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REVENUE SHARING IN ALASKA

PREPARED FOR SENATOR GARY STEVENS

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You asked for a history of revenue sharing in Alaska, and information on revenue sharing programs in other states.

REVENUE SHARING

Revenue sharing—also called "municipal assistance" or "state aid"—is a method states use to distribute a share of state revenues to local governments. In this way, states provide assistance to communities to stabilize local governments, to help keep local property taxes at a reasonable rate, and to share any state taxes that are collected at the local level. We do not include education funding in this definition.

According to the U.S. Census Bureau, states allocated about one-third of their expenditures for intergovernmental expenses or revenue sharing/municipal assistance in 2003—about $380 billion. The most frequently used revenue sources are state income and sales taxes, as well as such sources as state property taxes, fuel and motor vehicle license taxes, cigarette and alcohol taxes, and gambling revenues. States determine distribution by a variety of methods, such as:

- population;
- origin—based on local contribution for a particular tax;
- property tax reimbursement—reimbursing localities for local taxes lost on state-owned property, for example; and
- tax effort, or need—based on factors such as the local government's available tax base and/or per capita income, employment/unemployment, and poverty rate.[1]

As a point of interest, according to U.S. Census Bureau figures, in 2003 Alaska ranked **41st** among the states in the **amount of total expenditures for revenue sharing** and **49th** according to the **percentage of total expenditures allocated to revenue sharing**. In terms of **per capita revenue sharing**, however, Alaska ranked **7th**.

A HISTORY OF REVENUE SHARING AND MUNICIPAL ASSISTANCE IN ALASKA[2]

As you may know, Alaska lawmakers instituted revenue sharing in Alaska in 1969, long before oil revenues began flowing into the state. The legislature's intent was to strengthen local governments by easing fiscal problems, to encourage local governments to provide adequate levels of services, and to stabilize or reduce local property taxes. This revenue sharing program reimbursed communities for certain local services, such as police protection, fire protection, and road maintenance. Communities were reimbursed on a per capita basis for services they provided, but they were not required to use the funds for those particular services.

In 1980, the legislature refined the program in response to critics who claimed that the plan unfairly benefited wealthy communities. The new plan included reimbursement for local services, but the majority of the funding—about two-thirds—was distributed according to a formula that factored in the size of the community, the fiscal effort of the community (how much the community collected in local taxes and fees), and the community's resources (the community's tax base in relation to the full assessed value of real property).

In 1978, the legislature adopted a municipal assistance program to replace the Gross Receipts Business Tax. The state returned 60 percent of the gross receipts tax to the communities where it was collected. Businesses disliked the gross receipts tax, but communities depended on it as

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[1] *Michigan's Revenue Sharing Program: History, Description, and a Brief Comparison to Other States,* Michigan Senate Fiscal Agency, February 1996, p. 24.

[2] Some historical information in this section is summarized from Legislative Research Services report 87.073. We include a copy of this report as Attachment A.

an important source of revenue. Under the municipal assistance program, the legislature pledged to distribute a base amount to communities, equal to the amount they had received from the gross receipts tax in FY78. In FY97, the legislature renamed the municipal assistance program, calling it the "Safe Communities" program. While the municipal assistance program did not specify how communities were to use the funds, the safe communities program stipulated that communities use funds for specific public safety and health services (although communities could use the funds for other public services).

Table 1 shows the total amount of revenue sharing and municipal assistance distributed to Alaska communities since FY 1970.

Table 1: Funding for Alaska Revenue Sharing and Municipal Assistance, FY1970-2004

Fiscal Year	Revenue Sharing	Municipal Assistance/ Safe Communities*	Total
1970	$2,020,000	--	$2,020,000
1971	$6,500,000	--	$6,500,000
1972	$7,085,000	--	$7,085,000
1973	$8,215,000	--	$8,215,000
1974	$8,777,000	--	$8,777,000
1975	$12,458,626	--	$12,458,626
1976	$15,130,100	--	$15,130,100
1977	$16,596,657	--	$16,596,657
1978	$18,656,800	--	$18,656,800
1979	$26,944,912	--	$26,944,912
1980	$51,900,000	$11,399,999	$63,299,999
1981	$55,707,600	$56,496,000	$112,203,600
1982	$55,707,600	$87,929,546	$143,637,146
1983	$55,721,000	$71,300,000	$127,021,000
1984	$57,950,000	$70,500,000	$128,450,000
1985	$60,350,000	$81,306,800	$141,656,800
1986	$59,632,200	$81,306,800	$140,939,000
1987	$47,879,100	$65,858,500	$113,737,600
1988	$40,773,400	$56,084,400	$96,857,800
1989	$40,773,400	$56,084,400	$96,857,800
1990	$38,347,000	$52,747,000	$91,094,000
1991	$38,347,000	$49,103,200	$87,450,200
1992	$38,347,000	$46,648,000	$84,995,000
1993	$35,279,200	$42,916,200	$78,195,400
1994	$32,809,700	$39,912,100	$72,721,800
1995	$28,249,100	$34,364,400	$62,613,500
1996	$26,271,700	$31,959,000	$58,230,700
1997	$24,170,000	$29,402,300	$53,572,300

Table 1, Continued			
Fiscal Year	**Revenue Sharing**	**Municipal Assistance/ Safe Communities***	**Total**
1998	$22,719,800	$27,638,200	$50,358,000
1999	$21,583,800	$26,256,300	$47,840,100
2000	$14,389,200	$17,504,200	$31,893,400
2001	$12,855,200	$15,638,200	$28,493,400
2002	$12,855,200	$16,775,500	$29,630,700
2003	$12,855,200	$16,775,500	$29,630,700
2004 **	$0	$0	$0
Total	**$1,007,857,495**	**$1,085,906,545**	**$2,093,764,040**

Notes: *The "Municipal Assistance" program became the "Safe Communities" program in FY97. The Municipal Assistance program did not specify how communities were to use the funds; the Safe Communities program stipulated that communities use funds for specific public safety and health services, although communities could use the funds for other public services.
**The governor vetoed funding for both programs for FY2004.

Source: Legislative Finance Historical Budgets.

In 2003, the governor vetoed the funding for the revenue sharing and municipal assistance programs.[3] In lieu of those funds, the state distributed a total of $15 million as a one-time payment to communities. This distribution was a portion of a one-time payment of $25 million from the federal government under the State Fiscal Relief Plan, which was part of the Jobs and Growth Tax Relief Reconciliation Act of 2003.[4] Small communities received a minimum payment of $40,000; larger communities received an amount determined by the municipal revenue sharing formula. Communities were able to spend the funds as they chose—the state attached no restrictions to the funding.

OTHER ASSISTANCE TO COMMUNITIES

Although the revenue sharing and municipal assistance/safe communities programs were terminated, the state continues to share a portion of certain taxes with municipalities, as follows:

- Aviation Motor Fuel Tax: 60 percent of the tax collected at municipally owned or leased and operated airports is returned to the municipality.
- Electric Cooperative Tax: Electric cooperative taxes are based on kilowatt-hours sold by qualified electric cooperatives, and 100 percent of the tax is returned to cities and organized boroughs where the tax was collected.

[3] Governor Murkowski also vetoed the Municipal Capital Matching Grants program in 2003. Letter from Governor Murkowski to local communities, June 9, 2003.

[4] This act, HR 2, passed in May 2003.

- Fisheries Business Tax: 50 percent of the tax is returned to municipalities where fisheries resources were processed.

- Fishery Resource Landing Tax: 50 percent of the tax is returned to the municipalities where fisheries resources were landed.

- Telephone Cooperative Tax: As with the electric cooperative tax, 100 percent of the tax is shared with organized cities and boroughs where the revenue was earned.

- Liquor License Fees: These are biennial retail license fees, and are shared with municipalities where the fee was collected.[5]

These shared taxes and fees are separate from revenue sharing and municipal assistance. In FY2004, the state distributed more than $23 million from these taxes and fees to various communities around the state.[6]

In addition to the shared taxes and fees, rural communities may also receive state assistance through the Power Cost Equalization (PCE) program and the Bulk Fuel Revolving Loan program (loans of up to $300,000 per fiscal year). The legislature approved $18.7 million in funds for PCE for FY06. The Alaska Energy Authority administers both programs.

Communities may also apply to DCCED for a variety of programs that distribute federal money in the forms of grants and special funds, through such sources as the Alaska Coastal Management Program, Community Development Block Grants, National Forest Receipts, and National Petroleum Reserve-A (NPR-A) Grants.[7]

IMPACT OF REDUCTIONS IN REVENUE SHARING AND MUNICIPAL ASSISTANCE ON ALASKA COMMUNITIES

As we mentioned above, Governor Murkowski vetoed funding for the revenue sharing and safe communities/municipal assistance programs for FY2004, and the funds were not reinstated in FY05 or FY06. The impact on Alaska communities varied, but small communities in particular have felt the reduction of state aid most severely. The loss of the two major state aid programs, combined with increases in insurance premiums, fuel costs and transportation, and retirement plan costs, has left many communities in financial distress. According to DCCED and the Alaska Municipal League (AML), about 80 of Alaska's local governments are experiencing financial hardship. Of those, 14 have ceased day-to-day operations or transferred their operations to another entity (such as a tribal government), although two of those cities have continued to

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[5] *Shared Taxes and Fees Annual Report, Fiscal Year 2004*, Tax Division, Alaska Department of Revenue, p.6.

[6] *Shared Taxes and Fees Annual Report*, p.1.

[7] "Grants and Revenue Sharing Programs," Division of Community Advocacy, Department of Commerce, Community, and Economic Development, *http://www.commerce.state.ak.us/dca/grt/allgrants.htm*.

maintain a bare minimum presence (holding elections and council meetings, but providing no services) in order to maximize any revenue coming into the community.[8]

Other communities face extreme financial problems, including unpaid judgments, lawsuits for which they cannot afford legal council, large unpaid debts owed to organizations such as the IRS for back payroll taxes, and delinquent fuel loans owed to the state. Some communities have transferred water and sewer operations to other entities in order to eliminate those expenditures. DCCED identified 18 communities with severe problems.

According to DCCED, an additional 46 communities are struggling with finances and/or have made significant reductions in core services. The problems these communities face—including large debts owed to the IRS or to PERS for delinquent payroll contributions, delinquent fuel loans and insurance payments due to the state, and elimination of core government services such as police protection and road maintenance—are so severe that officials estimate the communities could be insolvent in two years.[9]

Table 2 shows the communities identified by DCCED and the AML in each category. It is important to note that the majority of these communities—about 75 percent—have populations of fewer than 500 residents.

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; *Anchorage Daily News*.

[8] For example, the city clerk in Holy Cross now works as a volunteer, coming into City Hall to prepare the space for fundraisers, open mail, and pay bills. "Loss of Revenue Sharing Hits Villages Hard," *Anchorage Daily News*, September 18, 2005.

[9] "Status Update (DCCED 3/1/05) Municipal Governments," Division of Community Advocacy, Department of Commerce, Community, and Economic Development, March 1, 2005; "Appendix D: Communities at Risk," *Preliminary Report to the Local Boundary Commission Regarding the Proposal to Incorporate the City of Naukati*, Department of Commerce, Community, and Economic Development, September 2005; "Mayors: Cities on Verge of Disaster," *Juneau Empire*, April 22, 2005.

In an effort to mitigate some of the impact of rising costs and reduced revenues, the governor introduced legislation in 2005 to assist local governments. Senate Bill 46 provided about $18.5 million in funding, which was distributed to 74 communities to assist member political subdivisions with increased employer costs for the Public Employees Retirement System.[10] Funds were allocated based on anticipated increased costs for each eligible local government for FY06.

Senate Bill 98, the "fast track supplemental," included about $6.5 million for grants from the small community energy assistance program for FY05.[11] This legislation required that the grants first be used to pay off any outstanding debts owed to the Bulk Fuel Revolving Loan Fund. Cities and boroughs could then use any remaining funds to purchase fuel. Communities received funds based on population—about 135 communities with up to 2,499 residents (including the communities listed in Table 2) received amounts ranging from about $22,400 to $67,200. Only organized cities and boroughs were eligible for these funds.

In 2005, Alaska legislators also identified several approaches to help solve local governments' financial difficulties, including the following:

- a plan to ask voter approval for using the Alaska Permanent Fund to send a total of $150 million per year to communities across the state,
- a proposal to provide municipal aid grants of $50,000 to Alaska cities, and
- a bill appropriating almost $60 million in general funds to reinstate revenue sharing and safe communities/municipal assistance.[12]

None of the proposals came to the floor for action, but remained in committee.

REVENUE SHARING IN OTHER STATES

All states participate to some extent in revenue sharing with local governments. Most states identify revenue from specific taxes for revenue sharing, but some also appropriate general fund monies to local communities. For example,

- In **Arizona**, the state collects city sales taxes and county excise taxes and returns those revenues to the local governments. Local governments also receive mining severance tax revenues. In addition, the state shares motor fuel taxes, state sales and income taxes, and lottery revenues with cities and counties.

[10] Ch. 3, FSSLA 05.

[11] Ch. 6, SLA 05.

[12] CSHB 144 (STA), CSHB 49 (CRA), and HB 36. "Bill Would Send Millions to Beleaguered Cities," *Juneau Empire*, March 5, 2005; "Voters May Decide on PFD Funds for Cities," *Anchorage Daily News*, March 9, 2005; "Bill History," *BASIS*, Legislative Affairs Agency.

- **Hawaii** contributes very little in the way of actual revenue sharing (about $100 per capita), but provides all K-12 education funding statewide.

- In **Oregon**, local governments receive a portion of beer and wine taxes, cigarette taxes, and lottery proceeds.

- In **Washington**, the state collects all local and state taxes, and returns local tax revenues to counties and cities minus a small administrative fee. Cities and counties also receive a portion of state liquor and motor fuel taxes.

Table 3 shows revenue sharing practices in selected states. We also include several tables showing 2003 Census Bureau figures for the amount of revenue sharing by state, state rankings by amount and percentage of total expenditures allocated to revenue sharing, and state ranking by per capita revenue sharing (Tables 4-7).

I hope you find this information to be useful. Please do not hesitate to contact us if you have questions or need additional information.

Table 3: Revenue Sharing Programs in Selected States	
State	**Program**
Arizona	The state collects city sales taxes and county excise taxes for communities, and returns those funds to the local governments. The Highway User Revenue Fund, which includes fuel taxes and motor carrier fees and taxes, and the Vehicle License Tax are distributed to counties, cities, and towns according to a complex formula spelled out in statute. The Arizona Lottery also provides funding for local governments, through the Local Transportation Assistance Fund, which is distributed to counties, cities, and towns based on population. Cities and towns receive a minimum payment of $10,000. The state also distributes a portion of state sales and income taxes (13.6 percent of the net proceeds from income taxes from the fiscal year two years prior) to counties, cities, and towns, based on population. In addition, municipalities receive 38.16 percent and counties receive 61.84 percent of mining severance taxes.
California	Counties and cities receive distributions from the motor vehicle license fee based on population, and the highway users tax revenues (which include motor fuel taxes) based on a formula set out in statute that includes local tax collections and the proportion of registered vehicles in the city or county. The state also distributes 1/2 of one percent of sales taxes for local public safety needs according to local taxable sales.
Florida	Local governments receive a share of fuel tax revenues based on a weighted formula that includes size, population, and tax collections. Counties and municipalities receive a share of the alcohol beverage license tax--24 percent of the taxes collected within counties, and 38 percent within municipalities. Florida's Revenue Sharing Program includes 2.9 percent of cigarette tax collections and 2.044 percent of sales and use tax collections. Counties receive a portion of these revenues based on a weighted "apportionment factor" that includes population and sales tax collections. Counties also receive a portion of the almost $30 million appropriated from sales and use tax revenues to be equally distributed to each county. Funds from the Municipal Revenue Sharing Program (consisting of a portion of sales and use taxes, alternative fuel user decal collections, and municipal fuel taxes) and the Communications Services Tax are also distributed according to formula. The state returns 44 percent of the 911 fee to local governments. A portion of mineral and oil and gas severance taxes go to the local area in which the resources were located..
Illinois	The state distributes one percent of sales taxes based upon local sales, one-tenth of the income tax and a portion of the sales use tax based on population, and a portion of corporate income taxes based on the amount collected from the municipality to all counties and municipalities. The state also distributes 41.6 percent of the motor fuel tax to local governments and 49 percent to municipalities, based on population.
Maine	The state distributes 5.2 percent of all sales, corporate, and individual income taxes to municipalities, based on a formula that includes population and property tax assessments.
Maryland	Counties and municipalities receive business license fees from the state, based on origin of fees and less a three-percent administrative fee. The state distributes 30 percent of highway user revenues (gas tax, vehicle title tax, rental sales and use tax, and specified vehicle registration fees) to counties based on county road mileage and vehicle registrations. Counties then share the funds with municipalities within the county: one-half is divided between the county and municipalities based on road mileage, and one-half based on vehicle registrations. Eligible counties may also receive state aid for fire, rescue, and ambulance services, and for police protection. Aid for fire and rescue is based on the number of tax accounts in each county, with a minimum of two percent of the funds going to each county. Police aid is based on population, net taxable income, assessable tax base, and per capita police expenditures. Local governments may also receipt a supplemental grant

Table 3: Revenue Sharing Programs in Selected States (contd.)	
State	**Program**
Massachusetts	Municipalities receive a portion of proceeds from the state lottery, which is distributed based on a weighted formula based on population and property valuations. The state also distributes "Additional Assistance" to communities through a general fund appropriation, and 1/3 of one percent of racing revenues to those communities that have racetracks.
Michigan	Cities, villages, and townships receive about 36 percent of state sales tax revenues, based on a complex formula that includes a taxable value factor (a community's ability to raise revenue) and a population type factor. Counties receive 25 percent of sales tax revenue, distributed on a per capita basis.
Mississippi	Counties receive a portion of the following taxes: gaming fees and taxes, alcoholic beverage tax, oil severance tax, gas severance tax, auto tag fees, petroleum tax, and payments in lieu of taxes for the Tennessee Valley Authority (TVA) and nuclear power plants. Municipalities receive a portion of the following taxes: state sales tax, gaming fees and taxes, alcoholic beverage tax, and payment in lieu of taxes for the TVA.
Nevada	Local governments receive revenues through a "Consolidated Tax," which includes portions of basic and supplemental city/county tax relief revenue (one-half of one percent of all taxable sales and taxable items of use), cigarette tax (5 mills per cigarette) liquor taxes (50 cents per gallon for items containing over 22 percent alcohol), motor vehicle tax, and real property transfer tax. Each year, the distribution is increased or decreased based on the CPI.
Oregon	A portion of the beer and wine tax that goes to the general fund is distributed to cities (20 percent) and counties (10 percent). In addition, local governments receive a portion of state lottery proceeds, and two cents per pack of the state cigarette tax.
Washington	The state distributes 35 percent of the basic liquor tax to local governments: 20 percent to counties and 80 percent to cities. Half of the revenues from beer and wine taxes go to local governments: 0.3 percent to border counties and cities for law enforcement costs, 10 percent to counties, and 40 percent to cities. The liquor, beer, and wine taxes are distributed to counties based on the unincorporated population, and to cities based on the incorporated population. The state also distributes a portion of the motor vehicle fuel tax to cities and counties, based on a complex formula. (The state also collects a variety of local taxes and returns them to the local government minus a one percent administrative fee.)
Wisconsin	All counties and municipalities in Wisconsin receive two kinds of shared revenue: a per capita payment, and "aidable revenues" based on per capita property values. Some communities also qualify for a "utility payment," which includes payment for utility companies taxed by the state, for spent nuclear fuel storage, and electrical generating plants.
Wyoming	The state distributes about 1/3 of state sales taxes to local governments. Each county receives $40,000 annually, and any remainder is distributed to the counties based on population. The state uses the same method to distribute 1/3 of state use tax revenues to counties, with each county initially receiving $10,000. Counties receive a portion of fuel tax and severance tax revenues, based on a complex formula that includes area, population, and assessed property values. About 75 percent of cigarette tax revenues are distributed to counties, cities, and towns based on sales.

Sources: "Revenue Distributions List," Arizona Department of Revenue; *Arizona Department of Revenue 2002 Annual Report;* "Shared Revenue Estimates, Fiscal Year 2005-2006, Office of the Controller, State of California; California Government Code, Revenue and Taxation Code, and Streets and Highways Code; *2004 Local Government Financial Information Handbook* , Florida Legislative Committee on Intergovernmental Relations; "Municipal Revenue Sources," *Municipal Finance Series* , Illinois Office of Local Government Management Services; "State and Municipal Revenue Sharing," Maine State Treasurer's Office; *State Shared and State Administered Local Revenues* , Maryland Municipal League, February 2005; "Cherry Sheet Receipt Programs," Massachusetts Department of Revenue; "Michigan State Revenue Sharing," Michigan Department of Revenue; "General Fund Receipts, Fiscal Year Ending June 30, 2004," Mississippi State Tax Commission; *Nevada Department of Taxation Annual Report Fiscal 2003-2004* ; "2006-07 Governor's Recommended Budget," Oregon Division of Management and Budget, "2005-2007 Tax Expenditures Report," Oregon Department of Revenue; *Tax Reference Manual* , Washington Department of Revenue; *2003 Annual Report* , Wyoming Department of Revenue; Wyoming Statutes.

Table 4: Amount of Revenue Sharing by State				
State	Total Expenditures (in thousands)	Amount to Revenue Sharing (in thousands)	Per Capita Revenue Sharing (in dollars)	Percent of Total Expenditures
Alabama	$18,471,110.0	$4,074,005.0	$905	22%
Alaska	**$8,121,540.0**	**$1,091,391.0**	**$1,684**	**13%**
Arizona	$19,606,017.0	$6,936,753.0	$1,243	35%
Arkansas	$12,084,818.0	$3,210,582.0	$1,177	27%
California	$204,438,461.0	$84,468,847.0	$2,382	41%
Colorado	$17,690,925.0	$4,666,350.0	$1,026	26%
Connecticut	$20,721,194.0	$3,030,485.0	$869	15%
Delaware	$4,857,901.0	$903,476.0	$1,104	19%
Florida	$56,317,331.0	$14,460,722.0	$851	26%
Georgia	$32,526,824.0	$9,016,458.0	$1,039	28%
Hawaii	$7,611,286.0	$125,434.0	$100	2%
Idaho	$5,415,138.0	$1,449,076.0	$1,060	27%
Illinois	$51,291,090.0	$13,369,662.0	$1,057	26%
Indiana	$23,089,940.0	$6,760,945.0	$1,090	29%
Iowa	$13,088,000.0	$3,442,552.0	$1,170	26%
Kansas	$10,954,011.0	$2,925,220.0	$1,073	27%
Kentucky	$19,116,816.0	$3,693,634.0	$870	19%
Louisiana	$18,681,314.0	$4,329,053.0	$963	23%
Maine	$6,706,116.0	$1,051,164.0	$803	16%
Maryland	$24,592,128.0	$5,358,342.0	$972	22%
Massachusetts	$32,710,435.0	$6,435,841.0	$1,002	20%
Michigan	$51,016,280.0	$19,851,778.0	$1,969	39%
Minnesota	$28,898,514.0	$9,618,471.0	$1,899	33%
Mississippi	$13,502,885.0	$3,665,580.0	$1,271	27%
Missouri	$21,566,197.0	$5,159,094.0	$902	24%
Montana	$4,436,890.0	$938,000.0	$1,022	21%
Nebraska	$6,823,849.0	$1,784,749.0	$1,027	26%
Nevada	$7,816,481.0	$2,648,660.0	$1,181	34%
New Hampshire	$5,276,466.0	$1,283,091.0	$995	24%
New Jersey	$44,947,598.0	$8,997,417.0	$1,041	20%
New Mexico	$10,672,603.0	$2,951,328.0	$1,571	28%
New York	$127,475,233.0	$40,874,514.0	$2,128	32%
North Carolina	$34,360,977.0	$10,356,152.0	$1,230	30%
North Dakota	$3,121,369.0	$606,096.0	$958	19%
Ohio	$56,392,224.0	$15,249,395.0	$1,333	27%
Oklahoma	$15,125,090.0	$3,395,494.0	$968	22%
Oregon	$18,005,773.0	$4,071,501.0	$1,142	23%
Pennsylvania	$57,428,466.0	$11,943,470.0	$965	21%
Rhode Island	$5,976,510.0	$828,198.0	$770	14%
South Carolina	$21,039,752.0	$4,155,920.0	$1,002	20%
South Dakota	$2,898,044.0	$514,949.0	$673	18%
Tennessee	$21,021,917.0	$4,952,923.0	$847	24%
Texas	$76,386,043.0	$17,332,957.0	$784	23%
Utah	$10,252,051.0	$2,165,151.0	$921	21%

Table 4: Amount of Revenue Sharing by State				
State	**Total Expenditures** (in thousands)	**Amount to Revenue Sharing** (in thousands)	**Per Capita Revenue Sharing** (in dollars)	**Percent of Total Expenditures**
Vermont	$3,858,957.0	$938,085.0	$1,515	24%
Virginia	$29,129,136.0	$8,352,635.0	$1,134	29%
Washington	$32,600,336.0	$6,785,341.0	$1,107	21%
West Virginia	$10,003,729.0	$1,544,758.0	$853	15%
Wisconsin	$27,658,175.0	$9,478,166.0	$1,731	34%
Wyoming	$3,264,439.0	$952,705.0	$1,898	29%
Total United States	**$1,359,048,379.0**	**$382,196,570.0**	**$1,317**	**28%**

Note: These figures ***do not*** include education funding.

Source: U.S. Census Bureau.

Table 5: States Ranked by Amount Allocated to Revenue Sharing				
Rank by Amount	**State**	**Total Expenditures** (in thousands)	**Amount to Revenue Sharing** (in thousands)	**Per Capita Revenue Sharing** (in dollars)
1	California	$204,438,461.0	$84,468,847.0	$2,382
2	New York	$127,475,233.0	$40,874,514.0	$2,128
3	Michigan	$51,016,280.0	$19,851,778.0	$1,969
4	Texas	$76,386,043.0	$17,332,957.0	$784
5	Ohio	$56,392,224.0	$15,249,395.0	$1,333
6	Florida	$56,317,331.0	$14,460,722.0	$851
7	Illinois	$51,291,090.0	$13,369,662.0	$1,057
8	Pennsylvania	$57,428,466.0	$11,943,470.0	$965
9	North Carolina	$34,360,977.0	$10,356,152.0	$1,230
10	Minnesota	$28,898,514.0	$9,618,471.0	$1,899
11	Wisconsin	$27,658,175.0	$9,478,166.0	$1,731
12	Georgia	$32,526,824.0	$9,016,458.0	$1,039
13	New Jersey	$44,947,598.0	$8,997,417.0	$1,041
14	Virginia	$29,129,136.0	$8,352,635.0	$1,134
15	Arizona	$19,606,017.0	$6,936,753.0	$1,243
16	Washington	$32,600,336.0	$6,785,341.0	$1,107
17	Indiana	$23,089,940.0	$6,760,945.0	$1,090
18	Massachusetts	$32,710,435.0	$6,435,841.0	$1,002
19	Maryland	$24,592,128.0	$5,358,342.0	$972
20	Missouri	$21,566,197.0	$5,159,094.0	$902
21	Tennessee	$21,021,917.0	$4,952,923.0	$847
22	Colorado	$17,690,925.0	$4,666,350.0	$1,026
23	Louisiana	$18,681,314.0	$4,329,053.0	$963
24	South Carolina	$21,039,752.0	$4,155,920.0	$1,002
25	Alabama	$18,471,110.0	$4,074,005.0	$905
26	Oregon	$18,005,773.0	$4,071,501.0	$1,142
27	Kentucky	$19,116,816.0	$3,693,634.0	$870
28	Mississippi	$13,502,885.0	$3,665,580.0	$1,271
29	Iowa	$13,088,000.0	$3,442,552.0	$1,170
30	Oklahoma	$15,125,090.0	$3,395,494.0	$968
31	Arkansas	$12,084,818.0	$3,210,582.0	$1,177
32	Connecticut	$20,721,194.0	$3,030,485.0	$869
33	New Mexico	$10,672,603.0	$2,951,328.0	$1,571
34	Kansas	$10,954,011.0	$2,925,220.0	$1,073
35	Nevada	$7,816,481.0	$2,648,660.0	$1,181
36	Utah	$10,252,051.0	$2,165,151.0	$921
37	Nebraska	$6,823,849.0	$1,784,749.0	$1,027
38	West Virginia	$10,003,729.0	$1,544,758.0	$853
39	Idaho	$5,415,138.0	$1,449,076.0	$1,060
40	New Hampshire	$5,276,466.0	$1,283,091.0	$995
41	**Alaska**	**$8,121,540.0**	**$1,091,391.0**	**$1,684**
42	Maine	$6,706,116.0	$1,051,164.0	$803
43	Wyoming	$3,264,439.0	$952,705.0	$1,898
44	Vermont	$3,858,957.0	$938,085.0	$1,515
45	Montana	$4,436,890.0	$938,000.0	$1,022

Table 5: States Ranked by Amount Allocated to Revenue Sharing				
Rank by Amount	**State**	**Total Expenditures (in thousands)**	**Amount to Revenue Sharing (in thousands)**	**Per Capita Revenue Sharing (in dollars)**
46	Delaware	$4,857,901.0	$903,476.0	$1,104
47	Rhode Island	$5,976,510.0	$828,198.0	$770
48	North Dakota	$3,121,369.0	$606,096.0	$958
49	South Dakota	$2,898,044.0	$514,949.0	$673
50	Hawaii	$7,611,286.0	$125,434.0	$100
Total United States		**$1,359,048,379.0**	**$382,196,570.0**	**$1,317**

Note: These figures ***do not*** include education funding.

Source: "State Government Finances: 2003," *2003 Survey of State Government Finances,* Governments Division, U. S. Census Bureau, February 2005.

Table 6: States Ranked by Percent of Expenditures Allocated to Revenue Sharing				
Rank by Percent	**State**	**Total Expenditures (in thousands)**	**Amount to Revenue Sharing (in thousands)**	**Percent of Total Expenditures**
1	California	$204,438,461.0	$84,468,847.0	41%
2	Michigan	$51,016,280.0	$19,851,778.0	39%
3	Arizona	$19,606,017.0	$6,936,753.0	35%
4	Wisconsin	$27,658,175.0	$9,478,166.0	34%
5	Nevada	$7,816,481.0	$2,648,660.0	34%
6	Minnesota	$28,898,514.0	$9,618,471.0	33%
7	New York	$127,475,233.0	$40,874,514.0	32%
8	North Carolina	$34,360,977.0	$10,356,152.0	30%
9	Indiana	$23,089,940.0	$6,760,945.0	29%
10	Wyoming	$3,264,439.0	$952,705.0	29%
11	Virginia	$29,129,136.0	$8,352,635.0	29%
12	Georgia	$32,526,824.0	$9,016,458.0	28%
13	New Mexico	$10,672,603.0	$2,951,328.0	28%
14	Mississippi	$13,502,885.0	$3,665,580.0	27%
15	Ohio	$56,392,224.0	$15,249,395.0	27%
16	Idaho	$5,415,138.0	$1,449,076.0	27%
17	Kansas	$10,954,011.0	$2,925,220.0	27%
18	Arkansas	$12,084,818.0	$3,210,582.0	27%
19	Colorado	$17,690,925.0	$4,666,350.0	26%
20	Iowa	$13,088,000.0	$3,442,552.0	26%
21	Nebraska	$6,823,849.0	$1,784,749.0	26%
22	Illinois	$51,291,090.0	$13,369,662.0	26%
23	Florida	$56,317,331.0	$14,460,722.0	26%
24	New Hampshire	$5,276,466.0	$1,283,091.0	24%
25	Vermont	$3,858,957.0	$938,085.0	24%
26	Missouri	$21,566,197.0	$5,159,094.0	24%
27	Tennessee	$21,021,917.0	$4,952,923.0	24%
28	Louisiana	$18,681,314.0	$4,329,053.0	23%
29	Texas	$76,386,043.0	$17,332,957.0	23%
30	Oregon	$18,005,773.0	$4,071,501.0	23%
31	Oklahoma	$15,125,090.0	$3,395,494.0	22%
32	Alabama	$18,471,110.0	$4,074,005.0	22%
33	Maryland	$24,592,128.0	$5,358,342.0	22%
34	Montana	$4,436,890.0	$938,000.0	21%
35	Utah	$10,252,051.0	$2,165,151.0	21%
36	Washington	$32,600,336.0	$6,785,341.0	21%
37	Pennsylvania	$57,428,466.0	$11,943,470.0	21%
38	New Jersey	$44,947,598.0	$8,997,417.0	20%
39	South Carolina	$21,039,752.0	$4,155,920.0	20%
40	Massachusetts	$32,710,435.0	$6,435,841.0	20%
41	North Dakota	$3,121,369.0	$606,096.0	19%
42	Kentucky	$19,116,816.0	$3,693,634.0	19%
43	Delaware	$4,857,901.0	$903,476.0	19%
44	South Dakota	$2,898,044.0	$514,949.0	18%

Table 6: States Ranked by Percent of Expenditures Allocated to Revenue Sharing				
Rank by Percent	**State**	**Total Expenditures (in thousands)**	**Amount to Revenue Sharing (in thousands)**	**Percent of Total Expenditures**
45	Maine	$6,706,116.0	$1,051,164.0	16%
46	West Virginia	$10,003,729.0	$1,544,758.0	15%
47	Connecticut	$20,721,194.0	$3,030,485.0	15%
48	Rhode Island	$5,976,510.0	$828,198.0	14%
49	**Alaska**	**$8,121,540.0**	**$1,091,391.0**	**13%**
50	Hawaii	$7,611,286.0	$125,434.0	2%
Total United States		**$1,359,048,379.0**	**$382,196,570.0**	**28%**

Note: These figures ***do not*** include education funding.

Source: "State Government Finances: 2003," *2003 Survey of State Government Finances,* Governments Division, U. S. Census Bureau, February 2005.

Table 7: States Ranked by Per Capita Amount of Revenue Sharing				
Rank by Per Capita	**State**	**Total Expenditures** (in thousands)	**Amount to Revenue Sharing** (in thousands)	**Per Capita Revenue Sharing** (in dollars)
1	California	$204,438,461.0	$84,468,847.0	$2,382
2	New York	$127,475,233.0	$40,874,514.0	$2,128
3	Michigan	$51,016,280.0	$19,851,778.0	$1,969
4	Minnesota	$28,898,514.0	$9,618,471.0	$1,899
5	Wyoming	$3,264,439.0	$952,705.0	$1,898
6	Wisconsin	$27,658,175.0	$9,478,166.0	$1,731
7	**Alaska**	**$8,121,540.0**	**$1,091,391.0**	**$1,684**
8	New Mexico	$10,672,603.0	$2,951,328.0	$1,571
9	Vermont	$3,858,957.0	$938,085.0	$1,515
10	Ohio	$56,392,224.0	$15,249,395.0	$1,333
11	Mississippi	$13,502,885.0	$3,665,580.0	$1,271
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30	Massachusetts	$32,710,435.0	$6,435,841.0	$1,002
31	South Carolina	$21,039,752.0	$4,155,920.0	$1,002
32	New Hampshire	$5,276,466.0	$1,283,091.0	$995
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47	Texas	$76,386,043.0	$17,332,957.0	$784
48	Rhode Island	$5,976,510.0	$828,198.0	$770
49	South Dakota	$2,898,044.0	$514,949.0	$673
50	Hawaii	$7,611,286.0	$125,434.0	$100
Total United States		**$1,359,048,379.0**	**$382,196,570.0**	**$1,317**

Note: These figures ***do not*** include education funding.

Source: "State Government Finances: 2003," *2003 Survey of State Government Finances,* Governments Division, U. S. Census Bureau, February 2005.

Attachment A

Legislative Research Services Report 87.073, *History of Municipal Assistance and Revenue Sharing*, February 6, 1987.

ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

P.O. Box Y, State Capitol
Juneau, Alaska 99811-3100
Mail Stop 3100
(907) 465-3991

February 6, 1987

MEMORANDUM

TO: Representative Mike Navarre

FROM: Brad Pierce
Legislative Analyst

ATTN: Pat Malone

RE: **History of Municipal Assistance and Revenue Sharing**
Research Request 87.073

You requested this agency to provide information on the history of the State **Revenue Sharing and Municipal Assistance** programs. Specifically, you wished to know: 1) when these programs started; 2) their goals and objectives; and 3) how the allocation formulas work.

The information presented in this memorandum comes from three sources:

"State Revenue Sharing Handbook for Municipal Officials", (Alaska Department of Community and Regional Affairs, various years);

"Governor's Task Force On State Shared Revenue: Final Report and Recommendation", (Department of Community and Regional Affairs, December 9, 1985); and

Conversations with municipal officials--most notably Lee Sharp, Matanuska/Susitna Borough Attorney and Judy Slajer, Finance Director, Fairbanks North Star Borough--who were directly involved in the evolution of these programs.

We discuss each program separately and devote a final section to the recommendations of the Governor's Task Force on Shared Revenue and the implications of changes to the existing programs.

State Revenue Sharing

The State Revenue Sharing Program came into being on July 1, 1969 with the passage of HB 350 (Chapter 95, SLA 1969). Alaska Statute 43.18 contained the statutes which authorized the program. Originally, Revenue Sharing was designed to accomplish the following:

1) help ease fiscal problems facing local governments;

2) stabilize or reduce local property tax rates;

3) encourage local governments to provide adequate levels of public services;

4) inject a measure of budget planning and stability into local governments; and

5) improve the allocation of State funds by sharing them with local governments (on the assumption that local governments are more in tune with the needs of the public, and are better able to respond and provide public goods and services in accordance with taxpayer preferences).

Under the original legislation, the legislature made annual appropriations to fund the program. The first-year (FY 70) appropriation was $2 million. The original Revenue Sharing Program was exclusively a categorical aid program. Local governments applied for entitlements under each of five categories of municipal services (police, fire protection, air or water pollution, land use planning and road maintenance). Table 1 lists all entitlement categories and their respective rates of reimbursement. Additional categories were added in later years until the categorical program was repealed in 1980. As portrayed in Table 1, the program grew quickly from the original five categories and $2 million budget to 12 categories and a $26.9 million budget.

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

Public Service Category	1970	1980
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

NA: Not Applicable.

*Entitlements for military residents of public service areas are calculated at a lower per capita rate.

**Alternatively, five percent of the project cost if over the base entitlement amount.

* * * *

Under the original distribution formula, about 75 percent of the funds appropriated were distributed on a per capita basis, while the remainder was based on other factors (e.g., miles of maintained public road). The more eligible services provided or facilities maintained by the community, the more money a municipality could expect to receive. The Department of Community and Regional Affairs (DCRA) was responsible for administering the State Revenue Sharing Program. The most important administrative task was to determine whether a municipality met the minimum standards to qualify under any of the service categories. Restrictions were placed on the amount of the entitlement that could be spent outside of the service area for which it was computed (e.g., entitlements collected on the number of persons in a volunteer fire district had to be spent in that district). In addition, each municipality was required to budget and spend at least 20 percent of the entitlement for a particular service category on providing that service during the fiscal year in which the entitlement was received.

In other words up to 80 percent of the State Revenue Sharing funds could be spent at the discretion of the municipality.

If the amount appropriated by the legislature each year was not sufficient to fully fund the entitlements, all entitlements were reduced in equal proportion (pro-rated) by whatever amount necessary to bring appropriations and entitlements into balance. As can be seen in the table presented above, the Revenue Sharing Program grew rapidly, through population increases, incorporation of new municipalities, increased road mileage, additional health facilities and the assumption of new services by municipalities. The five original categories were expanded to 12 as the legislature responded to funding requests for additional public services by municipalities. Once they began providing services via State funding, municipalities put increasing pressure on the legislature to fully fund their entitlements as computed by the categorical formulae.

According to DCRA, the implied intent of the original Revenue Sharing Program was to encourage municipalities to provide acceptable levels of public services.[1] The formal legislative intent accompanying the statute (AS 43.18.030) suggested that "local governments which levy property taxes reduce those levies in direct proportion to the amount of State aid received by a local government for a given fiscal year."

In 1977, the legislature broadened the intent language of the State Revenue Sharing statute. House Bill 89 (effective July 1, 1978) contained intent language which called for a reduction in both property and sales taxes in proportion to the amount of State aid received. **Two major problems surfaced regarding whether the categorical program was actually fulfilling the legislative intent embodied in the statutes.**

First, **local tax effort was ignored in the allocation formulae.** Those local governments levying a high tax rate received funding at the same rate as local governments which provided few or no services through local tax collections. If local tax effort was not considered in distributing Revenue Sharing funds, then the program could not effectively contribute to proportionally lowered rates of taxation.

Second, **the categorical formulae ignored the ability of a municipality to pay for public services.** Municipalities with high tax bases received funding at the same rate as those with small or nonexistent tax bases. To provide the same level of service, a poor municipality would have to put forth a much greater tax effort. Alternatively, at the same tax effort, a poorer municipality would have to forego some services or provide them at a much lower level than a wealthy municipality.

In sum, the "service category" approach to distributing the legislative appropriation for Revenue Sharing was criticized for biasing the program toward the wealthy and more populous cities and boroughs. Other problems emerged from the debate over the two major concerns expressed above. Some municipal officials questioned why the program had to be so categorical,

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[1] "State Revenue Sharing Handbook for Municipal Officials, January 1983", Alaska Department of Community and Regional Affairs.

with the State mandating the services local governments had to provide in order to receive State aid. They felt that the municipalities should decide for themselves what services were important to provide in their communities. Another frequently mentioned problem was that the per capita cost of providing services varies considerably around the state.

The legislature and administration, in consultation with municipal officials, considered several different plans for revising the Revenue Sharing Program during the mid-1970s. Their goal was to replace the service category formulae with a single formula that would equalize the tax resources of municipalities. In other words, they wanted a formula that would benefit those local governments that are helping themselves by levying local taxes, while providing relatively less to municipalities with low tax effort. Additionally municipalities desired a new allocation formula that guaranteed them at least as much State funding as they received under the old categorical program.

There was extensive debate over what an equalization formula should include as local revenue. Distinctions needed to be made between program receipts and tax effort. Some municipalities provide electrical service or have publicly funded garbage disposal, while others have these services provided by the private sector. Some land-rich municipalities receive substantial amounts of revenue through land sales in lieu of property and/or sales taxes. According to individuals who were involved in the process, **the determination of exactly which types of locally generated revenue would be defined as local effort was the most difficult problem to solve in developing a new revenue sharing formula.**

The consensus that emerged from this debate was embodied in HB 192 (Chapter 155, SLA 1980), which repealed and replaced the existing State Revenue Statutes. The new program was drastically different from the old formula. Nearly all provisions of the municipal services programs that had been allocated on a per capita basis were replaced with an equalization formula, though some of the categorical payments (roads, health facilities and hospitals) were retained. The new program also featured a $25,000 (plus area cost-of-living differential) minimum for all municipalities of over 25 permanent residents. Another feature was a five-year 125 percent hold-harmless provision for municipalities already in the program.[2] The hold harmless provision was designed to allow communities time to adjust their local revenues to their entitlements under the new formula.

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[2]The hold-harmless provision was especially important for Fairbanks, which was experiencing a post-pipeline decline in population and tax base in 1980 when the program was passed and continued to received a substantially greater entitlement over time than it would have without the provision in place. Fairbanks received a $3.5 million Municipal Tax Equalization entitlement in FY 85 (under the hold-harmless provision) and $1.48 million in FY 86 (after the provision had been phased out).

The legislative intent of the program was expressed in the bill as follows:

1) "to improve the revenue raising and distribution system for the benefit of residents of home rule and general law municipalities by providing for more equitable allocation of financial resources among municipalities to improve their fiscal capacities; and

2) to assure that no municipality suffers impoverishment of necessary public services, relative to other municipalities, because of chance location of taxable wealth in the state".

Three separate accounts were set up under the new Revenue Sharing Act. These are listed with their statutory authorization below:

Tax Resources Equalization Account	AS 29.88
Miscellaneous Municipal Services Account	AS 29.89
Hospital Construction Assistance Account	AS 29.90

The legislature appropriated $51.9 million to the State Revenue Sharing Program for FY 81; $34.9 million to the Tax Equalization Account; $10.2 million to the Miscellaneous account; and $6.7 million to the Hospital Construction account. Entitlements were to be paid from each account, and, if there was money left over in either the Miscellaneous or Hospital Construction account, it was to be placed into the Equalization account.

The steps involved in the calculation of a municipality's entitlement under the **Tax Resource Equalization Formula** are as follows:

1) All eligible revenues generated from local sources (e.g., sales tax, property tax, permits or fees for services, fines and penalties) for the preceding fiscal year are added together. The resulting figure is defined as the municipality's total fiscal effort.

2) The total fiscal effort (which excludes municipal utility revenue, interest earned on investments, revenue from the sale or lease of land or equipment, or intergovernmental transfers) is divided by one-tenth of one percent of the full and true assessed valuation of property within the municipality. The resulting figure is the municipality's millage rate equivalent. This computation compares a municipality's fiscal effort relative to its taxable wealth.

3) The millage-rate equivalent is multiplied by the municipality's population to arrive at an entitlement number.

4) The entitlement numbers of all municipalities are added together and each municipality's entitlement number is divided by the sum to determine the percentage of the total appropriation each municipality receives.

Thus, a municipality's allocation from the Equalization account increases when, at a given level of fiscal effort, its population increases or alternatively, if its local effort increases and population remains stable. The relative relationship of these factors between communities determines the amount received by each.

The **Miscellaneous Services Entitlement** account retains many of the features of the categorical program. The State aid award schedule for this account is as follows:

1) Road maintenance at $2,500 per mile.

2) Ice road maintenance at $1,500 per mile.

3) Hospital facilities at $1,000 per bed, limited to the number of beds provided for in the construction design of the hospital or $250,000 a hospital for those with 10 or more beds, or $50,000 per hospital for those with fewer than 10 beds.

4) Health facilities at $2,000 per bed (actually used for patient care) or $8,000 per health facility.

5) Fire protection at $10 per capita for the population served by the fire department. Additional grants are made under this section to facilitate the organization of volunteer fire departments under the administration of the State fire marshall.

The Miscellaneous Services account provides for each unincorporated community of over 25 permanent residents to recieve a $25,000 basic entitlement to be used for a public purpose. This is designed to encourage the development of local governments. All Miscellaneous Services entitlements include area cost-of-living differentials.

Before its repeal by the 1983 legislature, the **Hospital Construction Entitlement** account provided funds for hospital and health facility construction. Projects begun after January 1, 1968 and before July 1, 1980 were eligible if State matching aid for these facilities constituted less than 25 percent of total project cost. The entitlement account paid the municipality or other health facility sponsor $2,500 per bed each fiscal year for the maximum number of beds in the project design or five percent of the total project cost (whichever is greater). State aid under this account continued until the municipality or sponsor received an amount, which when combined with other State construction aid, equalled 25 percent of the total construction cost. These funds were to be spent only on project construction.

Two hospitals were grandfathered into the program under the repeal legislation--Central Peninsula in Kenai and Providence in Anchorage.[3] The total FY 87 appropriation to the Hospital Construction Entitlement account is $489,960. Central Peninsula has applied to DCRA for approximately $600,000 and Providence for $6.99 million, resulting in prorated payments that will predominantly go to Providence. Depending on the amount of future appropriations to this account, this situation could continue for a number of years.

We have presented a condensed version of the history of the Revenue Sharing Program and have attempted to include all of the major issues and legislative changes in our discussion.[4] Table 2, found in the next section of this memorandum includes the appropriations history of the Revenue Sharing Program.

Municipal Assistance

The Municipal Assistance program (AS 29.60.350) was established to replace the Gross Business Receipts Program which was repealed on January 1, 1979. Under the Gross Business Receipts Program, municipalities received an appropriation equal to 20 percent of the Gross Business Receipts Tax collected by the State within the jurisdiction of the municipality. The Municipal Assistance Program uses the FY 78 Gross Business Receipts Program (the final year the program was in effect) allocation by community ($10.6 million total) as a base figure, with any additional appropriation to be **divided among all municipalities on a per capita basis.** Municipal Assistance appropriations are based on the Corporate Income Tax receipts of the previous fiscal year.

As with the State Revenue Sharing Program, municipal leaders made it very clear to the legislature that any change to the Gross Business Receipts sharing program would have to result in payments under a new plan that were at least equal to those received under the old program. In turn, the legislature wanted assurance that any increase in appropriation would be used for property tax relief and not to fund more expensive or extravagant public services.

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[3]Providence Hospital recently won a lawsuit against the Department of Community and Regional Affairs to be included in the program. The hospital contended (and the State disputed) that their construction project had begun within the appropriate time frame.

[4]There was a clean up of Title 29 in the Alaska Statutes, which repealed the existing statutes and moved Municipal Tax Resource Equalization to AS 29.60.010-080 and State aid for Miscellaneous Purposes to AS 29.60.100-180. These changes were largely cosmetic and only involved minor changes in definitions under these programs. Thus, the substance of the Revenue Sharing program has not changed since 1983.

The legislature borrowed language from the original Revenue Sharing statutes cited in the previous section to express the intent of the program: "The intent of this section [AS 29.60.370(b)],is that a municipality that levies property taxes reduce those levies in reasonable proportion to the amount of increased State aid received by the municipality."

When the Municipal Assistance program went into effect in FY 80, the authorizing statute used 10 percent of Corporate Income Tax receipts as a guideline for what the appropriation level to the program should be. The 1981 legislature repealed the separate accounting method of computing taxable income on the oil companies in Alaska and replaced it with modified apportionment. This change substantially lowered Corporate Income Tax revenues collected by the State and consequently the amount available for distribution through the Municipal Assistance Program. In recognition of this situation, the legislature changed the Municipal Assistance statutes to the present 30 percent appropriation level in the same year.

The language in the present Municipal Assistance was designed to give the legislature maximum flexibility in determining the appropriate level of Municipal Assistance funding. The statute reads: "The legislature may appropriate to the municipal assistance fund during each fiscal year an amount equal to or greater than 30 percent of the income tax revenue received by the state under AS 43.20.011(e) (Corporate Income Tax)."

Table 2 shows legislative appropriations for both Revenue Sharing and Municipal Assistance. The Corporate Income Tax revenue stream (on which appropriations to the Municipal Assistance Program are based) is also portrayed. For FY 86, the legislature chose to fund Municipal Assistance at the FY 85 level even though Corporate Income Tax revenue declined by a third between FY 84 and FY 85 (the appropriation level is based on the previous fiscal year revenues).

Table 2

Revenue Sharing and Municipal Assistance Appropriations

Fiscal Year	Revenue Sharing ($ thousands)	Municipal Assistance ($ thousands)	Corporate Income Tax ($ millions)
1970	$ 2,020.0		
1971	6,500.0		
1972	7,500.0		
1973	8,215.0		
1974	8,777.0		
1975	12,929.3		
1976	15,130.1		
1977	16,600.4		$ 38.8 GR
1978	18,656.8	$ 10,571.5	41.6 GR
1979	18,688.0	12,114.0	52.8 GR
1980	20,236.0	11,400.0	565.4
1981	51,900.0	56,500.0	894.9
1982	55,707.6	87,947.6	703.7
1983	55,721.0	71,300.0	266.3
1984	57,950.0	70,500.0	304.6
1985	59,950.0	81,306.8	204.6
1986	59,632.2	81,306.8	145.1
1987 estimated	47,897.1	65,858.5	
1988 Proposed**	38,401.3	52,686,8	

GR - Gross Receipts Tax Sharing.

*Base year for Municipal Assistance entitlement dispersal.

**Governor Cowper's recommended FY 88 budget includes a 20 percent reduction in Municipal Assistance and Revenue Sharing entitlements.

Source: "Governor's Task Force Report on State Shared Revenue", p. 7, 9, and "Revenue Sources FY 1985-88", Alaska Department of Revenue, March 1986, p. 32.

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As the Municipal Assistance appropriations decline--19 percent from FY 86 to FY 87, and a potential 20 percent reduction for FY 88--attention has been focused on the language in the authorizing statutes. In an era of declining State revenues, the corollary to property tax relief "in proportion to increased State aid" is property tax increases in proportion to declining State funding.

Comparison of Revenue Sharing and Municipal Assistance

State Revenue Sharing and Municipal Assistance are two of the major block grant type funding programs in Alaska. Other State revenue dispersing programs (such as educational support programs) are constitutionally mandated, while others are tied directly to specific tax sources (Amusement and Gaming Tax, Aviation Fuel Tax, Electric and Telephone Cooperative Tax, Liquor License Tax and Fisheries Tax) and shared on the basis of the origin of tax revenues. Table 3 portrays the geographic distribution of State operating expenditures (excluding loan programs) in FY 86 by House election district (the most recent year for which we have data). Together, Revenue Sharing and Municipal Assistance accounted for five percent of the flow of State operating dollars to the local level in FY 86.

We have shown that while Revenue Sharing and Municipal Assistance are both programs that share State-generated revenues, they differ in their objectives and formulas for allocating funds. The Revenue Sharing Program was designed to allocate funds in an equitable manner so that local public services may be provided by municipalities despite inequalities in the distribution of taxable wealth in the state. The Municipal Assistance Program was designed specifically as a property tax relief measure.

State Revenue Sharing and Municipal Assistance have become increasingly important to local governments. Table 4 shows the proportion of the flow of State operating expenditures that these programs provide to each election district . The State Shared Revenue programs as a proportion of the total flow of State operating funds to election districts range from 10 percent in Kenai-Cook Inlet to a low of 3 percent in the Interior Rivers district. A 1983 report issued by the University of Alaska's Institute of Social and Economic Research (ISER), entitled "Effects of Oil Revenues on State Aid to Local Governments in Alaska" (Alaska Review of Social and Economic Conditions, September 1983, Volume XX, No. 4), indicates that the Shared Revenue programs have generally been effective in their stated objectives. Among the findings of this report were: 1) that there had been an expansion of local government services as indicated by the increase in local government employment and borough service areas; and 2) growth in municipal tax bases and increases in State aid generally resulted in a reduction in municipal property tax rates.

The development of the State Revenue and Municipal Assistance Programs must be considered in the context of the politics of the late 1970s and early 1980s. Nineteen-seventy-nine marked the beginning of the dollar deluge to the State treasury from oil revenues and legislators came under great pressure to bring some of the money home to their districts in the form of capital projects and public services that are taken for granted in other parts of the country. A rapidly expanding population placed extreme demands on existing services at the local level. Infrastructure development generated increased entitlement levels (e.g., new roads and health facilities were built). There was a national property tax relief movement underway, typified by the Proposition 13 legislation in California.

TABLE 3
FY 86 OPERATING BUDGET EXPENDITURES BY HOUSE ELECTION DISTRICT

ELECTION DISTRICT		FY 85 POPULATION	STATE EMPLOYEE SALARIES	STATE EMPLOYEE BENEFITS	GRANTS	PUBLIC SCHOOLS FOUNDATION	PUBLIC SCHOOLS DEBT RETIREMENT	REVENUE SHARING	MUNI ASSISTANCE	OTHER SHARED TAXES	PUBLIC/MEDICAL ASSISTANCE	LONGEVITY BONUS	OFFICE LEASES	TOTAL EXPENDITURES
			IN THOUSANDS OF DOLLARS											
1	Ketchikn-Wrangl-Petrsbg	18,689	$22,014.6	$5,540.4	$6,842.8	$14,181.9	$4,909.3	$3,333.0	$2,894.6	$1,050.3	$3,404.0	$3,185.4	$438.2	$67,794.7
2	Inside Passage	10,240	4,074.2	1,025.4	8,267.1	18,687.4	125.3	972.9	1,321.3	291.5	2,386.7	1,301.5	42.2	38,495.4
3	Baranof-Chichagof	8,220	8,530.0	2,146.7	7,333.9	7,254.3	568.6	1,020.1	1,257.7	465.2	923.3	1,216.5	59.5	30,776.0
4	Juneau	23,729	156,907.6	39,488.9	14,595.3	17,699.9	6,412.2	5,889.5	4,170.7	118.6	3,245.6	2,908.0	7,407.6	258,843.6
5	Kenai-Cook Inlet	32,202	19,419.8	4,887.4	11,341.7	35,470.0	13,006.3	5,175.8	5,429.5	1,134.6	5,943.6	3,078.8	1,077.0	105,964.4
6	Prince William Sound	10,357	26,204.1	6,594.8	5,381.4	7,181.9	4,980.2	1,915.9	1,575.1	774.2	1,217.3	1,204.5	1,007.3	58,036.7
7-15	Anchorage	245,491	245,913.8	61,889.0	103,369.9	139,764.1	22,975.2	19,957.2	37,025.7	1,181.3	35,713.4	14,715.2	14,736.6	697,241.5
16	Matanuska-Susitna	29,836	24,850.0	6,254.0	10,096.5	32,357.6	13,868.4	4,994.2	5,515.4	476.8	5,814.7	3,168.5	495.3	107,891.4
17	Interior Highways	10,313	6,764.3	1,702.4	4,875.6	18,012.9	206.6	840.6	362.7	15.4	2,886.7	1,143.5	120.0	36,730.6
18-21	Fairbanks	64,321	135,383.5	34,071.9	26,067.1	53,540.3	13,041.1	4,835.9	11,355.5	274.9	10,500.4	4,863.0	1,477.3	295,410.9
22	North Slope-Kotzebue	11,051	4,293.4	1,080.5	19,553.2	23,474.7	18,396.5	1,846.3	3,108.5	158.6	3,936.3	1,225.3	229.6	77,302.9
23	Norton Sound	10,975	10,445.2	2,628.7	18,855.1	24,404.2	0.0	1,807.5	1,578.6	49.1	6,760.4	1,413.3	228.5	68,170.6
24	Interior Rivers	10,652	7,193.9	1,810.5	14,521.4	30,382.8	194.6	1,945.4	1,132.2	72.8	8,114.0	1,297.0	80.2	66,744.7
25	Lower Kuskokwim	9,892	10,239.7	2,577.0	13,134.1	27,592.3	0.0	1,385.5	1,232.5	44.7	8,277.1	1,300.3	360.2	66,143.3
26	Bristol Bay-Aleutians	14,089	5,865.9	1,476.3	17,926.1	25,034.9	1,165.3	1,881.7	1,366.6	2,122.3	1,787.1	924.3	370.3	59,920.7
27	Kodiak-East Ak Peninsula	12,873	9,926.1	2,498.1	10,559.7	12,854.4	6,144.6	1,823.6	1,980.1	1,374.9	2,232.8	1,077.5	261.3	50,733.2
STATEWIDE/UNABLE TO ALLOCATE			$3,903.5	$982.4	$11,885.5						$79,577.0			$732,276.4
OUT-OF-STATE											$55.2		$48.8	$104.0
TOTAL		522,910	$701,929.7	$176,654.3	$304,406.5	$487,893.6	$185,994.3	$59,625.0	$81,306.7	$9,605.1	$182,775.4	$44,022.3	$28,439.9	$2,818,580.9
PERCENT OF TOTAL EXPENDITURES			24.9%	6.3%	10.8%	17.3%	3.8%	2.1%	2.9%	0.3%	6.5%	1.6%	1.0%	

NOTES: The grants expenditures, obtained from the Grants Information System operated by the Office of Management and Budget, includes some capital funds to State agencies and communities. As estimated $29 million in capital expenditures are included in this grants column.

Actual FY 86 expenditures for medical assistance programs were not available. FY86 authorized funds for Medicaid ($66.7 million), Catastrophic Illness ($1.3 million), and General Relief-Medical ($11.6 million) are included in the statewide/unallocated row under Public/Medical Assistance.

The table allocates about 74 percent of the FY 86 operating expenditures by election district. Other expenditures available in statewide totals include: debt service ($168.9 million; 6.0%), medical assistance ($79.6 million; 2.8%), State travel ($30.4 million; 1.1%), and State purchases of commodities ($78.7 million; 2.8%), equipment ($16.4 million; 0.6%), contractual services ($311.6 million; 11.1%), lands/buildings ($11.3 million; 0.4%), and miscellaneous ($18.6 million; 0.7%).

State employee salaries are based on Alaska Department of Labor employment and payroll data. The retirement, health, and supplemental benefits were allocated to election districts on the basis of Labor's payroll data.

Per capita figures were calculated using Alaska Department of Labor population estimates. The FY 86 per capita figures for election districts are slightly overstated because they are based on FY 85 population estimates (the most recent available).

Prepared by the House Research Agency (Opsum2; 860227-07). 06-Feb-87

TABLE 4
FY 86 STATE SHARED REVENUE PROGRAMS (MUNICIPAL ASSISTANCE AND REVENUE SHARING)
RELATED TO STATE OPERATING EXPENDITURES BY HOUSE ELECTION DISTRICT
($ Thousands)

ELECTION DISTRICT		FY 85 POPULATION	REVENUE SHARING	MUNI ASSISTANCE	TOTAL STATE SHARED REVENUE	STATE SHARED REVENUE AS A PERCENT OF TOTAL ST. $	TOTAL STATE EXPENDITURES	PER CAPITA STATE SHARED REVENUE
1	Ketchkn-Wrangl-Petrsbg	18,689	$3,333.0	$2,894.6	$6,227.6	9.2%	$67,794.7	$333
2	Inside Passage	10,240	972.9	1,321.3	2,294.2	6.0	38,495.4	224
3	Baranof-Chichagof	8,220	1,020.1	1,257.7	2,277.8	7.4	30,776.0	277
4	Juneau	23,729	5,889.5	4,170.7	10,060.1	3.9	258,843.5	424
5	Kenai-Cook Inlet	32,202	5,175.8	5,429.5	10,605.3	10.0	105,964.4	329
6	Prince William Sound	10,357	1,915.9	1,575.1	3,491.0	6.0	58,036.7	337
7-15	Anchorage	245,491	19,957.2	37,025.7	56,982.9	8.2	697,241.5	232
16	Matanuska-Susitna	29,836	4,994.2	5,515.4	10,509.6	9.7	107,891.4	352
17	Interior Highways	10,313	840.6	362.7	1,203.3	3.3	36,730.6	117
18-21	Fairbanks	64,321	4,835.9	11,355.5	16,191.4	5.5	295,410.9	252
22	North Slope-Kotzebue	11,051	1,846.3	3,108.5	4,954.8	6.4	77,302.9	448
23	Norton Sound	10,975	1,807.5	1,578.6	3,386.1	5.0	68,170.6	309
24	Interior Rivers	10,652	1,945.4	1,132.2	3,077.6	4.6	66,744.7	289
25	Lower Kuskokwim	9,892	1,385.5	1,232.5	2,617.9	4.0	66,143.3	265
26	Bristol Bay-Aleutians	14,069	1,881.7	1,366.6	3,248.3	5.4	59,920.7	231
27	Kodiak-East Ak Peninsula	12,873	1,823.6	1,980.1	3,803.7	7.5	50,733.2	295
STATEWIDE/UNABLE TO ALLOCATE							$732,276.4	
OUT-OF-STATE							$104.0	
TOTAL		522,910	$59,625.0	$81,306.7	$140,931.7	5.0%	$2,818,580.9	$270
PERCENT OF TOTAL EXPENDITURES			2.1%	2.9%	5.0%			

Prepared by the House Research Agency (Opsum3.wk1; 860227-07).

Governor's Task Force on State Shared Revenue

Governor Sheffield appointed a task force composed of municipal officials, executive branch administrators responsible for shared revenue programs, legislators and former government officials, which met for the first time on May 11, 1984 "to assess the present and future distribution of State-shared revenues for local governments." The task force examined the following issues in relation to the State Revenue Sharing and Municipal Assistance Programs:

1) formula modification;

2) increased predictability of entitlements;

3) consolidation of programs;

4) clarification of health facility definition;

5) treatment of unincorporated communities; and

6) raising minimum municipal entitlements.

The final task force report recommended that the formulae for Revenue Sharing and Municipal Assistance not be changed. It became obvious in their deliberations that any modification of the entitlement formulas would result in a redistribution of funds among municipalities (i.e., winners and losers). This was not acceptable to municipal leaders. Likewise combining the programs into a single distribution formula would disrupt the accepted balance of funding among municipalities. As we showed in previous sections of this memorandum, the present Revenue Sharing and Municipal Assistance programs have separate goals and objectives. Combining them into a single program would reopen the debate on many of the issues that took several years to resolve in the 1970s. The task force was reluctant to do this.

With regard to increased predictability of entitlements, the task force did recommended legislation and administrative changes to utilize prior year data in entitlement calculation. House Bill 90, introduced on January 30, 1987, and referred to the Community and Regional Affairs and Finance Committees, deals with this problem. Governor Cowper's proposal to pass bienniel budgets for Revenue Sharing, Municipal Assistance and School Foundation Funding would go a long way toward increasing the predictability of the entitlement programs for local government planning.

Consolidation of programs, clarification of health facility definitions and treatment of unincorporated communities are issues that have largely been resolved legislatively (Chapter 74, SLA 1985) in previous sessions. Both programs are now administered by the Department of Community and Regional Affairs. Finally, any increase in minimum entitlements would come at the expense of larger municipalities and thus was not recommended.

* * * *

I have attempted to paint a broad brush picture of the development of State Shared Revenue Programs. I have not discussed the administrative operations of the programs or the technical details involved in calculating entitlements. The House Research Agency is in the process of transferring the Revenue Sharing and Municipal Assistance data files from Community and Regional Affairs to our computer system. We will be able to manipulate these data for specific requests. For further detail on the Shared Revenue Programs, I would suggest you call Jim Plasman (4750) at DCRA. Please feel free to call if you have further questions on this or any other subject.

BP

Attachments