Economic Stabilization Task Force
Appointed by the City & Borough of Juneau's Mayor

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Date: **June 25, 2020**

To: **City & Borough of Juneau Assembly**

From: **Economic Stabilization Task Force**

Regarding: **Recommendation for Infrastructure Projects**

The Economic Stabilization Task Force recommends to the Assembly that it assess financial resources at hand or readily accessible and undertake a major public works initiative in 2021 and beyond. This initiative should include efforts to place General Obligation bond authorizations on upcoming elections in 2020 and 2021.

General Background

It is likely that the economic damage inflicted on Juneau's economy as a result of the COVID-19 pandemic will be felt over the next several years. The struggle that many businesses are experiencing to re-open are exacerbated by the complete loss of the 2020 tourism season and the continuing risk of multiple waves of the coronavirus. Infrastructure projects are universally viewed as important tools to minimize the depth and duration of recessions. They are a primary economic stimulus. As the Brookings Institute recently editorialized:

> *"The investment of state and local governments—who do the bulk of infrastructure spending, even if the federal government pays for much of it via grants—makes a sizable contribution to annual GDP growth. This matters especially during recessions, when state and local governments tend to reduce their expenditures, thereby amplifying economic downturns. Perversely, recessions are the times when infrastructure investments make the most sense: interest rates are typically low and substantial amounts of capital and labor are idle, meaning that public investments are less likely to displace private activity."*

The benefits of infrastructure investment are two-fold: (1) the immediate infusion of capital and consequent workforce mobilization, and (2) the long-term—multi-generational—facilities that are constructed.

Inventory of Resources Available to the CBJ

The City and Borough of Juneau has a variety of fund sources available to undertake infrastructure projects. Virtually all infrastructure projects would qualify for general obligation bond funding. Others may have access to other streams. Examples include port development and passenger fees for port-related projects, state reimbursement for certain school projects, federal monies for the Juneau International Airport, and private donations for cultural facilities, like the City Museum and the Arts and Culture Center. Funding for any project should be strategic and could include a mix of several sources. This memorandum summarizes major categories of funding and recommends that the Assembly employ a combination of these categories to launch a sustained and sustainable public works agenda that is more aggressive than the current 6-year Capital Improvement Plan.

A. General Obligation Bond Indebtedness

General Obligation (GO) bonds are debt instruments issued by state and local governments to raise funds for public works. They are backed by the full faith and credit of the issuing government and include the use of taxing authority to fully repay the bond holder. GO bonds are a preferred mechanism for capital projects for several reasons: practically, it is difficult to amass funds for larger projects in a single fiscal year; fiscal prudence dictates the amortization over the project's useful life; and, morally, the burden of repayment is spread and borne by the users over time.

The CBJ's *2021 Budget Book* adopted on June 8, 2020 notes that "[n]o legal debt limits have been imposed by the State or by Juneau's Charter. The Assembly has adopted a policy that places a self-imposed maximum limit on outstanding debt. This policy reads as follows. '**Bond indebtedness will be maintained at less than 5% of the assessed borough property value.** The FY21 (calendar year 2020) projected area wide assessment is $5.070 billion. **Therefore, bond indebtedness should not exceed $253.5 million.**" [**bold added**]

The CBJ last reached this limit in 2010, when its indebtedness reached 5.26 percent of assessed value. Since then the ratio has steadily declined. According to Juneau's most recent *Comprehensive Annual Financial Report* (CAFR) covering the period July 1, 2018 through June 30, 2019, the ratio in 2019 had been reduced to 2.31 percent.

In 2017, the CBJ commissioned PFM Group Consulting of San Francisco and Seattle to study Juneau's bonding capacity. In doing so, it set forth three alternative standard benchmarks used to measure capacity:

a. Bond debt as a percentage of assessed valuation
b. Bond debt capped by a set mill rate
c. Bond debt determined by historic per capita dollar amount

Under the first benchmark, PFM assumed a 3 percent cap (rather than the CBJ's stated 5 percent cap above) and concluded that the city's **additional capacity** ranged from $110 million in 2021 to $180 million in 2028.

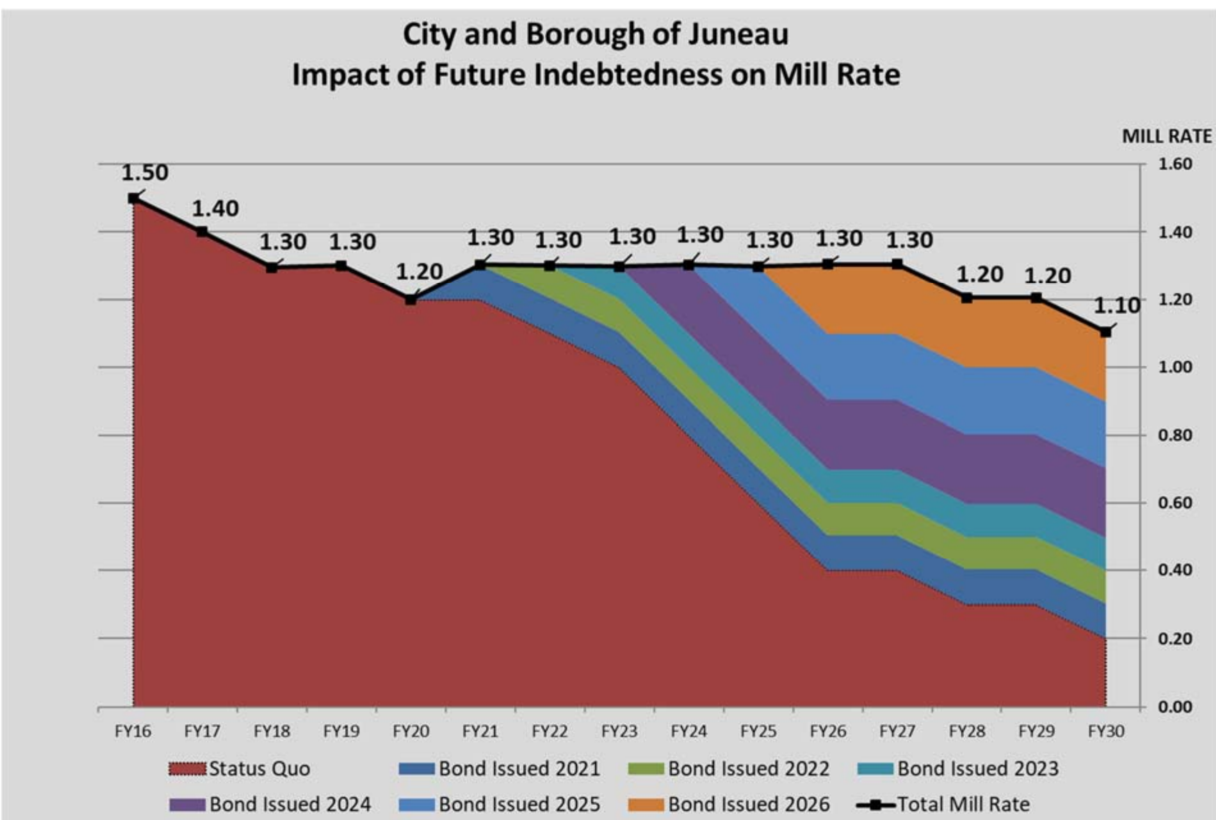
PFM noted that Juneau's mill rate for debt retirement has fluctuated over the past decade and has trended downward from 1.5 mils to 1.3 mils. [In FY20 and FY21 the Assembly further reduced the rate to

1.2 mils.] In PFM's model, it established capacity based on 1.5 mils. That model yielded **additional capacity** ranging from roughly $20 million in 2021 to $96 million in 2028.

PFM's third benchmark used 2010's per capita outlay, $5,037, to calculate the most expansive range of **additional capacity:** roughly $120 million in 2021 to $175 million in 2028.

These benchmarks of capacity to assume additional debt support the proposition that the CBJ is theoretically well-positioned to issue GO bonds approaching $100 million. However, it is unlikely that the Assembly or the public would countenance a substantial mill rate increase. For the purposes of this memo, we have projected **additional capacity** based on a 1.3 mill rate, resulting in a range from 2021 to 2028 of $26.0 to $79.0 million. The wide range results from uncertainty about how soon the debt could be issued. Most GO bond debt is issued years after it is authorized by the public. However, given the nature of the economic emergency, this debt is likely to be issued more rapidly. CBJ Finance developed a debt projection tool in the late fall of 2019. This tool can be used to project the impact of future debt issuances on the debt service mill rate. In the following, this tool is used to determine the amount of debt that could be issued each fiscal year without exceeding a debt service mill rate of 1.3 mills.

	Name	Start Year	Years	Amount	Rate
#1	Bond Issued 2021	2021	25	$ 9,000,000.00	3.0%
#2	Bond Issued 2022	2022	25	$ 8,500,000.00	3.0%
#3	Bond Issued 2023	2023	25	$ 8,500,000.00	3.0%
#4	Bond Issued 2024	2024	25	$ 18,000,000.00	3.0%
#5	Bond Issued 2025	2025	25	$ 17,000,000.00	3.0%
#6	Bond Issued 2026	2026	25	$ 18,000,000.00	3.0%



CBJ Finance has indicated that the underlying assumptions of this tool are now six months out-of-date and would need to be updated for additional future analysis. Additionally, any considerations of future indebtedness are problematized by the State's failure to reimburse school construction debt. Continued failure to reimburse school construction debt has a material impact on the debt service mill rate unless the Assembly approves use of fund balance to address unreimbursed debt payments.

B. Revenue bonds

A revenue bond is a category of municipal bond supported by the revenue from a specific project. Revenue bonds that finance income-producing projects are thus secured by a specified revenue source. A revenue bond repays creditors from income generated by the project that the bond itself is funding. Thus, while a revenue bond is backed by a specific revenue stream, holders of GO bonds are relying on the full faith and credit of the issuing municipality. Typically, since holders of revenue bonds can only rely on the specific project's income, it has a higher risk than GO bonds and pays a higher rate of interest.

The CBJ has used revenue bonds to finance various projects related to the Port of Juneau, relying on income derived from the city's port development fee and both local and state marine passenger fees, as an example.[1] It considered issuing revenue bonds for the senior housing facility in Vintage Business Park, but chose instead to grant $2 million to the private venture. Nationally, other typical municipal government uses of revenue bonds are directed at airport and hospital projects, each of which generate income that can be applied to debt retirement.

C. Budget Reserve

CBJ has two separate general fund balances. First, the Unrestricted Fund Balance is a combination of the Sales Tax Fund and the unrestricted portion of the General Government Fund. The Unrestricted Fund Balance can be spent for any lawful purpose without restriction or further consideration. Second, the Restricted Budget Reserve of the General Government Fund was established by Resolution 2629 in 2012, and it is targeted to hold two months of annual operating revenue to meet emergency or unforeseen needs. Funds may be spent from the Restricted Budget Reserve only with a plan to replenish those funds in the future.

Based on the adopted FY2021 and FY2022 budgets, fund balances are expected to decline over the next several years—resulting primarily from the need to backfill lost sales tax revenue.

Ending Fund Balances:	**FY2020**	**FY2021**	**FY2022**
Restricted Budget Reserve	$ 16.6	$ 16.6	$ 16.6
Unrestricted Fund Balance	$ 17.0	$ 13.9	$ 3.4
Total:	**$ 33.6**	**$ 30.5**	**$ 20.0**

[1] In March 2019, the CBJ and Cruise Lines International Association ("CLIA") entered into an agreement creating zones generally abutting Juneau's waterfront within which these fees could be used for capital projects that aid the cruise industry.

This fund balance trajectory can still be influenced by many factors including: greater usage of CARES Act funding to offset CBJ revenue losses, greater / lesser economic decline / rebound than currently forecast, expenditure reductions, and new appropriations for expenditures.

D. Private Gifts and Grants

The CBJ has been the beneficiary of various charitable entities that have contributed to public recreational and cultural facilities in Juneau. Examples include the Rasmuson Foundation, the Juneau Community Foundation and Friends of the Library. These remain sources of funds to complement larger capital initiatives.

E. Federal and State Monies

The CBJ regularly receives funding through a variety of programs, most of which are pass-through grants from the Federal Government. These span water infrastructure, roads, transit, PILT (payments in lieu of taxes) and public safety, to name a few. There are on-going discussions at the federal level to explore additional relief from the consequences of the COVID-19 pandemic. These include relaxation of the limitations in the Treasury Department guidance for CARES Act expenditures, a separate relief bill for states and local governments, and a massive infrastructure bill. One or more of these may be considered before the November 2020 elections. Juneau should be prepared to take immediate advantage of any funding for projects deemed "shovel-ready."

Reasons for Early Action on the Authorization of GO Bonds

Interest and borrowing rates are at historic lows and are expected to remain so over the next year. However, they will invariably rise as the national economy begins its recovery. Similarly, the cost of labor and building materials and supplies can be expected to increase with every increment of delay.

Early approval of certain "shovel-ready" projects could lead to substantial construction activity during calendar year 2021 and create opportunities for OJT to further develop Juneau's workforce. Delaying action until October 2021 will guarantee that no work will be undertaken before construction season 2022.