



DR. BUU NYGREN *PRESIDENT*


RICHELLE MONTOYA *VICE PRESIDENT*

The Navajo Nation | Yideeskáądi Nitsáhákees

Memorandum

Date: April 12, 2024

To: Honorable Dr. Buu Nygren, President
Office of the President/Vice President
Honorable Crystalyne Curley, Speaker
Navajo Nation Council
Honorable JoAnn Jayne, Chief Justice
Judicial Branch

From: Sean McCabe CPA, Controller 
Office of the Controller

Subject: Controller's Report – Spring Session April 2024

I am pleased to present to you the following information related to the 2nd Quarter of Fiscal Year 2024.

I. Controller's Highlights for the 2nd Quarter for FY2024:

- American Rescue Plan Act (ARPA)

More than three years ago, in March 2021, the Navajo Nation received more than \$2 billion in ARPA funds. The 24th Council and previous administration worked hard to develop a plan to spend those dollars during the challenges of the pandemic. While admirable, it has been extraordinarily challenging for the Nation to obligate and spend this money. Given the rate of obligation and spending to date, we do not have full confidence that the Navajo Nation will be able to spend the rest of the \$2-plus billion by the federal deadlines. Today, we are aware of the challenges to get the funds spent, and we must be fiscally responsible and realistic.

The Office of the Controller is grateful for the collaboration with the Budget and Finance Committee, the Speaker Crystalyne Curley, the office of the President and Vice President, the Department of Justice and the Navajo Nation Fiscal Recovery Funds Office in developing a prioritized plan for the spending of the remaining ARPA funds.

In consultation with Navajo Nation attorneys, the Nation's auditor and directly with the Department of Treasury, we've established that states and tribes have successfully utilized a provision in the ARPA legislation that allows the Navajo Nation to identify the revenue that was lost due to the economic detriment caused by the COVID-19 pandemic. During COVID, the Nation spent general funds on activities to respond to the pandemic with lower revenues, from our tax base, our royalties and rentals and due to mandated closures of our revenue generating enterprises. Like states, we can allocate ARPA funds caused by these revenue losses experienced during the pandemic, and the Treasury prescribed guidelines allow us to reimburse the Nation's general funds for the expenditures to provide government services during the pandemic to the extent of the revenues lost.

The Office of the Controller is highly recommending that we create what will be a new specialized fund with the reimbursement described above. By leveraging this new fund and borrowing money against it we are able to commit and use the interest off the fund to repay a debt issuance. In addition, the Navajo Nation would be protecting a multi-million-dollar fund that is currently dedicated to chapter projects and other ARPA priorities and then continue to utilize those funds for Navajo Nation priorities of future generations.

The immediate purpose of the fund would be to continue building out the infrastructure we need, such as broadband build-out and the projects that this Council has envisioned with your chapters. This fund would be a reimbursement of the general fund thereby be free of federal deadlines for expenditure of ARPA funds and providing time and flexibility to allow our chapters complete projects without the looming deadlines. In this way, we can be thoughtful with use of the funds and build with confidence that our funds will not be taken away from us.

In this way the Navajo Nation will have taken a step in having our money work for us to secure necessary funds for future generations.

To date, we have spent \$828 million or roughly 39% of our ARPA funds. It should be noted that of that \$828 million, \$550 million was the hardship program and approximately \$150 million was money sent to NTUA through a subrecipient agreement for ARPA infrastructure projects.

- Enterprise Resource Planning (ERP) System

The Office of the Controller has heard the concerns of the three branches, management and the general Navajo Nation public regarding slow financial and human resource processing times. In direct response to these very valid concerns the Office of the Controller is incredibly pleased to announce that after a month-long procurement process, we have issued an award letter selecting a new ERP system.

This is the most foundational step we could have taken to reinvent the old processes and technology that plagues our system resulting in unnecessarily slow payment times, hiring of employees and reporting. This new system will replace a decades old system that is heavily reliant on paper processes and outdated technology. We will be moving to a more paperless environment driven by recent technological upgrades at the Office of the Controller and much improved transparency and efficiency.

We will ask the support to the Council during the upcoming contract negotiations for this new system so that we can finally provide real time reporting through dashboards, paperless

human resource and accounting processes, integration of accounting, human resources, budgeting, benefits and enrollment systems.

The Office of the Controller would like to thank the Division of Personnel Management, Department of Justice and all other divisions involved with this historic and revolutionary effort.

- 2023 Audit

The Office of the Controller has begun the 2023 audit with KPMG. It is our goal to complete this audit by the June 30, 2024 deadline.

- 2024 Budget

The Navajo Nation Office of the Controller collaborated with The Navajo Nation Minerals Department, and the Navajo Nation Tax Commission to present the attached revenue projections. In addition, we considered oil and gas pricing within the last month, short-term interest rates - that have been holding steady due to inflation factors in US markets, current events within the domestic and global economies, and finally coal production and pricing.

Based on all factors mentioned above we project the Navajo Nation gross revenue (both recurring and non-recurring) to be \$242.4 million for the fiscal year 2025. After legislative set-asides of \$60.0 million, we project Net Total General Fund Revenues of \$182.4 million to be available for the fiscal year 2025 budget. This is an increase from the 2024 estimate which we have primarily attributed to:

- Increased taxes on the ARPA-related and other capital projects set for the coming months.
- Increased pricing for Our oil and gas revenue that were based on a combination of sources including U.S. Energy Information Administration (EIA), NYMEX, Federal valuation regulations and oil contract prices.

For projected investment income available for the fiscal year 2025 budget, we considered that the Federal Reserve did not reduce interest rates at the last meeting of the reserve board. It was expected that the Reserve would begin lowering interest rates to slow inflation. The current rate is 5.25% to 5.50%, which is a 23-year high. Based upon research of various economist reports, we expect that there could be a slow progression in the lowering of the Fed rate for the rest of the year. The types of financial vehicles within our portfolio that contribute to our investment revenue projection are money market accounts, commercial paper and bonds. Based on our analysis, the Office of the Controller recommends a conservative approach to projected investment revenue and calculated that revenue using an expected lower interest rate to arrive at the amount of \$ 25.7 million which is an increase from the FY 2024 projection of \$17.7 million.

- Other highlights

- All the Chapter Allocations for Fiscal Year 2024 have been paid out.
- All the UUFB Chapter Emergency allocations have been paid out.

- We are in the 4th year of the Permanent Fund Interest authorized by CAP-31-21, the excess amount available above the \$40,000,000 is \$22,752,000 for Fiscal Year 2025.

As always, the Office of the Controller would like to thank the Office of the President and Vice President, Department of Justice, Budget and Finance Committee and the 25th Navajo Nation Council for your support with the initiatives we are pushing.

ARPA Fund

In accordance with the Navajo Nation Council Resolution CJY-41-21, numerous business units have been established to account for the ARPA expenditures. **Exhibit "A"** lists the budget status of each business unit.

Sihasin Fund February 2024

The current unaudited un-appropriated balance in the Sihasin Fund is \$30,343,621 as of February 29,2024.

II. Controller's Office Financial Information for the 2nd Quarter of FY2024:

The Office of the Controller is an essential program and has remained open and processed payroll, accounts payable and reporting on financial matters during this pandemic.

1) The payroll section has run 2,270 checks and processed 24,047 direct deposits with a gross wage amount of \$34,454,358 paid out in the 2nd Quarter of Fiscal Year 2024. 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>
Jan 2024	7,900	718	\$10,852,336
Feb 2024	8,006	730	\$12,301,633
Mar 2024	8,141	822	\$11,300,389
Total:	24,047	2,270	\$34,454,358

2) The Accounts Payable section has run 18,381 checks and ACH payments, with a net total dollar amount of \$129,918,389 paid out in the 2nd Quarter of Fiscal Year 2024.

	<u>Number of Checks & ACH payments</u>	<u>Amount</u>
Jan 2024	7,343	\$ 48,723,271
Feb 2024	5,777	\$ 48,279,189
Mar 2024	5,261	\$ 32,915,929
Total:	18,381	\$129,918,389

3) The General Fund Financial data is as follows:

Oil and Gas Revenue

	<u>*Average Price of Oil Per Barrel</u>	<u>Monthly NN Revenue</u>
Jan 2024	\$73.86	\$2,984,786
Feb 2024	\$76.61	\$2,483,847
Mar 2024	\$80.41	\$3,241,957
	\$76.96	\$8,710,590

*Source:www.onrr.gov

The unaudited gross General Fund Recurring Revenues (see **Exhibit “B”**) as of March 31, 2024, was \$164,011,036 and set asides totaled \$42,833,813. The Net Revenue for the General Fund was \$121,177,223, which is 75.17% of the projection. The average price of barrel of oil for the quarter was \$76.96, the lowest month being January 2024 with a price per barrel of \$73.86. This schedule shows the monthly revenue deposited into the Navajo Nation General Fund Revenues for oil. The amount of \$8,710,590 has been received in oil and gas revenues for the Second Quarter of the Fiscal Year.

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 \$15,205,313.

	Tax Revenue
	<u>Monthly Revenue</u>
Jan 2024	\$ 4,184,773
Feb 2024	\$ 7,042,251
Mar 2024	<u>\$ 3,978,289</u>
	\$ 15,205,313

The total unaudited expenditures by branch are shown on **Exhibit “C”**.

- The Legislative Branch expended \$7,717,275; encumbered \$1,524,932 with a remaining budget of \$13,113,537.
- The Executive Branch expended \$86,394,172; encumbered \$16,702,174 with a remaining budget of \$124,715,489.
- The Judicial Branch expended \$6,369,908; encumbered \$149,659 with a remaining budget of \$12,505,297.
- Fixed Cost expended \$8,810,150; encumbered \$6,510,224 with a remaining budget of \$17,243,282.
- Total General Fund and Fixed Cost expenditures were \$109,291,505 total encumbrances were \$24,886,989 with an overall remaining budget of \$167,577,604.

The updated UUFb as of April 04, 2024, is \$171,525,064 (see **Exhibit “D”**). There have been six UUFb allocations in Fiscal Year 2024 which total \$16,635,220.

4) Contract and Grant Information:

Attached is a summary of the Active Federal Funds by Division (See **Exhibit "E"**). Unaudited Summary totals for the active federal report shows the revised budget to be \$2,938,775,023, actual expenses of \$1,143,525,029 encumbrances of \$511,519,039 and a remaining budget of \$1,283,730,955 as of February 29, 2024.

Exhibit "F" shows the Active State Funds Report by Division. Unaudited Summary totals for the active State report show the revised budget to be \$129,838,622, actual expenditures of \$20,246,216, encumbrances of \$24,835,102, and a remaining budget of \$84,757,304 as of February 29, 2024.

Exhibit "G" is the BIA-IHS Fund Report. Summary totals for the Active BIA-IHS report show the revised budget to be \$1,270,132,353, actual expenditures of \$690,356,765, encumbrances of \$27,826,989, and a remaining budget of \$551,948,599 as of February 29, 2024

5) Investment Information:

The investment results in the Second Quarter of Fiscal Year 2024 were positive. Three of the sub-trusts that are part of the Master Trust have fully recovered from Calendar Year 2022's losses, and the others are nearing recovering all those losses as well. The In-House investment portfolio has grown considerably, and that is attributed to the rising interest rates at the short end of the treasury yield curve.

The investment landscape has been volatile with the passing of each Federal Reserve meeting, economic data, and earnings report. The market sentiment is that the Fed is done raising the Fed Funds Rate, and a cut is soon, which has been built into almost every financial model. So, when economic data like CPI or Jobs Report are a disappointment, the market pushes the interest rate cut back, and when the Federal Reserve delays the cut, the market drags stocks and bond yields down. However, when key companies beat expectations in their earnings report, the market swings in the opposite direction, thus creating volatility.

The **Master Trust** has an ending Market Value of **\$4.56 Billion** as of March 31, 2024. The Master Trust had a **4.31%** MTD return and a 2nd QTD return of **8.45%** with an overall FYTD of **12.71%**. The Master Trust portfolio received \$32M in investment income in the 2nd Quarter through interest, dividends, and other income and \$139M in capital depreciation from unrealized gains and realized losses.

The **Retirement Plan** has an ending Market Value of **\$1.2 Billion** as of March 31, 2024. The Retirement Plan had a **2.31%** MTD return and a 2nd QTD of **4.27%** with an overall FYTD of **12.63%**. On average, the Retirement portfolio has paid \$4.97M in benefit payments monthly. The 2nd QTD received \$8.85M in investment income and capital appreciation of \$40.98M, which included unrealized gains and realized losses.

The **ARPA** portfolio at Northern Trust had an ending Market Value of **\$956.5 Million** as of March 31, 2024. The ARPA portfolio had a **0.44%** MTD return and a **1.17%** 2nd QTD with an overall FYTD of **2.68%**.

The **In-House** portfolio is the investments at Wells Fargo that OOC—Investment, General Accounting, and Cashier manage along with Wells Fargo's Vice President in Fixed Income trading. As of March 31, 2024, the In-House portfolio had a Principal Amount of **\$2.58 Billion**. Over 44.5% of the In-house portfolio is contributed from the Grant Fund, 22.54% from the General Fund, and 14.95% from the ARPA account. The In-House Portfolio has an average Annualized Yield of **526 basis points** and an average of **218-day tenor** investments.

The In-House portfolio comprises a short-term fixed-income position and a money market fund. The principal amount of the short-term fixed-income position was \$2.44 billion, with an average Annualized Yield of **527 basis points**, and the Money Market Fund component had a total principal of **\$138 million**, with a 7-day average yield of **522 basis points**.