



April 3, 2019

Governor, Senators and Representatives,

656,000 Alaskans voted over the last decade for new or improved schools. This occurred in fifteen of Alaska's nineteen boroughs, and in six of its cities. The promise made to voters was that the State would pick up 60-70% of the school bond debt and those taxpayers would pay for the rest. Yes, there's a provision in the agreement that this is subject to appropriation, but there was no reason to believe that this commitment would change, or should change.

The Governor has promised to restore "trust in government." His first step toward doing so is by breaking a promise the State made to those voters and to those local governments. Alaska residents and municipalities made their decision to support schools in good faith, faith that has been broken. The message to Alaska voters and to taxpayers is that the State cannot be a trusted partner, and that trust in government cannot go beyond a two-year election cycle, or an annual appropriation.

It is evident that the Governor is committed to balancing the budget, a campaign promise that rested on a higher price of oil than we're currently experiencing. Similarly, local governments have responsibility for the budgets that they deliver to taxpayers. For those 21 municipalities with school bond debt, which this year will be \$100 million, those budgets will be negatively impacted. Not only is the Governor proposing that today's bond debt can't be paid, but an entire repeal of that obligation will shift more than \$900 million to local taxpayers.

Balancing the State's budget on the backs of local governments cannot restore trust in government. In fact, taxpayers and voters will clearly feel like their trust has been misplaced.

The Governor has said that he cannot be responsible for how local governments respond. The truth is there is no common response. Local governments are incredibly diverse, and the State shifting almost a billion dollars their way will be met with a different approach across the state.

Some of the options are straightforward. The Mat-Su, Haines and Ketchikan have some room to increase taxes, but the scale will mean that they run up against their caps before their obligations are met. Anchorage, Mat-Su, Fairbanks and Juneau, for instance, can raise taxes outside the cap if it is for debt obligations. The Kenai can choose to spend from reserves or shift current services back to the State. In many areas, this would require an overhaul of the tax code. Some local governments, especially the Northwest Arctic Borough, have funding arrangements such as a PILT, which are structured differently than others; defunding or a moratorium threatens those agreements. Where the State preempts collection of revenues, this significantly impacts a municipality's ability to repay these bonds. Again, there's no easy or across the board solution. One thing is for sure, taxpayers are less likely to approve increased taxes for bond debt than they are for new and improved schools.

While options to address this vary, they are limited by voter approved tax caps, available cash reserves or tax bases, and participation in State pension programs. In some municipalities, where there isn't a property tax, and the State preempts collection of fisheries taxes that they depend on, there are few alternatives. What happens when the outcomes of the budget reductions are that residents leave, and

the tax base is further deteriorated? What happens to credit ratings, when receipt of State funding was pledged as part of the moral obligation of the State? What are the legal ramifications for the municipality and the State?

These questions raise the issue that the repeal of school bond debt reimbursement is not singular; municipalities face multiple impacts from the Governor's proposals. Reduced ability to collect taxes from some sectors, which drives the need to tax other sectors or additionally in the form of a new tax. Increased expectations to pick up the costs of education reductions. Loss of State supported services, and any number of different smaller programs which enhance community development. The combination of cuts and cost-shifting make dealing with any single issue that much more challenging.

The State must not renege on its promises. A commitment to school bond debt reimbursement should be treated just like its contracts with oil companies or investment firms. If we are to restore trust in government, then following through on promises – especially when it comes to schools – must be at the top of the list.



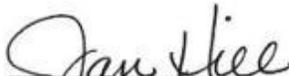
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President, AML



Nils Andreassen
Executive Director, AML



Mayor Alvin Osterback
Aleutians East Borough



Mayor Jan Hill
Haines Borough



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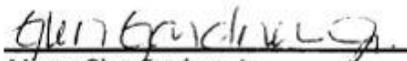
Mayor David Landis
Ketchikan Gateway Borough



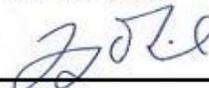
Mayor Frank Kelty
City of Unalaska



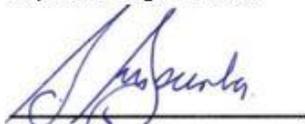
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City & Borough of Sitka



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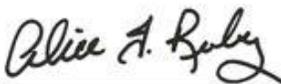
Mayor Stephen Prysunka
City & Borough of Wrangell



Mayor Vern Halter
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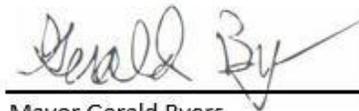
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Kodiak Island Borough



Mayor Alice Ruby
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City of Nome



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City of Hoonah



Mayor Clay Koplín
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Northwest Arctic Borough