

Agenda

1. Short Municipal History in AK 2 slides
2. Local Gov't Study 1979 8 slides
3. Gov't Roles Task Force 1992 7 slides
4. Current Municipal Conditions 10 slides
5. Options/Conclusion 2 slides



Short AK History



- Alaska has oldest communities in N. America
- 1784 - 1st permanent Russian city
- 1867 - U.S. purchases Alaska
- 1900 - Conference of Mayors organized
- 1913 - first territorial legislature
- 1950 - Cities create Alaska League of Cities
- 1959 - Alaskan statehood
- 1969 – Revenue Sharing – 84 cities incorporate

Alaska's Constitution



- Best Constitution In the U.S.
- AK avoided mistakes in other states
- Continues strong AK local control tradition
- State & local gov't are joint public service delivery systems with one revenue system, owned/paid by Alaskans.
- Mandates “max. local self-gov't” & “liberal construction” of local gov't powers.

Local Government Study 1979

- Initiated by Joint House/Senate CRA Committees
- Included hearings and a “Local Government Symposium”



Implies single unorganized borough not constitutional

Local Government Study 1979

- “The entire state shall be divided into boroughs, organized or unorganized”
- “Shall embrace an area and population with common interests...” (“pop, geography, transport, etc.”)
- Single unorg. bor. an “amorphous mass,” “people have virtually no say,” “roadblock to the efficient delivery of services.”



Voluntary Unorganized Borough Concepts

- Establish administrative service delivery “Unorg. Bors. with REAAs...as building blocks”
- “Framework for the decentralization and regionalization of state services”
- Comprehensive regional planning/ economic development
- Voluntary “Home rule charters” foster local control, coordination with tribes, etc.



Proposed Minimum Services to all Alaskans

Local Government Study 1979

- “Education”
- “Public safety (search and rescue, fire, police, justice)”
- “Public assistance”
- “Health and sanitation”
- “Regional Planning”



Rural Fiscal Issues

Local Government Study 1979

- Lack of a tax base “chronic and obvious problem”
- Inability to raise even minimum...
- “Racial backlash...associated with...financial inequities seen in the provision of education...”
- Question of village, as well as individual, survival is a critical one”



Sharing Revenue Concepts

Local Government Study 1979

- “State could support basic needs through wealth/revenue sharing...”
- 1972 “Gov’s Package” proposed a % of all state revenues be “divided among regions”
- “AK community and regional self determination act” – transfer some service delivery functions to local governments



Action Program Regional Services

- Local Government Study 1979

- Divide unorganized borough – for “suitable for gov’t and program coordination”
- Local elected Assemblies with support from DCRA (DCEED)
- Regional economic, land use, and public services planning
- Eliminate disincentives/ create incentives
- Share state revenue
- Note: No mandated organized boroughs



Action Program-Sharing Revenue

Local Government Study 1979

- State promote “sharing revenues and wealth between state & local gov’ts”
- Ensure basic services to ALL Alaskans
 - Health and sanitation
 - Public safety
 - Public assistance
 - Regional planning
 - Education



Task Force on Governmental Roles 1992

- Created by HCR 17
- 4 legislators, 2 administration, 4 municipal officials, 2 public
- Charges
 - Appropriate public services provided by each level
 - Minimum level of public services defined
 - Most efficient means of funding services.



Direct State Provision of Services

Task Force on Governmental Roles 1992

- Poverty related services
- Public health care
- Environmental remediation
- “Basic health, education, and public protections services for all citizens... delivered directly or funded with state revenues”



Federal/State Mandates

Task Force on Governmental Roles 1992

- The creating gov't must fund its own mandates (esp. Senior/Vet property tax exemption)
- State assist local gov'ts to oppose &/or fund federal mandates
- When cutting the state budget, avoid cost & service transfers to local gov'ts
- Relax state restrictions/ promote local choice



Local Control

Task Force on Governmental Roles 1992

- “For reasons of efficiency and accountability, delivery of most public services should be maintained at the local level unless there is an important reason to do otherwise, regardless of which level of government provides funding”



Local Responsibility

Task Force on Governmental Roles 1992

- Basic services above base level funded by the state should be a local option and paid for locally
- “Administrative and fiscal capacity of individual municipalities ...must be taken into account when sorting out state-local responsibilities”
- “All citizens should bear a fair portion of the cost” of public services



State Fiscal Responsibility

Task Force on Governmental Roles 1992

- “The state with superior tax (revenue) base and taxing powers has a responsibility to ensure that local governments have sufficient fiscal capacity to carry out their duties”
- State should determine “appropriate technology” for rural areas and create “program to provide for long-term maintenance requirements”



State Revenue Sharing Programs

Task Force on Governmental Roles 1992

- Examine existing state aid programs
- “Formulas for distributing state aid should take into account each locality’s population, wealth, and local revenue generating efforts, while remaining flexible enough to allow for unique circumstances”



How Are Things Today?

- **2003 Average Operating Budget for two thirds of AK Cities = \$164,000/year**
- **Approx 03-04 cuts/cost increases: (\$69,000)**
 - 03 Cuts to Rev. Sharing/Match Grants (\$10,000)
 - 04 State Eliminates Revenue Sharing (\$40,000)
 - Fuel/electricity/goods rise oil prices (\$7,000)
 - Community insurance increases (\$6,000)
 - State mandated increases (PERS) (\$4,000)
 - New state fees, service transfers, etc. (\$2,000)
- **Far worse in 05-06**



Why Can't Rural AK pay its bills?

- **Extremely High Costs** Gas \$5.15 - \$6.00/gal
- **Extremely High Unemployment** up to 50%
- **Virtually No Property Tax Base** E.g., Ambler is assessed at \$3.5 million (i.e. low property values and much non-taxable land.)
- **Low revenue from sales tax** E.g., Each 1% of sales tax in Ambler nets \$7500/year.



Loss of City Governments

Status as of 3/05

Per 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 (Not current)
- 33 cities on month to month payment plans due an inability to pay



Why Not Have Ghost Towns? Loss of the “Alaskan Dream”

- Since 1969, 84 of 145 cities formed to take part in the Alaskan dream – utilities, public safety, transportation, jobs, etc.
- AK faces loss of up to 50% of its small city gov'ts as temporary fixes fail.
- Unlike a few ghost towns in the west, this is widespread loss of city gov'ts in historically stable and culturally rich communities.



Info on School Funding

- Local funding increased 28% to 36% since 1986, a shift of about 8% or \$69 million to communities in FY05
- State funds 61% of municipal schools/ 69% of REAA's (due to federal impact funding)
- Per State Assessor, a 6 mill prop tax in Unorg. Borough would gross approx. \$6 million/year (less collection)
- State gets \$30 million in pipeline prop taxes in Unorg. Borough



What about larger cities and boroughs?

- Among highest local taxes in U.S. (e.g. Anch. 17th in property tax in U.S.)
- Anch. 31st per capita local taxes in AK.
- “No place to go” for revenue for many cities and boroughs in light of PERS, oil, infrastructure and maintenance, rising local % of school operations.
- Local/State tax revolts looming



Current Oil Revenue Boom Burdens all Alaskans

Every \$1 increase per barrel=

- State Revenue = **\$65 million per \$1** (OMB)
- Cost to cities, boroughs, schools, families, businesses = **\$20 million per \$1** (US Census)

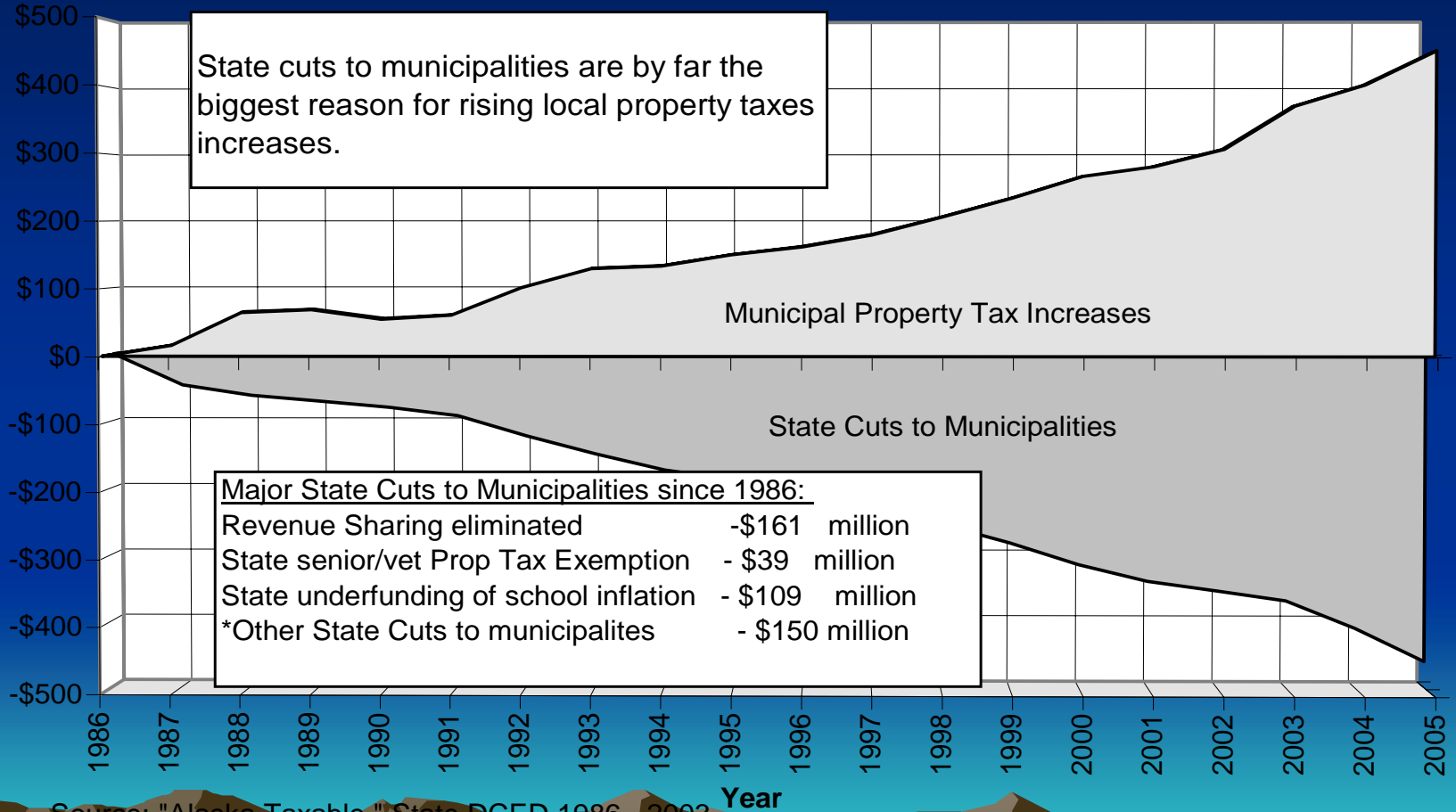
So, a \$30 per barrel/yr. increase nets **State Gov't \$1.9 billion**, but costs Alaskans \$600 million, with highest per capita increases to remote areas



Why Property Taxes Go Up

State Cuts to Municipalities vs Local Property Tax Increases 1986-2005

Millions



State cuts to municipalities are by far the biggest reason for rising local property taxes increases.

Major State Cuts to Municipalities since 1986:
 Revenue Sharing eliminated - \$161 million
 State senior/vet Prop Tax Exemption - \$39 million
 State underfunding of school inflation - \$109 million
 *Other State Cuts to municipalites - \$150 million

Source: "Alaska Taxable," State DCED 1986 - 2003

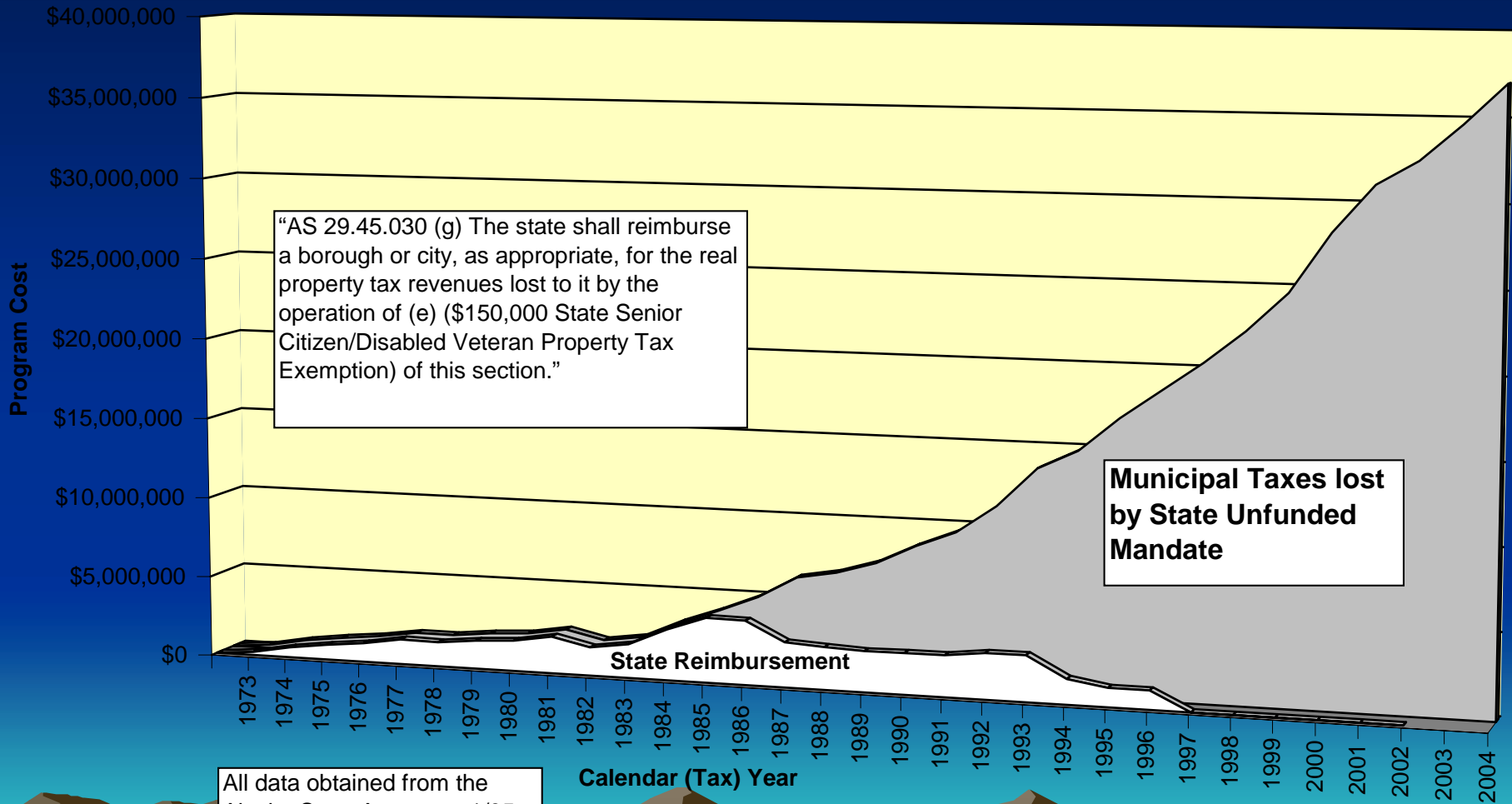
* "Other State cuts" include: cuts to assistance for libraries, fire services, road maintenance, school bond debt; public

Revenue Sharing Funding History (Straight \$, Not adjusted for inflation)

- 1985 \$141,656,800
- 1990 \$ 91,094,000
- 1995 \$ 62,613,500
- 2000 \$ 31,893,400
- 2003 \$ 29,630,700
- 2004 \$ 17,900,000 (1time Fed Funds)
- 2005 \$ 0 (emergency oil purchases)



Senior Citizen/Disabled Veteran Property Tax Exemption Program History - 1973-2004



“AS 29.45.030 (g) The state shall reimburse a borough or city, as appropriate, for the real property tax revenues lost to it by the operation of (e) (\$150,000 State Senior Citizen/Disabled Veteran Property Tax Exemption) of this section.”

Municipal Taxes lost by State Unfunded Mandate

All data obtained from the Alaska State Assessor, 1/05

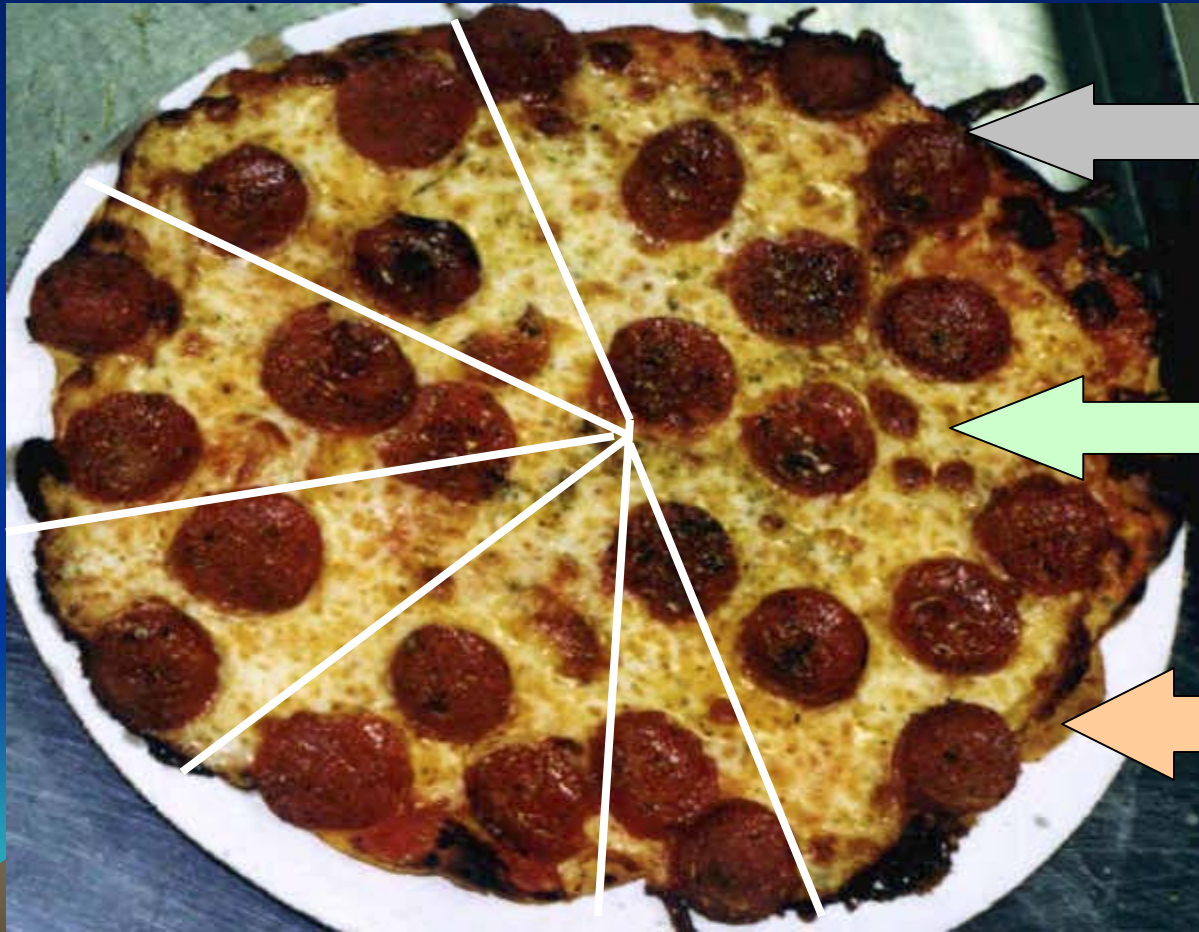
Calendar (Tax) Year

Options – Small Steps

- State must share Alaska's Wealth
 - Annual or endowed (Community Dividend)
- Create administrative unorganized boroughs for efficient service delivery w/ max local control
- Remove disincentives/endow boroughs
 - DCEED recommended \$5 million permanent borough endowments



Why are there cities and boroughs? No one serves pizza whole. To best serve Alaskans, the State Constitution envisioned manageable slices.



Alaska is made of cities (pepperoni) and boroughs (cheese)

The legislature's big "Unorganized" slice is about half of the state.

Together state and local governments make sure everyone gets served