




DR. BUU NYGREN *PRESIDENT*
RICHELLE MONTOYA *VICE PRESIDENT*

The Navajo Nation | Yideeskáadi Nitsáhákees

Memorandum

Date: July 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, Controller
Office of the Controller 

Subject: Controller's Report – Summer Session July 2024

The Navajo Nation Office of the Controller ("OOC") is pleased to present the following information related to the 3rd Quarter of Fiscal Year 2024.

I. Controller's Highlights for the 3rd Quarter of FY2024:

1) American Rescue Plan Act ("ARPA") and CMY 28-24

The OOC was able to work with the Office of President and Vice-president ("OPVP") and the 25th Navajo Nation Council ("the Council"), as well as several Navajo Nation divisions, to reallocate the remaining ARPA funds. This collaboration reprioritized the remaining ARPA funds received by the Navajo Nation in 2021. Per the United States Treasury guidelines, State, Local, and Tribal governments can obligate ARPA funds to reimburse the Navajo Nation general fund for expenditures made during the pandemic (March 2021 – today) for "government services." After several months of leadership meetings and workshops, OOC calculated and found the expenditures to reimburse the general fund to be just approximately \$522 million. This allocation effectively removes ARPA deadlines and restrictions and is available to the Navajo Nation for its priorities. As of March 31, 2024, approximately \$1.266 billion remained in unspent ARPA funds. Passed and signed into law in June 2024, CMY 28-24 effectively prioritized and allocated the remaining amount.

Notable allocations in this legislation are as follows:

- Priorities effectively kept in existing projects to be carried out with ARPA funds as follows:
 - Veterans, CHID, and Navajo Land Commission housing initiatives
 - NTUA water and other infrastructure projects
 - Non-NTUA water infrastructure projects through the Division of Water Resources
 - Broadband projects
 - DALTCS capital purchases

The total of the above funded with existing ARPA allocations was approximately \$199 million.

- The legislation also kept encumbrances of approximately \$329 million, as of March 31, 2024, in place as initially allocated and to be spent using existing ARPA funds.
- CMY 28-24 recaptured and reallocated approximately \$738 million as follows:
 - Roughly \$138 million supplemental allocation to NTUA for wastewater treatment facilities.
 - Approximately \$63 million in supplemental housing allocation.
 - \$15 million to fund ARPA-related personnel through December 2026
 - \$522 million to the revenue loss obligation described above.

We plan to conduct projects in the \$522 million revenue loss by leveraging those funds to keep them intact (and not spent) to borrow against so that those funds can grow and fund improvement projects for future generations. This plan is the first of its kind effort at the Navajo Nation.

2) Enterprise Resource Planning (ERP) System

OOC has procured the new Enterprise Resource Planning ("ERP") system. Further, OOC was happy to host the bid winner, Arctic I.T., a Native-owned Priority 2 company, to begin the initial due diligence process. The company will install a Microsoft cloud-based platform that will integrate with the current Microsoft 365 environment used in the Navajo Nation. Modules included in this first phase installation include accounting, human resource management, budget, and census.

This system will provide, but not be limited to, the following:

1. Much needed streamlining of current processes and the elimination of paper-based procedures.
2. Online real-time reporting capability that cuts the reliance on people in departments to provide information or check funds availability, etc.

3. Online, paperless, and streamlined human resource hiring and processing procedures.
4. Online budget processes and reporting.
5. A complete and comprehensive census database that ties to the overall system.
6. A more straightforward, modern financial and human resource processing method improving organizational morale.
7. A new chart of account structure that is more manageable and user-friendly for processing and reporting.
8. Improved travel and P-card reporting and accountability capabilities.
9. Enhanced transparency and internal controls to protect and report on Navajo Nation assets, cash inflows, and outflows.
10. Saving Navajo Nation money spent on employees performing obsolete tasks and money is being saved on unnecessary consultants used currently to support the old system. The savings potential is in the millions.

We expect the implementation to take anywhere from 12-18 months, but this process has officially started. We have not upgraded the current financial management systems in over 25 years.

3) 2023 Audit

OOC was able to issue the 2023 financial statement audit on time for the first time in several years. The audit was due on June 30, 2024, and issued on July 1, 2024, with a June 30, 2024, report date as June 30 was a Sunday this year. The report will be on the agenda at the June 30 Budget and Finance Committee meeting for approval to move it to NABI and then full Council approval. Details of the report will be available during the official presentation to the Budget and Finance and NABI committees and then to the full Council.

4) 2025 Budget

OOC worked with the Office of Management and Budget and the Budget and Finance Committee to revise the Budget Instruction Manual ("BIM"). Most notably, this included budgeting expenditures at a level of detail ("LOD") 4 as opposed to 6 as in prior years. This budgeting process required a change in our current accounting system, which the OOC worked to do ahead of the budget process to allow the system to accommodate LOD 4 budgeting. OOC completed this, and it is now ready to use to enter budgets at LOD 4 but continue to spend at LOD 6. This new process will provide easier budgeting and reporting going forward.

5) Other highlights

- In anticipation of the ERP project mentioned above, OOC upgraded its internet capabilities to support the new software. With the enhanced internet capabilities, OOC upgraded its phone system to a Voice of Internet Protocol ("VOIP") system. The upgrade should save the Navajo Nation thousands in monthly phone payments and equipment charges, all by upgrading the internet capability.
- OOC collaborated with the Navajo Nation auditor KPMG to complete the first quarterly two-day training to transform our team into a well-trained, efficient, and effective division.
- We are in the 4th year of the Permanent Fund Interest authorized by CAP-31-21; the excess amount above \$40,000,000 is \$22,752,000 for Fiscal Year 2025.

6) Sihasin Fund May 2024

The unaudited un-appropriated balance in the Sihasin Fund is \$201,970,578 as of May 31, 2024.

As always, the Office of the Controller would like to thank the Office of the President and Vice President, the Budget and Finance Committee, and the 25th Navajo Nation Council for supporting our initiatives. The Controller would also like to thank the team at OOC for continuing to push toward improvement in our services.

II. Controller's Office Financial Information for the 3rd Quarter of FY2024:

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

- 1) **The Payroll section** has run 2,797 checks and processed 28,735 direct deposits with a gross wage amount of \$39,687,818 paid out in the 3rd Quarter of Fiscal Year 2024. Payroll continues to move away from costly payroll checks and move to direct deposits.

	Direct Deposits	Checks	Gross Payments
Apr 2024	8,175	744	\$10,939,245
May 2024	12,306	1,158	\$17,061,032
June 2024	8,254	895	\$11,687,541
Total:	28,735	2,797	\$39,687,818

- 2) **The Accounts Payable section** has run 19,883 checks and ACH payments, with a net total of \$142,876,753 paid out in the 3rd Quarter of Fiscal Year 2024.

	<u>Number of Checks & ACH payments</u>	<u>Amount</u>
Apr 2024	6,171	\$ 52,809,914
May 2024	8,443	\$ 42,137,770
June 2024	5,269	\$ 47,929,069
Total:	19,883	\$142,876,753

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>
Apr 2024	\$84.39	\$3,905,924
May 2024	\$78.62	\$2,496,664
June 2024	\$78.70	\$3,572,692
	<u>\$80.57</u>	<u>\$9,975,280</u>

*Source:www.onrr.gov

The unaudited gross General Fund Recurring Revenues (see **Exhibit "A"**) as of June 30, 2024, was \$236,747,813 and set aside totaled \$56,007,411. The Net Revenue for the General Fund was \$180,740,402, which is 112.11% of the projection. The average price per barrel of oil for the Quarter was \$80.57, the lowest month being May 2024, with a cost per barrel of \$78.62. This schedule shows the monthly oil and gas revenue recorded in the general fund of \$9,975,280 received in oil and gas revenues for the Third Quarter of the Fiscal Year.

The other significant revenue source is the Tax Revenues for the General Fund. The following is a schedule for compiling the collections by month of the tax revenues. Total collections for the Third Quarter were \$25,352,506.

Tax Revenue	
<u>Monthly Revenue</u>	
Apr 2024	\$ 2,880,238
May 2024	18,997,924
June 2024	<u>3,474,344</u>
	<u>\$ 25,352,506</u>

Exhibit "B" shows the total unaudited expenditures by each branch. The summary information is as follows:

- The Legislative Branch spent \$12,195,121, encumbered \$1,524,340, with a remaining budget of \$9,601,768.
- The Executive Branch spent \$120,178,412, encumbered \$18,046,243, with a remaining budget of \$89,856,589.
- The Judicial Branch spent \$10,029,810, encumbered \$177,821, with a remaining budget of \$8,817,234.
- Fixed Cost spent \$25,640,693; encumbered \$4,965,969 with a remaining budget of \$6,153,086.
- Total General Fund and Fixed Cost expenditures were \$168,044,036, and total encumbrances were \$24,714,372, with an overall remaining budget of \$114,428,676.

The updated UUFBS as of June 03, 2024, is \$167,525,064 (see **Exhibit "C"**). There have been seven UUFBS allocations in Fiscal Year 2024, totaling \$20,635,220.

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 show the revised budget to be \$3,101,788,879, actual expenses of \$1,246,810,133, encumbrances of \$586,235,809, and a remaining budget of \$1,268,742,937, as of May 31, 2024.

Exhibit "E" shows the Active State Funds Report by Division. Unaudited Summary totals for the active State report show the revised budget to be \$130,572,254, actual expenditures of \$18,470,550, encumbrances of \$13,663,550, and a remaining budget of \$98,438,154 as of May 31, 2024.

Exhibit "F" is the BIA-IHS Fund Report. Summary totals for the Active BIA-IHS report show the revised budget to be \$1,388,549,468, actual expenditures of \$760,644,893, encumbrances of \$35,862,433, and a remaining budget of \$592,042,142 as of May 31, 2024.

5) Investment Information:

The investment results in the Third Quarter of Fiscal Year 2024 were flat, but there was volatility. The in-house investment portfolio has grown considerably due to the rising interest rates at the short end of the treasury yield curve.

Despite a neutral investment landscape, the domestic equity market shows a positive outlook. With inflation cooling in June's CPI report and the Federal Reserve considering a potential rate cut, we anticipate market growth. The third Quarter saw a markdown on Fixed Income pricing, leading to unrealized losses, but the absence of an official rate cut resulted in higher income generation. While there was a slight change to capital appreciation, the increased activity in earned income, with coupon payments due at the

end of the first half of the calendar year and earnings reports starting a dividend payout regimen, is a reassuring sign for market participation.

Artificial Intelligence was all the rave in the public markets. Anything A.I. or A.I. dependent received boosts from high demand. Microchips, processors, data centers, and electric vehicles benefited from this rave, which caused the technology sector to contribute more than 30% to the S&P markets, creating an imbalance.

The **Master Trust** has an ending Market Value of **\$4.56 Billion** as of June 30, 2024. The Master Trust had a **1.42%** MTD return and a 3rd QTD return of **1.13%** with an overall FYTD of **13.98%**. The Master Trust portfolio received \$39M in investment income in the 3rd Quarter through interest, dividends, and other income and \$12.4M in capital depreciation from unrealized gains and realized losses.

The **Retirement Plan** has an ending Market Value of **\$1.2 Billion** as of June 30, 2024. The Retirement Plan had a **1.19%** MTD return and a 3rd QTD of **0.68%**, with an overall FYTD of **13.39%**. On average, the retirement portfolio has paid \$4.9M in monthly benefit payments. The 3rd QTD received \$8.1M in investment income and capital appreciation of \$135K, which included unrealized losses and realized gains.

The **ARPA** portfolio at Northern Trust had an ending Market Value of **\$928 Million** as of June 30, 2024. The ARPA portfolio had a **0.41%** MTD return and a **1.20%** 3rd QTD with an overall FYTD of **3.84%**.

The **In-House** portfolio makes up 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 June 30, 2024, the In-House portfolio had a Principal Amount of **\$2.64 Billion**. The Grant fund contributes approximately 43%, 21.38% from the General Fund, and 17.17% from the ARPA account to the in-house portfolio. The In-House Portfolio has an average Annualized Yield of **524 basis points** and an average of **215-day tenor** investments.

The In-House portfolio includes a short-term fixed-income position and a money market fund. The principal amount of the short-term fixed-income position was \$2.4 billion, with an average Annualized Yield of **525 basis points**, and the Money Market Fund component had a total principal of **\$235 million**, with a 7-day average yield of **516 basis points**.

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