



COMMUNITY ASSISTANCE

An AML Primer

@AlaskaMunicipal #AKMunicipalImpact

Background

Revenue sharing, or municipal assistance, is a common method of distributing state revenues to local governments

Nationally, states have allocated about one-third of their expenditures for intergovernmental expenses and revenue sharing

- In 2017, Alaska ranked 40th in percentage of budget allocated thus, at 16% (the highest was nearly double that)

Revenue sharing began in 1969, long before oil – it's a well-established partnership between the State and its political subdivisions

The goals of revenue sharing were to:

- Strengthen local governments by easing fiscal problems
- Encourage local governments to provide adequate levels of services
- Stabilize or reduce local property taxes

Original Formula

Table 1
The Categorical State Revenue Sharing Program FY 70 and FY 80

| <u>Public Service Category</u> | <u>1970</u> | <u>1980</u> |
|-----------------------------------------|--------------|----------------|
| 1) Police Protection per capita | \$5.00 | \$12.00 |
| Military per capita* | | 6.00 |
| 2) Fire Protection per capita | 2.50 | 7.50 |
| 3) Air or Water Pollution per capita | 1.00 | 2.00 |
| 4) Land Use Planning per capita | 1.00 | 2.00 |
| 5) Parks and Recreation per capita | NA | 5.00 |
| Military per capita | | 1.25 |
| 6) Transportation Facilities per capita | NA | 5.00 |
| Military per capita | | 2.50 |
| 7) Road Maintenance per mile | 1,000 | 1,500 |
| 8) Ice Roads per mile | NA | 900 |
| 9) Health Services per capita | NA | 2.00 |
| 10) Hospitals per facility > 25 beds | NA | 75,000 |
| < 10 beds | | 25,000 |
| per bed | | 1,000 |
| 11) Health Facilities per bed | NA | 1,000 |
| per facility | | 4,000 |
| 12) Hospital Construction Aid per bed | NA | 2,500** |
| Total Revenue Sharing Appropriation | \$ 2 million | \$26.9 million |

Changes made

Equalization formula criticized for:

- Local tax effort was ignored in the allocation formula
- The formula ignored the ability of a municipality to pay for public services
- Biased toward wealthy and more populous cities and boroughs
- Local governments should decide which services they provide
- Per capita cost of providing services varies across state

In 1980, the legislature established a Tax Resource Equalization Formula, which better accounted for these issues, including to implement a minimum or baseline amount

Revenue sharing was intended to allocate state funds in an equitable manner so that local public services could be provided by municipalities, despite inequalities in the taxable available wealth.

Municipal assistance was designed as a property tax relief measure.

Changes continued

1997 – renamed to Safe Communities, with stipulation to use funds for public safety and health services

2003 – funding vetoed and in 2004-2006 communities received no funding for public services provided on behalf of the state

- See impact in table

| Table 2: Alaska Communities at Risk | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
| Communities That Have Discontinued Municipal Operations | |
| Ahkiok, Ambler, Holy Cross, Kiana, Kivalina, Kobuk, Kupreanof, Kwethluck, Mekoryuk, Nikolai, Noatak, Platinum, Quinhagak, Russian Mission | |
| Communities with Significant Financial Problems | |
| Allakaket, Buckland, Chevak, Ekwok, Goodnews Bay, Grayling, Hydaburg, Lower Kalskag, Napaskiak, Numan Iqua, Pilot Point, Point Hope, St. George, Shageluk, Shishmaref, Toksook Bay, Upper Kalskag, Wales | |
| Communities at Risk | |
| Akiak, Alakanuk, Anaktuvuk Pass, Angoon, Atquasuk, Brevig Mission, Chignik, Chuathbaluk, Clark's Point, Deering, Diomede, Eek, Emmonak, Gambell, Golovin, Hooper Bay, Kaktovik, Kotlik, Koyuk, Koyukuk, Mountain Village, Napakiak, New Stuyahok, Nightmute, Nondalton, Noorvik, Nuiqsut, Nulato, Old Harbor, Pelican, Pilot Station, Port Heiden, Port Lions, Ruby, St. Michael, Savoonga, Scammon Bay, Selawik, Shaktoolik, Shungnak, Stebbins, Tanana, Teller, Tenakee Springs, Togiak, Wainwright | |
| Notes: About 75 percent of these communities have populations of fewer than 500 residents. | |
| Sources: Alaska Department of Commerce, Community, and Economic Development; Alaska Municipal League; <i>Anchorage Daily News</i> . | |

2005 Proposals

SB46 provided one-time funding to assist with PERS costs

SB98 provided some funding to pay off outstanding debts; based on population

Other ideas:

- Municipal Dividend – annual Permanent Fund distribution
- Provision of municipal aid grants
- Re-enactment of community revenue sharing

More recent history

2009 - Community Revenue Sharing Enacted

- \$180 million fund with annual distribution of \$60 million
- Base amount of \$250,000 to boroughs, and \$75,000 to cities, with remainder distributed by population

2016 – name changed to Community Assistance

- Cap reduced to \$90 million, and distribution not to exceed \$30 million

*Just 4 years ago municipalities were cut funds by 50%

2017 – Changes in PCE endowment earnings formula to be applied to Community Assistance when earnings exceeded program costs

History of Distributions

| Fiscal Year | Amount | Fiscal Year | Amount |
|--------------------|---------------|--------------------|---------------------------------------------|
| 1985 | \$141,656,800 | 2002 | \$ 29,630,700 |
| 1986 | \$140,939,000 | 2003 | \$ 29,630,700 |
| 1987 | \$113,737,600 | 2004 | \$ 0 |
| 1988 | \$ 96,857,800 | 2005 | \$ 0(Received \$6,450,000 for Energy costs) |
| 1989 | \$ 96,857,800 | 2006 | \$ 0(Received \$18,426,923 for PERS costs) |
| 1990 | \$ 91,094,000 | 2007 | \$ 0(Received \$66,675,087 –PERS/Energy) |
| 1991 | \$ 87,450,200 | 2008 | \$ 60,000,000 |
| 1992 | \$ 84,995,000 | 2009 | \$ 60,000,000 |
| 1993 | \$ 78,195,400 | 2010 | \$ 60,000,000 |
| 1994 | \$ 72,721,800 | 2011 | \$ 60,000,000 (Received extra \$20,000,000) |
| 1995 | \$ 62,613,500 | 2012 | \$ 60,000,000 (Received extra \$25,000,000) |
| 1996 | \$ 58,230,700 | 2013 | \$ 60,000,000 |
| 1997 | \$ 53,572,300 | 2014 | \$ 60,000,000 |
| 1998 | \$ 50,358,000 | 2015 | \$ 60,000,000 |
| 1999 | \$ 47,840,100 | 2016 | \$ 57,000,000 |
| 2000 | \$ 31,893,400 | 2017 | \$ 38,000,000 |
| 2001 | \$ 28,493,400 | 2018 | \$ 30,000,000 (Proposed) |

Municipal Impact (FY19)

Senate District A = \$1.6 million

Senate District C = \$765,000 (one community of which it represents 76% of budget)

Senate District D = \$2.5 million

Senate District E = \$804,000 (12% of one budget)

Senate District L = \$6.1 million

Senate District O = \$1.9 million

Senate District R = \$3 million (21 communities, 9 for whom it represents >20% of budget, and 3 more than 67%)

Senate District S = \$5.3 million (52 communities, 16 for whom it represents >20% of budget, one at 79%)

Senate District T = \$5.2 million (54 communities, 31 @ more than 10%, 10 above 20%, 1 almost entire budget)

Municipal Impact

Reduced or eliminated Community Assistance will mean for municipalities and citizens:

- Potential increased tax burden of \$27.4 million, where there's a tax base
- Decreased services, where there isn't a tax base
- Any community with this as more than 20% of budget would have to eliminate staff positions
 - 28 communities would most likely be in this position
- Any community with this as more than 60% of budget would very likely have to close its doors
 - As few as 7 and as many as 11

State Impact

- Any services currently provided by those municipalities will fall back to the state to provide
- Any local increased tax burden will slow economic growth
- Decreased municipal services will impact public safety, education and human health

Municipal Impact

Examples of communities this affects:

- Fairbanks (military bases and mining) – support services, housing, transportation, public safety
 - Property taxes have been raised in recent years, directly corresponding to state budget cuts
- Denali Borough (tourism) – maintenance, sanitation and public safety
- Mat-Su (fastest-growing in the state) – quality of life
- Valdez (terminus of Alaska pipeline) – public safety
- Anchorage (economic engine) – quality of life
- Soldotna (world-class sport fisheries) – transportation, sanitation, public safety
- Wrangell (fisheries) – fisheries and vessel support services
- Aniak (Donlin Gold potential) – managing growth
- Noorvik (Red Dog) – workforce development, public safety, sanitation

Recommendations

1. AML recommends recapitalizing the Community Assistance Fund either with a veto override or through the Supplemental Budget, during FY20
2. AML recommends that this Legislature and the Governor include in the FY 21 budget an appropriate of at least \$30 million
3. If supplemental funding is not included in FY20, then in the FY21 budget an additional \$10 million will be necessary to keep those current payments whole
4. AML recommends that this Legislature consider in future years sustainable funding models, including that suggested in 2006 of a Municipal Dividend
5. AML recommends that this Legislature and the Governor increase intergovernmental revenue sharing consistent with national best practices