

Municipal Impact Analysis

Sustainable. Predictable. Affordable.



Alaska Municipal League – 69 years old this year

- Representing the diverse voices of 165 incorporated cities and boroughs
- Political subdivisions created by the State to help fulfill State obligations

From our articles of incorporation:

- To secure general and municipal legislation at the state and federal levels which will be beneficial to the municipalities and inhabitants thereof, and to oppose legislation injurious thereto

The State's Principles Applied to Local Government

Sustainable – communities where residents can find employment and a satisfactory quality of life, for the long-term

Predictable – communities where taxpayers see reasonable tax rate changes staggered over time, and that provision of services are not disrupted

Affordable – communities where the combination of low or stable taxes and consistent government investment reduces resident and business transaction costs



Driving Factors: Direct Municipal Impact

- Petroleum Property Tax = **\$439,900,000**
- Shared Fisheries Business Tax = **\$25,900,000**
- Shared Fisheries Resource Landing Tax = **\$6,300,000**
- School Bond Debt Reimbursement = **\$904,825,272**
 - **\$105,000,000** in FY20
- Education cuts/cost-shifts = **\$299,396,937**
- HB528 Repeal = **\$32,450,199**
 - **\$2,003,484**
- Alcohol Tax = **\$20,000,000**
- Harbor Grants (**\$7.5M**), OWL Broadband (**\$131k**), Local Emergency Planning(**\$300k**), Transit Match (**\$500k**), Health Service Community Matching Grant (**\$1.3M**)

Driving Factors: Indirect Municipal Impact

- Alaska Marine Highway System
 - = **\$8,709,307**
- State government staff/spending reduction = **\$25,785,000** to PERS debt, of \$143,250,000
- University of Alaska = **\$20,500,000**
- Education – early learning
- Healthcare – Medicaid = **\$17,200,000**
 - Public Assistance

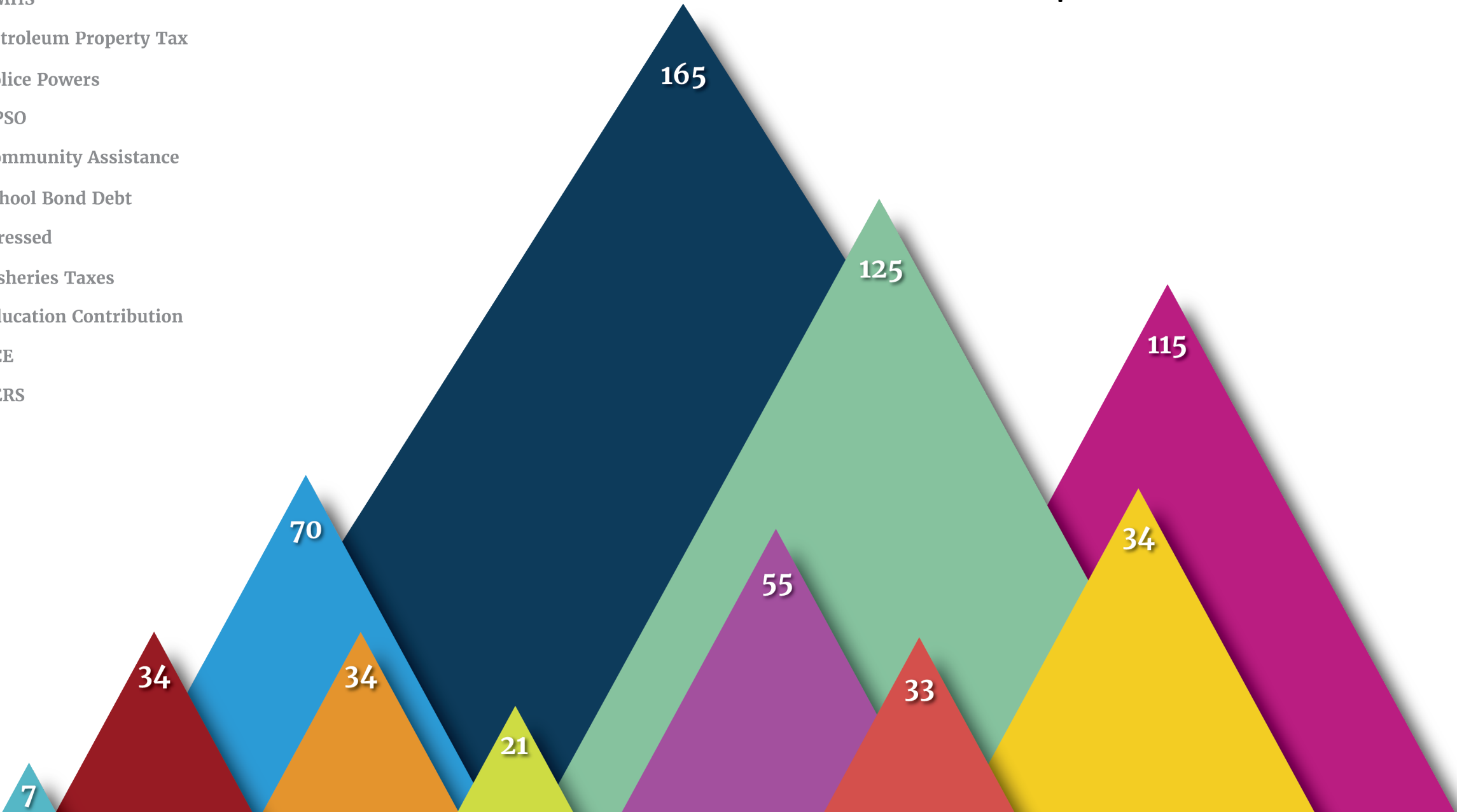
Less Sustainable, Predictable, Affordable

- Power Cost Equalization **\$1,035,067,393**
- Community Assistance **\$60,000,000**

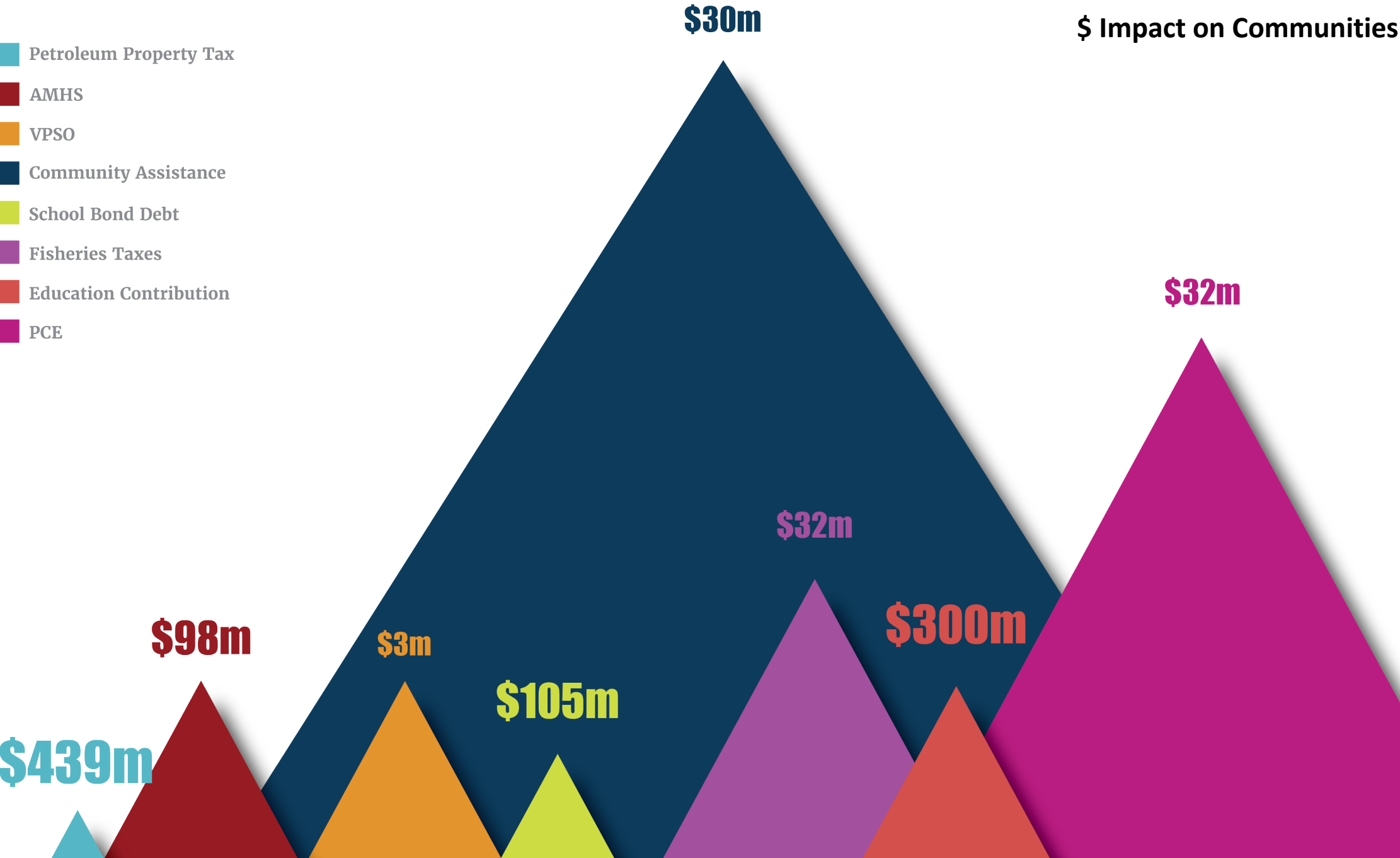


- AMHS
- Petroleum Property Tax
- Police Powers
- VPSO
- Community Assistance
- School Bond Debt
- Stressed
- Fisheries Taxes
- Education Contribution
- PCE
- PERS

Impact on # of Communities



- Petroleum Property Tax
- AMHS
- VPSO
- Community Assistance
- School Bond Debt
- Fisheries Taxes
- Education Contribution
- PCE



Municipal Impact

20 Hardest Hit

Municipality	-20SBD	-20Ed	-PPT	-FBT/LT18	-AMHS	-CapProj	-University	+Alcohol	TotalImpact	Impact%Tax	Impact%Rev	ImpactPC
City of Dillingham	\$744,230	\$1,376,030		\$443,905	\$42,906		\$76,522	\$66,821	\$2,627,912	47.57%	33.92%	\$1,125
City of Ketchikan				\$414,413	\$199,531		\$177,514	\$100,299	\$2,791,458	15.92%	15.73%	\$344
Lake & Peninsula Borough	\$962,352	\$1,910,004		\$229,289	\$250,000		\$47,000	\$63,451	\$3,351,879	111.31%	92.46%	\$1,948
Bristol Bay Borough		\$376,765		\$3,820,480	\$250,000		\$24,224	\$46,766	\$4,457,366	67.43%	36.68%	\$5,025
City of Galena		\$4,912,229			\$4,337		\$7,734	\$61,929	\$4,911,474	2046.45%	891.10%	\$10,406
Petersburg Borough	\$466,050	\$1,433,980			\$833,406		\$1,040,503	\$81,739	\$4,922,967	74.30%	51.13%	\$155
City of Cordova	\$962,072	\$1,029,790	\$100,000	\$1,429,951	\$141,877		\$74,687	\$24,103	\$5,678,847	95.43%		\$2,492
Ketchikan Gateway Borough	\$2,774,671	\$5,917,024		\$414,413	\$355,304		\$187,809	\$12,826	\$9,320,676	49.39%	31.98%	\$678
Aleutians East Borough	\$654,762	\$1,139,470		\$1,887,896	\$250,000	\$381,708	\$82,148	\$373,750	\$10,786,140	217.85%	140.03%	\$3,586
Northwest Arctic Borough	\$4,080,264	\$8,089,237			\$100,000		\$25,890	\$117,962	\$12,276,130	2039.83%	319.24%	\$12,950
City & Borough of Sitka	\$2,458,721	\$3,093,187		\$1,279,885	\$250,000		\$238,906	\$25,761	\$15,594,782	79.82%	55.13%	\$1,783
Kodiak Island Borough	\$5,745,835	\$5,857,826		\$1,919,461	\$250,000		\$362,865	\$237,717	\$15,790,427	85.44%	166.44%	\$1,188
City of Unalaska	\$670,819	\$1,226,464		\$8,161,129	\$139,883	\$365,695	\$71,131	\$361,060	\$17,179,394	78.32%	52.75%	\$3,957
City & Borough of Juneau	\$8,551,446	\$10,157,617		\$447,875	\$494,119		\$881,259	\$876,875	\$26,192,090	25.09%	8.82%	\$812
Kenai Peninsula Borough	\$2,845,713	\$20,957,907	\$15,000,000	\$860,097	\$783,096		\$950,774	\$1,576,739	\$39,840,047	39.45%	29.75%	\$687
City of Valdez	\$1,686,718	\$1,724,603	\$38,400,000	\$512,449	\$100,000	\$210,375	\$107,519	\$106,984	\$47,377,014	107.03%	56.41%	\$12,034
Fairbanks North Star Borough	\$10,064,193	\$29,375,063	\$11,800,000	\$98		\$333,193	\$2,669,204	\$2,655,924	\$56,371,877	46.94%	44.20%	\$577
Matanuska-Susitna Borough	\$19,954,904	\$39,539,214	\$100,000	\$151	\$250,000	\$712,513	\$2,844,751	\$2,830,598	\$65,562,137	46.45%	48.33%	\$629
Municipality of Anchorage	\$43,153,298	\$85,765,871	\$2,400,000	\$53,269	\$250,000		\$8,124,196	\$8,083,777	\$132,789,963	21.26%	15.64%	\$446
North Slope Borough	\$75,119	\$7,179,162	\$372,100,000		\$100,000		\$282,492	\$77,989	\$379,467,486	95.43%	98.71%	\$36,685

Total Impact

- Top 20 = \$857,290,065 (representing 687,491 or 93% of Alaskans)
- Total all = \$888,971,880
- Top 20 Median impact related to tax revenue = 76.31%
- Top 20 Median impact related to total revenue = 51.13%
- Top 20 Median impact per capita = \$1486
- 17 with total impact greater than 50% of their budget, 10 more than 80%
- 106 municipalities negatively impacted, 32 significantly (\$2M+)

Total Impact

By District

A / 1-2	= \$56,354,779	O / 29-31	= \$43,634,694
B / 3-4	= \$54,002,598	P / 31-32	= \$64,521,805
C / 5-6	= \$57,483,679	Q / 33-34	= \$28,217,592
D / 7-8	= \$62,798,209	R / 35-36	= \$35,826,907
E / 9-10	= \$111,471,441	S / 37-38	= \$41,817,101
F / 11-12	= \$62,800,231	T / 39-40	= \$399,166,483
G-N / 13-27	= \$124,850,267		

Barriers to Response

- Voter-imposed tax caps
 - 7 of 20, but representing 618,515 residents
- Already a struggle to maintain stable budgets, and taxes
 - 7 of 20 hardest hit budgeted for more expenses than revenues in FY17
- PERS participation (100% of 20 hardest hit, 66% of next 39)
 - Elimination of class or department triggers costly termination study
- Education minimum required local contribution decreased, plus maximum
 - Total local contribution reduction restricted = estimated \$163,074,161
- Tax base and types of taxes available
 - Four of top 20 with no property tax, and no probable property tax base
- Current debts - \$3.2 B General Obligation / Revenue Bond debt
 - Total of all 59 negatively impacted, all but one of top 20



- Of those that have savings, some municipalities may choose to use that to cover the deficit
- The length of time varies as to how long that can be sustained
 - Rough estimates would be that those hardest hit, and most likely to have savings, could not survive the cuts and cost-shifts for more than a few years
- In the short term, deficit spending will reduce cash on hand to cover emergency expenses
 - \$10 million (normal) to \$30 million (extreme) needed by some for emergency reserves
- Deficit spending will affect credit rating or worthiness, meaning that for bonds that are approved, they are at a higher rate
- Assemblies and taxpayers may object to erosion of investments

- Some municipalities may choose to increase taxes
 - An increase in taxes would not accommodate the full scale of shift and cuts
- Where they don't have a cap, they will be limited by the actual tax base
 - Some regions are dependent on resource extraction, which is sensitive to price/costs, with very little room for additional government take
- Where there is a cap, voters would have to approve the cap change
 - This is possible, but only consistent with overall tax base
- Taxes are statutorily mandated for boroughs
- Where the State preempts tax collection, it is likely that a different tax would be considered
 - Critical element of the subdivision of sovereignty

Municipal Choices

Program Elimination

- Municipal budgets are comprised of three buckets
 - Public safety, public works and quality of life
- The first line of options eliminates quality of life programs
 - Parks and Rec, community pools, libraries, grants to nonprofits
- The second and third reduce public safety and public works
 - 70 municipalities with police powers, reduced law enforcement
 - Road repair and snow removal, ports/harbors, solid waste
- Shift in programs back to the State
 - Municipalities downsize, and the State is may pick up essential services

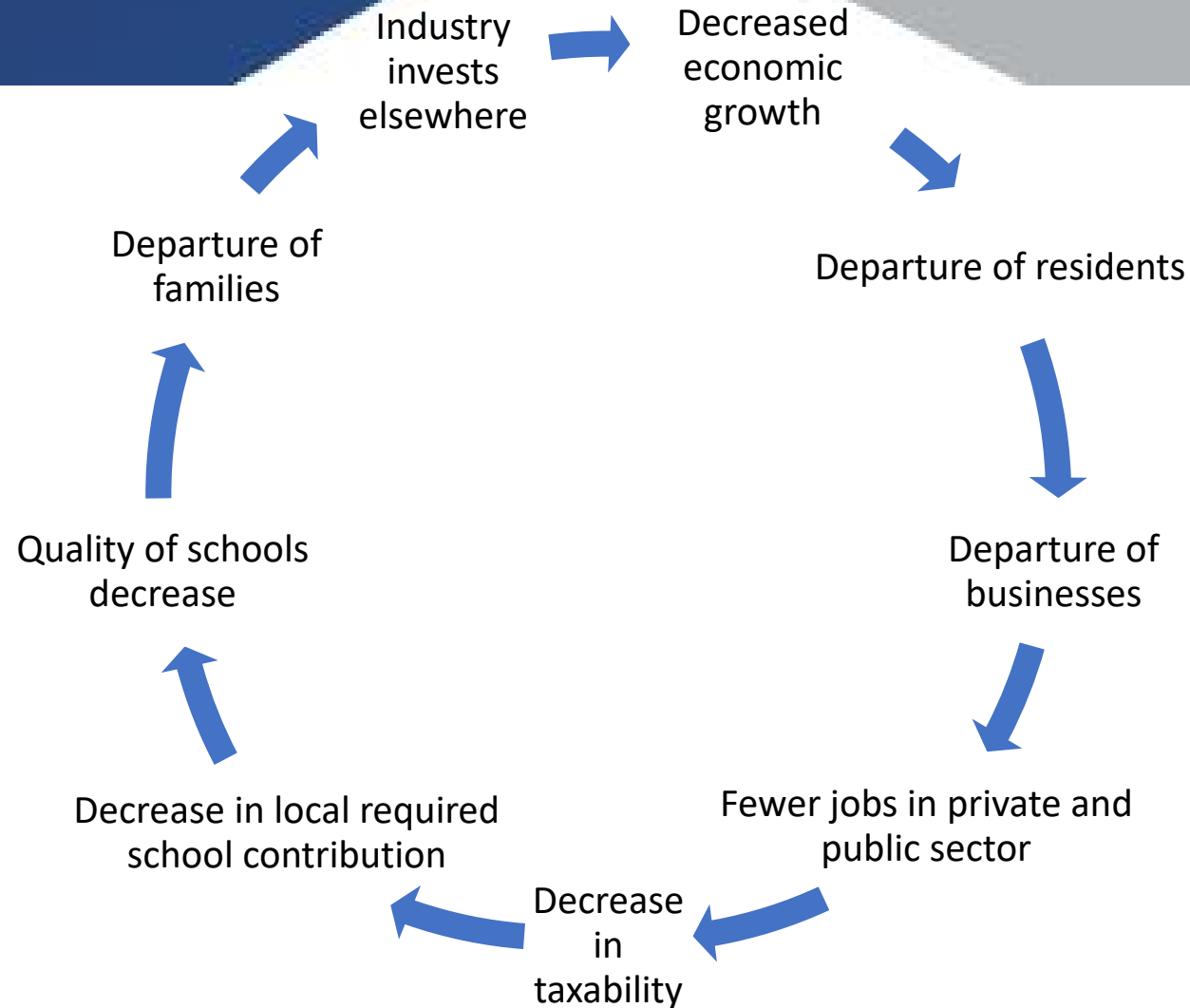


- Taxes and or moorage fees increase
 - Seafood prices remain low or flat
 - Small vessels can't make the revenue they need to
 - Sell off of local, small vessels to larger fleets
 - Fleet consolidation benefits accrue to outside owners
- Maintenance and repair of ports and harbors diminished
 - State-transferred assets increasingly unable to serve seafood or tourist industry
- Additional taxes considered, where none exist
 - Duplicate industry taxing, and decreased economic growth

- Where there is a cap, it can be increased for debt obligations
 - Generally speaking, property taxes would increase correspondingly
- There is a limit to how much a tax can increase without overly burdening the public and economy
 - Municipalities would have to choose between debt obligations and funding schools above the basic minimum
- Where bonding occurred through the Municipal Bond Bank, this represents a moral obligation of the State
 - Default reverts to the State – AML believes that municipalities will meet their debt obligations
- Those who bonded independently still may have tied the bonds to the State's moral obligation and/or expected tax base
 - May see legal ramifications

Choices Combined

Micro Implications



Evaluate on plausibility – the quality of seeming reasonable or probable

The combined reductions and cost-shifting will mean that the City of Kodiak anticipates:

- Potential staff reductions = 13 of 133
- Public Safety budget reduced by 8%
- Public Works budget reduced by 8%
- Harbor budget reduced by 1 FTE (lack of need for officers at AMHS Terminal and loss of revenue (\$ 50,000) at Pier I and II
- Quality of Life programs potentially eliminated include the Kodiak Public Library and Parks and Recreation programs.

Taxes would need to increase to offset these decisions. The City of Kodiak underwent a strenuous evaluation of sales tax during the FY2016-2018 fiscal years. The sales tax cap was increased at that time. Future adjustments to sales tax would include taxing internet sales, eliminating exemption programs, and compliance audits. Other adjustments to sales tax would come as cuts of City services to residents.

The combined reductions and cost-shifting will mean that the City of Atka anticipates:

- Potential staff reductions = 4.
- Public Safety budget reduced by 100%. Atka has a VPSO through the regional tribal entity but provides about \$6,000 in additional support from City funds.
- Public Works budget reduced by 40%
- The ability to comply with unfunded mandates related to utility operations will be severely hindered.
- The City will not be able to adequately maintain and operate public facilities or provide public services.
- Job opportunities in Atka are limited at present. Low income residents cannot afford additional costs that would be necessary to cover increases in charges that would be needed to continue operation of public utilities and services.
- The tax base in Atka is severely limited. Even if the local population were to agree to tax themselves, this would not bring in enough to cover even the cost of implementing and managing tax collection

The combined reductions and cost-shifting will mean that the Petersburg Borough anticipates:

- Property Taxes would need to increase by 1.7 mills in service Area 1 to offset the elimination of the State school bond debt reimbursement.

The current property tax levy for Education of 4.35 mills would need to double to make up the lost funding from the State. Due to the Borough's tax cap of 10 this would not be possible as we are already at 9.25 for school and general services. This would mean drastic cuts to our school and local government, including:

- Quality of Life programs potentially eliminated including our community aquatic center, reduced hours to the library and to our Parks & Recreation Department.
- Loss of School Activities (sports, music, etc), and increase in classroom sizes.
- Reduction of staff Borough wide (Borough, School and Hospital).
- Major rate increase for Harbor moorage and its resulting impact on the economic engine of the Borough.

The combined reductions and cost-shifting will mean that the City of Saint Paul anticipates:

- Potential staff reductions of 3 to 4 full time positions with a reduced work week from 40 hours per week to 35 hour per week.
- Public Safety budget reduced by 7 to 11%.
- Public Works budget reduced by 18 to 22%.
- Travel and training budgets reduced by 90 to 100%.
- General fund capital improvement budget reduced by 100%.
- Local sales tax would need to increase by 90 to 95% to offset these decisions.
- An increase in utility (electric, water, sewer, and refuse) rates to cover the administrative costs for operation of these utilities.

Scenario Development

City & Borough of Yakutat
Pop. 552

Based on the proposed FY20 budget, we have highlighted below some of the impacts that this proposal will have on our residents.

- Our Community Assistance funding has been \$310,615.28 and is 10% of the budget
- Our current Local Contribution to education is the max amount allowed of \$503,849.
- Our residents depend on \$351,731.65 in PCE funding to afford high energy costs
- Our share of the Shared Fisheries Business Tax is \$218,773 and our share of the Fish Landing Tax is \$39,078
- The anticipated cuts to our school district are \$252,220
- Senior Services cuts are expected of \$100,000

We are concerned about the long-term sustainability of Community Assistance and PCE

The combined reductions and cost shifting will mean that the City & Borough of Yakutat anticipates:

- Potential staff reductions = 3 of 17 or 17% reduction in staff.
- Public Safety budget reduced by 20%
- Public Works budget reduced by 20%
- Taxes would need to increase by 300% to offset these decisions



1. AML supports the adoption of a broad-based tax
2. AML supports the concept of a community dividend

The Legislature can strengthen local governments by increasing local control:

1. Remove the mandatory senior citizen exemption = \$84,684,847 (means-based local option)
2. Remove exclusive state authority of a net income tax, and restrictions on severance tax
3. Require mandatory sales disclosure to improve accuracy and fairness of property tax
4. Implement transformation over a reasonable time horizon to mitigate negative impacts
5. Include municipal impact analysis in budget process and in legislative fiscal notes
6. Remove audit/financial statement requirement in Title 29
7. Negotiate with partners – subdivision of resources comes with the subdivision of sovereignty
8. Savings at one level of government should not signal less responsibility at a higher level

Thank You

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