

CITY MANAGER'S BUDGET MESSAGE



April 3, 2019

The Honorable Mayor and Assembly
City and Borough of Juneau
Juneau, Alaska

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It is my pleasure to forward to the Assembly and community the balanced FY20 Revised Operating and Capital Budgets. The initial FY20 "Approved" budget was developed last spring during the first year of this two-year budget cycle. The initial FY20 budget has been revised to reflect recurring service and program changes approved by assembly during FY19 and additional increases expected to be needed for the coming fiscal year operations. The FY20 budget is being brought back before the Assembly for review and consideration before final adoption. The Revised budget is being introduced prior to knowing the extent of impacts to CBJ's budget/economy from changes in the State of Alaska Budget (which is expected to be adopted prior to June 30, 2019, but possibly after CBJ assembly approves our FY20 budget).

The overall citywide combined proposed FY20 expenditure budget of \$356 million is up \$6.3 million (1.8%) from FY19. The total revenue projection is \$350 million, up \$9.2 million (2.7%). There is a "net" draw against all fund balances of \$6.2 million. The significant draws are \$4 million from Enterprise funds (for CIPs) and \$2 million for General Government Operations.

The biggest uncertainty in the near term is the level of potential direct budget reductions coming from the State of Alaska and any subsequent negative economic impact. The CBJ budget components most directly affected by state funding are education, capital improvement projects (CIP), school debt reimbursement and revenue sharing. Overall state CIP funding is significantly lower than in prior years and we are planning how to allocate more local funds to meet critical CIP needs in the near term. The bigger risk, on local property and sales tax revenues, is from state reductions and the impact from job losses and reduced CIP spending on the overall economy. There could be cost increases from contract negotiations still underway for all bargaining units and employees.

Status of the Economy

The outlook for the local economy is concerning from the perspective of overall population, jobs and wages. Over the past 2 years we have lost 450 residents (1.4%), 221 jobs (1.2%) and overall gross wages were down from 2016 to 2017, but have increased through the first 9 months of 2018. From the perspective of property and sales tax revenues the outlook is stable to slightly growing. Starting 3 years ago, based on the outlook then, the Finance Department forecasted a 1 – 2% decline in sales tax revenues and flat property taxes. Sales taxes have actually risen 1 - 2% and so have property taxes. Thus local revenues have continued to support the local government budget and added some to our savings. There is a significant positive economic impact from the growing tourism which helps offset declines in other areas. There continues to be risk of more economic contraction in the next 2 years from the lack of a

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sustainable state budget plan (including inadequate funding for deferred maintenance of infrastructure and investment for new business development).

COMBINED BUDGET SUMMARY

The combined FY20 budget includes: 1) general government operations; 2) school district activity; 3) enterprise business activity; 4) capital construction projects; and 5) bond debt service. The total expenditure authorization is \$356 million. Budgeted revenues total \$350 million with a “net” \$6 million drawn from fund balance accounts.

The status of the major budget components and major variances between the FY19 Amended and FY20 Revised budgets are highlighted below.

GENERAL GOVERNMENT OPERATIONS

The general government (GG) operating budget expenditures for GG departments and local school funding is \$105 million, unchanged from the FY19 budget. There is a significant difference in the amount of recurring costs included in the budget. The proposed budget includes increases of \$2 million in GG department expenditure authority and \$1.8 million reduction in community grants (Housing First). The cost increases are necessary to meet emergency services needs, school district Pre-K programs, wage increases for all employees and cover the impacts of inflation for commodities and contract provisions. Projected revenues to be collected and transferred-in total \$103 million, up \$2 million (1.9%).

To balance the general government (GG) portion of the budget I have initially included a draw on available fund balance of \$2 million.

SCHOOL DISTRICT

Overall FY20 proposed expenditures are \$87.5 million, an increase of \$0.2 million from FY19 Amended budget, essentially unchanged. Small changes in funding sources includes: \$0.8 million increase in State funding (primarily for the employee retirement programs) and \$0.8 million increase in local property tax funding. The budget draws \$0.7 million from JSD fund balance in FY20.

ENTERPRISE FUNDS

Total FY20 operating budget expenditure authorization of \$147.7 million for all enterprise funds is an increase of \$9 million (3.8%). The increase includes transfers to capital projects. The Enterprise funds cover their operating costs through charges for services and grants. Each Enterprise provided an updated budget proposal. Significant FY20 budget changes are as follows:

- Hospital’s budget proposes \$103 million in operating expenses and \$4 million in transfer to CIPs. Operating budget revenue is projected to exceed expenditures by \$0.5 million. The difference will go into their fund balance.
- Airport proposed operating expenditures are \$7.6 million, an increase of \$0.1 million. Operating revenues are \$7.4 million with \$0.2 million coming from fund balance.
- Docks & Harbors authorized expenditures total \$6.1 million. Operating revenues are \$6.7 million with \$0.6 million deposited into their fund balances.
- Water, Wastewater, and Waste Management funds authorized expenditures total \$25.5, including \$8.3 million in transfers to CIPs. Operating revenues are \$21.7 million with \$3.8 million draw from their fund balances.

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CAPITAL IMPROVEMENT PROJECTS

Total FY20 capital improvement project (CIP) funding authorization is initially \$36.8 million. The initial budget numbers do not include potential state, federal and certain enterprise fund appropriations that have not been committed to yet. These programs are expected to have supplemental appropriations once the funding has been confirmed. CBJ typically spends between \$50 and \$75 million on capital projects annually.

OPERATIONAL AND DEBT SERVICE MILL LEVIES

The FY20 operating budget portion of the property tax mill rate is 9.36 mills. The rate is unchanged from FY19. At this rate we are projected to collect \$45 million in operating revenues, a \$0.6 million (1.3%) increase.

The debt service mill rate is 1.2 mills, 0.1 mills (7.7%) less than FY19. This rate raises \$5.9 million to pay debt service a decrease of \$0.4 million. The total FY20 General Obligation (GO) debt service expenditure authorization is \$16.7 million with \$9.5 million for school CIP bonds. The state was expected to fund \$7 million of school bond debt service. There is a significant risk that the State may not fund all or a part of this amount. Total GO debt payments decreased \$1.3 million. The decrease in debt service results from some school bonds being paid off.

SUMMARY

Overall CBJ is in a strong and stable financial position. The major uncertainty is how much the Governor's proposed budget reductions directly impact CBJ's budget and require us to initially spend down savings. We may not know the answer before we adopt our budget, but during our budget process we should identify which financial resources would be used to address the impacts or what public services would need to be reduced or eliminated.

For GG Departments this is the second year in a row I have requested significant increases in expenditure authorization. This was necessary and appropriate to meet increasing needs. Fortunately our local and federal revenues have risen to match expenditures. As introduced the GG portion of the budget draws \$2 million from savings.

At the end of FY20 we project approximately \$16 million in general government available fund balance. This is a healthy level that provides flexibility to address/react in FY20 to the 2 main areas that could require additional funding: 1) direct cuts in state revenue previously received from the state and 2) ongoing employee contract negotiations. There are numerous other requests for both operating and capital budgets. The requests include both recurring and one time requests. One time requests could be prioritized and funded from savings. Ongoing operating budget increases would increase the draw from savings included in my proposed budget. If the draw from savings increases significantly I recommend that staff and the assembly commit to work in late summer and fall to bring the budget back to sustainable level. A similar effort was successfully undertaken in 2014 and 2015 where specific actions were taken to reduce the budget and increase recurring revenues.

I appreciate the hard work put in by the CBJ staff to prepare this year's budget for introduction. After several years of budget reductions and holding down expenditures we are proposing increases that are needed and appropriate. This is consistent with the Assembly direction provided at the December retreat to prepare a budget that does not reduce municipal services.

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Currently Juneau's economy is stable, though our population has declined. State government and construction industry jobs are still declining, and the tourism industry is projecting strong growth while mining, fishing and local government employment appear to be stable. Looking to the future, the Assembly adopted Juneau Economic Development Plan and Housing Action Plan that contain ideas that may be worthy of municipal investment. CBJ has a sufficient level of fund balance that may provide resources to support initiatives in these assembly adopted plans and that investment could help attract new investment in the community.

As City Manager, I appreciate the work CBJ employees have undertaken over the past years to reduce expenditures and be wise consumers. I appreciate the Assembly's support in providing the City with the necessary resources to be responsive to their direction and the community's needs.

Respectfully submitted,

Duncan Rorie Watt
City and Borough Manager