2024. The School Board will need to agree to the terms and pass necessary reciprocating actions; and DEED will need to approve all appropriate actions.

1. **FY 2024.** Discuss Assembly comfort in paying for operational costs JSD has deemed non-instructional (Facilities Maintenance, utilities, insurance) for FY24 and direct staff to draft ordinance for introduction at a special meeting on 2-26-2024.

Managers recommendation one-time funding from unrestricted general fund balance for an amount in the amount of \$1,650,405.

2. **FY 2025.** Discuss Assembly comfort in paying for operational costs JSD has deemed non-instructional (Facilities Maintenance, utilities, insurance) for FY25 and direct staff to draft ordinance for introduction at a special meeting on 2-26-2024.
3. **Loan.** Discuss terms and conditions of a loan.
  - a. Amount is the remainder not covered in direct assistance (\$3.9M-\$6.3M)
  - b. Interest rate 0%
  - c. 5-year term with the first year of payback in FY26 and equal payments for FY27-FY28
  - d. Paid from unrestricted general fund balance or restricted budget reserve?

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**Utility Instruction vs. Non Instruction Calculation**

Teacher Days = 185

Hours per day = 10 hours

Instructional Hour Percent = 41.67%

Total Utility Cost = \$2,062,000

Calendar Days = 365

Average Daily Utility Amount = \$5,649

Total utilities for instructional (Teacher Days) =  $185 \times \$5,649 \times 41.67\% = \$435,468$

Remaining amount of utilities for instructional days =  $(185 \times \$5,649) - \$435,468 = \$609,655$

Full days of non-instructional utility cost =  $(365-185) \times \$5,649 = \$1,016,877$

Total utilities related to non-instructional =  $\$609,655 + \$1,016,877 = \$1,626,532$

Percent of utilities that are non-instructional =  $\$1,626,532 / \$2,062,000 = 78.9\%$