

Statement of supporting rationale for amendment to entitlement lands statute and Forest Receipts program

The Alaska Constitution encourages the formation of Boroughs. The Legislature has been laboring for several years in an effort to promote the formation of Boroughs and the inclusion of a larger portion of the unorganized Borough into existing Boroughs. This effort has been hampered by several programs which, although well intentioned to assist in providing necessary governmental services to the unorganized Borough, have the effect of providing significant disincentives to Borough formation.

One example is the treatment of forest receipts. In Southeast Alaska the receipts from the Federal Forest Receipts program are distributed to organized Boroughs in a way which gives funds to organized Boroughs based on the area of the National Forest within their boundaries. However, areas in the unorganized Borough receive a share of the receipts through payments to Regional Educational Attendance Areas and cities. The entitlement of these entities is determined on a formula which causes a reduction in revenues if any of the territory of the unorganized Borough in Southeast Alaska becomes included within an organized Borough. This results in opposition to Borough boundary expansion by REAAs and cities in the unorganized Borough. If any new Boroughs are created or land is annexed into existing Boroughs those in the unorganized Borough will lose funding.

The REAA system with full state funding and no local contribution creates a disincentive to borough formation. On the one hand, educational services must be provided, but the method which provides them without any local taxes supporting the effort causes areas served by REAAs to oppose Borough formation. Not only does this cause REAAs to oppose Borough formation, it creates a disincentive for home rule or first class cities in the unorganized Borough to take on the responsibilities of providing education to those portions of the unorganized Borough which are served by REAAs. Such communities have nothing to gain from annexation or inclusion in a Borough as they would not receive a significant increase in revenues from a larger tax base, but would risk losing a portion of their Forest Receipts revenues unless the area of the newly formed Borough were large enough to result in a larger percentage of Forest Receipts than they receive based upon the population formula in the current statute. For Wrangell and Petersburg for example, a borough would need to contain over 2.5 million acres of National Forest land to result in the same National Forest revenues as the current distribution provides without the burdens of providing municipal government to such a large area. If the community can receive the funds without the responsibility of providing governmental services to the land, then there is little incentive to incorporate as a borough.

There are methods which would counteract this disincentive. One would be some form of local contribution. Another would be to revise the Forest Receipts distribution prospectively with a delayed implementation to allow Borough formation. Another would be provisions which would allow phasing in of annexed areas so that the full tax burden would not start immediately, but could be phased in over a period of a 3-4 years.

Another disincentive to inclusion of additional territory is the allocation of entitlement lands. While AS 29.65.030 provides for allocation of entitlement lands to new Boroughs, it does not provide for any increase in entitlement lands if an existing Borough annexes additional territory. Thus, if the Bristol Bay Borough, for example, seeks to expand, it does not receive any additional land entitlement to assist it in providing service in the expanded boundaries. When Yakutat expanded its boundaries it took specific legislation to increase Yakutat's land entitlement. If existing Boroughs were entitled to receive additional entitlement land in proportion to the land which would be provided to a newly formed Borough, that entitlement would provide an incentive for existing Boroughs to advance the constitutional policy of including more of the state in organized Boroughs. If an existing Borough has sufficient population and economic activity to support provision of local governmental services to additional territory, it would benefit the state and the affected area.

The three pieces of proposed legislation would address these issues. The first would revise the allocation of Forest Receipts in a way which encourages formation of Boroughs or annexation of additional territory to Boroughs. The second would provide the incentive of additional entitlement lands to encourage existing Boroughs to provide local government services to more of the state, thus reducing the cost to the state of providing those services. The third would address one of the concerns of residents in the unorganized Borough about paying the full burden of taxes immediately upon annexation.