

THE NAVAJO NATION



JONATHAN NEZ | PRESIDENT MYRON LIZER | VICE PRESIDENT


Memorandum

Date: January 24, 2020

To: Honorable Jonathan Nez, President
Office of the President/Vice President

Honorable Seth Damon, Speaker
Navajo Nation Council

Honorable JoAnn Jayne, Chief Justice
Judicial Branch

From: 
Pearlina Kirk, Controller
Office of the Controller

Subject: Controller's Report – Winter Session January 2020

I am pleased to present to you the following information related to the 1st Quarter of Fiscal Year 2020.

I. Controller's Highlights for the 1st Quarter for FY-2020:

During the First Quarter of the Fiscal Year 2020, the following events occurred:

- Annual financial closure for FY2019 was completed and the carryovers from FY2019 to FY2020 have been calculated and sent to Office of Management and Budget. Subsequently, the carryover memorandums had been issued by OMB to the programs in December 2019 for programs to submit budgets.
- The Navajo Nation received \$18,132,500 for Retirement Savings from the NGS as part of the extension lease. An amount of \$10,958,583 has been deposited into the Permanent Fund Contingency for the FY2021 budgeting as per the Branch Chief's Agreement dated May 28, 2019 and the FY2020 Comprehensive budget resolution CS 30-19.

- Moss Adams is the new external auditor for the Navajo Nation's FY 2019 Financial and Single audits. Planning for the FY 2019 audit began in the First Quarter. Additionally, entrance conferences and field work began in December 2019 for the first wave of auditee programs. Entrance conference was held for wave two and three and fieldwork for wave two began in January 2020.
- The current unaudited un-appropriated balance in the Sihasin Fund is \$398,675,421 as of December 31, 2019. The amounts that have been expensed and reserved, are the following:
 - Resolution CJA-12-16 Water/Wastewater Projects. The water projects are in the fifth year of projects in Fiscal Year 2020. The total dollar amount to be spent over 5 years will total \$180,175,924. The fifth year includes a Water Management Branch total of \$300,000, an NTUA portion of \$14,350,000 and SDS Projects of \$15,000,000 for a total of \$29,650,000 of funding in FY 2020.
 - CJY-39-16 Gaming C-Store. The total amount of \$10 million was approved for the C-Store at the Twin Arrows site. Of the total, \$2.5 million was direct funding for planning, development and construction of infrastructure necessary to support Twin Arrows Travel Center and ancillary developments. An amount of \$3.5 million was direct funding to the Navajo Nation Gaming Enterprise for the planning, development and construction of the Twin Arrows Travel Center facilities. An amount of \$4 million dollars was loan funding from the Sihasin Fund to the Navajo Nation Gaming Enterprise for planning, development and construction of the Twin Arrows Travel Center facilities. The loan/grant agreement and initial funding happened in May 2018. Navajo Nation Gaming Enterprise broke ground on the Twins Arrows Travel Center on September 20, 2018. The final drawdown loan request has been made by the Gaming Enterprise and was sent to Navajo Nation Gaming Enterprise as the end of June 2019. The opening is expected to be March 2020.
 - CO-57-16 USDA Pasture, Rangeland. The initial insurance payments have been refunded back to the USDA Pasture, Rangeland to bring the committed balance back to the original amount of \$19,835,612. This amount is to guarantee annual Crop year insurance premiums for 6,984,343 acres, which shall only be drawn down from the Sihasin Fund if the PRF Insurance Program indemnity is insufficient to cover the insurance premium. The fund management plan was approved by resolution RDCAU-74-18. The funding source will be the indemnity after it refunds the Sihasin its portion of

the initial payment. The new fund has been set up and a refund to the Sihasin will be issued shortly. CMY-54-18 extended the use of this until the end of the 2023 Crop Year.

- CN-57-16 CDFI Economic Development. CDFI received their first draw of \$10 million in the Second Quarter of Fiscal Year 2017. The second draw of \$10 million was released in May 2018 after certain required conditions were met with the first \$10 million. These were all in the form of grants. The following breakdown of loans have been reported by CDFI to the Permanent Fund/Sihasin Subcommittee:

▪ Microenterprise Loans	\$ 70,910
▪ Small Business Loans	224,500
▪ Business Loans	2,221,585
▪ Community Development Loans	<u>6,300,000</u>
Total	\$ 8,816,995

- CAP-39-18- Crownpoint Student Housing- An amount of \$14,300,000 has been reserved for the Crownpoint Student Housing. The funds will be released pursuant to a construction plan or other such schedule agreed to by the Office of the Controller and Navajo Technical University (NTU). Meetings for this funding have been ongoing with Office of Controller and Navajo Technical University. NTU shall return any and all cost-savings to the Sihasin Fund once the Crownpoint Student Housing project is fully constructed or with the approval of the Naabik'l'ya'ti Committee.
- CAP-35-18 Powerline and Chapter Projects Expenditure Plan. An amount of \$57,811,445 is reserved within the fund and an amount of \$41,605,222 has been set up in the FMIS system for the chapters to begin utilizing for the 1st year projects. Year 2 projects will be set up by the Office of Management and Budget once they have been received by Capital Projects Management Department. A total of \$99,416,667 is authorized to be utilized for these projects through Navajo Nation Council Resolution CAP-35-18. The resolution as further states that any individual powerline or waterline project funds that are not spent or encumbered within twenty-four (24) months of distribution to NTUA shall be returned to the Sihasin Fund. Additionally, any individual chapter or non-NTUA Powerline Project funds that are not spent or encumbered within twenty-four (24) months of distribution to CPMD or transferred to an LGA Certified Chapter shall be returned to the Sihasin Fund. The 24-month period begins once the

budgets are set up within the FMIS. The timelines of the legislation are specific to the allocations each year. This was the topic of a memo issued by the Controllers' Office entitled "*Interpretation related to CAP-35-18*" which was dated May 13, 2019. There are a few legislations that are changing projects that had previously been approved under the original legislation.

- CMY-18-19 The Crownpoint Youth Center Fund Expenditure Plan. This resolution has been approved. The amount of \$2,500,000 has been reserved for this purpose. The entity will need to meet with the Office of Controller for mutual beneficial drawdown schedule of the project so that the Sihasin could still earn the maximum amount of interest from the principal within the fund.
- The Permanent Fund updates. The Permanent Fund is its fifth year of projects in the five-year plan. Funding for the projects will be coming from the audited FY 2019 Permanent Fund derived income. The projects amount total \$30,500,000 for the fifth year that have been authorized. The projects are as follows:
 - Water/Wastewater Projects. This is in its fourth year of projects. The total dollar amount approved over 5 years totals \$68,250,000. The fifth year includes a Water Management Branch total of \$19,250,000. There has been no setup for the fourth year or the fifth-year budgets as of this date.
 - Central Agency- An amount of \$6,250,000 will be funding this project in the fifth- year. No budget has been set up as of this date.
 - Wheatfields Agriculture Projects- an amount of \$2,000,000 will fund this project. No budgets have been set up within the FMIS as of this date.
 - Northern Agency Agriculture Project- the amount approved for this project is \$1,500,000, No budgets have been set up within the FMIS as of this date.
 - Many Farms Agriculture Project- the amount approved for this project is \$1,500,000, No budgets have been set up within the FMIS as of this date.
 - Any excess remaining from the audited 2019 Permanent Fund derived income will be utilized by the Navajo Nation General Fund in FY 2021.
- The Permanent Fund Contingency Fund. In October 2016, CO-54-16 was passed which set up the Permanent Fund 5-year Contingency Fund. This fund was to maintain a reserve of dollars from the portion of excess amount from the Permanent Fund 5-year plan to General Fund for future use. The Fund Management Plan was passed in early October 2017 by the Budget and

Finance Committee. Resolution CO-78-18 included a provision to add \$500,000 to this fund. As of December 31, 2019, there is a remaining unaudited amount of \$10,964,560 in this fund. The amount of \$18,133,000 has been received in December 2019 which is non-recurring that the resolution CD-86-18 Approving Payment option for the Navajo Generating Station Extension Lease. The FY 2020 budget will have set asides of \$3,264,000 which leaves an amount of \$14,869,000. Of this amount \$10,958,583 has been placed in this account for Fiscal Year 2021 Budget. The remaining amount of \$3,910,417 will be utilized for the FY 2020 General Fund Budget.

Controller's Office Financial Information for the 1st Quarter of FY 2020:

1) **The Payroll section** has run 2,289 checks and processed 31,055 direct deposits with a gross wages amount of \$43,887,145 paid out in the First Quarter of Fiscal Year 2020. Payroll continues to move away from costly payroll checks and move to direct deposits.

	<u>Direct Deposits</u>	<u>Checks</u>	<u>Gross Payments</u>
Oct 2019	10,525	933	\$14,989,617
Nov 2019	10,266	738	\$14,474,294
Dec 2019	10,264	618	\$14,423,234
Total:	31,055	2,289	\$43,887,145

2) **The Accounts Payable section** has run 22,762 checks and ACH payments, with a net total dollar amount of \$96,220,456 paid out in the First Quarter of Fiscal Year 2020.

	<u>Number of Checks & ACH payments</u>	<u>Amount</u>
Oct 2019	8,259	\$ 55,335,889
Nov 2019	6,748	\$ 17,674,156
Dec 2019	7,755	\$ 23,210,411
Total:	22,762	\$ 96,220,456

3) The General Fund Financial data is as follows:

The unaudited gross General Fund Revenues (see **Exhibit "A"**) as of December 31, 2019 is \$98,968,593, and the total set asides total \$34,214,347. The Net Revenue for the General Fund is \$64,754,246, which is 45.16% of the projection. The average price of barrel of oil for the quarter has been \$56.96, the lowest month being October 2019 with a price per barrel of \$54.01. (See below) This

schedule shows the monthly revenue deposited into the Navajo Nation General Fund Revenues for oil. An amount of \$6,234,107 has been received in oil and gas revenues for the First Quarter of the Fiscal Year.

Oil and Gas Revenue		
	*Average Price of Oil Per Barrel	Monthly NN Revenue
Oct 2019	\$54.01	\$ 2,301,639
Nov 2019	57.07	2,043,860
Dec 2019	59.80	1,888,608
	<hr/> \$56.96	<hr/> \$ 6,234,107

*Source:www.onrr.gov

The other significant revenue source is the Tax Revenues for the General Fund. The following is a schedule compiling the collections by month of the Tax Revenues. Total collections for the First Quarter were \$27,035,666.

Tax Revenue	
	Monthly NN Revenue
Oct 2019	\$ 5,811,920
Nov 2019	16,917,036
Dec 2019	4,306,710
	<hr/> \$ 27,035,666

The total unaudited expenditures by branch are shown on **Exhibit "B"**.

- The Legislative Branch has expenditures of \$3,338,761, encumbrances of \$1,019,382 with a remaining budget of \$13,517,487.
- The Executive Branch expenditures are \$48,031,210; encumbrances are \$4,697,187 with a remaining budget of \$110,135,343.
- The Judicial Branch expenditures are \$2,910,907; encumbrances of \$6,644 and remaining budget of \$12,157,207.
- Fixed Cost has expenditures of \$3,927,024, encumbrances are \$4,926,509 and a remaining budget of \$16,148,351.
- Total General Fund and Fixed Cost expenditures are \$58,207,901; total encumbrances are \$10,649,723 with an overall remaining budget of \$151,958,387.

The updated UUFB as of January 24, 2020 is \$14,916,511 (see **Exhibit “C”**). There have been two supplemental requests that have been approved for FY 2020. Within the Three Branch Chief agreement an amount of \$21,000,000 will be set aside as part of the FY 2020 comprehensive budget to address the impending FY 2021 projected General Fund Revenue decrease.

4) Contract and Grant Information:

Attached is a summary of the Active Federal Funds by Division (See **Exhibit “D”**). Unaudited Summary totals for the active federal report shows the revised budget to be \$757,248,733, actual expenses of \$302,998,293, encumbrances of \$77,911,071 and a remaining budget of \$376,339,369 as of November 30, 2019.

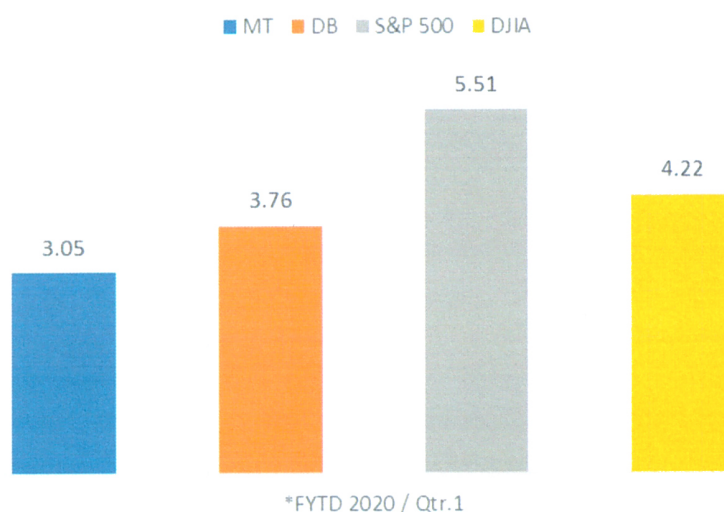
Exhibit “E” shows the Active State Funds Report by Division. Unaudited Summary totals for the active State report show the revised budget to be \$62,068,431, actual expenditures of \$10,990,781, encumbrances of \$7,225,094 and a remaining budget of \$43,852,555 as of November 30, 2019.

Exhibit “F” is the BIA-IHS Fund Report. Summary totals for the Active BIA-HIS report show the revised budget to be \$703,685,095, actual expenditures of \$338,236,526, encumbrances of \$35,938,914 and a remaining budget of \$329,509,655 as of November 30, 2019.

5) Investment Information:

Master Trust & Define Benefit Return Performance Comparison (%)

FY 2020 (Oct 1, 2019 - Nov 30, 2019)*



Master Trust

The Nation's Master Trust (MT) Portfolio came in with a total return of 3.05% for the 1st quarter, October 1, 2019 to November 30, 2019. The beginning balance is approximately \$3.65 billion. The ending balance as of November 30, 2019 was approximately \$3.74 billion.

Defined Benefit Plan (Retirement)

The Defined Benefit (DB) Portfolio came in with a total return of 3.76% for the 1st quarter. The beginning balance, October 1, 2019, is approximately \$942.0. The ending balance as of November 30, 2019 was approximately \$975.6 million.

Fed Rates

The Federal Open Market Committee cut the Fed rates in the 1st quarter of FY 2020. A 0.25% decrease on October 31, 2019 from 2.0% to 1.75%. The current Fed fund rate range is 1.5% to 1.75%.

Summary

As of November 30, 2019, the MT and DB plan were up at 3.05% and 3.76%, respectively, for FY 2020.

If you should have any questions, you can contact me at tribal extension 6308.