

## **Background**

### **Status of Distress in Small Communities**

Summary of information gathered by the Alaska Municipal League

No agency of the State or other organization has up to date reports on the economic status of small communities. This appears to be due to both the lack of a process and sufficient staff to do so, and the fluidity of the situation as communities struggle to find new ways to make ends meet in the face of rapidly rising costs. Attached is a brief analysis by AML with the information available.

- ◆ As shown below, according to state figures, most small cities have virtually no property tax base due to large amounts of nontaxable federal and low value land. Also, while most small municipalities have sales taxes, the local sales tax base is extremely small because the communities are generally poor and most purchases are made in urban centers. Property and sales tax are the primary revenue sources for municipalities in Alaska.
- ◆ The “Status of Alaska Natives 2004” by the UAA-ISER, “only about 35% of all native jobs are full-time and year-around”, “natives are three times as likely as other Alaskans to be poor,” and “all the economic problems natives face are worst remote areas, where living costs are highest.” Most small rural cities have a high native population.
- ◆ The current cost of fuel for some small communities is reported to be as high as \$6 a gallon as of last month (July, 2005). In remote areas, where transportation costs are such a high percentage of the cost of all goods and services, and the communities are generally cash-poor, the cost of fuel alone appears to be a huge and growing problem that may break the back of the local government and the families in these communities.
- ◆ According to native municipal leaders, when oil development was beginning, native leaders asked how they could get their share of resource revenue to improve the quality of life in their community. The State’s answer was to form a municipality. **In fact, 84 of Alaska’s 145 cities were organized since 1969, the year when municipal revenue sharing was initiated.** The end of the sharing of state resource revenues with cities and boroughs may mean the end of 50% or more rural cities over the next several years as financial reserves are exhausted and short-term strategies, such as failing to make payments to the IRS, fail.
- ◆ Alaska is in the midst of an oil boom, but this one comes with a heavy price to cities, boroughs, businesses, and families. According to OMB, the State treasury receives \$65 million for every dollar in the cost of a barrel of oil, while cities boroughs, businesses, and families pay \$20 million for every dollar in the cost of a barrel of oil (Per federal estimates of fuel use by Alaskans at 20 million barrels per year). For example, a \$40 increase in the price of a barrel of oil gives the State treasury \$2.6 billion in additional revenue, while Alaskans pay \$800 million more for heating fuel, motor fuel, and transportation. The impact of the increasing cost of fuel in remote communities is the greatest.

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**Local Government Issue Paper**  
**Alaska's Small Cities in Crisis**



In 2003, there were 94 cities with annual local government operating budgets under \$300,000 per year, and averaging \$164,000, to provide public services for an entire community (according to State figures, DCED). From **2003 to 2005, those 94 cities** (out of a total of 146 cities in Alaska) **lost an average of approximately 42% of the revenue required to provide basic public services.** The crises are due to massive State cuts to cities at a time of skyrocketing local costs and economic downturns. In 2004, Alaska became one of two states that eliminated its local government revenue sharing programs. Most small rural cities operate in a cost effective manner with many part-time or volunteer positions. However, most of Alaska's small rural communities have very little local tax base due to cash poor subsistence economies.

<b>2003 Average Operating Budget for two thirds of AK Cities</b>	<b>\$164,000</b>
<b><u>Examples of Approximate 2003-04 Cuts/cost increases:</u></b>	<b><u>-\$69,000</u></b>
2003 State Cuts to Revenue Sharing/Match Grants	-\$10,000)
2004 State Eliminates Revenue Sharing	-\$40,000)
Fuel/electricity/goods rise due to oil prices	-\$7,000)
Community insurance increases	-\$6,000)
State mandated increases (PERS)	-\$4,000)
New state inspection fees, service transfers, etc.	-\$2,000)

**Growing Impacts of Loss of Revenue Sharing, etc.**

It is difficult to know the status of small rural communities. Few that fail have the administrative capacity to take steps to formally dissolve. They simply layoff their employees, cease being able to hold elections, cancel insurance for community facilities, stop providing services, etc. In some cases tribes or other organizations take over key government services.

See following update on cities generated by the State.

Alaska Municipal League, 213 Second St, Juneau, AK 99801 (907) 586-1325

## General Rural Alaska Conditions

<b>Extremely High Costs</b>	E.g., Gas at \$5.15 to \$6.00 a gallon
<b>Extremely High Unemployment</b>	Unemployment is 50% or more
<b>Virtually No Property Tax Base</b>	E.g., All of Ambler is assessed at \$3.5 million (i.e. low property values and much non-taxable land.)
<b>Low revenue from sales tax</b>	Despite the fact most cities have sales tax and many are raising it, it won't save them because the base of local sales is so small. E.g., Each 1% of sales tax in Ambler nets \$7500/year.
<b>Very Strong Stable Communities</b>	Most rural communities have existed for thousands of years. The problem is that they are cash poor.

### Impacts of the loss of State support

<b>State impacts of loss of insurance</b>	It appears that the State is the logical “deep pocket” for losses of uninsured cities in the Legislature’s Unorganized Borough. <u>One loss</u> could exceed the cost of a municipal revenue sharing program that would allow communities to purchase insurance.
<b>Statewide economic impacts</b>	Rural residents are moving to urban areas in accelerating numbers while urban jobs serving rural Alaska are declining. Currently an estimated one out of five urban jobs directly or indirectly serve other regions in Alaska. Rural communities attract a large amount of federal and foundation resources that cycle through urban economies.

### Loss of City Government Status as of 3/05

Per State DCCED,

- ❑ 13 cities no longer functioning
- ❑ 18 cities in deep debt
- ❑ 39 cities have terminated key local services this year (e.g. police, road/utility/facility maintenance)

Per AML Joint Insurance Association :

- ❑ 10 cities insurance canceled
- ❑ 33 cities on month to month payment plans due an inability to pay

### Conclusion

Alaska faces the loss of half its city governments. Unlike an occasional western U.S. boom town that becomes a ghost town, this represents a growing widespread loss of municipal governments in historically stable (2,000 years or more) and culturally rich communities.

## **Status Update (DCCED, Division of Community Advocacy, 3/1/05) Municipal Governments**

There are 20 first class and 113 second class cities in Alaska. These municipal governments are responsible for providing core services to the residents in those communities. The revenue they receive to provide these services is categorized in to three classes. Locally generated revenue is a category and includes sales taxes, profits from gaming operations, user fees from services, rental of buildings and equipment and administrative fees from management of grants. Grant revenue as a second category is frequently used to provide social services, or assist in paying for governmental services such as police. A third category of funding for municipalities is state-shared revenue. This includes Payment in Lieu of Tax (PILT), Shared taxes (fish tax, telephone coop taxes), and up to the past year Revenue Sharing/Municipal Assistance/Safe Communities/Temporary Fiscal Relief Payment.

In the past few years we have seen a reduction in funds distributed to municipalities at the same time as an increase in cost through higher insurance premiums, fuel costs (and thus transportation costs), and retirement plan costs. This set of circumstances has put many municipalities in hard financial times.

In examining the financial status of municipalities we can break them out into several categories:

- Closed down or transferred operations to another entity;
- Accrued significant debt or financial problems yet to be dealt with; and,
- Struggling with financial situations or have made significant reductions to core services.

Getting situational reports that can be used to evaluate the financial health of every municipality is extremely hard. While the communities in the first and most financially distressed category are relatively easy to define, it is likely that there are additional communities in the other two categories that we are not aware of.

### **Closed down or transferred operations to another entity,**

Currently there are 9 municipal corporations in the State of Alaska that have ceased day to day operation. These nine are Ahkiok, Kiana, Kivalina, Kupreanof, Mekoryuk, Nikolai, Platinum, Quinhagak, and Russian Mission. Two of these cities, Kiana and Quinhagak continue to maintain a shell of a municipality (no employees, but hold elections and joint council meetings) in order to maximize revenue coming into the community.

### **Accrued significant debt or financial problems yet to be dealt with.**

There are 18 communities that we know about that have extreme managerial or financial problems. These problems are severe enough that they could be considered to be insolvent. The problems include:

- Not completing the basic function of municipal government including holding elections, holding regular council meetings, or adopting a yearly budget,
- Large debt to vendors, including; the IRS, fuel companies or the state for delinquent fuel loans, or insurance companies,
- Operating without workers compensation insurance,
- Having lawsuits filed against them (or unpaid judgements) and not able to afford legal council,
- Having to transfer operation of water/sewer to other entities in order to eliminate expenditures. Sanitation is considered a core service that is almost always the major capital investment made by state and federal agencies in the community. Remaining services provided by city are minimal.

**Struggling with financial situations or have made significant reductions to core services.**

There are 39 communities that we know about that have significant financial problems. These problems could become severe enough in the next 24 months to cause closure of the city administrative offices and result in the financial insolvency of the municipality. These municipalities have already eliminated a core governmental service. The problems include:

- Eliminate core municipal services such as police protection, closure of washeteria, or elimination of road maintenance due to lack of available funds,
- Large PERS debts from terminating from the PERS program,
- Large IRS debts or default fuel loans to the Alaska Energy Authority,
- Significantly behind on payment for insurance or fuel.

The following listing of municipalities by category of distress is based upon evidence provided from various sources to the Division’s Local Government Specialist staff. There is no way to completely and accurately predict the future. These are estimates of the municipalities we believe to be in various levels of financial distress.

**Closed down or transferred operations to another entity (9 municipalities)**

Ahkiok	Kiana	Kivalina	Kupreanof
Mekoryuk	Nikolai	Platinum	Quinhagak
Russian Mission			

NOTE: AML has also been notified that the cities of Kobuk, Ambler, Noatak, and Kwethluk are no longer functioning as of 4/20/05

**Accured significant debt or financial problems yet to be dealt with (18 municipalities)**

Allakaket	Buckland	Chevak	Goodnews Bay
Grayling	Holy Cross	Hydaburg	Lower Kalskag
Napaskiak	Nunam Iqua	Pilot Point	Point Hope
Saint George	Shageluk	Shishmaref	Toksook Bay
Upper Kalskag	Wales		

**Struggling with financial situations or have made significant reductions to core services (39 municipalities)**

Akiak	Alakanuk	Ambler	Anaktuvuk Pass
Angoon	Atquasuk	Chignik	Chuathbaluk
Clark's Point	Diomedede	Eek	Emmonak
Gambell	Golovin	Hooper Bay	Kaktovik
Kobuk	Kotlik	Koyuk	Koyukuk
Mountain Village	Napakiak	Nightmute	Noorvik
Nuiqsut	Old Harbor	Pelican	Pilot Station
Port Lions	Ruby	Saint Michael	Scammon Bay
Selawik	Shaktoolik	Shungnak	Teller
Tenakee Springs	Togiak	Wainwright	

OUTSTANDING FEDERAL TAX LIENS  
ALASKA MUNICIPAL AND TRIBAL GOVERNMENT ENTITIES  
EFFECTIVE JUNE 1, 2005

Entity	Date Lien Recorded	Lien Amount	Total Lien Amount Outstanding
Akiak, City of	11/12/97	8,728.51	188,764.39
	01/30/04	35,572.20	
	01/30/04	123,627.09	
	08/30/04	11,406.39	
	01/18/05	9,430.20	
Alakanuk City Council	07/20/04	86,728.88	125,710.19
	08/17/04	24,232.25	
	12/20/04	15,235.76	
Anaktuvuk Pass City Council	12/28/04	15,117.90	15,117.90
Cheformak Traditional Council	12/28/04	47,814.50	47,814.50
Chevak City Council	08/04/03	77,873.65	196,600.07
	11/20/03	7,633.62	
	05/10/04	34,567.89	
	06/01/05	76,524.91	
Circle Village Council	01/13/03	125,990.51	248,700.43
	05/16/03	26,236.05	
	07/02/03	14,878.98	
	02/14/05	82,594.89	
Diomedes, City of	03/14/05	15,283.52	15,283.52
Grayling, City of	11/12/97	42,353.79	118,969.53
	02/04/00	9,621.99	
	02/18/00	63,497.65	
	06/09/03	3,496.10	
Hooper Bay Traditional Council	10/07/03	24,858.58	24,858.58
Kivalina City Council	03/25/04	57,486.31	93,623.95
	06/14/04	14,614.44	
	09/07/04	10,761.60	
	09/07/04	10,761.60	
Lower Kalskag, City of	05/31/05	33,249.34	36,152.34
	06/01/05	2,903.00	
Mary's Igloo Traditional Council Bingo	04/25/05	29,876.95	29,876.95
Nondalton, City of	12/08/97	39,562.46	39,562.46
Northway Village Council	08/06/04	79,260.56	144,633.87
	03/07/05	65,373.31	
Pilot Point, City of	10/05/04	30,214.54	30,214.54

Entity	Date Lien Recorded	Lien Amount	Total Lien Amount Outstanding
Pilot Point Village Council	04/14/05	79,171.10	79,171.10
Point Hope, City of	04/21/04	56,691.22	102,208.99
	04/26/04	20,672.89	
	12/13/04	595.03	
	03/07/05	11,471.03	
	03/07/05	16,778.82	
St. Michael, City of	11/14/97	23,375.41	189,308.93
	08/23/99	91,837.99	
	08/23/99	8,818.91	
	10/30/00	65,276.62	
St. Paul, Aleut Community of	12/10/97	35,155.09	Undetermined
	10/11/04	104,299.64	
	04/14/05	145,776.00	
Saxman, City of	01/24/04	200,269.11	200,269.11
Shishmaref, City of	05/14/02	85,335.75	101,767.22
	02/17/05	16,431.47	
Solomon Native Village	03/02/04	8,517.36	8,517.36
Teller Traditional Council	05/17/04	5,831.76	5,831.76
Tetlin Village Council	02/28/96	5,950.92	5,950.92
Togiak Traditional Council / Togiak NAHASDA Housing Program	11/18/04	10,201.21	10,201.21
Tununak Traditional Council	06/07/01	21,188.88	207,714.20
	11/27/01	88,288.82	
	11/27/01	88,943.71	
	02/03/04	9,292.79	
Tununak Traditional Tribal Elders Council	11/12/97	6,430.56	12,861.12
	12/09/97	6,430.56	
Venetie Native Village	06/26/84	242,260.00	Undetermined
	02/08/85	196,245.85	
	02/08/85	1,637.59	
	03/20/96	6,482.02	
Wales, City of	02/23/05	5,339.21	5,339.21

Notes: Liens assessed against village corporations in April/May 2005 were:

04/13/05 – Kake Tribal Corporation -- \$13,100.00

06/01/05 – Kake Tribal Corporation -- \$14,975.30

04/18/05 – Atqasuk Corporation -- \$188,570.33

Source: Alaska Department of Natural Resources.