

Borough is spending 66 percent of its operating funds on instruction. That figure is 4 percentage points below the threshold established in law.

If borough boundaries were extended along those of the Lynn Canal Model Borough, the consolidated district would have an ADM of 450.7. That figure is 1.8 times greater than the 250-student threshold.⁴⁷

(c) Borough Merger or Consolidation.

Two of the 17 districts with fewer than 250 students are borough school districts. Those are the City and Borough of Yakutat and the Bristol Bay Borough.

Controversy surrounded the incorporation of both the Yakutat and Bristol Bay boroughs. Individuals with expertise in the field have characterized both as lacking the overall characteristics of a borough government. In 1962, Hugh Wade,⁴⁸ Alaska's Secretary of State, wrote a candid memorandum to Governor William A. Egan (former President of the Alaska Constitutional Convention) expressing significant concern over the approval by the Commission of a petition to incorporate the Bristol Bay Borough. A copy of that memorandum is included with this report as Appendix L.

On several occasions, Victor Fischer has also been highly critical of the Bristol Bay Borough as lacking the general characteristics of a borough. Mr. Fischer characterized the formation of the Bristol Bay Borough as a "gross error." In the same letter, Mr. Fischer was also critical of the incorporation of the Lake and Peninsula Borough and the Denali Borough.

Moreover, Victor Fischer and Thomas Morehouse wrote in 1971 that the Haines Borough did not meet the standards for borough formation.⁴⁹ Specifically, the two authors indicated that the Haines Borough did not conform well "to any consistent borough model, whether of the urban or regional type, nor even to the very general legal standards

for boroughs set forth in the 1961 borough act." It is noted, however, that the Haines Borough has expanded its boundaries twice since Mr. Fischer and Mr. Morehouse made that characterization.⁵⁰

The prospects for merger or consolidation of those two boroughs are addressed below.

(i) City and Borough of Yakutat.

The City and Borough of Yakutat had an FY 2004 ADM of 125, resulting in an enrollment gap of 50 percent. The City and Borough of Yakutat has required waivers of the instructional spending

⁴⁷ Enrollment would include 40 students at Klukwan, 105.8 ADM at Skagway, and, 304.9 ADM at Haines.

⁴⁸ Hugh Wade, an attorney, came to Alaska in 1926 with the Federal Bureau of Investigation. He later served with the National Recovery Administration, the Social Security Administration, and the Bureau of Indian Affairs. Additionally, he served as Treasurer of the Territory of Alaska for several years. He was Alaska's first Secretary of State (the office is now known as Lieutenant Governor) from 1959 until 1966. When Governor Egan required hospitalization shortly after his inauguration, Secretary of State Wade served as acting Governor.

⁴⁹ Thomas A. Morehouse and Victor Fischer, *Borough Government in Alaska* (1971), p. 109.

⁵⁰ In 1974, the Haines Borough petitioned for annexation of approximately 420 square miles. The area encompassed the commercial fish processing facility at Excursion Inlet as well as an estimated 442,354 acres of Tongass National Forest lands. The Commission concluded that the proposed annexation would enhance the degree to which the Haines Borough satisfied the standards for borough government. Annexation was approved by the Commission and took effect following review by the Legislature in 1975. In 1976, the Haines Borough petitioned for annexation of the former military petroleum distribution facility at Lutak Inlet. That annexation proposal was approved by the LBC in 1977 and took effect in 1978 following review by the Legislature.

requirement in each of the past five years. Currently, instructional spending by the City and Borough of Yakutat School District is 65 percent of total operating costs. That is 5 percentage points below the threshold established in law.

The City and Borough of Yakutat is bounded on the north by the Prince William Sound Model Borough and on the south by the Glacier Bay Model Borough. There is no opportunity to consolidate the City and Borough of Yakutat with any existing organized borough at this time because none adjoins it.

(ii) Bristol Bay Borough.

The Bristol Bay Borough had an FY 2004 ADM of 195.4. Thus, the Bristol Bay Borough has an enrollment gap of 21.8 percent.

The Bristol Bay Borough has required waivers in each of the past four years with respect to the limitations on instructional spending noted earlier. Currently, the Bristol Bay Borough spends 63 percent of its operating budget on instruction. That figure is 7 percentage points below the threshold established in law.

It is noteworthy that the Bristol Bay Borough is the smallest borough in Alaska in terms of geographic size. It is 519.2 square miles.

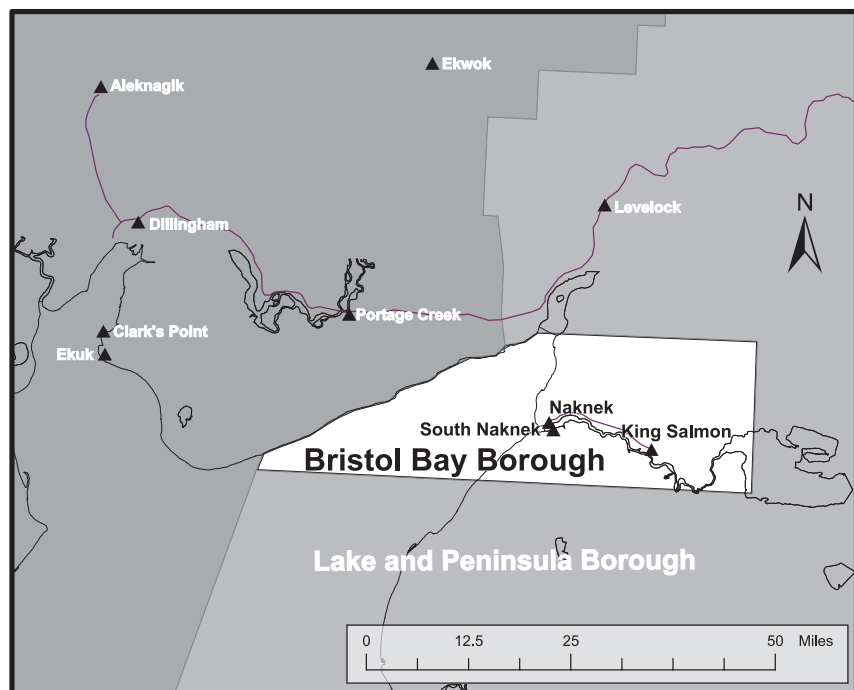
Two noteworthy circumstances link the Bristol Bay Borough and the Lake and Peninsula Borough. The first is the fact that the Bristol Bay Borough is surrounded on three sides by the much larger Lake and Peninsula Borough. (The Lake and Peninsula Borough is 23,632.3 square miles – more than 45 times greater than the Bristol Bay Borough.)

The second issue is that both the School District offices and the Borough offices of the Lake and Peninsula Borough are located in the Bristol Bay community of King Salmon. King Salmon is also the seat of the Bristol Bay Borough.

The Lake and Peninsula Borough School District had an FY 2004 ADM of 415.3. If the Bristol Bay Borough School District and the Lake and Peninsula Borough School District were consolidated, the new district would have an ADM of 610.7.

(d) City Reclassification or Dissolution.

There are 10 city school districts in the unorganized borough with fewer than 250 resident students. The Department of Education and Early Development analyzed the financial effects of merging those 10 small city school districts with the four REAAs in which those city school districts are located. A discussion about the prospects of the consolidations of those districts, including the conclusions reached by the Department, are outlined below (i – iv).

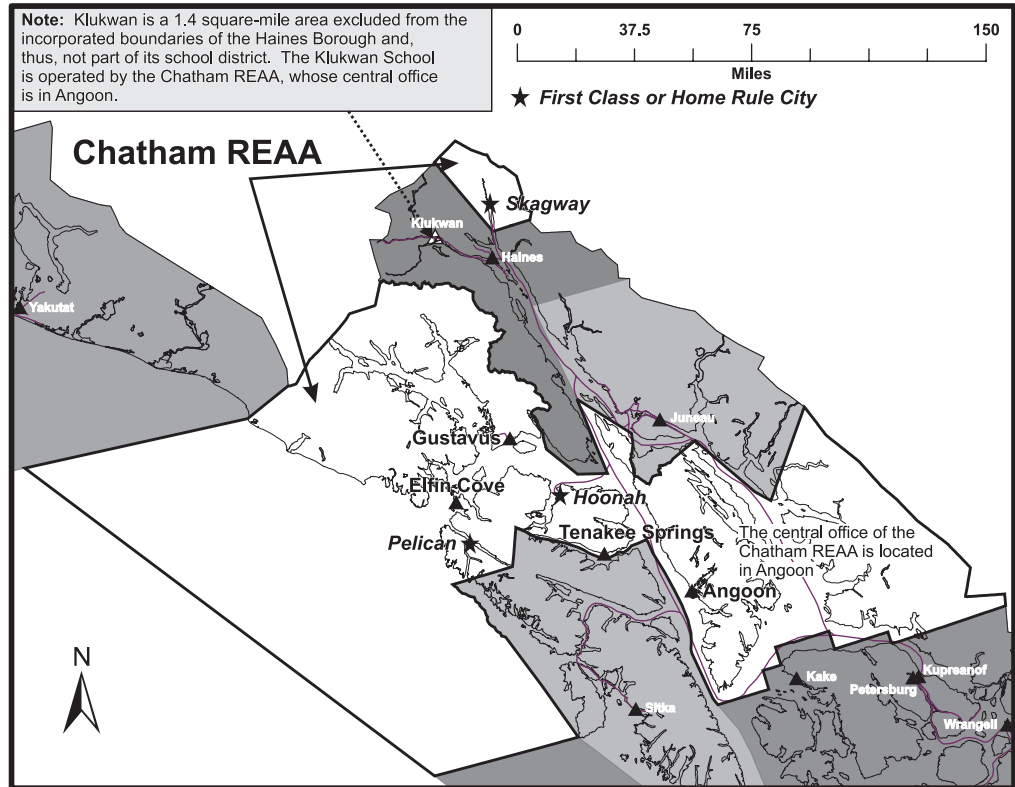


There are two other small unorganized-borough school districts that could be consolidated through city reclassification or dissolution. Those are outlined below (v-vi). The Department did not provide the Commission with financial analyses of those options.

(i) *Chatham REAA.*

The Chatham REAA encompasses three city school districts. These are the City of Pelican School District, City of Hoonah School District, and City of Skagway School District. As noted in the discussion about borough incorporation, each of those city school districts encompasses fewer than 250 students, as does the Chatham REAA. If the City of Pelican, City of Hoonah, and City of Skagway were dissolved or reclassified to second-class cities, or if the powers and duties of home-rule and first-class cities in the unorganized borough to operate school districts were rescinded, the four districts in the region would be consolidated into one.⁵¹ The consolidated district would encompass, based on FY 2004 ADMs, 519.4 students. That figure is more than twice the 250-student threshold.

It is noteworthy that the City of Pelican no longer meets the statutory standards for incorporation or reclassification as a first-class city. AS 29.05.011 requires a minimum of 400 permanent residents to incorporate a first-class city. AS 29.04.040 imposes the same population threshold for reclassification as a first-class city. The 2002 population of the City of Pelican was 115. That figure is 71.25 percent below the 400-resident threshold for incorporation



of and reclassification to a first-class city. There is no provision in law to automatically trigger reclassification if a first-class city falls below the population threshold.

Based on data provided by the Department, the Local Boundary Commission analyzed the effects upon the Chatham REAA and the State of Alaska that would result from merging the three city school districts noted above with that REAA. Those effects are summarized as follows:

Merger of School Districts

Ü Four school districts would become one.

Student Enrollment

Ü Chatham REAA ADM would increase by 316 students.

⁵¹ Generally, the Commission does not advocate dissolution of city governments in the unorganized borough where those city governments are viable and are fulfilling a legitimate need for city services.

- Ü Statewide ADM would not change (316 students would transfer from 3 different districts to one other district).

Basic Need

- Ü Basic need for the 316 new Chatham REAA students would be \$2,941,295.
- Ü The level of basic need for the 316 new Chatham REAA students would be \$39,378 (\$124.61 per student) higher than the level of basic need in the city school districts.

Required Local Contributions

- Ü Local contributions required under AS 14.17.410(b)(2) would be reduced by \$671,927.

Deductible Impact Aid

- Ü The amount of federal impact aid that would accrue to the State would increase by \$397,422.

Quality School Grants

- Ü Quality school grants would increase to the REAA by \$156.

Net Cost/Gain to the State

- Ü Merger of the three city districts into the REAA would increase the State's educational foundation costs by \$314,039 annually.

Net Cost/Gain to the District

- Ü Basic need would increase by \$39,378 for 316 students (\$124.61 per student).
- Ü Quality school grants would increase to the REAA by \$156.
- Ü Local taxes or other tolls in the three cities (Pelican, Skagway, and Hoonah) formerly used for the local contribution could be reduced by \$671,927; or the funds could be used for other purposes.

Other Important Factors

- Ü DEED did not evaluate the potential benefits of consolidation in terms of improved administrative efficiencies and economies of scale that would allow more funds to be used in the classroom (e.g., the savings realized by the elimination of three superintendents and three school boards). In FY 2004, all four of the school districts in the region (i.e., Pelican, Skagway, Hoonah, and Chatham) required waivers of the requirement that 70 percent of operating funds be used for instruction.
- Ü DEED did not address the potential benefits of consolidation in terms of increased or improved curricula and other educational benefits to the students.

(ii) Yukon-Koyukuk REAA.

The Yukon-Koyukuk REAA encompasses three city school districts – the Tanana City School District, the Galena City School District, and the Nenana City School District. All three city school districts have resident ADMs below the 250-student threshold. The enrollment gaps for the Tanana City School District, Galena City School District, and Nenana City School District are, respectively, 74.7 percent, 8.4 percent, and 9.6 percent.

If the City of Tanana, City of Galena, and City of Nenana were dissolved or reclassified to second-class city status, or if the powers and duties of home-rule and first-class cities in the unorganized borough to operate school districts were rescinded, the four districts in the region would be consolidated into a single school district. The size of that district, based on FY 2004 resident ADMs, would be 953.1 students. That figure is nearly four times greater than the 250-student threshold.



- Ü The level of basic need for the 495 new Yukon-Koyukuk REAA students would be \$615,224 (\$1,242.88 per student) higher than the level of basic need in the city school districts.

Required Local Contributions

- Ü Local contributions required under AS 14.17.410(b)(2) would be reduced by \$165,573.

Deductible Impact Aid

- Ü The amount of federal impact aid that would accrue to the State would increase by \$1,062,489.

Quality School Grants

- Ü Quality school grants would increase to the REAA by \$2,414.

Net Cost/Gain to the State

- Ü Consolidation of the three districts would save the State \$279,278.

Net Cost/Gain to the District

- Ü Basic need would increase by \$615,224 for 495 students (\$1,242.88 per student).
- Ü Quality school grants would increase by \$2,414.
- Ü Local taxes or other means of raising revenue in the three cities (Tanana, Galena, and Nenana) formerly used for the local contribution could be reduced by \$165,573; alternatively, the funds could be used for other purposes.

Other Important Factors

- Ü DEED did not evaluate the potential benefits of consolidation in terms of improved administrative efficiencies and economies of scale that would allow more funds to be used in the classroom (e.g., savings realized by elimination of three superintendents and three school boards). In FY 2004, half of the school districts in the region (Tanana and Yukon-Koyukuk) required waivers of the requirement that 70 percent of operating funds be used for instruction.

- Ü DEED did not address the potential benefits of consolidation in terms of increased or improved curricula and other educational benefits to the students.

(iii) Southeast Island REAA.

The Southeast Island REAA encompasses four city school districts. Those are ones operated by the City of Hydaburg, City of Klawock, City of Craig, and City of Kake.

The City of Hydaburg School District had an average of 87.1 students in FY 2004. The comparable resident ADM figures for the City of Klawock, City of Craig, and City of Kake were, respectively, 147.0, 381.8, and 155.2.

If the four first-class cities in this REAA were dissolved or reclassified as second-class cities, or if the powers and duties of home-rule and first-class cities in the unorganized borough to operate school districts were rescinded, the five districts would be consolidated into one. The resident enrollment of that consolidated district, based on most recent figures, would be 981.3. That figure would be nearly four times greater than the 250-student threshold.

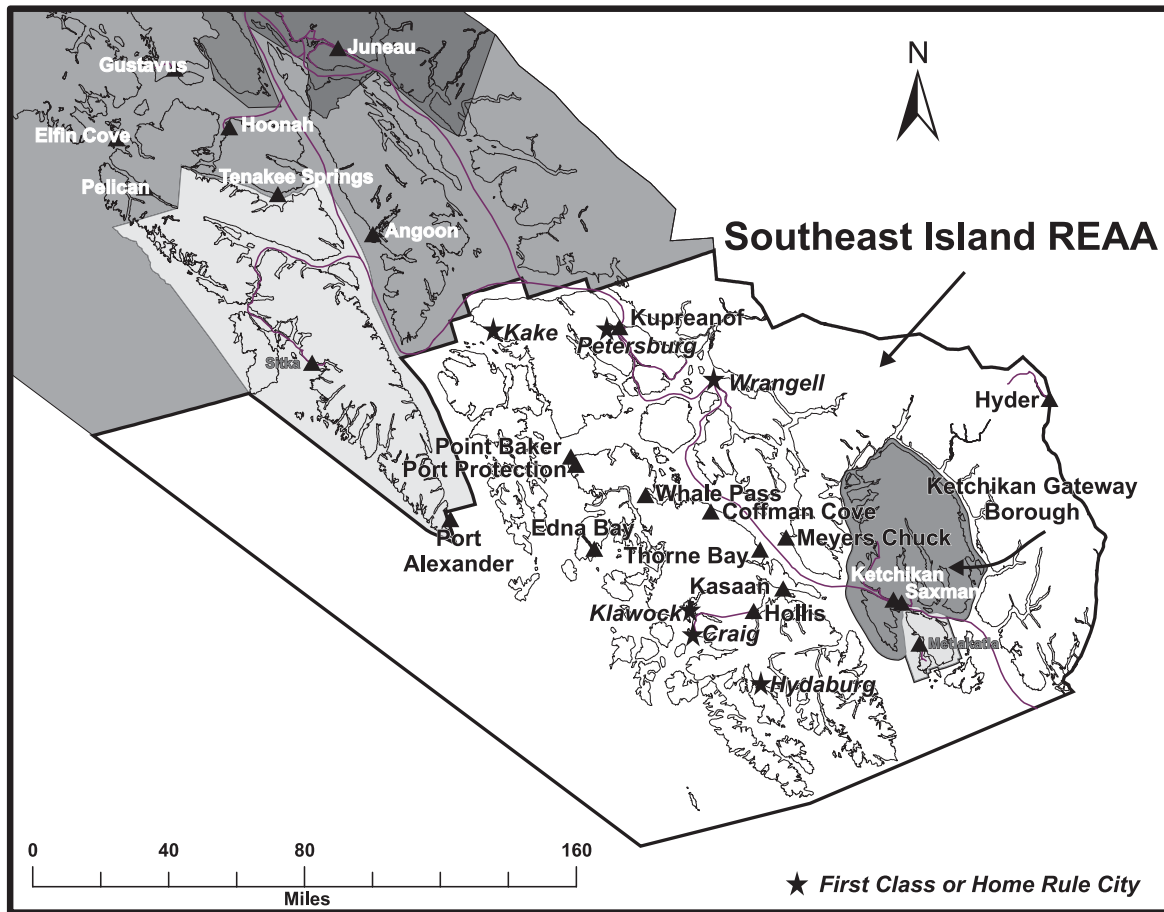
It is noteworthy that the City of Hydaburg has fewer than the 400 residents required to form a first-class city or to reclassify as a first-class city. Specifically, in 2002, the population of the City of Hydaburg was 382.

It is also noteworthy that the City of Hydaburg is struggling to remain an active and viable city government. The following account regarding the matter was published by the *Ketchikan Daily News* on October 29, 2003:

City of Hydaburg lays off staff

KDN Staff

The City of Hydaburg has laid off its entire staff because of budget shortfalls.



Mayor Steven Dilts Sr. said he met with employees last week about the layoffs and asked them to volunteer their time. For [sic] far, only the operator of the water plant has agreed, he said. About 370 people live in the Prince of Wales Island community.

'Sometimes when the finances run out we've got to work for God and pray,' Dilts said.

The City Council will meet Nov. 3 to review the situation and work on ways to build the town's economy, Dilts said. The city is about \$150,000 in debt, he said.

'We're doing everything we can to cut back and everything we can to rebuild infrastructure,' he said.

Meanwhile, the state is waiting for Hydaburg's fiscal year 2002 audit so it can release about \$100,000 in funding, according to Bill Rolfen, a local government specialist with the state Department of Community and Economic Development. That money can be used for general government operations, he said.

Dilts said the audit is underway.

Based on data provided by the Department, the Local Boundary Commission analyzed the effects upon the Southeast Island REAA and the State of Alaska that would result from merging the three small city school districts noted above (i.e., Klawock, Hydaburg, and Kake, but not Craig) with that REAA. Those effects are summarized as follows:

Merger of School Districts

Ü Four school districts would be merged into one.

Student Enrollment

Ü Southeast Island REAA ADM would increase by 396 students.

Ü Statewide ADM would not change (396 students would transfer from 3 different districts to one other district).

Basic Need

- Ü Basic need for the 396 new Southeast Island REAA students would be \$3,597,011.
- Ü The level of basic need for the 396 new Southeast Island REAA students would be \$276,049 (\$697.09 per student) higher than the level of basic need in the three small city school districts.

Required Local Contributions

- Ü Local contributions required under AS 14.17.410(b)(2) would be reduced by \$232,696.

Deductible Impact Aid

- Ü The amount of federal impact aid that would accrue to the State would increase by \$918,138.

Quality School Grants

- Ü Quality school grants would increase to the REAA by \$1,102.

Net Cost/Gain to the State

- Ü Merger of the three districts into the REAA would save the State \$413,002.

Net Cost/Gain to the District

- Ü Basic need would increase by \$276,049 for 396 students (\$697.09 per student).
- Ü Quality school grants would increase to the REAA by \$1,102.
- Ü Local taxes or other means of raising revenue in the three cities (Kake, Hydaburg, and Klawock) formerly used for the local contribution could be reduced by \$232,696; alternatively, the funds could be used for other purposes.

Other Important Factors

- Ü DEED did not evaluate the potential benefits of consolidation in terms of improved administrative efficiencies and economies of scale that would allow more funds to be used in the classroom (e.g., savings realized by elimination

of three superintendents and three school boards). In FY 2004, Kake, Klawock, Hydaburg, and Southeast Island required waivers of the requirement that 70 percent of operating funds be used for instruction.

- Ü DEED did not address the potential benefits of consolidation in terms of increased or improved curricula and other educational benefits to the students.

(iv) Lower Yukon REAA.

The Lower Yukon Model Borough encompasses three school districts. Those are the City of Saint Mary's School District, the Kashunamiut FTREAA, and the Lower Yukon REAA.

The City of Saint Mary's School District had an FY 2004 ADM of 159. That figure is 36.4 percent below the 250-student threshold for establishment of new school districts. The Kashunamiut FTREAA and the Lower Yukon REAA are above the threshold (respectively, 365.6 and 2,040.2).

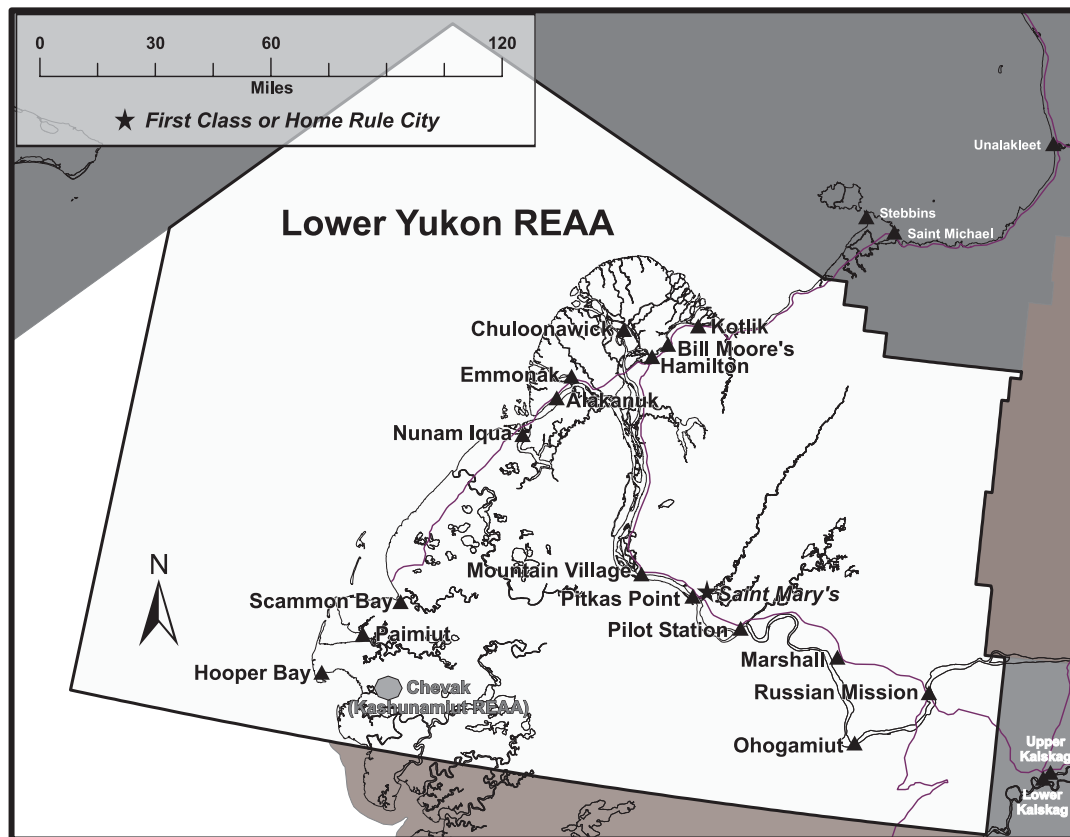
Creation of the Lower Yukon Borough would consolidate three school districts. Based on the figures noted above, the ADM of the Lower Yukon Borough would be 2,564.8.

It is noteworthy, however, that the Commission did not include this region among those listed in the 2003 *Unorganized Borough Report* as meeting the standards for borough incorporation.

Based on data provided by the Department, the Local Boundary Commission analyzed the effects upon the Lower Yukon REAA and the State of Alaska that would result from merging the City of Saint Mary's school district with that REAA. Those effects are summarized as follows:

Merger of School Districts

- Ü Two school districts would be merged into one.



Student Enrollment

- Ü Lower Yukon REAA ADM would increase by 167 students.
- Ü Statewide ADM would not change (167 students would transfer from 1 district to another).

Basic Need

- Ü Basic need for the 167 new Lower Yukon REAA students would be \$1,798,285.
- Ü The level of basic need for the 167 new Lower Yukon REAA students would be \$107,589 (\$644.25 per student) higher than the level of basic need in the City of Saint Mary's school district.

Required Local Contributions

- Ü Local contributions required under AS 14.17.410(b)(2) would be reduced by \$18,446.

Deductible Impact Aid

- Ü The amount of federal impact aid that would accrue to the State would increase by \$15,767.

Quality School Grants

- Ü Quality school grants would increase to the REAA by \$429.

Net Cost/Gain to the State

- Ü Merger of the district into the REAA would cost the State \$110,697.

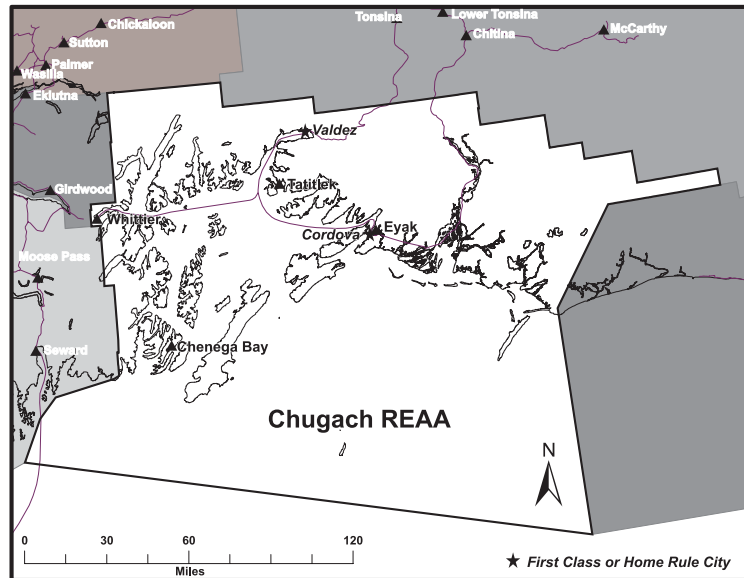
Net Cost/Gain to the District

- Ü Basic need would increase by \$107,589 for the 167 new Lower Yukon students (\$644.25 per student).
- Ü Quality school grants would increase to the REAA by \$429.

- Local taxes or other means of raising revenue in the City of Saint Mary's formerly used for the local contribution could be reduced by \$18,446; alternatively, the funds could be used for other purposes.

Other Important Factors

- DEED did not evaluate the potential benefits of consolidation in terms of improved administrative efficiencies and economies of scale that would allow more funds to be used in the classroom.
- DEED did not address the potential benefits of consolidation in terms of increased or improved curricula and other educational benefits to the students.



(v) Aleutian Region REAA.

As noted earlier, the Aleutian Region REAA encompasses one city school district – the City of Unalaska School District.

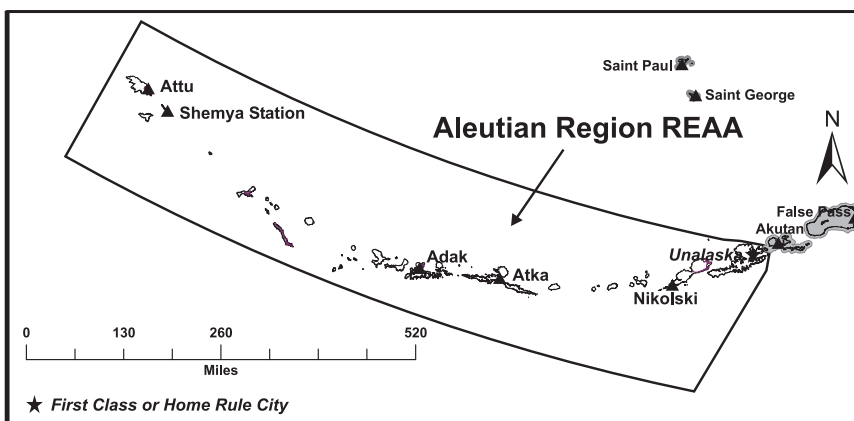
If the City of Unalaska dissolved or reclassified as a second-class city, or city school powers were repealed, the two districts would be consolidated into one. The consolidated district would encompass, based on FY 2004 ADMs, the equivalent of 440.7 students. That figure exceeds the 250-student threshold by 190.7 (76.3 percent).

(vi) Chugach REAA.

The Chugach REAA encompasses two home-rule city governments, the City of Cordova and the City of Valdez.

If the City of Cordova and the City of Valdez were dissolved or reclassified to second-class city status, or if city education powers were repealed, the three districts in the region would be consolidated into a single school district. The size of that district, based on FY 2004 ADMs, would be 1,413.4 students. That figure is nearly five times greater than the 250-student threshold.

(vii) School Districts with 250 or More Students.



In his letter of November 6, Senator Wilken stated that, “In addition to [the districts with fewer than 250 students], the Department . . . should determine whether consideration should be given to the prospect of consolidating any school district with 250 or more students. If so, the department should advise the . . . Commission.” The Commission is unaware whether