Municipality of Anchorage

Office of the Chief Fiscal Officer

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Alden P. Thern, CFO

Date: March 27, 2024

To: Alden Thern, CFO

From: Ross Risvold, Public Finance Manager

Regarding: Questions Regarding a Delayed ACFR and the Municipality's General Obligation Bond Rating

You have requested a response to the following questions about how a delayed ACFR may impact the Municipality's general obligation bond rating.

1 It just dawned on me I don't know what the effect the delayed 2022 ACFR has on our bond rating the next time we go to sell bonds?

Response: The delayed 2022 ACFR is of course a concern of the rating analysts and investors. Our response regarding the late 2022 ACFR is summarized below and we use this discussion to update rating analysts and investors, should they inquire about this issue.

The Municipality is late finalizing its 2022 ACFR for several reasons. Those reasons include the following.
The Controller Division, including the grant staff, had significant turnover which included losing all supervisors who had the experience creating past ACFRs. These staff losses were a result of other job opportunities within the State of Alaska offering significantly more compensation. This has led us to evaluate our compensation structure here at the MOA. We are continuing to staff up the Controller Division, however, those new staff members have a steep learning curve due to the complex nature of the MOA. Additionally, 2022 had a significant amount of grant reporting requirements due to FEMA reimbursement for the 2018 earthquake and our COVID-19 response. Also, there are reporting for CARES Act Grants, ARPA grants, ERA funding grants which has taken a significant amount of time and resources to report on. The relatively new GASB 87 reporting requirement for all leases also impacted the resources available. All of these items impacted the time needed to create the 2022 ACFR and the time required for review by our external auditors BDO.

The next time we sell bonds in 2024 the rating analysts will take many things into consideration. Although the late ACFR is of concern, we will have a final audited 2022 ACFR by then. What will be more important to the rating analysts will be the fund balance results of 2022, the projected fund balance for 2023 and any unusual activity to date in 2024.

Our fund balance discussion with the rating agencies will be good news. The 2022 unaudited set-aside Fund Balance is $28,098,974, which represents 5.5% of the MOA's Unaudited Current Year Expenditures in 2022. This is a marked improvement from a 2021 year-end fund balance of -1.9%. The 2023 unaudited set-aside Fund Balance is forecasted to be even higher given the rest of the FEMA Covid reimbursement revenues will have been accounted for in the financials. We hope to see ourselves right at or below the 12% targeted Fund Balance requirements but will have a more accurate amount once we finish closing the last 2 months of 2023.

2 Can we still sell bonds without audited financials this far out?

Response: The answer to this question is yes. However, the story for investors and rating analysts becomes more complicated and challenging. Hence, we will wait until we have final audited financials for 2022 prior to selling any bonds. Selling Tax Anticipation Notes (TANs) without final audited 2022 financials is not quite as complicated as selling long term bonds. TANs are short term notes due prior to 2024 year-end and are evaluated by investors and rating analysts using different criteria.

3 Should we expect a downgrade?

Response: The delayed ACFR is of course a concern of the rating analysts and investors. However, our dramatic recovery of fund balance from -1.9% at 2021 year-end to a projected 12% at 2023 year-end will be good news for our rating. Remember, the reason we were downgraded was because we were not meeting our fund balance policy.

4 What impact will this situation have on this summer construction season?

Response: There will be no impact on the summer construction season due to a delayed final 2022 ACFR. We typically spend into the cash pool to pay capital improvement invoices and then subsequently, reimburse the cash pool with bond proceeds. We also will sell enough bonds to generate proceeds to pay invoices for approximately one year out.

5 If there are any issues, should we ask for a work session to go through this with the membership?

Response: We do not see any issues at this time and do not believe a worksession is warranted.