

ALASKA STATE LEGISLATURE
HOUSE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE
February 25, 2020
8:02 a.m.

MEMBERS PRESENT

Representative Harriet Drummond, Co-Chair
Representative Sara Hannan, Co-Chair
Representative Matt Claman
Representative Jonathan Kreiss-Tomkins
Representative Steve Thompson
Representative Sharon Jackson

MEMBERS ABSENT

Representative DeLena Johnson

COMMITTEE CALENDAR

PRESENTATION: THE COMMUNITY SERVICES FUND; A CONCEPT

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

NILS ANDREASSEN, Executive Director
Alaska Municipal League
Juneau, Alaska

POSITION STATEMENT: Offered a presentation, entitled "The Community Services Fund; A Concept."

ACTION NARRATIVE

[8:02:50 AM](#)

CO-CHAIR SARA HANNAN called the House Community and Regional Affairs Standing Committee meeting to order at 8:02 a.m. Representatives Claman, Kreiss-Tomkins, Thompson, and Hannan were present at the call to order. Representatives Jackson and Drummond arrived as the meeting was in progress.

PRESENTATION: The Community Services Fund; a Concept

8:03:39 AM

CO-CHAIR HANNAN announced that the only order of business would be a presentation on the Alaska Municipal League's concept for a community services fund.

8:04:10 AM

NILS ANDREASSEN, Executive Director, Alaska Municipal League, indicated that the concept of a community services fund is a work in progress. He explained that he would not say that AML members have come to agreement regarding the information in the presentation. Notwithstanding that, he said there are "next steps in terms of potential legislation" that would give AML "a better sense of the considerations that the legislators might have with respect to this concept."

MR. ANDREASSEN began a PowerPoint presentation, entitled "Alaska Community Services Fund." As shown on slide 1, he stated that the ultimate goal is to maximize local, self-government and leverage local government resources in the public interest. As shown on slide 2, he listed that local governments: maintain 5,500 road miles, have a combined spend on law enforcement of \$75 million more than the budget of the Department of Public Safety (DPS); collect more in taxes than the State of Alaska; fund 50 percent of the state's constitutional public education obligation; own and maintain 75 percent of the state's schools; maintain the majority of libraries, parks, pools, and museums in the state; own and maintain a majority of ports and harbors; and are responsible for zoning and platting half the state.

MR. ANDREASSEN turned to slide 3, which lists the following challenges facing Alaska's communities: \$3 billion in construction and maintenance needs, based on 40 lists provided to AML by boroughs and first-class cities; \$2 billion in school construction and maintenance needs, derived from Department of Education & Early Development (DEED) numbers; \$2 billion in water and wastewater needs, based on numbers provided by the Department of Environmental Conservation (DEC); lack of local law enforcement, plus recruitment and retention issues; continued erosion of state support over three decades, which is contributing to "stressed communities" that are struggling to "keep the lights on" while complying with state regulation and statute; and restricted and varied tax base. He said municipalities are not created equal, and many of them struggle

to leverage their tax base to meet both the needs of residents and the state.

[8:08:33 AM](#)

MR. ANDREASSEN turned to slide 4, which addresses the "Intent of Concept." The goals of a community services fund would be to: reduce the state's role as intermediary and increase local control; connect state funding to services provided, similar to the original revenue sharing program; negotiate an increasing number of responsibilities to move from the state to local governments; incentivize the adoption of powers, borough formation, and class upgrades. Regarding the state's role as intermediary, he offered his understanding that the pushback he has experienced from lawmakers comes from an unsureness about what the state would get from community assistance. He said he thinks there is an opportunity to better define that return on state investment and to "connect state funding to, essentially, state responsibilities provided at the local level." Regarding the negotiation of responsibilities, he said it is the concept of subsidiarity that "the level of government that is most capable to deliver a service should be the one to deliver that service."

MR. ANDREASSEN highlighted that the concept is not meant to displace programs that currently collect and share state taxes on local economic activity, such as shared fisheries taxes. He said he thinks there still should be a reduction in the cost of compliance.

[8:11:40 AM](#)

REPRESENTATIVE THOMPSON, regarding costs of compliance, noted he has a list from schools regarding unfunded mandates, which has about 30 items on it. He said that is a burden on school districts. He speculated that unfunded mandates affect more than just schools. He asked whether AML has come up with a list of unfunded mandates.

MR. ANDREASSEN said he would like to see the list to which Representative Thompson had referred. He said AML is working on a similar list. He promoted the idea of making it easier for local governments and political subdivisions of the state to be partners.

REPRESENTATIVE THOMPSON said he would get the list to Mr. Andreassen.

[8:13:16 AM](#)

REPRESENTATIVE KREISS-TOMKINS said he would like to see the list.

[8:13:24 AM](#)

CO-CHAIR HANNAN remarked that many laws get passed without "clearing out" the statutes; therefore, she suspects there are many things the state requires of local governments that may no longer be pertinent. She then inquired how much conversation has taken place between the legislature and AML regarding borough formation. She indicated that the state's "furthest south first-class government" in Southeast Alaska has "pushed repeatedly for mandatory borough formation." She said the legislature, by law, acts as the government for unorganized boroughs but tends "not to exercise that very narrowly." She asked whether AML has pursued the cost of borough formation and "what kinds of new and competing interests might be formed amongst local governments if we pushed mandatory borough formation."

[8:14:46 AM](#)

MR. ANDREASSEN answered that AML would oppose mandatory borough formation on the grounds that it must be a locally driven process. That said, he noted that there was a resolution passed in November [2019] requesting that the legislature act as the assembly of the unorganized borough. He named the three responsibilities of a borough as planning, platting, and zoning. He said there are education powers, which currently are delegated through the Department of Education & Early Development (DEED). He said there is also taxation.

[8:15:55 AM](#)

CO-CHAIR DRUMMOND, regarding the incentivization of the adoption of powers, borough formation, and class upgrades, expressed that that involves cost-shifting and burdens that local taxpayers cannot, and in some cases won't, take on. She indicated that she supports the "moving" of the burden. She said the Municipality of Anchorage has been doing a lot of work in that respect, and she offered an example of trooper vehicles on the Seward Highway. The Anchorage Police Department had come to an agreement with smaller communities on the way to Girdwood that they would be added to the police service area. She said she

would be interested to see what the visible heightened public safety has done in terms of accident rates. She also talked about snow plowing of sidewalks adjacent to state roads.

[8:18:46 AM](#)

MR. ANDREASSEN emphasized the importance of the words "negotiate" and "incentivize" when figuring out how to shift responsibilities to the local level while mitigating the impact of that shift. He said he thinks there will always be a basic level of technical and funding assistance necessary for communities. He said the Division of Community & Regional Affairs "or something like it" is called for under the Constitution [of the State of Alaska]. He said there was a \$1 million unallocated budget cut to that division last year, resulting in six fewer local government specialists. He said he has received feedback from communities that the current state of DCRA and the lack of capacity of local government specialists are harming their ability to operate. When community assistance went away in the early 2000s, communities closed their doors. He said he would cover this issue in more detail later in the presentation.

[8:20:32 AM](#)

MR. ANDREASSEN directed attention to slide 5, "Community Services Fund." He named the four funds shown on the slide: Standing Funds - currently expenses of the state, for example Alaska Online With Libraries (OWL) and transit matching; Capacity Building Funds - strengthening local governments, for example community assistance; Transferred Funds - currently managed by the state for transfer, for example for secure rural schools (SRS), timber receipts, and payment in lieu of taxes (PILT); and Devolved Funds - compensation for taking on new responsibilities, for example law enforcement. He said part of the proposal would be to move all of these into a community services fund through fund transfers and then through a municipal or community services dividend.

[8:22:37 AM](#)

MR. ANDREASSEN turned to slide 6, "Fund Transfers - State as Intermediary." As shown on the slide, he said \$140 million is held by the state on behalf of local governments; it is retained by the state for three to six months; generally it is held in the state's general fund account, called "GeFONSI," with minimal interest/investment earnings; potentially those earnings are

\$102 million; generally those earnings do not accrue to the intended recipients - the state holds on to a federal transfer as long as possible and the earnings stay with the state; the distributions are generally managed by DCRA. Mr. Andreassen questioned whether this is the best use of state resources during a time of fiscal constraint or whether there may be a better way to approach this system. Further, he questioned, "Is this consistent with the intent of those funds? If the intended recipient is a local government, then is it in the public interest for the state to hold \$140 million for between three to six months?"

[8:24:17 AM](#)

MR. ANDREASSEN, in response to Co-Chair Hannan, said he thinks there are a number of reasons that the state holds on to the funds for so long. He remarked that Alaska is different from other states. One reason is because there is an unorganized borough; because the state acts as the intermediary of the assembly of the unorganized borough, "it comes first to the state for distribution to those communities." He added that there is no reason that the appropriation levels for those communities are not already indicated. He said essentially it is state policy that the state accepts those funds and redirect them; it could just as easily be set up for those funds to go directly to intended recipients.

[8:26:01 AM](#)

REPRESENTATIVE JACKSON noted that potentially there could be \$1-2 million sent to local communities. She asked how many communities that would be and whether Mr. Andreassen would "want that evenly distributed."

MR. ANDREASSEN answered by showing slide 7, entitled "Fund Transfers - State as Intermediary." [The slide shows the types of funds transfers, the approximate annual amount in millions, and the average time held.] He said just a few of the funds listed are federal; most of them are state activity that is accepting state taxes or fees, and statute dictates that the state should direct the money back to local governments. He continued:

Between all of these, this impacts every local government, and there's formulas in statute for how they are allocated to intended recipients. So, it would impact 155 cities and boroughs. It wouldn't be

spread out evenly; ... it is spread out right now according to those formulas. It could be calculated and given directly to those local governments or ... through this community services fund, which would reduce the lag time.

REPRESENTATIVE JACKSON indicated that money that comes to the state from the federal government is in a lump sum, and it is the responsibility of the state "to divvy it out." She asked Mr. Andreassen whether he thinks the money could be distributed fairly without the state's involvement in "that was supposed to be mine."

MR. ANDREASSEN proffered that at the heart of the question is the consideration that the money currently goes to the state and that there is a lag time [in its distribution] because of the state's power of appropriation. He said the formula for distribution is already in statute; early on in the year the Department of Revenue can see what is available. Further, he said there is statute dictating where the money will go. He stated, "You hold onto it so that in the budget process you can say, 'We recognize this revenue on the one hand, and we will do what the statute says on the other.'"

[8:29:00 AM](#)

MR. ANDREASSEN moved on to slide 8, "Capacity Building Funds." One of those funds is community assistance, in which there is currently \$60 million and can be as much as \$90 million. He said the original community revenue sharing was a precursor to community assistance and relates to reimbursement for road miles, police, and additional services. He said that program has been reduced from \$180 million in 1985 to \$30 million in 2015. It provides base amounts for boroughs, cities, and community associations. He noted that the veto of the recapitalization of that fund this year caused the drop from \$90 million to \$60 million; the payment in fiscal year 2021 (FY 21) will be reduced by a third, which means \$20 million instead of \$30 million that goes out. He said, "Everybody will go down to their base level."

MR. ANDREASSEN said another capacity building fund is power cost equalization (PCE), in which there is \$1.13 billion. He indicated that the state holds that fund in order to "pay out according to statute." The fund reduces transaction costs and the cost of energy and "levels the playing field" for over 100 communities.

MR. ANDREASSEN named another capacity building fund as the reimbursement for senior citizen and disabled veteran property tax exemption, which has been in place for 20-25 years and has not been reimbursed since 1997. He said the value of the required mandate by the state is \$90 million, and it impacts 40 municipalities. He explained, "That means \$90 million less that they have available to provide services required by the state. It also means that that amount is made up by other taxpayers in those jurisdictions." He said statute clearly states that the legislature shall appropriate that funding, though it does provide for some "wriggle room" to allow for "pro grata" distribution.

[8:32:01 AM](#)

REPRESENTATIVE CLAMAN asked whether this is another example of statute directing the state to spend a certain amount of money unless it does not have sufficient funds to do so.

MR. ANDREASSEN answered, "Yes, kind of." He clarified that most [statutes] use the word "may" and are based on appropriation while "this says pretty clearly, 'shall'." That said, if there is no funding available, then the funds would be distributed pro rata. He added, "So, this is one of ... higher-level unfunded mandate type aspects."

REPRESENTATIVE CLAMAN asked what efficiency would be gained by having a third party involved rather than the state doing it.

MR. ANDREASSEN said he would like to build an argument for that, and he indicated it would be included in the upcoming slides.

[8:33:45 AM](#)

CO-CHAIR HANNAN said statistics show that seniors are the largest growing demographic in the state. She remarked that in 1997 the state still had a lot of money, but it still chose to do away with the reimbursement for senior citizens. She asked whether there has been dialogue at the state level and a push from municipalities to reinstate the reimbursement, thus fulfilling the statutory mandate.

[8:34:44 AM](#)

REPRESENTATIVE KREISS-TOMKINS proffered that the only time he has heard about it has been through testimony from AML. He said

in terms of the permanent fund dividend (PFD) formulas, there are "half a dozen statutes that are highly substantive that the state has ignored for a decade or multiple decades." He expressed that he thinks Alaska should follow the laws it has in place; however, he said he thinks there is "a selective indignance" when it comes to the PFD. He indicated a choice would be to repeal [statute] and allow municipalities to make the decision.

[8:35:33 AM](#)

REPRESENTATIVE JACKSON asked for clarification that Co-Chair Hannan was talking about the tax exemption for seniors.

CO-CHAIR HANNAN answered yes. In response to Representative Jackson, she clarified that she was talking about property tax.

[8:36:57 AM](#)

REPRESENTATIVE CLAMAN echoed Representative Kreiss-Tomkins' remark that the entities that lobby on the issue seem to be AML and municipalities. Based on his former experience as acting mayor of the Municipality of Anchorage, he offered his understanding of tax exemptions and how they affect value. He explained that the way the Anchorage mil rate is calculated, it doesn't result in the loss of property tax revenue to the city, because if seniors receive a tax reduction, "the effective result of the reduction is that people who are not seniors pay a somewhat effectively higher rate and, in effect, pay the taxes [such] that ... the city actually doesn't lose money." Because of this, Representative Claman shared, in tight times it was difficult to advocate to the state that it should pay the money that would "make up the difference," because the city couldn't say that it was really losing the money.

CO-CHAIR HANNAN said she understands that it is not a true loss but rather a shift in who, in the municipality, is carrying the burden. She pointed out that in Haines, Alaska, within her district, many homes are valued at \$150,000, and with an anticipated exponential growth in the percentage of senior citizens, half the community's tax base could be tax exempt. She remarked that the legislature historically deals with the crises it faces rather than offering long-term solutions.

[8:40:54 AM](#)

REPRESENTATIVE THOMPSON expressed concern that seniors who cannot afford property taxes may opt to leave Alaska.

[8:41:33 AM](#)

REPRESENTATIVE JACKSON said that is an important question. She spoke about the outcry of seniors regarding loss of exemptions.

[8:42:11 AM](#)

MR. ANDREASSEN offered his understanding that AML's position is that "the reimbursement should be reimbursed." He said there is not consensus of 40 mayors and jurisdictions about "the approach the state should take in terms of removing that exemption." He indicated that nationally the best practice is means-based not age-based. He said that is the position he has "seen from AARP and others." He suggested that may be a longer-term discussion to hold.

[8:43:06 AM](#)

MR. ANDREASSEN returned to the PowerPoint, to slide 9, entitled "Community Services Fund Stewardship." He said the two types of funds that AML might propose moving into a community services fund are transfer funds that have to be transferred anyway and those funds that provide base levels of support. Regarding Representative Claman's question about the efficiency of moving funds from the state to local control, he said it depends on "what it looks like." He said AML's argument would be that it could manage the funds for less cost than the state; it could get them into the hands of local governments quicker; and it could find efficiencies that the state is not currently able to find because of the way the system is structured in the state within departments. He said federal and state funds intended for local government could be transferred directly into a municipally managed holding account; any interest or earnings accrued within the funds could be directed to the recipients of the funds; and the funds are managed according to state or federal statute or regulation. He said he thinks AML can streamline grant administration. He said investment or interest earnings distributed according to statute or regulation essentially pay for administration; "there is no cost to a community services fund necessarily."

MR. ANDREASSEN mentioned the AML investment pool (AMLIP) and investment criteria in statute. He said it allows local governments to pool resources for short-term investment with an

active money market account. He said it is possible to develop ability within AMLIP for medium- and long-term investments, "and basically replicate the structure of the PCE investment guidelines, which are pretty simple and straightforward." He stated that there are already formulas established in law and applied to distribution, and there could be separate accounting for all funds consistent with state law. Finally, he said the community services fund stewardship would eliminate the state as intermediary, increase distribution speed, and ultimately reduce the footprint of state government, which is when efficiencies are reached. He said there is a form to fill out and a reporting mechanism for all the funds, and a third party could provide efficiency in those steps.

[8:47:06 AM](#)

MR. ANDREASSEN directed attention to slide 10, which contains further information regarding the community services fund stewardship. He said it preserves and maximizes legislative law-making authority, even though it reduces a direct role in appropriation. He added, "I don't know that that's completely straightforward or true, but I think there's a strong argument that, at the very least, you retain those powers even as we move things to externally managed funds." He said he thinks the stewardship helps to maximize local control and self-government so that the intended recipients of the funds are the ones managing them, not only to the state's guidelines but also to the local governments' interests. The state retains the strong oversight role.

[8:48:09 AM](#)

MR. ANDREASSEN turned to slide 11, "Step Two - A Community Services Dividend." He said the concept has been around for awhile and recognizes the role of the state as the resource owner; the state preempts local governments from taxing those resources; and there is a distributive ability at the state level that does not exist at the local level. He said a community services dividend builds on the idea of partnership between local governments in the state such that they have a role in taking on responsibility of the state in delivering services to Alaskans. Finally, he talked about the idea of individual dividends being maximized when community needs are addressed, reducing the need for overly burdensome local taxes while infrastructure is in place to reduce transaction costs, thereby improving the cost of living and doing business.

MR. ANDREASSEN brought attention to slide 12 and discussed that on which a community services dividend builds. He said in the 1980s Governor Walter Hickel talked about a community dividend; his suggestion had been that it be instead of or in addition to the individual PFD. Governor Hickel had suggested that earnings from the permanent fund would be distributed to local governments and set aside for community infrastructure. Beginning 2001, former Representative Carl Moses had legislation drafted proposing a community dividend. His proposal was to establish a municipal dividend fund to grant monies so local governments could address key, important issues, such as public safety. The proposed dividend would be "equal to lesser of the amount calculated by multiplying \$100 by the number of PFDs or the balance of earnings reserve." As shown on slide 13, Mr. Andreassen noted that former Governor Jay Hammond also had a community dividend plan in "Diapering the Devil." He said there were three pieces to the plan: a percent of market value (POMV), which is currently in place; an income tax, and a community dividend. Governor Jay Hammond had told then Anchorage Mayor Mark Begich that this plan would bring immediate relief to property tax. Mr. Andreassen indicated that AML would argue that it would give the ability to local governments to "bring down local taxes and take on new services."

[8:53:01 AM](#)

MR. ANDREASSEN showed slide 14, "Alaska Community Services Dividend." He said there could be discussion of a community dividend in relation to the current POMV draw; some have suggested that 50 percent should go to state government and 50 percent to the individual PFD. He said Legislative Finance has said that would still "break" the state; a 75:25 split might make more sense.

[8:54:02 AM](#)

REPRESENTATIVE JACKSON proffered that in a 70:30 split, of the 70 percent, 35 would go to local governments and 35 would go to the state, and the money to local communities would be well used in ways that make life better for their residents. She said she has not heard any discussion about the topic.

MR. ANDREASSEN responded that he thinks this is something that should be part of the conversation. He said the percentages can be chosen based on how the state wants to allocate the resources. He remarked that to a large extent, the state is already allocating those resources to local government, and

"this is just carving out some intentionality around that." He said this is definitely a political conversation to have. He indicated another option could be 30 percent of tax revenue or a percentage of oil revenue.

8:56:27 AM

MR. ANDREASSEN, returning to the PowerPoint, directed attention to slide 15, "Justification." He said one justification is the reduction in state government allocation. He listed justifications as: the identification and direction of funding for state priorities; the enhancement of local decision-making; the response to the governor's stance that local issues should be dealt with locally; and the provision of a sustainable funding mechanism and control. Further justification includes the consideration that [a community services fund] would result in a reduction in individual PFD allocation; however, it would allow local governments to maintain delivery of local essential services; avoid tax increases at the local level - and possibly decrease local taxes; enhance local decision-making and governance; and increase the role of Alaskans in state spending.

MR. ANDREASSEN pointed to slide 16 to show "what could be included." The list shows an FY 20 budget of \$586 million, broken down as: school bond debt match, \$100 million; port and harbor capital improvements, \$40 million; community assistance, \$40 million; road and rural airport maintenance, \$100 million; law enforcement and community jails, \$80 million; deferred building and K-12 Maintenance, \$75 million; senior citizen property tax exemption reimbursement, \$90 million; and water and wastewater upgrades, \$30 million. He said these are numbers that would need to be negotiated and formulas were used to come up with the distributions.

8:59:52 AM

MR. ANDREASSEN turned attention to slide 17, "School Bond Debt Match," and he said currently there is no school bond debt reimbursement program, but it is one funding mechanism for construction and major maintenance in schools. He said last year there was an obligation of \$100 million reduced to just under \$43 million in less than five years. Instead of a reimbursement program, he said, there is an opportunity to develop a way to have some of the state's obligation for school construction and major maintenance grant-funded, but also for the state "to bond for its portion of those projects and to reform that entire program for how to deliver on the state's

constitutional obligation." He said the total need is \$1.3 billion, which is a conservative estimate. In response to a question from Co-Chair Hannan, he explained how "need" is determined. He said the Department of Education & Early Development (DEED) "does an amazing job keeping track what needs look like" by maintaining a list of the 1,006 schools that currently exist, 75 percent of which are owned and maintained by the state. He explained that each school district submits a priority list to the department, which maintains a six-year plan. He said the \$1.3 billion need relates to the six-year plan; however, he said the amount is probably closer to \$2.3 billion when taking into consideration the average amount requested for school construction and maintenance.

[9:02:44 AM](#)

CO-CHAIR DRUMMOND offered her understanding that the number of schools in Alaska is "more like 515," not 1,006. She questioned where Mr. Andreassen got the latter number. She cited the information on slide 17, third bullet point, which notes that two communities "drop off" in the next two years, while five will drop off in the next six to seven years. She asked for an explanation.

MR. ANDREASSEN responded that the 1,006 figure he gave might "extend to facilities." In regard to the dropping off rate, he said that pertains to schools that will no longer be part of the school bond debt reimbursement program. He said the 19 schools that have bonded have done so at various intervals.

[9:03:51 AM](#)

REPRESENTATIVE KREISS-TOMKINS, given that there is no new school bond debt being accepted, and given the population growth in Matanuska-Susitna ("Mat-Su"), asked whether the Mat-Su School District is paying 100 percent of the cost for the new school being built.

MR. ANDREASSEN offered his understanding that Mat-Su is not currently building new schools. Further, he said he thinks there is "a lot of hope that ... the moratorium will expire" and there would then be the opportunity to apply for the program. Notwithstanding that, he remarked that there is "not a lot of faith in that program." He said there are some municipalities that have bonded for maintenance, perhaps schools in Anchorage and Fairbanks; however, "most don't have that capacity."

[9:05:36 AM](#)

MR. ANDREASSEN returned to slide 17 and talked about the state's liability. He said the state will still have responsibility for funding schools, and the question is what the state can do to offset the 75 percent of facilities that are owned and maintained by municipalities.

[9:06:02 AM](#)

MR. ANDREASSEN turned to slide 18, "Port and Harbor Capital Improvements \$40 million." He said the need here is \$600 million, which was defined in a 2010 study by the Corps of Engineers. He indicated that AML would update that survey, because, for example, the current study does not include the Port of Alaska. He said new needs will be created. He related that there is a port and harbor matching grant program, which is utilized by municipalities. He mentioned old debt related to House Bill 528 [passed during the Twenty-Second Alaska State Legislature]. He said the legislature could set up a new way to invest in port and harbor for capital improvements. He said that might look like a Statewide Transportation Improvement Program (STIP) dedicated to ports and harbors. He said in terms of vetting needs, there is no similar structure in place as is used by DEED.

[9:08:27 AM](#)

MR. ANDREASSEN moved on to slide 19, "Community Assistance." He said the need in this area is \$304 million. He said that is significant for local governments. He said local governments are being asked to continue doing all the things the state has asked of them but with less reimbursement from the state.

[9:09:03 AM](#)

REPRESENTATIVE KREISS-TOMKINS noted that Mr. Andreassen had mentioned the "shuttering or bankruptcy of incorporated municipalities." He asked when that happened, to which communities, and how many communities.

MR. ANDREASSEN indicated that Legislative Legal and Research Services had reported on the issue in the early 2000s. He said he does not know the name of the communities but offered his understanding that there were eight of them that ceased operations and fourteen that reduced operations. He said there is no way for some municipalities to operate on their tax base.

He predicted the state would see more of those decreases if community assistance is not "further funded for FY 21." He said the \$10 million reduction will not impact smaller communities as much but will affect the medium-size communities, which will have to eliminate programs to make up for the loss of funding.

REPRESENTATIVE KREISS-TOMKINS observed there are a number of small communities with a limited tax base; there are a subset of those communities that have made no effort to collect revenues "and do have the means." He said this has "struck" him. He asked Mr. Andreassen whether he knows of any incentive that has existed wherein assistance is "married with an incentive or requirement for local revenue."

[9:12:51 AM](#)

MR. ANDREASSEN said he does not know whether there has been that conversation, and he remarked that it would be a challenging one to have. He said there is a difference between communities that choose not to collect more and communities that do not have the capacity to tax because of the size of their local governments. He said there are more of the latter than the former. He indicated that it would be interesting to looking at local tax bases, but AML would not want to mandate local governments to tax more to gain additional benefit from the state. He concluded, "If you incentivize or, you know, increase their opportunity to take on powers in support of what the state's currently providing, I think that's a different piece, and maybe ... that's a future conversation."

[9:14:59 AM](#)

REPRESENTATIVE JACKSON suggested AML could see what the large and small businesses in each community could do, which would empower the community through increased employment opportunities. She indicated this increased involvement would mean "everyone has skin in the game."

MR. ANDREASSEN agreed that finding a way to increase engagement throughout communities is important. He pointed out that since the legislature acts as the assembly for unorganized boroughs, it could "take up that question."

[9:16:19 AM](#)

REPRESENTATIVE KREISS-TOMKINS asked in what manner Mr. Andreassen saw the legislature failing to execute or under-executing "those responsibilities."

MR. ANDREASSEN named three responsibilities of the assembly of the unorganized borough: education, currently delegated to DEED for regional [educational attendance] areas (REAAAs); platting - planning and zoning, which perhaps the Department of Natural Resources does some of; and taxation.

[9:17:25 AM](#)

MR. ANDREASSEN returned to slide 19, and he said base levels need to be maintained; an increase to \$100,000 would benefit 100 out of 155 cities and boroughs. He said, "A small increase for the base level for cities is actually a huge increase for those communities." He then referred to information on slide 20, "Road and Rural Airport Maintenance." He said there is a difference between DOT&PF reducing service for an airport where the city has never agreed to the plan and the situation here, where state and local government agree to the local government taking on more responsibilities. He said there are duplicative systems that could be streamlined. He said taking on more is an expensive endeavor for local governments, so the amount of \$100 million shown on the slide may not be sufficient.

[9:20:31 AM](#)

MR. ANDREASSEN moved on to slide 21, "Law Enforcement and Community Jails." He indicated that community jails run by local governments are a state responsibility, and the \$7 million status quo amount received is less than the 2002 levels. He said AML is working with communities that report that the state is putting in about half of what the communities are spending on jails. He noted that local governments are not in charge of the court system or the laws the legislature puts in place related to public safety. He said the repeal of Senate Bill 91 [passed during the Twenty-Ninth Alaska State Legislature] was "a good step forward in a lot of ways," but it means there are probably more people in these jails without the state's support for that additional amount. He said a lot of discussion has been held concerning Village Public Safety Officers (VPSOs). He said, "There's nothing the state puts in right now to local law enforcement." He said he thinks there is a good argument for having the state strengthening support to local law enforcement, which could mean as little as \$30,000 per officer, which would cover liability insurance, bullet-proof vests, and training. He

said the need [\$400 million] is estimated. Studies done regarding boroughs that have looked at adopting police powers have pointed to a required \$30-\$50 million investment, a \$30-\$50 million tax increase for residents. There needs to be an ability to offset those costs if local governments are to take up those responsibilities. He said there are some other things the state funds, such as local emergency response, which could be "included in this."

[9:24:53 AM](#)

MR. ANDREASSEN, in response to a question from Co-Chair Hannan, confirmed that any incorporated city and borough can adopt police powers.

[9:25:30 AM](#)

REPRESENTATIVE CLAMAN remarked that this slide seems to get to the core of Mr. Andreassen's proposal in terms of trying to convince the state to provide a more sustainable funding stream in times of limited funding to help communities make a plan.

MR. ANDREASSEN said he thinks police and snow plowing are the two most visible elements for residents, in terms of "the heart of the proposal." He said there are municipalities that are trying to come to grips with lack of state support while being asked "to take up more." He mentioned school bond debt reimbursement and that it shifts over time. He said part of the conversation that needs to be held is how [municipalities] can overcome the lack of confidence in the state "for keeping its piece of the agreement." He stated, "There's plenty of concern at the local side about what this would look like if the state chose to ... move a different way."

[9:29:57 AM](#)

REPRESENTATIVE JACKSON mentioned Eagle River wanting to break away from the Municipality of Anchorage. She asked whether AML supports municipalities that want to become more independent.

MR. ANDREASSEN said he would not comment on the Eagle River experience directly; however, he said there are lots of communities that are unincorporated. He indicated that there is a resolution that addresses the idea of increasing local control either by incorporating or taking on new powers. He said he could forward the resolution to the committee.

[9:31:59 AM](#)

MR. ANDREASSEN returned to the PowerPoint, to slide 22, "Deferred Building and K-12 Maintenance." He said the need here is \$5 billion, which is a combination of \$3 billion in identified need for capital improvement plan (CIP) projects submitted to AML by cities and boroughs, plus DEED's \$2.3 billion need for schools, with "a little bit of overlap." Currently there is nothing on the state's approach that recognizes \$3 billion in need for public buildings and public infrastructure provided by local government. He suggested that the state should recognize this need for deferred maintenance and construction essential to residents of Alaska. He talked about a K-12 deferred maintenance schedule on a six-year plan organized by DEED, but 75 of those facilities are owned by municipalities; therefore, a new approach is necessary, he reiterated. He mentioned REAAs and said those are the responsibility of DEED, but "maybe there's a new approach to how that's done."

[9:34:35 AM](#)

MR. ANDREASSEN moved on to slide 23, "Senior Property Tax Exemption Reimbursement." He said the need is \$90 million. He stated, "Including this as part of the dividend means that local governments have greater decision making, can take on more if they want to, and also reduce taxes or ... make decisions that are entirely in the interest of their local government." He noted that the tax base was increased in the City of Fairbanks, but because of the [property tax] exemption [for seniors], the city actually gets less revenue.

MR. ANDREASSEN turned to slide 24, "Water and Wastewater Upgrades \$30 million." He said the need here is \$3 billion. He indicated that a list that Indian Health Service (IHS) maintains, submitted by DEC, shows a need of \$1.6 billion just for rural Alaska. He said currently there are 65 communities that do not have to meet the requirements of the Clean Water Act; if those communities were required by the state to do so, then there would need to be more investment. The investment currently made by the state is only through the revolving loan fund, which he said is successful, and the Village Safe Water Program.

[9:36:54 AM](#)

MR. ANDREASSEN, to Representative Claman's previous question, showed slide 25, "Variation in Decision Making." He indicated the decisions relate to mitigating risk for both parties, for local governments that take on responsibilities, and managing risk at the state level to the extent that the state is devolving some of those responsibilities. He talked about a possible increase in funding and the likelihood the state would want to manage some of those funds. He talked about the prospect of a decrease in the POMV such that \$586 million was not available and what that would look like. He talked about putting in place formulas as needed. He mentioned a hold harmless provision such that any power or program that has been taken on cannot be left unfunded, and perhaps the floor could be \$200 million. If the municipality give up a power, then it would be the responsibility of the state to take on that power. He illustrated that a community that shuts down is probably offering Division of Election services or animal control, for example. He highlighted that any service not being provided at the local level that is the responsibility of the state then reverts to the state for coverage.

[9:39:38 AM](#)

CO-CHAIR HANNAN asked whether AML has engaged in any other revenue streams in terms of the Alaska Community Services Fund or whether the discussion has focused solely on "the dividend and POMV structure for a place to come up with a local government apportionment."

MR. ANDREASSEN responded that there are certainly other ways "to get to this." He said currently, other than the federal government, the state is the only level of government able to do a net income tax; therefore, it would have to be a state decision to do that. If there were an income tax, then that would meet funding needs, he said.

CO-CHAIR HANNAN said when she thinks of income tax, she thinks of all the income earned by nonresident workers in rural communities and how that income goes back into those communities that may otherwise have a property tax to generate revenue to local powers. She reiterated her remark about wondering where AML's discussion has focused in terms of revenue streams.

[9:42:44 AM](#)

MR. ANDREASSEN returned to the PowerPoint, to slide 26, "State Fiscal Note." He said that "the intent behind this" is to save

the state money. He added, "If there's not savings to the state then probably a lot of this doesn't make sense. ... It's a harder argument if I'm just here saying, 'Increase local control.'"

[9:43:16 AM](#)

REPRESENTATIVE KREISS-TOMKINS regarding "state direct budget reduction of \$50-\$100 million," asked whether that is net savings to the state.

MR. ANDREASSEN answered that he thinks a number like that must be reached in order to make it justifiable to [the legislature]. He said the total outlay from the states, in terms of reallocating what is currently being provided for some programs would be "much more than this," but "in terms of the savings to state operating costs, I think, yes, you want to get to something like this in reducing state administrative costs across departments, ... and that gets picked up by local governments in a lot of ways." Mr. Andreassen said it is difficult for him to know what this means in terms of downsizing departments, but he thinks "those should be conversations ... as part of this." He concluded, "And if part of the goal during this time of fiscal crisis is to reduce the size of state spending to the extent you can, and the state footprint, this maybe helps to meet that need."

[9:44:52 AM](#)

REPRESENTATIVE CLAMAN speculated that getting to a savings of \$50 to \$100 million would require the state to put a substantial amount into the fund so that income earned off the fund would actually pay out that much money.

MR. ANDREASSEN answered that without further analysis he could not offer confirmation.

REPRESENTATIVE CLAMAN said if the savings are all achieved through efficiencies in departments - considering the low end of \$50 million and figuring an average cost of \$100,000 per worker - hundreds of people would be losing jobs. He questioned whether department staffing is so bloated that it could work to achieve the desired gain through efficiencies alone.

MR. ANDREASSEN said the idea is one in progress and AML would like to work with the legislature to figure out the details and come to a mutual agreement.

[9:48:48 AM](#)

CO-CHAIR HANNAN said last year the state did not save residents any money, "it's just they're now paying them at a local government level instead of the state level." She said it was a cost shift. She indicated that the goal of AML is "to seek a more efficient operation of local delivery of [local services, such as] snowplowing."

MR. ANDREASSEN commented that transferring government from state to local still results overall in "about that same size government." He said, "Hopefully you can find efficiencies in that transfer." He said political views vary on the issue. He spoke of setting intention regarding the state's partnership with local government. He said this definitely fits into the legislature's current conversation about how to allocate the POMV draw.

MR. ANDREASSEN recapped his previous points from the presentation as shown on slide 27, "Conclusion." He said AML can "stand things up pretty quickly," as evidenced by programs like the AML Joint Sheriff's Association and the AML Investment Pool, both of which are statute driven, and AML's current efforts in setting up an Alaska Remote Seller Sales Tax Commission for online sales in the state. He concluded, "We know how to do this in bringing together ... an interlocal administration, and right now those are really effective and affordable ways to deliver services for local governments and on behalf of local Alaska residents."

[9:52:49 AM](#)

CO-CHAIR HANNAN thanked Mr. Andreassen for his presentation.

[9:53:42 AM](#)

ADJOURNMENT

There being no further business before the committee, the House Standing Committee on Regional Affairs meeting was adjourned at [9:54] a.m.