Severing a 60 Year Partnership

A preliminary (2/21/19) analysis of the FY20 proposed budget impact on local governments, and based on AML’s current understanding and publicly available data. This does not reflect an official AML position, which will evolve throughout the legislative session.
Big Picture – Budget and Implications

• Those municipalities that contribute the greatest to the state’s GDP, experience the brunt of cuts and cost-shifting

• Indirect costs to municipalities are the more significant challenge, and may impact rural Alaska disproportionally

• These cuts do not reduce state government, they eliminate the state’s support for institutions that are fundamental to quality of life and economic health

• The proposed budget cost-shifts to local governments, who have options to raise local taxes and reduce provision of services
School Bond Debt Reimbursement  $105,000,000

Background: State had committed to paying 70% of all school bond debt, with 30% match by communities, but with clause that held municipalities liable for 100%. There’s a current moratorium, but this represents past obligations.

Challenge: The total debt accrued equals $961,000,000.

Options:
1. Absorb through current or added revenues
2. Examine legal options based on past payments by State creating condition of confidence
3. Not paying affects credit rating

Impact:
• Other priorities removed from budgets
• Taxes increase

Action: AML opposes
Petroleum Property Tax

$439,500,000

Background: State exempts oil and gas property from municipal taxation, but credits that funding back to municipalities. Change removes funding from municipalities, as State preempts collection.

Affects this year:
- Municipality of Anchorage $2,000,000
- Fairbanks North Star Borough $11,800,000
- Kenai Peninsula Borough $15,000,000
- Mat-Su Borough $100,000
- North Slope Borough $372,100,000
- City of Valdez $38,400,000
- City of Cordova $100,000

Challenge: This represents 97% and 80% of North Slope Borough and City of Valdez budgets, respectively.

Options:
1. Work with legislature to ensure this bill does not move forward
   1. Could they still just not pay it?
2. Collaborate with industry to push back

Impact:
- Savings offset abrupt closure, but both see drastic reductions
- Current services, powers and program revert to the State

Action: AML opposes rescission (claw back) and preemption (prohibiting collection).

Local contribution is calculated utilizing “the full and true value of the taxable real and personal property in the district as of January 1 of the second preceding fiscal year”. If the assessed value of AS 43.56 property is no longer taxable at the local level, not only will districts lose funding as a reduction in the state foundation formula but both the required and maximum local contribution will be reduced. Because there is a two-year, taxable value look back, the City or Borough would be required to contribute for two-years on an amount including the current taxable value of AS 43.56 but without the tax revenue from those assets to pay for the required contributions.
Fisheries Business Tax
Fisheries Resource Landing Tax

$25,900,000
$6,300,000

Background: State reimburses local governments collection of these taxes.

Challenge: This represents 22% of Bristol Bay’s budget, or 27% of Aleutians East. The two together represent 24% of Unalaska’s budget

Impact:
• Dramatic loss of services to economic actors in region
• Threats to public service delivery and infrastructure

Action: AML opposes rescission (claw back) and preemption (prohibiting collection).
Education $332,421,200

Background: Across the board reduction of 24% and elimination of $30M forward funding.

Challenge: Beyond impacts to schools and students, local governments will need to evaluate their local contribution.

Options:
1. Work with the legislature to address different approaches to education
2. Remove maximum local contribution cap or suggest other alternatives
3. Partner with districts to flat out oppose

Impact:
- Local taxes increase to offset state cuts and contribute to schools
- Increased class sizes, fewer teachers, reduced administration, maintenance backlog increases

Examples of cuts to education formula:

- Aleutians East: $1,139,470
- Anchorage: $85,765,871
- Cordova: $1,029,790
- Dillingham: $1,376,030
- Fairbanks: $29,375,063
- Haines: $665,627
- Juneau: $10,157,617
- Kenai: $20,957,907
- Ketchikan: $5,917,024
- Kodiak: $5,857,024
- Lake and Pen: $1,910,004
- Mat-Su: $39,539,214
- Nome: $1,962,563
- North Slope: $7,179,162
- Northwest Arctic: $8,089,237
- Petersburg: $1,433,980
- Sitka: $3,093,187
- Unalaska: $1,226,464
- Valdez: $1,724,603
- Wrangell: $932,223

DEED School Finance analysis
SB 59: Repeal of HB528

$32,450,199

Background: State commitment in 2003 to fund DOT port and harbor projects, and AEA projects, transferred by the State to municipalities but requiring substantial investment in capital maintenance and upgrades.

**DOT**
- Mat Su Borough – deep water port and road upgrade  
  FY20 $712,513  
  Total $4,972,002
- Aleutians East Borough/False Pass – small boat harbor  
  FY20 $166,400  
  Total $2,867,653
- City of Valdez – harbor  
  FY20 $210,375  
  Total $2,730,534
- Aleutians East Borough/Akutan – small boat harbor  
  FY20 $215,308  
  Total $3,604,242
- Fairbanks North Star Borough – Eielson AFB schools  
  FY20 $333,193  
  Total $4,737,896
- City of Unalaska – harbor improvement  
  FY20 $365,695  
  Total $6,624,136

**AEA**
- Kodiak Electric Association  
  FY20 $943,676  
  Total $5,970,060
- Copper Valley Electric Association, Valdez  
  FY20 $351,180  
  Total $5,970,060

Total Impact  
$32,450,199
Additional Cuts

• University of Alaska would see a $155 million cut
  • Fairbanks
  • Anchorage
  • Juneau
  • Kodiak
  • Nome
  • Sitka

• Health spending would be cut $270 million
  • Bartlett Regional Hospital, Juneau
  • Central Peninsula, Soldotna
  • Cordova Community Medical Center
  • PeaceHealth Ketchikan Medical Center
  • Petersburg Medical Center
  • Sitka Community Hospital
  • Wrangell Medical Center
Alaska Marine Highway System

Expected to end service in October; 65% cut and planned divestiture
State support of $71,949,000 in FY18
Community Assistance

Background: In place since 1968, this is a redistribution of state resource wealth for equitable use by local governments to provide essential services and keep local tax rates low.

Challenge: This is a necessary resource for approximately 30% of communities that don’t have a tax base.

Options:
1. Absorb through current revenues – difficult with addition of other cost-shifting
2. Increase taxes – 25% of local governments did this in the 2000s, when revenue sharing went away under Murkowski
3. Close – this represents more than 70% of 14 local government budgets, and they will no longer be able to operate

Impact:
• Local government services revert to the state
• Local governments divest of powers
• Local governments increase taxes

$30,000,000

Affects every single community, with ranges from:
• Small cities - $75-80,000
• Medium cities - $80-95,000
• Large cities - $115-250,000
• Boroughs - $300-900,000
• Largest boroughs - $1.4-6.1 M

$30M will be paid out this year, but removed from all future budgets.

An additional $20M will be paid out as 50% of Alcohol Tax.

The biggest concern is the elimination of the Community Assistance Fund, eliminating the sustainability of Community Assistance.
Power Cost Equalization

Established in 1985

Provides economic assistance to communities and residents in areas where kWH costs are 3 to 5 times as high as the average of urban areas.

PCE was established at the same time that urban communities benefited from major state-subsidized energy projects such as the Four Dam Pool, Bradley Lake, and the Alaska Intertie.

Rural communities not on the road system that are dependent on diesel fuel do not benefit from the large subsidized energy projects, and PCE is a cost-effective alternative to provide comparable rate relief to rural residents.

The biggest concern is the elimination of the PCE endowment, thereby calling into question the sustainability of this program.

City of Angoon $255,108.21
City of Quinhagak $265,129.47
City of Mountain Village $277,312.35
City of Saint Mary's $285,683.91
City of Chevak $288,114.53
City of Kake $298,322.13
City of Togiak $322,917.24
City of Selawik $339,059.89
City of Hooper Bay $342,048.11
City & Borough of Yakutat $351,731.65
City of Emmonak $357,551.25
City of Fort Yukon $411,483.51
City of Sand Point $420,266.88
City of Cordova $489,000.35
City of Hoonah $613,081.96
City of Unalaska $654,258.99
City of Nome $673,631.40
City of Dillingham $745,993.70
City of Kotzebue $942,900.04
City of Bethel $971,701.99
Not bad things

These programs remain in the budget for now.

Approx. $310,726,800

<table>
<thead>
<tr>
<th>Program</th>
<th>Amount</th>
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<td>PCE</td>
<td>$32,355,000</td>
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<tr>
<td>AMLR</td>
<td>$4,263,100</td>
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<td>PILT ($10,428,200) and SRS ($600,000 est)</td>
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<td>ASMI</td>
<td>$20,360,300</td>
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<td>Regional and Community Jails</td>
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<td>Spill Prevention and Response</td>
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<td>Fish and Game</td>
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<td>DEC Water</td>
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<tr>
<td>Public Assistance</td>
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<tr>
<td>VPSO</td>
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<td>Municipal Bond Bank</td>
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<td>PERS on behalf payment</td>
<td>$159,055,000</td>
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<tr>
<td>Fisheries taxes</td>
<td>$3,100,000</td>
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</table>

Shared taxes and fees

- Electric and telephone coop tax $4,600,000
- Liquor license fee $900,000
- Aviation fuel tax or surcharge $136,600
- Commercial vessel passenger tax $21,500,000
Department of Administration

• DoA – muni and school district admin hearing services $75m, program receipts / Total $175,000,000 in FY20
• DoA – reverse funding for Health Care Cost Reduction and Health Care reform / $1 million
• p82 – DoA - In addition, the future liabilities for Other Post-Employment Benefits (OPEB) are reduced by an estimated $520,000.0 to $694,000.0 for the Public Employee Retirement System (PERS) and Teachers Retirement System (TRS). This in turn results in a reduction in the state assistance payment of $40,000.0 to $52,000.0 annually
• DOA – Public Broadcasting / zeroed out - $3,496,100

Department of Commerce and Community Development

• 17.8% reduction to DCRA
• $1 million general reduction via “efficiencies” – do less with less
• ABC board eliminated
• AEA – PCE $32,736,800 from GF (program plus distribution)
• PCE and Community Assistance Funds appropriated to General Fund
Department of Education and Early Development

- $30M reduction of one time additional foundation funding
- Elimination of early learning coordination ($7.6M) and Pre-K grants ($3.2M)
- Elimination of Alaska State Council on the Arts ($3.8M)
- Mt. Edgecumbe reductions ($1.1M)
- OWL eliminated ($671,000)
- WWAMI eliminated ($3.9M)

Department of Environmental Conservation

- Air Quality reduced by 4.4% ($474,000)
- Water Quality reduced by 16.6% ($3.7M)
- Spill Prevention and Response reduced by 5% ($390,000)
- Elimination of Ocean Ranger program, created by ballot initiative in 2006
- Elimination of State dairy program
Department of Military and Veterans Affairs

- Elimination of Local Emergency Planning Committee ($300,000)
- Elimination of Alaska State Defense Force
- Reduction of Alaska Military Youth Academy by 27% ($5.7M)

Department of Public Safety

- Reduction by 6% of Fire and Life Safety - $313,700
- Reduction by 13% of Alaska State Troopers - $21,343,300
- Reduction by 22% of Village Public Safety Officers - $3,098,300
- Reduction by 33.8% of Police Standards Council - $656,500
- Elimination of Civil Air Patrol

Department of Transportation & Public Facilities

- Elimination of Harbor Facility Grant Program - $7,500,000
“Open for business” but closing doors

<table>
<thead>
<tr>
<th>Municipality</th>
<th>SchoolBond</th>
<th>PetPropTax</th>
<th>FishBus</th>
<th>FishLand</th>
<th>EducCuts</th>
<th>Total cuts</th>
<th>FY17TaxRev</th>
<th>Cuts%ofTaxRev</th>
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<td>Aleutians East Borough</td>
<td>$654,762</td>
<td>$2,093,687</td>
<td>$5,017</td>
<td>$1,055,141</td>
<td>$3,808,607</td>
<td>$4,714,403</td>
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<td>Bristol Bay Borough</td>
<td>$8,551,446</td>
<td>$2,705,606</td>
<td>$234,134</td>
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<td>$7,139,215</td>
<td>$2,939,740</td>
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<td>City &amp; Borough of Juneau</td>
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<td>$389,022</td>
<td>$8,406,516</td>
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<td>$18,676,883</td>
<td>$17,346,984</td>
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<td>City &amp; Borough of Sitka</td>
<td>$168,035</td>
<td>$314,455</td>
<td>$880,991</td>
<td>$1,363,481</td>
<td>$4,401,243</td>
<td>$2,893,763</td>
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<td>$39,078</td>
<td>$213,866</td>
<td>$471,717</td>
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<td>$1,095,361</td>
<td>$4,916</td>
<td>$1,095,361</td>
<td>$2,893,763</td>
<td>$1,095,361</td>
<td>32.82%</td>
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<td>City of Cordova</td>
<td>$962,072</td>
<td>$1,160,157</td>
<td>$959,309</td>
<td>$3,181,538</td>
<td>$5,789,958</td>
<td>$2,161,785</td>
<td>54.95%</td>
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<td>City of Dillingham</td>
<td>$744,230</td>
<td>$1,450,528</td>
<td>$2,593,108</td>
<td>$5,789,958</td>
<td>$1,055,141</td>
<td>$2,893,763</td>
<td>49.57%</td>
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<td>City of Kodiak</td>
<td>$926,525</td>
<td>$9,587</td>
<td>$936,112</td>
<td>$12,182,890</td>
<td>7.68%</td>
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<td>City of Nome</td>
<td>$221,202</td>
<td>$1,160,157</td>
<td>$959,309</td>
<td>$3,181,538</td>
<td>$5,789,958</td>
<td>$2,161,785</td>
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<td>$670,819</td>
<td>$3,421,531</td>
<td>$1,007,733</td>
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<td>$22,216,120</td>
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<td>City of Valdez</td>
<td>$1,686,718</td>
<td>$38,400,000</td>
<td>$1,169,462</td>
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<td>Fairbanks North Star Borough</td>
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<td>$11,800,000</td>
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<td>Haines Borough</td>
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<td>$128,174</td>
<td>$521,391</td>
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<td>$9,587</td>
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<td>7.68%</td>
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<td>Kenai Peninsula Borough</td>
<td>$2,845,713</td>
<td>$15,000,000</td>
<td>$771,171</td>
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<td>$97,026,067</td>
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<td>Ketchikan Gateway Borough</td>
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<td>$404,971</td>
<td>$5,674,708</td>
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<td>$1,022,586</td>
<td>$12,985</td>
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<td>$17,335,413</td>
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<td>Lake &amp; Peninsula Borough</td>
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<td>$256,767</td>
<td>$2,078,416</td>
<td>$3,297,535</td>
<td>$1,778,179</td>
<td>$1,778,179</td>
<td>185.44%</td>
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<td>Matanuska-Susitna Borough</td>
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<td>$100,000</td>
<td>$127</td>
<td>$38,542,561</td>
<td>$134,158,246</td>
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<td>Municipality of Anchorage</td>
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<td>$92,250</td>
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<td>$595,642,854</td>
<td>20.15%</td>
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<td>North Slope Borough</td>
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<td>$372,100,000</td>
<td>$3,963,927</td>
<td>$376,139,046</td>
<td>$397,620,565</td>
<td>94.60%</td>
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<td>Northwest Arctic Borough</td>
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<td>$8,379,818</td>
<td>$12,460,082</td>
<td>$597,764</td>
<td>$6,402,255</td>
<td>$6,402,255</td>
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<td>$877,158</td>
<td>$5,766</td>
<td>$1,387,439</td>
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<td>$2,736,413</td>
<td>42.74%</td>
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Total Costs to 24 Highest-Value Municipalities
Based on only five variables

$774,822,158

Cost-shifting as % of Tax Revenue = 49.02%