

The Alaska Municipal League and Alaska Conference of Mayors (ACoM) have been clear in our communications throughout the legislative session – the budget as proposed by Governor Dunleavy and expressed most recently in the form of vetoes is detrimental to Alaska’s local governments, residents and the economy.

In releasing his vetoes, the Governor referred to cuts as a two-year process. The scale and scope of the vetoes dismantles the good work that this body undertook during the legislative session, and there's more to come. AML participated actively through the legislative process. It was your care and consideration that mitigated the negative impacts to communities, and your action now that is asked for.

We encourage your continued partnership with local leaders in strengthening Alaska, and working on solutions, together.

### **Local Government Activities**

As we speak, it is local governments whose budgets support first responders fighting forest fires on the Kenai, in the Mat Su, and around Fairbanks. Local government spending on law enforcement is \$75 million more than the entire budget of the State’s Department of Public Safety. Local governments provide 50% of the State’s education funding, as well as own and maintain the majority of schools in the state. Local governments maintain and operate Alaska’s entire coastal infrastructure system, ensuring ports and harbors continue to support an active fishing industry – the largest private employer in the state. Local governments operate 37 public power utilities, a handful of hospitals, and 47 public libraries. Local governments are busy in road construction and maintenance during these summer months, responsible for more than 5,500 road miles, about equal to DOT’s responsibilities. Local governments in Alaska provide these services to an area of 252,000 square miles, 100,000 more than State land ownership.

It is worth understanding the roles and responsibilities of local governments not just because they are significant, and in many ways are fulfilling State obligations, but because reductions in State support force trade-offs at the local level that potentially negatively impact each of these services. When the State cost-shifts to local governments, decision-making centers on reallocating already scant

resources between competing priorities – debt obligations, especially, compete directly with education and public safety, or insurance for that matter.

Municipal budgets were finalized more than a month ago. Budgets were negotiated at the local level between taxpayers and their assembly or council. Tax rates were set based on those discussions, to ensure revenue commensurate with local needs, taking into account the assumption that the Legislature’s work on the budget would stand. A pre-veto polling of municipalities indicated the majority were keeping tax rates stable, consistent with taxpayer interests. These factors enter into municipal conversations with credit rating agencies, as well, which are now affected by the Governor’s vetoes.

For those local governments with property taxes, mill rates are set annually. The opportunity to change the mill rate will be next year, at which point residents could potentially see two years’ worth of increases, if these vetoes stand and the State continues its divestment of obligations. For those without a property tax, new or increased taxes could take anywhere from 3 to 9 months to be proposed and pass through local processes. And there are some local governments whose revenue is in place through PILT agreements with resource development companies, and these can’t just be renegotiated.

The circumstance of every local government is different. For some, in the short term they can make do. For all, the long-term consequences of vetoes and continued budget cuts will negatively impact their capacity to deliver essential public services, increase quality of life for residents, and fulfill their responsibilities as political subdivisions of the State.

### **Direct Impacts to Local Governments**

The total direct budgetary impact to local governments is approximately \$55,647,565, mainly from School Bond Debt Reimbursement but also including

- OWL Broadband
- Municipal Capital Project Reimbursement
- Local Emergency Planning Committee
- Human Services Community Matching Grants

Additionally, the veto of \$30 million in Community Assistance Fund recapitalization will directly impact local governments in the years to come.

A 50% reduction to school bond debt reimbursement breaks the State's promise to communities; roughly speaking it means that local governments will pick up the majority of school construction costs in support of the State's Constitutional obligation. Similarly, vetoing the debt reimbursement for municipal capital projects that improved ports and harbors across Alaska will negatively impact those communities and the fishing industry. Some local governments will be better able to manage this than others, but cost-shifting will be directly felt by local taxpayers.

AML is concerned that the Governor chose to veto capitalizing the Community Assistance Fund, which essentially reduces Community Assistance in FY21 by a third. This, coming off reductions just a few years back of 50%, presents an undue burden on local governments. The long-term viability of many smaller local governments will be at risk – we know that local taxes increase when Community Assistance is decreased. This program has seen not only significant reductions over the years – from \$140 million in 1985 to its current \$30 million – but also not kept pace with inflation. Many of those receiving Community Assistance are truly dependent on this dwindling revenue to perform the duties required of them by the State.

### **Economic Impacts**

To make up for the reduction to school bond debt reimbursement, this will mean as much as 15% of some local governments' annual tax revenue. While you may have seen media reports of increases in residential property, commercial property tax increases threaten a company's bottom line.

This Governor's veto of school bond debt reimbursement increases Fairbanks property taxes on Alyeska Pipeline, Fort Knox, Doyon Utilities, ACS, Petro Star, GCI, and Flint Hills – among the top 10 – by more than \$900,000.

In Anchorage, the Governor's veto of school bond debt reimbursement will increase property taxes for the largest property-owners – including GCI, ACS, Alaska Regional, Providence, Fred Meyer, Enstar, Hickel Investment, Alaska Airlines, BP, Dimond Center, and JL Properties – by more than \$1,000,000.

Businesses depend on a local government's ability to provide infrastructure maintenance and upgrades, and stable fees.

Businesses depend on a local government's ability to support and sustain schools where the families of employees can learn and grow. Similarly, those employees evaluate the quality of life in a community to determine how a locality fits into their long-term commitment to a company.

Finally, businesses depend on a local government's fiscal health. In 2017, local government budgets planned for \$2.5 billion in expenditures, which further enhanced local economic activity.

### **Impacts to Partners**

Veto of this scope and scale very definitely have the potential to disrupt the lives and livelihoods of community residents, the business decisions of investors, and the capacity of our local governments to support those organizational partners who depend on State funding.

We're struck by the intersection of so many of these vetoes with Article 7 of the Constitution – public education, the university, public health, and public welfare. These are Constitutional obligations of the State that provide the fundamental building blocks of a resilient society and a successful economy.

The outcry from those impacted is warranted. From the nonprofit sector, local governments recognize the importance of community partners, many of whom collaborate with a borough or city to provide services that would otherwise be borne by the State or local government. Again, vetoes were justified with the hope that the philanthropic and nonprofit sector would simply "pick up" the State's responsibilities. At the local level, we know that this sector is one built on collaboration and partnership, and that the capacity of these partners depends on the ability to leverage federal, state and local funds.

While the direct impact to municipalities may be only \$55 million, the indirect impact is much greater. Local governments and their partners depend on the State providing many of the services that were just cut. As political subdivisions, the interconnectedness and interdependence between state and local governance is of critical importance. We have heard from members who are especially concerned about the loss of public media, housing and public assistance, Medicaid, early education and VPSO funding.

AML members with University campuses are concerned about vetoes to that institution. University campuses across the state are often the center of the community, and the veto of 40% of State aid threatens quality of life, workforce development, and the opportunity for residents to pursue career pathways. Alaska's University system reflects its communities' interests and priorities, is responsive to economic development, and is one of the basic investments necessary in today's globally competitive environment.

**Closing**

I don't have time to comment on each of the vetoes, but I also know how familiar you are with the priorities you included in the budget. AML was pleased to be included in your deliberations earlier in the year, and we hope to continue this partnership by contributing our understanding of municipal impacts to your decision-making. The Governor has said that this is a multi-year process.

AML stands ready to work with the Legislature in the years to come in support of the State's Constitutional and statutory obligations, and in the best interests of Alaska's local governments, residents and businesses. We stand ready to collaborate on solutions, including a step-down approach. And we stand ready to work with you on a fiscal policy that goes beyond cuts, and focuses on revenues that match the needs and goals of Alaskans.