

# THE NAVAJO NATION

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JONATHAN NEZ | PRESIDENT MYRON LIZER | VICE PRESIDENT



## MEMORANDUM

Date: April 12, 2019

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

A handwritten signature in cursive script, appearing to read "Pearlina Kirk".

From: Pearlina Kirk, Controller  
Office of the Controller

Subject: Controller's Report – Spring Session April 2019

I am pleased to present to you the following information related to the 2nd Quarter of Fiscal Year 2019.

### **I. Controller's Highlights for the 2nd Quarter for FY-2019:**

During the Second Quarter of the Fiscal Year 2019, the following events occurred:

- The Fiscal Year 2020 General Fund Revenue Projection and the Permanent Fund Interest Income available for General Fund were calculated and released.
- As of April 10, 2019, an amount of \$ 951,122 has been expended from the UUFBA allocation of \$1,200,000 authorized by Navajo Nation Council Resolution CJY-60-18 which was for the Veterans for Burial Assistance, Emergency Assistance, Energy Assistance and Weatherization Assistance. An available balance of \$248,878 is remaining to be expended from the budget.
- The FY 2018 Navajo Nation's Financial and Single Audit is underway and has an expected completion date of Mid-June 2019, if not sooner.

- The Sihasin Fund Update. The current unaudited un-appropriated balance in the Sihasin Fund is \$311,703,277 as of March 31, 2019. The amounts that have been expensed and reserved, are the following:
  - Resolution CJA-12-16 Water/Waste Water Projects. The upcoming fourth year of projects will be coming up in Fiscal Year 2019. The total dollar amount to be spent over 5 years will total \$180,175,924. The fourth year includes a Water Management Branch total of \$300,000, an NTUA portion of \$18,850,000 and Sanitation Deficiency System (SDS) Projects of \$15,000,000 for a total of \$34,150,000 of funding in FY 2019.
  - 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 will be in 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 will be in direct funding to the Navajo Nation Gaming Enterprise for the planning, development and construction of the Twin Arrows Travel Center facilities. This funding has been requested and the Office of Controller is working to allocate these funds to the Navajo Nation Gaming Enterprise. An amount of \$4 million dollars was in the form of 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 occurred in May 2018. Navajo Nation Gaming Enterprise broke ground on the Twins Arrows Travel Center on September 20, 2018. Our office is currently reviewing NNGE's submission of documents for the next draw down request that may occur in the 3<sup>rd</sup> quarter.
  - CO-57-16 USDA Pasture, Rangeland. The initial insurance premium payments has been refunded back to the USDA Pasture, Rangeland and Forage Reserve Fund("PRF") to bring the balance back to the original amount of \$19,835,612. This insurance 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 conditions were satisfied with the first \$10 million. These were all in the form of grants. Reporting on the progress rests with Division of Economic Development.
  
- CAP-39-18- Crownpoint Student Housing. \$14,300,000 has been reserved for the Crownpoint Student Housing. To ensure maximum returns of the reserve funds, the funds will be released pursuant to a construction plan or other such draw down 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 and is subject to other funding schedule that NTU has. 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. To date, an amount of \$57,811,445 has been reserved in the fund and an amount of \$41,605,222 has been set up in the FMIS system for the chapters to begin utilizing. This past quarter only Fort Defiance chapter has been funded in the amount of \$ 972,025 after having met criteria for funding. At 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 a LGA Certified Chapter shall be returned to the Sihasin Fund.
  
- The Permanent Fund updates. The Fund will be entering its fourth year of projects in the five-year plan. Funding for the projects will be coming from the FY 2018 derived income. The projects which total \$30,500,000 will begin to be set up in the FMIS and will begin their phases soon. The projects are as follows:
  - Water/Waste Water Projects. This is in its fourth year of projects. The total dollar amount to be spent over 5 years will total \$68,250,000. The fourth year includes a Water Management Branch total of \$16,450,000.
  - Office Buildings. An amount of \$5,850,000 will be funding this project in the fourth year.

- Indian Wells Economic Development. An amount of \$3,700,000 will fund this project. This budget has been set up within the FMIS.
  - Newcomb NNSCI. The amount approved for this project is \$4,500,000.
  - Any excess remaining from the derived income will be utilized by the Navajo Nation General Fund.
- 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 March 31, 2019, there is a remaining unaudited amount of \$525,583 in this fund for future use.

**Controller’s Office Financial Information for the 2<sup>nd</sup> Quarter of FY-2019:**

1) **The Payroll section** has run 4,214 checks and processed 37,257 direct deposits with a gross wages amount of \$52,602,477 paid out in the Second Quarter of Fiscal Year 2019. Payroll continues to move away from costly payroll checks and move to direct deposits.

	<u>Direct Deposits</u>	<u>Checks</u>	<u>Gross Payment</u>
Jan 2019	10,674	1,045	\$ 14,518,454
Feb 2019	10,673	1,327	\$ 14,930,146
Mar 2019	15,910	1,842	\$ 23,153,877
Total:	37,257	4,214	\$ 52,602,477

2) **The Accounts Payable section** has run 22,136 checks and ACH payments, with a net total dollar amount of \$71,770,308 paid out in the Second Quarter of Fiscal Year 2019.

	<u>Number of Checks &amp; ACH payments</u>	<u>Amount</u>
Jan 2019	7,386	\$ 23,708,024
Feb 2019	6,494	\$ 18,822,758
Mar 2019	8,256	\$ 29,239,526
Total:	22,136	\$ 71,770,308

**3) The General Fund Financial data is as follows:**

The unaudited gross General Fund Revenues (see **Exhibit “A”**) as of March 31, 2019 is \$132,367,959, and the total set asides total \$40,226,233. The Net Revenue for the General Fund is \$92,141,726,

which is 60.49% of the projection. The average price of barrel of oil for the quarter has been \$54.90, the lowest month being January 2019 with a price per barrel of \$51.55. (See below) This schedule shows the monthly revenue deposited into the Navajo Nation General Fund Revenues for oil. An amount of \$6,031,489 has been received in oil and gas revenues for the Second Quarter of the Fiscal Year.

<b>Oil and Gas Revenue</b>		
	*Average Price of Oil Per Barrel	<u>Monthly NN Revenue</u>
Jan 2019	\$51.55	\$ 2,219,545
Feb 2019	54.98	2,128,584
Mar 2019	58.17	1,683,360
	<u>\$54.90</u>	<u>\$ 6,031,489</u>

\*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 Second Quarter were \$12,349,695.

<b>Tax Revenue</b>	
	<u>Monthly NN Revenue</u>
Jan 2019	\$ 4,643,969
Feb 2019	5,932,666
Mar 2019	1,773,060
	<u>\$ 12,349,695</u>

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

- The Legislative Branch has expenditures of \$7,270,057, encumbrances of \$848,166 with a remaining budget of \$11,050,157.
- The Executive Branch expenditures are \$80,196,533; encumbrances are \$11,519,544 with a remaining budget of \$87,159,095.
- The Judicial Branch expenditures are \$6,486,220; encumbrances are \$48,377 and remaining budget of \$8,373,052.
- Fixed Cost has expenditures of \$13,755,744, encumbrances are \$4,171,720 and a remaining budget of \$12,707,861.
- Total General Fund and Fixed Cost expenditures are \$107,708,554; total encumbrances are \$16,587,808 with an overall remaining budget of \$119,290,165.

The updated UUFB as of April 10, 2019 is \$42,334,700 (see [Exhibit "C"](#)).

#### 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 \$645,337,579, actual expenses of \$280,501,361, encumbrances of \$64,601,277 and a remaining budget of \$300,234,941 as of February 28, 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 \$32,306,695, actual expenditures of \$9,274,571, encumbrances of \$3,231,054 and a remaining budget of \$19,801,070 as of February 28, 2019.

[Exhibit "F"](#) is the BIA-IHS Fund Report. Summary totals for the Active BIA-HIS report show the revised budget to be \$796,322,827, actual expenditures of \$465,519,768, encumbrances of \$41,286,534 and a remaining budget of \$289,516,525 as of February 28, 2019.

#### 5) Investment Information:

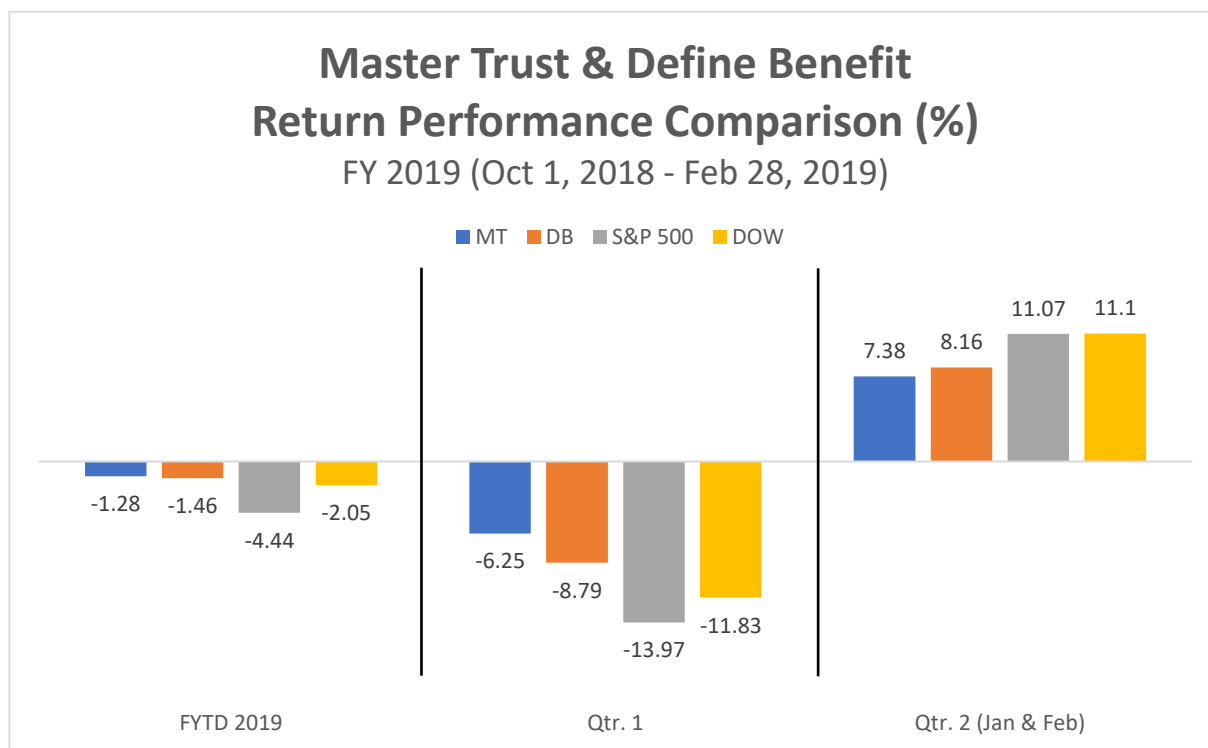


Figure 1

## **Master Trust**

The Nation's Master Trust (MT) portfolio came in with a total return of 7.38% for the 2<sup>nd</sup> quarter. The MT had an ending balance of approximately \$3.25 billion (excludes Direct Investment) at the end of February 2019.

## **Defined Benefit**

Defined Benefit (DB) portfolio came in with a total return of 8.16% for the 2<sup>nd</sup> quarter. The DB had an ending balance of approximately \$907 million at the end of February 2019.

## **Direct Investments**

The Direct Investment portion came in with a total return of 1.59% for the 2<sup>nd</sup> quarter. The Direct Investment had an ending balance of approx. \$199.5 million as of March 31, 2018.

## **Fed Rates**

There were no changes in the Fed Rates for the second quarter however the Federal Open Market Committee is considering a reduction in rates in the coming year.

## **Summary**

2<sup>nd</sup> quarter performance has, for the most part, erased 1<sup>st</sup> quarter losses. The MT and DB had a total return of -1.28% and -1.46%, respectively, return for fiscal year. Overall, both portfolios are negatively flat for the fiscal year.