



MUNICIPALITY OF ANCHORAGE
FINANCE DEPARTMENT

MEMORANDUM

DATE: November 29, 2021

TO: Travis Frisk, CFO

FROM: Daniel Moore, Municipal Treasurer

SUBJECT: Unsupported 2022 Revenue Assumptions re: recently approved Assembly Budget Amendments

Treasury reviewed the MOA Trust Fund and Room Tax revenue sources cited by the Assembly in their recent approval of an omnibus amendment to the 2022 General Government Operating Budget. The Assembly's assumed 2022 revenue amounts are not supportable, and the Finance Department was not asked to review or comment on the revenue amounts assumed by the Assembly prior to their approval of the omnibus budget amendment.

Specific to the two revenues, the recent announcement of the new Omicron variant discovered in South Africa late last week caused U.S. and Global investment markets to significantly decline in a single day. This new variant could very likely negatively affect projected revenues for both the MOA Trust and Room Taxes going into 2022. More specific to each revenue:

MOA Trust Dividend Revenue

Approximately, 1.5 weeks prior to the announcement of the Omicron variant the MOA Trust's market value was \$444.9M and it had annual YTD return of approximately 10.9%. After last Friday's steep decline in the markets tied to the Omicron announcement, the MOA Trust's market value declined in a single day by \$8.2M and its YTD return reduced to 9.0%. Using the MOA Trust dividend projection model, the most recent projected 2022 dividend prior to the Omicron announcement was \$19.1M. After last Friday's news, the projected 2022 dividend declined \$200K to \$18.9M. The Assembly's omnibus budget amendment assumed a 2022 Trust Fund dividend of \$19.3M which is \$400K short of the updated projection done post-Omicron announcement.

Room Tax Revenue

Given what the MOA experienced in 2020 when Room Taxes were severely impacted by the initial effects of COVID-19 (i.e., a 56% revenue decline in budgeted 2020 revenue), the Finance Department recommends exercising significant caution in projecting 2022 Room Tax revenue in light of the recent announcement of the Omicron variant. Room Tax revenue cited in the Mayor's Proposed Budget is \$24.5M for 2022. 2021 Pro Forma Room Tax revenue is currently projected to be \$27.5M. Given the uncertainty that Omicron may have on future 2022 summer travel plans, it would be inadvisable to assume that 2022 Room Tax revenue would exceed 2021 revenue by several million dollars as the Assembly assumed in its omnibus budget amendment. Until more is known about the potential negative impact of the Omicron variant, 2022 budgeted revenue should remain conservatively budgeted at \$24.5M as cited in the Mayor's Proposed Budget and should be further revisited and potentially adjusted as part of 1st Quarter 2022 budget revision.