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Testimony on SB63
to the
Senate Community & Regional Affairs
March 21, 2019

Good Afternoon Chairman Bishop and Committee Members:

My name is Gary Hennigh. I am the City Administrator for King Cove (community of 950 residents at the western end of the Alaska Peninsula). I am starting my 29th year in this position. During my time, the city has experienced almost non-stop changes in our financial situation due to the never-ending changes in our fisheries, which is the revenue cornerstone of our economy and our local government operations.

I can unequivocally say that the prospects of SB 63 becoming law is the most daunting of all these fishery-related revenue changes during my 29 years.

First, a little background. Since at least the mid-70's, when King Cove became a first-class city, State shared fish taxes have been an important part of our general fund budget. More than 21% of our 1975 general fund budget, 29% in our 1992 budget, 20% in our 2005, and currently about 23% of our FY19 general fund budget (\$616,000 of \$2.65 million).

At the same time, we have had a 2% local fish tax since the late 1980's and increased our local sales/use tax from 2% to 4% about ten years ago, and then to 6% in 2015 (now, one of the highest local government sales/use tax in rural Alaska). The city also implemented a one-of-a-kind fisheries business impact tax about 15 years ago that requires our local processor to pay \$100,000 annually, which they do so but with no smile on their face.

King Cove has always been a responsible and forward-thinking community. We were the 2nd municipality in Alaska to accept an ownership transfer of the State built boat harbor in King Cove. This occurred in the mid 90's. Later, we agreed to accept an ownership transfer of the State road connecting our airport to the harbor, a distance of about 5 miles. These ownership transfers have obligated the city to be financially responsible for maintaining these facilities.

Over the last 20-25 25 years, the City has taken on significant debt (about \$8 million) for a number of community projects, including our two hydro facilities, a new water system, rebuilding the “old” State harbor transferred to the city, and soon for a new landfill/incineration project and a sewer lift station replacement. These projects have been essential in responding to the residential, commercial, and industrial growth in King Cove.

Some of these projects require a significant subsidy from our general fund where our State and local fish taxes are the primary source of revenue. We have also been increasing user fees in our enterprise funds, 70% for water over the last 4 years, 50% increase in our solid waste fund (last few months), and 10% for all harbor/port fees a few years ago. We remain persistent, and generally successful, in increasing user fees when necessary even though it is never very easy!

Now, the possibility of needing to reduce our general fund budget is very daunting to us. Clearly, significant program and employee reductions would be necessary. We are going to be conducting a community survey over the next few weeks to get a “read” from our residents on where they think we can/should make budget reductions. And, we do have a meager savings fund that we may be forced to use to initially buffer this significant loss of revenue.

Preparing our FY20 city budget starts for us next month. This is going to be a very challenging time for the City of King Cove, if the Governor is successful in passing SB63. Simply stated, this is an incredibly SCARY consideration for our community.

The City of King Cove does **NOT** support SB 63. Please do not pass this legislation out of the Senate’s Community & Regional Affairs Committee.

Thank you.