MEMORANDUM

DATE: April 1, 2020

TO: Assembly Finance Committee

FROM: Jeff Rogers, Finance Director

SUBJECT: FY21/22 Revenue Overview

Background

As has been said by the Manager, we live in unprecedented times. There is an uncomfortable balance between rationale analysis and pure speculation. The revenues forecast in the proposed budget are generally up-to-date with current understanding of the COVID-19 pandemic and the ensuing impact on the global, national, and local economies. These revenue forecasts generally assume the following:

- No 2020 cruise ship season
- 2021 cruise ship season is tepid (roughly 2018 level)
- Government-mandated shelter-in-place continues through June, but eases thereafter
- Mid-term national recessionary environment

In no way do these assumptions suggest that these are or will be the policies of the CBJ. However, these assumptions likely represent a mean case that is neither too optimistic nor too conservative. See attached revenue tables.

Sales Tax

Reduced sales tax receipts will be the most significant budget impact from COVID-19. From the peak of $50.4 in FY2019, $43.0 million and $41.7 million are forecast respectively for FY2020 and FY2021. Note that the impact of the lost summer cruise season is split between two fiscal years. The last quarter of FY2020 (the quarter beginning April 1 2020) is forecast to be just $7.0 million in sales tax, which is less than half the amount of tax received in that same quarter in the prior year. This quarter is also forecast to be the “eye of the needle” after which sales tax will begin to normalize, though not very quickly. The first quarter of FY2021 (the quarter beginning July 1 2020) is forecast to be $10.9 million, a decline from $17.1 million in the previous year. This forecast amount assumes that shelter-in-place orders are no longer in effect and that the economy has started to normalize. Forecasts for the quarters starting October 1 2020 and January 1 2021 reflect modest contraction from prior years. And the forecasts for the quarters beginning April 1 2021 and July 1 2021 reflect a full (though not robust) cruise ship and visitor season. As a small offset to these forecast reductions, Remote Sales Tax is forecast at $0.2 million in FY2020, $1.2 million in FY2021, and $1.5 million in FY2022. These forecasts are unadjusted from previous forecasts for remote sales tax.

Using actual FY2019 sales taxes as the base line, these sales tax forecasts represent almost $18 million in lost sales taxes over roughly two years as a result of impacts from the COVID-19 epidemic—$7.4 million in FY2020, $8.7 million in FY2021, and $1.8 in FY2022. If compared to previous forecasts that anticipated sales tax growth, the lost revenue would be even greater.

Minor Consumer Taxes

Forecasting hotel-bed tax is challenging in this environment. As of this memo, the Four Points Sheraton has closed to business. The Baranof appears to be open, though it has many long-term rentals to the legislature that are not subject to hotel-bed tax. The decline in cruise ship tourism has an impact on hotel bed tax but it is not linear because only a small fraction of cruise visitors stay overnight in Juneau. Anecdotally, we know that some individuals are using hotels for the purpose of self-isolation, either from their local families or as part of state-mandated travel quarantines. From a high of $1.64 million in FY2019, hotel-bed taxes are forecast to be $1.35 million in FY2020, $0.81 million in FY2021, and then rebounding to $1.44 million in FY2022. The Assembly
will face decisions about the level of funding to be offered to Travel Juneau and Centennial Hall.

Liquor taxes will be significantly impacted by the closure of bars and restaurants, though it would be reasonable to assume that package sales have risen commensurately. The lack of a summer tourism season likely reduces total consumption considerably. From a high of $1.02 million FY2019, liquor taxes are forecast to be $0.86 million in FY2020, $0.73 million in FY2021, and then rebounding to $0.89 million in FY2022. The forecast takes a similarly conservative view of marijuana taxes, but since marijuana dispensaries have remained open as critical business, these forecast estimates may unnecessarily conservative. From a high of $0.28 million in FY2019, marijuana taxes are forecast to be $0.25 million in FY2020, $0.20 million in FY2021, and then rebounding to $0.25 million in FY2022. Anecdotally, retail marijuana sales have remained strong during the shelter-in-place mandate.

Tobacco taxes are likely the least responsive to local shelter-in-place orders, but the absence of summer tourism will reduce the overall consumption volume. From a high of $2.9 million in FY2019, tobacco taxes are forecast to be $2.7 million in FY2020, $2.4 million in FY2021, and then rebounding to $2.7 million in FY2022.

**Passenger Fees**

Considering all three of the applicable passenger fees together, from a high of $14.7 million in FY2019, passenger fees are forecast to be $14.5 million in FY2020, $6.7 million in FY2021, and then rebounding to $10.4 million in FY2022. That trend is unusual, for a number of reasons. Most significantly, state Commercial Passenger Vessel fees are remitted to CBJ once per year in the fall after the prior fiscal year has concluded, and CBJ records those remitted fees in that fiscal year. So, for the current year, FY2020, CBJ has already received all of its budgeted state CPV fee revenue from the state. On top of that, supplemental state legislation includes $2.4 million of additional CPV revenue to be paid in the current year. Hence, even though CBJ will not receive passenger fees for the remainder of the current year, FY2020 total passenger fees are largely unaffected by COVID.

However, this lagging factor of CPV will dampen the longer-term trend of passenger fees. In this regard, FY2021 is the “eye of the needle” with just $6.7 million in passenger fees to be received, which reflects small amounts to be received in last quarter during the summer 2021 cruise season as well as the delayed payment of CPV from the State from the prior year. FY2022 would otherwise be a more normalized year, but the delay of CPV catches up and reduces total passenger fees in that year also.

CBJ’s advantage with passenger fees is that they primarily fund capital improvements that can simply be delayed until fees are available. Each year, CBJ must pay debt services of approximately $2.1 million on the 16B docks. Additionally, CBJ experienced approximately $2.5 million of costs for city services related to the summer cruise season. Note: while the 2020 cruise season is not forecast to happen, CBJ cannot ramp down its capacity for general city services for that limited period—these are ongoing sunk costs in overall CBJ capacity.

**Property Tax**

Property tax is not forecast in the same way as other consumer taxes. Importantly, property tax revenue is a factor of only two things: assessed valuation and the mill rate. Assessed valuations are always determined on January 1 for the tax revenue generated in the next fiscal year. So, FY2021 property tax revenues are dependent on valuations from January 1 2020—before the COVID pandemic had spread. Assessment cards were mailed on March 27 2020, and the process of appeals has begun. Based on the assessments and anticipated appeals, we expect valuations will have risen by approximately 1.4% to $5.07 billion. Naturally, property tax receipts would increase by that same factor. However, the Proposed budget includes a 1.0 mill increase to the rate, which would generate an additional $5.1 million in each of FY2021 and FY2022.

**Conclusion**

Consideration of the Proposed FY2021/FY2022 Budget is likely to center significantly on revenue estimates and the impact on fund and reserve balances. The Finance Department is prepared to update these revenue forecasts mid-cycle if new circumstance indicate that updates are warranted.