



THE NAVAJO NATION

RUSSELL BEGAYE PRESIDENT
JONATHAN NEZ VICE-PRESIDENT


Memorandum

Date: October 12, 2018

To: Honorable Russell Begaye, President
Office of the President/Vice President

Honorable Lorenzo Bates, Speaker
Navajo Nation Council

Honorable JoAnn Jayne, Chief Justice
Judicial Branch

From: 
Pearline Kirk, Controller
Office of the Controller

Subject: Controller's Report – Fall Session 2018

I am pleased to present to you the following information related to the 4th Quarter of Fiscal Year 2018.

I. Controller's Highlights for the 4th Quarter for FY-2018:

During the Fourth Quarter of the Fiscal Year 2018, the following events occurred:

- The Fiscal Year 2019 General Fund Budget has been approved.
- The calculated Permanent Fund Trust Income available for the General Fund use is \$19,827,776 for the FY 2019 budget.
- The Navajo Nation is currently going through fiscal year closeouts. Final close is set for October 26, 2018 with tentative unaudited closeout numbers to be available on November 16, 2018.

- The Sihasin Fund Update. The current unaudited un-appropriated balance in the Sihasin Fund is \$310,495,873 as of September 30, 2018. The amounts that have been expensed and reserved, are the following:
 - Resolution CJY-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 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. 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.
 - CO-57-16 USDA Pasture, Rangeland. An amount of \$10,180,481 is still reserved from the original balance of \$19,835,612 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. As of 10/01/2017 the program indemnity to date was insufficient therefore a payment of \$9,655,131 was made for the 2017 premium. The remaining amount of the reserve is \$10,180,481 for 2018 program indemnity. An amount of \$27,041,027 has been received in program indemnity. 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.
 - 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 the certain conditions that need were met with the first \$10 million. These were all in the form of grants. Reporting on the progress of this is given to Economic Development.

- CAP-39-18- Crownpoint Student Housing- \$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 Univeristy(NTU). NTU shall return any and all cost-savings to the Sihasin Fund once the Crownpoint Student Hosing 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 \$99,416,667 has been reserved for these projects. The set up of the projects is ongoing.
- The Permanent Fund update. The Fund will be entering into 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.
 - 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. As of September 30, 2018 there is a remaining unaudited amount of \$25,583 in this fund for future use. There have not been anymore deposits into this fund since the initial deposit.

Controller's Office Financial Information for the 4th Quarter of FY-2018:

1) The **Payroll section** has run 4,057 checks and processed 33,504 direct deposits with a gross wages amount of \$50,316,250 paid out in the Fourth Quarter of Fiscal Year 2018. Payroll continues to move away from costly payroll checks and move to direct deposits and payroll paycard.

	<u>Direct Deposits</u>	<u>Checks</u>	<u>Gross Payment</u>
Jul 2018	9,557	1,314	\$ 14,139,074
Aug 2018	14,315	1,991	\$ 21,646,996
Sep 2018	9,632	752	\$ 14,530,180
Total:	33,504	4,057	\$ 50,316,250

3) The General Fund Financial data is as follows:

The unaudited gross General Fund Revenues (see Exhibit "A") as of September 30, 2018 is \$246,963,709, and the total set asides total \$59,653,468. The Net Revenue for the General Fund is \$187,310,241, which is 125.87% of the projection, these numbers are subject to change through the closeout process. The average price of barrel of oil for the quarter has been \$72.80, the lowest month being in Aug 2018 with a price per barrel of \$69.91. (See below) This schedule shows the monthly revenue deposited into the Navajo Nation General Fund Revenues for oil. An amount of \$7,932,691 has

Quarter	Oil and Gas Revenue		been received in oil and gas revenues for the Fourth of the Fiscal Year.
	*Average Price of Oil	Monthly NN Revenue	
	<u>Per Barrel</u>	<u>Monthly NN Revenue</u>	
Jul 2018	76.16	\$ 2,535,550	
Aug 2018	69.91	\$ 2,390,274	
Sep 2018	72.34	\$ 3,059,625	
	72.80	\$ 7,932,691	

*Source: Bloomberg.com

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 Fourth Quarter were \$15,245,410.

	Tax Revenue
	<u>Monthly NN Revenue</u>
Jul 2018	\$ 5,591,286
Aug 2018	\$ 6,931,830

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

- The Legislative Branch has expenditures of \$15,413,026, encumbrances of \$1,053,962 with a remaining budget of \$2,509,168.
- The Executive Branch expenditures are \$150,167,195; encumbrances are \$10,928,068 with a remaining budget of \$32,892,078.
- The Judicial Branch expenditures are \$13,253,476; encumbrances are \$5,308 and remaining budget of \$827,213.
- Fixed Cost has expenditures of \$23,165,654, encumbrances are 3,988,121 and a remaining budget of \$9,835,327.
- Total General Fund and Fixed Cost expenditures are \$201,999,351; total encumbrances are \$15,975,459 with an overall remaining budget of \$46,063,785.

The updated UUFB as of September 30, 2018 is \$47,555 (see **Exhibit "C"**). There have been twenty-eight supplemental appropriations during Fiscal Year 2018 in the total amount of \$30,778,155.

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 \$582,494,739, actual expenses of \$273,357,722, encumbrances of \$46,613,357 and a remaining budget of \$262,523,660 as of August 31, 2018.

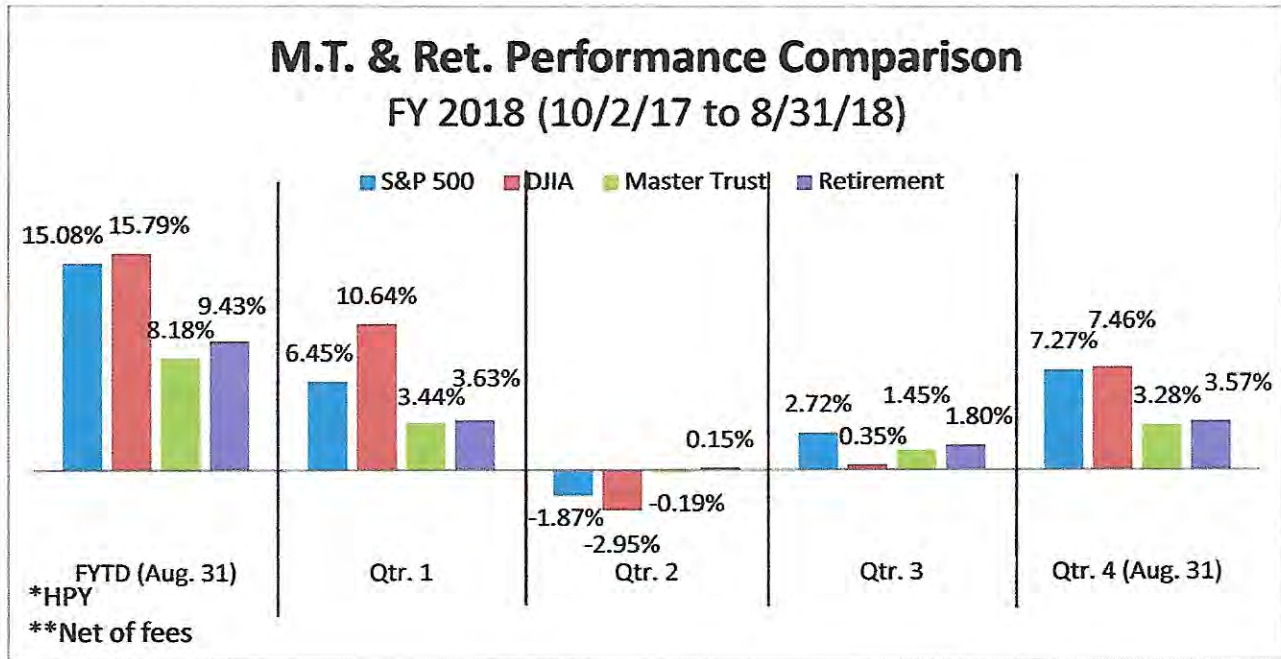
Exhibit "E" shows the Active State Funds Report by Division. Unaudited Summary totals for the active State report show the revised budget to be \$46,368,528, actual expenditures of \$15,719,340, encumbrances of \$6,808,351 and a remaining budget of \$23,840,836 as of August 31, 2018.

Exhibit "F" is the BIA-IHS Fund Report. Summary totals for the Active BIA-HIS report show the revised budget to be \$782,332,786, actual expenditures of \$481,710,636, encumbrances of \$24,374,864 and a remaining budget of \$276,247,286 as of August 31, 2018.

5) Investment Information:

As of August 31, 2018, the Master Trust and Retirement Portfolio had a balance of \$3.4 Billion and \$921.5 Million respectively. This is only two months of data for the fourth quarter. The entire fourth quarter data will not be available until after the 3rd week of October 2018.

The U.S. equity markets have reached all-time highs for the 4th quarter and recovered from 2nd quarter (Jan-Mar) losses. The Navajo Nation's Master Trust came in with a total return of 3.28% for the quarter and a total return of 8.18% for the fiscal year. The Retirement Portfolio had a total return of 3.57% for the quarter and a total return of 9.43% for the fiscal year.



In conclusion, the Nation's Master Trust and Retirement portfolio continue to grow with a positive total return for most of the fiscal year. Again, the Nation's diversified strategies have minimized volatility and losses.

During the fiscal year, there have been four interest rate hikes that the Federal Reserve has approved.

Fed rate increases for fiscal year 2018:

	<u>From</u>	<u>To</u>
December 13, 2017	1.25%	1.50%
March 21, 2018	1.50%	1.75%
June 13, 2018	1.75%	2.00%
September 26, 2018	2.00%	2.25%

If you should have any questions, you can contact me at Tribal extension X6308.