

HOUSE FINANCE COMMITTEE  
March 18, 2019  
1:35 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:35 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair  
Representative Tammie Wilson, Co-Chair  
Representative Jennifer Johnston, Vice-Chair  
Representative Dan Ortiz, Vice-Chair  
Representative Ben Carpenter  
Representative Andy Josephson  
Representative Gary Knopp  
Representative Bart LeBon  
Representative Kelly Merrick  
Representative Colleen Sullivan-Leonard  
Representative Cathy Tilton

MEMBERS ABSENT

None

ALSO PRESENT

Nils Andreassen, Executive Director, Alaska Municipal League; Frank Kelty, Mayor, City of Unalaska; Brian Carlson, Finance Director, City of Valdez; Vern Halter, Mayor, Mat-Su Borough; John Moosey, Borough Manager, Mat-Su Borough; Fadil Limani, Deputy Director of Finance, North Slope Borough.

PRESENT VIA TELECONFERENCE

Alvin Osterback, Mayor, Aleutians East Borough

SUMMARY

ALASKA MUNICIPAL LEAGUE BUDGET DISCUSSION

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Co-Chair Foster reviewed the meeting agenda.

^ALASKA MUNICIPAL LEAGUE BUDGET DISCUSSION

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NILS ANDREASSEN, EXECUTIVE DIRECTOR, ALASKA MUNICIPAL LEAGUE, provided a PowerPoint presentation titled "Municipal Impact Analysis" (copy on file). He clarified that he was not an economist or an attorney. He shared that the Alaska Municipal League (AML) had evaluated the impact of the governor's proposed FY 20 budget to the best of its understanding. He hoped to provide the committee with a sense of that understanding and intended to call up additional presenters to provide more in-depth presentations on various communities. He began on slide 1 and reported that AML was older than the state at 69 years of age. The organization included 165 incorporated cities and boroughs - political subdivisions of the state. He clarified that subdivision pertained to taxing authority and fulfilling state obligations at a local level.

Mr. Andreassen highlighted that one of the primary goals of the organization was to advocate on behalf of municipalities to secure beneficial legislation and to oppose legislation injurious to municipalities. He shared that the principals of sustainability, predictability, and affordability put forward in the governor's budget strategy also applied at the local level. He elaborated that AML reviewed the three principals as they applied to local government [slide 1]:

- 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

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Mr. Andreassen moved to slide 2 and addressed direct and indirect fiscal impacts of the governor's proposed budget. He remarked that it was much more difficult to look into secondary and tertiary impacts at the local level, but there clearly would be both. He noted that while an economist would look for certainty in the evaluation, AML looked for reasonability or plausibility. He began with direct municipal impacts and reviewed the top three items including petroleum property tax, shared fisheries business tax, and shared fisheries resource landing tax. He detailed the three items constituted preemption - the state preempting what was rightfully a local tax and keeping the tax only at the state level. He moved to school bond debt reimbursement and reported that the repeal of the reimbursement would shift almost \$1 billion in costs to municipalities over 16 to 19 years (more than \$100 million in FY 20).

Mr. Andreassen continued to review direct municipal impacts that would result from the governor's proposed budget. He detailed that the proposed cut to education in addition to the removal of \$30 million appropriated for FY 20 was just under \$300 million. The proposed repeal of capital projects in HB 528, which would shift \$32 million to communities over the life of those debts. He detailed that those debts had been taken on by municipalities to support ports and harbors that were transferred from the state in poor repair to municipalities in order to support local community and economic development.

Mr. Andreassen noted there was a proposal to add or share an alcohol tax with municipalities on top of community assistance, which would result in an additional \$20 million (the only positive number - represented in black - on the slide). He noted the slide did not include the other black number - the waiving of bingo fees, which was around \$1,600 for the municipalities that used bingo as a revenue source. Other direct impacts would result from proposed reductions to harbor grants, the Online with Libraries (OWL) broadband, local emergency planning, transit match used by municipalities to offset costs for low-income and senior transportation, and the health service community matching grant. He added that AML had been able to add new items to the list every few days.

Mr. Andreassen addressed indirect municipal impacts on the right side of slide 2. He relayed the McDowell Group had

estimated that for every \$1 in General Fund reduction to the Alaska Marine Highway System (AMHS), it would take \$2.30 out of the economy, which totaled a minimum of \$8.7 million for coastal communities.

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Mr. Andreassen noted that state government staff and spending reductions impacted the overall unfunded Public Employees' Retirement System (PERS) debt. He used 5,000 jobs as an example with 22 or 28.5 percent actuarially determined numbers, it would shift around \$25 million onto the balance sheets of municipalities. He clarified it did not shift an additional payment to municipalities, but it shifted a payment back to the state for their additional contribution of \$143 million.

Mr. Andreassen continued to discuss indirect impacts of the proposed budget on slide 2. He referenced a McDowell Group study showing that for every \$1 in General Fund reductions to the University of Alaska, \$3 would be taken out of the economy. He detailed that AML had applied local tax rates to the number, which resulted in about \$20 million. He reported that AML was not able to assess the indirect impact on municipalities of early childhood education reductions. He moved to healthcare and relayed that if Medicaid reductions over the last several years were reduced by about 30 percent it resulted in a loss of about \$17 million. He noted that AML had not quantified what public assistance or other elements of healthcare reductions would be for municipalities.

Mr. Andreassen discussed that while the governor's proposal included FY 19 and FY 20 distributions for Power Cost Equalization (PCE) and community assistance, it did not appear to AML that taking away the funds' corpus would lead to sustainability, predictability, or affordability for the communities depending on the two items. He discussed the importance of the two items and reported that when community revenue sharing went away for a number of years in the early 2000s, 14 municipalities had ceased operations and 25 percent of municipalities with sales taxes had increased those taxes during that period. He stressed that PCE and community assistance were critical, especially for smaller communities.

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Representative Josephson reported that the committee had heard from the state's economist that the governor's proposals could lead to the dissolution of local governments, which he had found surprising. He asked for detail on Mr. Andreassen's testimony that 14 communities had dissolved when the state had reformed local contributions.

Mr. Andreassen replied that Legislative Research Services had generated a report for Senator Gary Stevens in 2006 that talked about 14 communities that had ceased operations on a day-to-day basis. He underscored that the numbers were especially critical at the very small community level - where taking 75 percent or more of a local government's budget - the discussed impact would be a very real option.

Representative LeBon asked about the \$904 million reduction to school bond debt reimbursement. He asked if there was a way to provide a breakdown showing how the \$105 million reduction in FY 20 would be spread across impacted communities.

Mr. Andreassen noted he would answer the question in three slides. He turned to slide 3 and highlighted various areas that defined different local governments based on the 165 communities under AML membership. He detailed that community assistance was the only item that impacted all communities, whereas, PCE impacted 115 out of 165. He reported that the Department of Commerce, Community and Economic Development, Division of Community and Regional Affairs had been working through identifying when communities were stressed, which often appeared as struggling to keep up with the cost of compliance at the state or federal levels. He pointed out that 7 communities would be impacted by the proposal to shift petroleum property taxes to the state and 21 communities would be impacted by the repeal of school bond debt reimbursement.

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Mr. Andreassen moved to slide 4 and shared that each of the different items on the slide impacted a number of communities differently. Community assistance impacted the largest number of communities at a total of \$30 million;

however, for the 7 communities impacted by the petroleum property tax the impact was \$439 million, and the reduction to 21 communities impacted by school bond debt reimbursement was \$105 million. The bulk of the cost shifting or cuts was felt by a very small portion of municipalities and were felt most significantly by that same group.

Vice-Chair Ortiz referenced the 34 communities impacted by reductions to AMHS [slide 3]. He asked if the communities represented the 34 ports AMHS served.

Mr. Andreassen replied affirmatively.

Vice-Chair Ortiz asked for verification that the number did not include communities that would be impacted that may not have a direct port-call but were located nearby and reliant on AMHS.

Mr. Andreassen replied in the affirmative. He pointed to an error on slide 3 and corrected that the number of communities impacted by PERS participation was 64.

Mr. Andreassen turned to a table on slide 5 and highlighted a list of the 20 hardest hit municipalities. He detailed that AML had calculated the total gross impact for each of the municipalities' FY 20 school bond debt reimbursement, education reduction, petroleum property tax preemption, fisheries business tax and fisheries business resource landing tax preemption, AMHS implications, capital project cost-shifting, University of Alaska implications, and had added the alcohol tax back in. The total impact reflected the transit matching, OWL broadband, and other direct impacts he had listed earlier. Almost all of the municipalities on the list were boroughs, home-rule, or first class cities. The table showed the total impact as a percentage of each municipality's FY 18 tax revenue and listed a comparable number in terms of what an increased tax may look like; it also showed the impact as a percentage of total revenue and per capita (what it would require for every resident in a community to make up for cuts or cost shifting). He referenced a question by Representative LeBon and noted the same information could be compiled for every community.

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Representative Sullivan-Leonard asked about the table's information showing AMHS income generation that may be in the Mat-Su Borough. She recalled that when the McDowell Group had presented the previous year, much of the discussion had been about getting individuals from AMHS through Mat-Su to Fairbanks and ultimately Denali. She asked how the \$250,000 had been derived by AML.

Mr. Andreassen answered that he believed the numbers in the table were under representative of AMHS's impact on any of the communities shown. He explained that it had only been possible to apply the figure of \$2.30 per resident (in terms of statewide economic activity) for all communities (the figure could be applied directly according to sales tax for communities with a sales tax). For AMHS he had used a flat number to come up with what it may look like for boroughs or other cities without a sales tax or port. The estimate was rough and reflected a placeholder until a deeper dive could be conducted.

Representative Sullivan-Leonard planned to look at the McDowell Group project analysis for AMHS. She understood the tax percentage component of the calculation made by AML but thought there was deeper quantitative data that may change the numbers drastically.

Co-Chair Wilson surmised that according to the table, the proposed reductions would cost each resident in the Fairbanks North Star Borough \$577. She stated residents in her district would prefer that along with a \$3,000 Permanent Fund Dividend (PFD) instead of a cut to the PFD.

Mr. Andreassen replied it would be one takeaway.

Co-Chair Wilson observed that even though the table included the \$577 for the Fairbanks North Star Borough, there was not necessarily an increase to the borough on most of the reductions because of its revenue cap. She surmised that it would require the borough to make government smaller. She believed there were quite a few communities with revenue caps. She wondered if the issue had been taken into consideration in the data in order to know which communities would have the opportunity to increase sales or property taxes and which communities would not have the opportunity to increase taxes due to a revenue cap.

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Mr. Andreassen replied that he would look at the question in the coming slide.

Co-Chair Wilson thought it was unlikely the information on the slide was what AML meant to show. For example, an impact of \$446 per person in Anchorage was better than a \$600 or \$1,000 PFD.

Representative Knopp looked at total impact and tax impact for the Kenai Borough shown in the last four columns on slide 5. He asked if the presenter had gone to the boroughs to determine their total taxable values and mill rates to get the data.

Mr. Andreassen replied that the question built on Co-Chair Wilson's question. He stated that AML was leaving it up to the municipalities to determine their actual potential tax increase. The information used on the slide used publicly available data; AML did not have FY 19 actuals or management plans or FY 20 budgets. The table reflected what AML was able to calculate with the information it had. He intended to discuss what the options looked like at the local level. Additionally, there were a number of presenters who would talk specifically about impacts to their communities.

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Mr. Andreassen moved to slide 6 and addressed the total impact to the top 20 municipalities [listed on slide 5]. The total was roughly \$857,290,065 representing 93 percent of Alaskans. He noted the total for all Alaskans was roughly \$888 million. He reviewed additional data on the slide:

- 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

Mr. Andreassen remarked that it was possible to look at individual municipalities and say that an impact of \$477 [per resident] was not much; however, when spreading the cuts across all municipalities the impact was much greater. He explained it would mean weighing a \$3,000 PFD against a potential \$1,500 cut to services or cost shifting to

municipalities. He continued with slide 6 and reported it was clear that 17 municipalities would have a total impact of greater than 50 percent of their budget and 10 municipalities with an impact of greater than 80 percent. He referenced an earlier question about what happened to municipalities that no longer had revenue to sustain themselves. Out of the 165 municipalities, there were 106 negatively impacted; 32 municipalities would be significantly negatively impacted at \$2 million or more. He reported that some municipalities would benefit if an alcohol tax passed, but the vast majority would not. The 20 municipalities representing 93 percent of Alaskans would really struggle under the proposed budget.

Mr. Andreassen moved to slide 7 and addressed total impact by district. He noted the information was not additive because municipalities were often shared by districts.

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Mr. Andreassen turned to slide 8 and reported that municipalities would not all feel the full brunt of the impacts because there were barriers to their response. He referenced Co-Chair Wilson's mention of voter-imposed tax caps. He detailed that 7 of the 20 municipalities had voter-imposed tax caps, meaning that for some of the cuts or cost shifts those communities could not increase taxes. When it came to school bond debt reimbursement the vast majority of the municipalities could increase their taxes above the tax cap, but 7 of the 20 would hit a limit and would not have the ability to increase taxes without voters changing the cap.

Mr. Andreassen moved to the second bullet point on slide 8 and relayed that it was already a struggle to maintain stable budgets and taxes. There were 50 communities that budgeted for more expenses than revenues in FY 17 including 7 of the 20 hardest hit by the governor's proposed budget. Already, municipalities had seen large reductions in their budgets and were struggling to continue making the best decisions they could in the interest of residents. The third bullet point highlighted that PERS participation was one of the barriers to response (100 percent of the 20 hardest hit municipalities participated in PERS). He elaborated that the elimination of a class or department would trigger a costly termination study.

Mr. Andreassen continued to review slide 8. He reviewed that the education minimum required local contribution could be decreased. He noted there was still some conversation about whether the change would be a good or bad thing for municipalities - whether they would be expected to make up the difference or whether a prorated reduction would be limited. It could be that some portion of the education reductions could not be made up by local school districts.

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Representative Sullivan-Leonard asked if Mr. Andreassen had spoken with the Division of Retirement and Benefits (DRB) director on their opinion regarding a termination study. She thought it was an important component. She stated that if the impact hit local governments harshly and may cost jobs, the legislature needed to see the information.

Mr. Andreassen replied that AML had the conversation with DRB but did not want to speak for the division. He believed it was a topic worth diving into. The state did not have a termination study and there were three or so components of a study, each with varying costs. Some of the costs were merely to conduct the study and some addressed the unfunded pension liability. There were some good things from a termination study and some good things to be addressed within the studies.

Representative Sullivan-Leonard agreed. She asked if it was information that Mr. Andreassen could provide to the committee. She wanted to know the what the ramifications would be if the [governor's proposed budget] bill passed. She requested to see the information from DRB to help understand the trickle-down effect to local governments.

Mr. Andreassen agreed.

Vice-Chair Johnston referenced that the state had paid down some of the unfunded liability. She stated there had been an extension to the tail [of the liability]. She noted the cost would be to other employers and not the state. She hoped AML took the concept into consideration.

Mr. Andreassen replied that AML's understanding was that termination studies were an anachronism. He detailed the studies had been developed with good intentions but were no

longer necessary. It remained that PERS had a net pension liability, which was felt by all employers, and when there was a shift or reduction by the largest employer, it impacted all other employers. He noted the issue was of concern to AML.

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Mr. Andreassen continued to address slide 8. He highlighted that each of the top 20 municipalities had different tax bases and were not all created equal; 4 of the top 20 had no property tax - there was little probable property tax beyond things like the fisheries tax that would be considered preempted, which made it extremely challenging for many of the municipalities to adjust. He explained it would not merely be a question of raising taxes, the municipalities would be fundamentally challenged in their ability to respond. He relayed that the 59 municipalities that would be significantly negatively impacted and all but one of the top 20, carried quite a bit of debt totaling \$3.2 billion in general obligation/revenue bonds. The municipalities were contributing to infrastructure development (including schools) and any shifts or cuts would compound the debt obligations.

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Mr. Andreassen advanced to slide 9 and addressed municipal choices. He reported that communities could deficit spend and take from savings - they could choose to cover some of the deficit that may be felt from proposed cuts and cost shifts. The length of time the option could be sustained varied for each municipality. He reported it was likely that those municipalities that would be the hardest hit could not survive the cuts and cost shifts for more than several years. In the short-term, deficit spending would reduce cash on hand to cover emergency expenses. He reported that AML believed it was critical for municipalities to have cash on hand to cover things like public safety and emergency response. He relayed that deficit spending impacted credit ratings or worthiness. He imagined that assemblies and taxpayers objected to the erosion of those investments.

Mr. Andreassen moved to slide 10 and addressed tax increases as the second choice available to municipalities. He reported that an increase in taxes would not accommodate

the full scale of cost shifts or cuts. He explained that locations without a cap would be limited by the actual tax base. He noted it would be felt differently by different regions of the state - their ability to respond was sensitive to their conditions. He relayed that voters would have to approve a cap change - it was only possible to tax a certain amount before economic and living conditions were threatened. He highlighted that taxes were statutorily mandated for boroughs. Additionally, where the state preempted tax collection in the form of the petroleum property tax or shared fisheries taxes, it was likely a different tax would have to be considered. He noted it was a critical element of the subdivision of sovereignty.

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Mr. Andreassen moved to slide 11 and addressed program elimination as the third choice available to municipalities. He detailed that municipal budgets were comprised of three buckets: public safety, public works, and quality of life. He informed the committee that many municipalities had told AML their first line of options was to eliminate quality of life programs (i.e. parks and rec, community pools, libraries, and grants to nonprofits). The second and third line of response would be to reduce public safety and public works investments. For instance, reduced law enforcement for the 70 communities with police powers. When it came to public works, many municipalities took on road repair, snow removal, ports/harbor upgrades, and solid waste.

Representative Josephson referenced the last bullet point on slide 10 related to the critical element of the subdivision of sovereignty. He understood that municipalities were creatures of the state. He asked if AML was claiming that local governments shared in some of the sovereignty. He asked if the statement was philosophical or merely that the preemption treaded on a prerogative. He was trying to understand the meaning of the bullet point.

Mr. Andreassen replied that the statement was both philosophical and a reality. In terms of municipalities as political subdivisions of the state, the subdivision was of the state's sovereignty. Taxation of powers was one of the key elements of the sovereignty - when the state preempted the collection it threatened the fulfillment of sovereignty at the local level.

Vice-Chair Johnston noted that the state had the power of taxation.

Mr. Andreassen replied in the affirmative.

Vice-Chair Johnston remarked that the point [on slide 10] was more philosophical.

Mr. Andreassen answered that the state constitution highlighted that the state shared taxation with local governments. He stated that in AML's mind it was less about "allow" and more about constitutionally arguing that local governments had the power. He added that statutorily, boroughs were required to tax.

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Vice-Chair Johnston looked at slide 11 and pointed out the impact reducing municipal employees had on termination studies and additional costs to municipalities.

Mr. Andreassen moved to slide 12 and stated there were implications from each of the choices. The presentation considered the choices as three options, but in reality, there was likely no single choice that would be made at the local level. He looked at one plausible scenario regarding shared fish taxes. He reported that in AML's conversations with affected communities, the taxes and or moorage fees would increase. Additionally, seafood prices would remain low or flat; small vessels would not make their needed revenue to remain open; local or small vessels would potentially have to sell off to larger fleets; and fleet consolidation would accrue to outside owners.

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Representative Sullivan-Leonard asked for an example of how the shared fish tax system worked. She wondered if there was a memorandum of agreement between the state and local communities that collected the tax.

Mr. Andreassen relayed there would be presenters later in the meeting that could speak more in depth on shared fish taxes. Additionally, he would follow up with more information.

Mr. Andreassen continued with slide 12. He reported that shared fish tax funds were used to maintain and repair ports and harbors. The governor's proposal would mean maintenance and repair of ports and harbors would be diminished - state transferred assets would increasingly be unable to serve seafood or tourist industries. Local governments would have to consider additional taxes where none exist. Additionally, there would be duplicate industry taxing and decreased economic growth. He explained that the scenario was plausible and had been seen historically; it was a scenario that local governments were concerned about and were working to avoid.

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Mr. Andreassen moved to slide 13 and addressed a scenario pertaining to school bond debt. He explained that spending caps could be increased for debt obligations. There was a limit to how much tax a local community could sustain; therefore, municipalities would have to choose between debt obligations and funding schools above the basic minimum. He highlighted that where bonding occurred through the Municipal Bond Bank it represented a moral obligation of the state. He noted that default reverted to the state. He clarified that AML believed municipalities would meet their debt obligations. He noted the issue was an important component of the scenario. He pointed out that those who bonded independently may have tied bonds to the state's moral obligation and/or and anticipated tax base - default could result in legal ramifications. He emphasized there was no believe that municipalities would default but walking through the scenarios was important.

Mr. Andreassen moved to slide 14 and addressed choices combined and the micro-implications. He stated that the choices combined would have an impact on communities and local and small businesses. He explained it was possible to select any point on the wheel (shown on slide 14) and consider the plausibility at the local level. He detailed that any small change to a local government's budget or to a small community could trigger any one of the different things shown on slide 14 in a way that negatively impacted local government, residents, schools, and the economy.

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Co-Chair Wilson asked if Mr. Andreassen was saying there was no place that local governments could make efficiencies.

Mr. Andreassen answered that he was not implying that. He believed there were many local governments actively working to find efficiencies. He detailed it was an ongoing conversation as part of a best practices discussion that local governments were working to right-size, decrease, or find efficiencies on a daily basis.

Co-Chair Wilson appreciated the numbers, but she thought it was sending the wrong message that if any reductions were made that communities would dissolve. She did not believe that was necessarily the case. She knew that the smaller the communities were, there was likely little adjustment they could make. She thought everyone would have to tighten everything up and work together. She thought the portrayal was almost an "us against you" picture. She hoped that was not what the presentation was supposed to show.

Mr. Andreassen answered that it was not the intention to imply that there was not a negotiated process and a conversation that did and should take place between local and state governments. He stated it was something that happened over time and both sides were at the table working through. He stated that would feel like a good process to AML.

Vice-Chair Ortiz thought it was safe to also say that the communities throughout the state had been forced to find reductions in recent years as budgets had been reduced. He cited reductions to community revenue sharing as an example of a reduction that had forced communities to find efficiencies in the past.

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Co-Chair Foster allowed another 10 minutes for the presentation.

Mr. Andreassen shared that AML had asked its members to send in municipal impact statements showing how the governor's proposal impact communities and tradeoffs at the local level. He continued to slide 15 and addressed scenario development for the City of Kodiak:

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

Mr. Andreassen added that Kodiak had undergone a robust sales tax review; implementing a new sales tax would be challenging. He moved to slide 16 and addressed the information for the City of Atka with a population of 54:

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%

Mr. Andreassen elaborated that while the tax base in Atka was limited, if the city taxed itself it would not cover the cost of implementing or managing tax collection.

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Mr. Andreassen moved to slide 17 and reviewed information for Petersburg Borough:

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.

Mr. Andreassen relayed that the municipal impact statements bore out many of the assumptions earlier on in the presentation related to choices available to local governments. He turned to slide 18 and reviewed information for the City of St. Paul:

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.

Mr. Andreassen concluded with the City and Borough of Yakutat and provided an excerpt from slide 19:

The combined reductions and cost shifting will mean that the City and 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

Mr. Andreassen addressed some solutions that AML would suggest (slide 20). He shared that in November and in prior years, AML had supported the option of a broad-based tax and continued to believe that revenue needed to be addressed at the state level. He elaborated that AML also supported the concept of a community dividend. He believed both items were outside the scope of the current conversation, but it was important for AML to be clear about its support for the items. In terms of local governments responding to the state right-sizing or looking for efficiencies, there were a number of areas where the state could strengthen local governments. He reviewed options on the slide:

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

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Co-Chair Wilson referenced slide 19 on Yakutat and asked for confirmation that there was \$637 per person in PCE funding [\$351,731 divided by the population of 552].

Mr. Andreassen replied that he had additional data on PCE he would provide. He noted that the data on the slide had come from the City and Borough of Yakutat.

Co-Chair Wilson stated that she was using simple math to make a calculation. She surmised that the state was providing \$562 per person in community assistance. She clarified that she had used the community assistance total of \$310,615 divided by 552 [the number of residents]. She asked if her calculations were a quick analysis.

Mr. Andreassen replied that was his understanding.

Representative Josephson asked if AML would have appreciated an approach that would have involved a grand summit in a place like the University of Alaska Fairbanks that touched on constitutional questions and a broader discussion about hitting the reset button (which the governor's budget did). He wondered if AML would have appreciated a broad conversation about the role of each government rather than just making the changes in the budget.

Mr. Andreassen replied he believed the dialogue was critical for engaging stakeholders and in bringing partners to the table. He believed the scenario highlighted by Representative Josephson would help contribute to a shared vision and implementation. He believed scenario development was a good way to evaluate a proposal like the governor's budget. He stated that the work could be done in a scenario like the one presented by Representative Josephson.

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Representative LeBon addressed school bond debt and recalled that most of the bonds had been voter approved at a 70/30 split. He asked if the number was generally accurate.

Mr. Andreassen agreed. He noted that some of the bonds were a 60/40 split.

Representative LeBon asked if AML had considered trying to hammer out a compromise instead of losing the entire reimbursement (e.g. a 50/50 split).

Mr. Andreassen replied that the state could initiate a conversation about reasonability with the affected municipalities. He reported the idea was something AML would be happy to be a part of. He thought perhaps the dialogue would come up in some of the bill efforts related to school bond debt reimbursement.

Co-Chair Foster thanked Mr. Andreassen for his presentation.

^CITY OF UNALASKA

2:31:46 PM

FRANK KELTY, MAYOR, CITY OF UNALASKA, introduced himself. He relayed that Unalaska was the number one fishing port in the country; the city did well on its revenues from fish tax. He shared that he had lived in the Aleutians for 48 years; he had run processing plants for 35 years and had been an elected official for over 25 years. He reported that the current budget was the toughest he had ever seen. He remarked that one of the governor's goals was no new taxes on Alaskans, but the proposed budget had shifted the total burden onto the communities, which he found disappointing.

Mr. Kelty reported that the total impact to Unalaska was about \$17 million. He detailed that the state shared fish tax was a hit of about \$8 million or about 26 percent of the city's general fund revenue. He relayed that the loss would be difficult for the city to make up. The community prided itself on taking care of many things on its own. He detailed that the community provided \$1.2 million to its nonprofits annually. Many of the nonprofits took on responsibilities that had been the state's concern in the past. He reported it had been over 10 years since the community had a health and human services representative. He elaborated that the women's shelter was heavily funded [by the community], health and human services, alcohol and drug abuse programs, mental health clinics, and public broadcasting. Additionally, the city had been funding the school district at the cap amount for at least 30 years.

Mr. Kelty explained that there were two primary pots of money related to state shared taxes (there was a small third pot with commerce). First, the Alaska fisheries business tax was paid by shore plants responsible for

processing fish in the communities. Second, the 3 percent resource landing tax (put forward in legislation in the past by former Representative Carl Moses), which was paid by people processing at sea (factory trawlers) and shared with the community where the fish product was landed. Unalaska was the major fishing port in the Aleutians off the Bering Sea; the city did well off of the revenue.

[2:35:51 PM](#)

Mr. Kelty shared that Unalaska had recently taken out a \$40 million bond for its commercial shipping dock, which the city was taking care of on its own. He continued that the city took care of road paving and 25 years earlier it had taken over the state-owned small boat harbors, which it maintained. Unalaska had the largest seafood industry in the nation and had to provide water, sewer, landfill, and wastewater. The city referred to the items as enterprise funds - the city owned all of the utilities. Unalaska usually used earnings reserves from the funds for capital projects. He believed the last time the state helped the city out on a capital project was with a \$10 million for the Carl Moses Boat Harbor; it was part of the debt reimbursement program, which still had about \$6.6 million floating around.

Mr. Kelty pointed out the importance of considering that fishing communities around the state all had local sales tax. Unalaska had a 3 percent sales tax, a property tax of almost 11 mills, a 2 percent city landing tax on raw fish (fish landed in the community at a processing plant), all were over and above the state's share. He highlighted that the city was proud that it was not scared of trying to take care of itself. The fishery dependent communities in Alaska provided over 56 percent of the nation's fish. He stressed that a loss of state shared fish tax revenues would be devastating to many of the communities. He questioned how the communities would support the industry that was critical to Alaska and the nation. He detailed that the Trident Seafoods plant on Akutan Island was the largest processing plant in the nation. He added that Trident was the largest American-owned seafood company in the nation.

Mr. Kelty stressed that the impacts were a big deal. He underscored that fishery dependent communities paid much of their own way. Unalaska was concerned about how it would take care of needed projects. He reported the community was

doing capital projects and was taking on the idea of wind energy on its own. The community was also considering the possibility of a geothermal project in partnership with some private investors in the region, "to try to get off the diesel band wagon."

2:39:20 PM

Mr. Kelty reported that the \$1,100 cut to the Base Student Allocation (BSA) would be a 17 percent cut to Unalaska's school budget. He detailed there were two schools in the community, both were top notch with a total budget of \$7.7 million. He explained that Unalaska only had reserves of \$700,000 due to the 10 percent cap. He stressed that Unalaska could not make up for the cut using reserves. Currently, the school district's reserves were about \$500,000 because \$200,000 had already been used to balance the FY 20 budget. He stated it was only possible to cut a certain number of supplies. He pointed out that Unalaska was an island in the middle of the Bering Sea - its travel budget was almost \$500,000 for student athletes, teachers, and for other extracurricular activities. He noted that the school district even helped to fund bringing teams to the community in order to have a home game. The cost of roundtrip airfare from Anchorage to Dutch Harbor was \$1,100. He relayed it was difficult to get anyone to travel to the community for games.

Mr. Kelty continued that a cut of \$1.3 million meant the school district would have to cut positions, raise classroom sizes, and revert back to split classes. The district did not want to do any of those things. He highlighted that the graduation rate was almost 94 percent and the high school had been named one of the best high schools in the country several years back. He reported that the elementary school had been a runner up for the award a few years back. He shared that the district had well-maintained facilities, which was taken care of by the city. Additionally, the city funded the food service program for low income students - the district only received donations of about 10 percent for the program. The city paid 100 percent for the preschool (families also made donations).

Mr. Kelty explained there was a community schools program to fund half of the maintenance and programs. He explained that because the city was already funding at the cap, it would be unable to help the school district increase

revenues if it took a cut like the one proposed. He reiterated that the district would lose teachers, staff, and other positions. He did not know how the community would be able to make it up.

[2:42:49 PM](#)

Mr. Kelty stated that the cut to the AMHS was another issue for the community. He reported that Unalaska only had ferry service from May to September twice a month. The cut would mean no trips in September.

Co-Chair Wilson asked Mr. Kelty to wrap up.

Mr. Kelty shared that the total impact of the cuts was about \$17 million. Unalaska supported funding for public broadcasting; it was located in the tsunami zone and if it lost its local radio station it helped to fund, the community would be in big trouble. Additionally, debt reimbursement was about \$6.6 million for the Moses Boat Harbor and about \$900,000 for its elementary school bonding.

Representative Knopp asked if the \$17 million included the general fund impact and school impact.

Mr. Kelty replied that the amount was everything combined. He specified that about \$9 million was related to state shared fish taxes.

Co-Chair Wilson agreed that Unalaska had an amazing school.

^ALEUTIANS EAST BOROUGH

[2:44:54 PM](#)

ALVIN OSTERBACK, MAYOR, ALEUTIANS EAST BOROUGH, read from a prepared statement (copy not on file):

The Aleutians East Borough is responsible for the municipal governance for the communities of Akutan, Cold Bay, False Pass, King Cove, Nelson Lagoon, and Sand Point. These communities consist of approximately 3,141 residents and a large transient fishing population. The borough has 11 full-time employees who fulfill the obligations of local government. Our only local tax base was raw fish tax. In FY 18 these taxes

were 48 percent of our total budget; the remaining revenue largely came from state and federal funding sources.

Based on the governor's proposed FY 20 budget I have highlighted some of the impacts his decisions will have on the borough and our residents. Our shared fisheries business tax comes to approximately \$2.2 million representing 28 percent of the borough's budget. Our school bond debt reimbursement for FY 20 is anticipated to be \$650,000, which is 8.4 percent of our budget and the total debt outstanding is just over \$7.5 million, which would fall back on local taxpayers. Our harbor bond debt reimbursement for FY 20 is anticipated to be \$381,000, which is 4.9 percent of our budget.

The combined financial impact based off the governor's proposed reductions to the borough for FY 20, not including the cuts to the K-12 foundation formula money, is a decrease of over 40 percent in the borough's annual operating budget. A 40 percent reduction to funding is a hard obstacle to overcome, especially when the borough is obligated to pay for education, bond debt, and other items the borough has entered into agreements for. We are obligated to pay a minimum of \$517,000 for education and our bond debt for FY 20 is \$2,482,000; that alone over \$3 million, which is the majority of our operating budget, if the proposed cuts go through.

The borough also takes lead on many capital projects that support communities and commercial fisheries. These include, but are not limited to, construction of harbors, docks, and clinics. These are economic drivers for our community that improve our residents' quality of life. The borough also provides funds to support the link between Akutan and the airport on Akun and to the King Cove to Cold Bay Road, which are necessary transportation routes for both communities.

Dunleavy's proposed budget puts the burden on municipal governments to collect the revenues that he will be cutting. It will be extremely difficult for many communities to make changes in their existing tax structures or create a new revenue source, especially those whose fiscal years begin on July 1.

The Aleutians East Borough has one source of tax revenue, which is fish. We do not have a property tax and we do not have a sales tax, although many of our communities do; therefore, raising our tax base in a span of a few months is next to impossible. So, to accommodate the proposed budget cuts we would have to make cuts and diminish our services that we currently provide.

The governor's proposed reductions also negatively impact our community. Based off of the FY 19 amounts, the cuts to the shared fisheries business tax program alone would decrease some of our communities' general fund revenue [indecipherable]: the City of Akutan, 29 percent; City of False Pass 7.5 percent; City of Cold Bay, 2.7 percent; City of King Cove, 25 percent; and the City of Sand Point, 14 percent. These communities cannot sustain a reduction like this. If these proposed cuts go through, as well as reductions to education, Alaska Marine Highway System, the University of Alaska, public broadcasting, and other items, the services the borough and our communities can provide diminish the quality of life significantly, will decrease. We ask that you take these impacts into consideration as you go through the budget process. A municipality such as the Aleutians East Borough simply cannot survive if a 40 percent budget cut occurs. Thank you for the opportunity to speak.

Co-Chair Wilson thanked Mr. Osterback for his testimony.

^CITY OF VALDEZ

2:50:01 PM

BRIAN CARLSON, FINANCE DIRECTOR, CITY OF VALDEZ, a PowerPoint presentation titled "Valdez, Alaska" (copy on file) that modeled the impact of the proposed budget, particularly in relation to the change in the method of collection of the oil and gas property tax. He detailed that the oil and gas property tax accounted for 80 percent of the city's total revenue. He began with a sampling of the many points of contact between the municipality and the community stakeholders.

Mr. Carlson turned to slide 1 and explained that Valdez was a full-service government in an unorganized borough, meaning the municipality took on many of the traditional borough responsibilities such as fire, emergency medical services, and police. Valdez was home to the Trans-Alaska Pipeline System (TAPS) Marine Terminal. He reported that Valdez had an extensive partnership with industry that extended well beyond its relationship with Alyeska. The city supported its local schools to the cap and was proud to have some of the best performing schools in the state. Additionally, Valdez supported many quality-of-life initiatives including cultural services, support for nonprofit organizations, expensive recreation infrastructure. The city was also a willing partner in cooperation with state and federal governments including the military.

[2:52:08 PM](#)

Mr. Carlson advanced to slide 2 showing services provided by the city. He highlighted the public safety and ports and harbors categories showing the many support services the city provided to industry and other political subdivisions. He pointed out that the city's suite of education services and cultural services was robust.

Mr. Carlson moved to slide 3 depicting a representation of the impact of the proposed method of taxation. The left portion of the slide showed an immediate reduction of \$38 million in city revenue. The right portion of the slide showed some of the impact beyond the immediate reduction to the city's revenue. He reported that the city's few remaining revenue sources would also experience severe downward pressure. He elaborated that there would be an exodus from the city, which would exert downward pressure on non-oil and gas property values and the associated revenue. He stated that the picture started off horrific and only worsened over time.

[2:54:00 PM](#)

Mr. Carlson turned to a chart on slide 4 titled "Impact to Fund Balances." The chart showed the city's best efforts to manage the radical downsizing and the impact on its accumulated fund balances. The blue line showed his proposed downsizing model. He noted that a downsizing of the magnitude of the governor's proposed budget did not

take place all at once; there would be an unwinding. He had modeled a five to six-year reduction in staff down to 25 percent of the current level. He reported that city government currently had 134 employees and would need to be reduced down to approximately 30 employees, which he characterized as a crash landing. The green area on the graph represented the city's aggregate fund balances, excluding the Permanent Fund. The best efforts to manage the scenario would exhaust the city's fund balances by approximately 2025 and yet the city would continue to have annual eight-figure deficits.

Mr. Carlson highlighted slide 5 showing status quo services provided by the fully funded community [identical to slide 2]. He turned to slide 6 showing services that would remain midway through the hypothetical downsizing under the governor's proposed change in the method of taxation. He emphasized that the remaining skeletal community picture did not represent equilibrium, a solved problem, or long-term solvency. The picture merely illustrated services that would remain midway on the community's path to bankruptcy. He communicated that the dismal trajectory applied to the municipal government, but on the micro-level it applied to every business owner and household in proportion to what was shown on the slide. He explained that everyone fully invested in the community would be on a similar trajectory.

Mr. Carlson addressed the proposed change in taxation. He suggested that proponents of the measure viewed it as a zero sum game. He detailed that revenue would move from one entity to another entity - one set of books looked worse and the recipient's set of books would look marginally better. He had heard opponents of the measure detract somewhat from the perceived benefit by pointing out that a shift in revenue would bring a shift in obligations, which had costs. He explained it would begin to eat into the perceived benefit of the revenue shift.

[2:57:57 PM](#)

Mr. Carlson offered another point that further diminished the idea. He stated the idea was capital, including accumulated value and capacity and potential. He explained that capital is comprised of financial resources and things built below and above the ground. Additionally, there was a difficult to quantify, intangible category of capital. The intangible factors tied the larger picture together. He

explained that for the City of Valdez and the other communities along the pipeline corridor, capital would evaporate in the course of managing the crash landing. He furthered that the capital would not be shifting to some future oriented productive use, it would simply be burned up in the radical change to the communities' way of life. He argued that the sums involved in the erosion of capital far exceeded the proposed revenue shift contemplated in the budget.

[2:59:34 PM](#)

Representative Sullivan-Leonard asked for the city's population, mill rate, annual revenue, and annual budget.

Mr. Carlson replied that the official population count was 3,950 (give or take 20). The annual general fund revenue and budget was approximately \$54 million.

Representative Sullivan-Leonard asked for the mill rate.

Mr. Carlson responded that the city's rate was 20 mills, which applied to industry and non-oil and gas properties.

Representative Sullivan-Leonard looked at a graph on slide 4 and asked if the city's fund balance was \$125 million in a reserve account.

Mr. Carlson answered that the total was a combination of general fund balance, project and other reserves, and enterprise funds. He noted that the disposition of more than 60 percent of the fund balance in current year was only recently settled in the city's favor. He stated it was natural for the city to retain the balances while it took a long-term planning process. He reiterated that the funds had been in dispute until recently - there was a tremendous downside if the decision had been not in the city's favor. He explained that the funds reflected a significant portion of the fund balance shown in green [on slide 4].

[3:01:41 PM](#)

Representative Merrick looked at slide 6 and observed that airport terminal support and Ravn Airlines were listed as items that would not sustain the proposed cuts. She asked if the two items were related. She asked if Ravn was owned

by the city and if other operators would provide access to Valdez. She knew that the pass was often snowed-in.

Mr. Carlson answered that Ravn Airlines operated through the state-owned airport, which was leased by the city and subleased to various service providers. The city would have to cease its terminal operation. He continued that the ensuing exodus from the city would mean the air traffic would no longer pencil out.

Representative Merrick asked if Ravn was the only commercial airline flying to Valdez.

Mr. Carlson answered in the affirmative.

Representative Josephson pointed to service facilities and tanker contingency dock under the Ports and Harbor category (slide 6), which he understood was related to oil spill contingency. He asked if the city paid for some features of oil spill mitigation and protection.

Mr. Carlson characterized the related costs as indirect and costs related to the capacity of having the needed infrastructure and to be able to provide first responder services. He shared that he was not a subject matter expert on all of the many complex relationships in the oil response structures. He offered to follow up with better detail.

Representative Josephson asked if the city had some unreimbursed share of responsibility for regulation and care of the port facility and the transport of oil - meaning if the city did not do anything, there would be a difference in standard.

Mr. Carlson answered in the affirmative, though city financial resources did not flow directly to the marine terminal, but the city spent its own resources on interrelated support, backup, and responder services. The city spent its own resources to keep the services in good order. Aside from standard things like debt reimbursement for projects, there was no direct reimbursement from the state or elsewhere.

Representative Knopp referenced Mr. Carlson's testimony that the petroleum tax accounted for 80 percent of the city's budget and that the city's mill rate was 20. He

noted that the city had quite a bit of infrastructure, business properties and personal properties that were all taxed at 20 mills. He was surprised that revenue from those properties only made up 20 percent of the city's budget. He thought there had to be a substantial assessment value for the City of Valdez.

[3:06:21 PM](#)

Mr. Carlson answered that the assessed value of all of the taxable properties was made up of 90 percent oil and gas properties and 10 percent to non-oil and gas properties. He reported that property tax revenue was 90 percent of the city-wide revenue picture. He detailed that 90 percent of 90 percent yielded an 80 percent figure attributable to the marine terminal and the related [Alaska Statute] 43.56 properties.

Co-Chair Wilson thanked Mr. Carlson for his testimony.

^MAT-SU BOROUGH

[3:07:07 PM](#)

Representative Sullivan-Leonard disclosed that her husband served on the Mat-Su Borough Assembly.

VERN HALTER, MAYOR, MAT-SU BOROUGH, shared that it was his tenth budget cycle with the borough - he had served six years on the assembly and four years as mayor. He communicated that the proposed budget would be one of the more trying ones for the borough to balance its budget on. He added that Governor Mike Dunleavy was not the first governor to shift costs of school bond debt. The borough had received a \$5.7 million shift under former Governor Bill Walker several years back. He explained that although the shift had come after the borough's budget had been solidified, it had been able to absorb the costs. He stressed that times had changed. He reported that the borough's tax cap was 10.5 mills. He detailed that in the preceding year the borough had budgeted the rate at 10.33 mills. He explained that if the bond shift was almost \$20 million for the borough, it would be close to 2 mills, meaning Mat-Su would exceed its tax cap almost immediately.

Mr. Halter continued that additionally there would be a \$5 million to \$6 million reduction in other areas in the

school allocation funding of almost \$40 million. He stated that he had confidence in the legislative session. He recalled that in 2015/2016, there had also been a difficult budget. He stated that sometimes the borough just needed time to understand what the legislature's decisions were. He elaborated that the budget process could take until June including the governor's veto process and the legislature's override process. He shared that by state law, the borough was required to close out its budget and issue tax notices by July 1. He stressed it was very difficult for the borough to make tough budget decisions and solidify its budget when the state's budget had not yet been determined. He asked the legislature to work on the budget as quickly as possible.

Mr. Halter believed the borough could handle some of the cost-shifting, but the total amount would be very difficult. He explained that Mat-Su was a residential property tax borough. The borough also had a cigarette tax bringing in \$8 million and a bed tax that brought in \$1 million; it also had a gasoline tax. The areawide mill rate was 10.5 and the non-areawide rate was six-tenths of a mill. He reported there were also fire service and road service areas; the rate was 14 to 18 mills including those areas as well. He stated that the work done by the legislature was critical to the borough to try to maintain its residential property taxes. He shared that the borough was growing by 2,500 people per year and currently had a population of 110,000. He reported that some statisticians projected the population would be 125,000 by 2025. He elaborated that schools the borough had built with bonds were now at capacity with portable annex buildings outside.

Mr. Halter continued that the borough also had to fund roads, emergencies, and ambulances as well. He stressed his concern about those items. He shared there had been four deadly road accidents in the past month in Mat-Su. The borough wanted to grow its emergency services as its population increased. He underscored that some of the interior roads were horrible. The borough had a road bond package that was 50/50 with the state. He argued that some of the costs for schools that were being shifted to the borough were critical to the borough. He shared that the borough had a AA bond rating with Fitch and Moody's, which it was proud of. He emphasized that the borough would pay its bond debt. He stated that if the legislature figured

out the state budget, the borough would "get it done." He thanked the committee for its time.

[3:11:58 PM](#)

JOHN MOOSEY, BOROUGH MANAGER, MAT-SU BOROUGH, commented the governor's proposed cut to the Mat-Su Borough was about 34.6 percent. The allocation to the schools would be 16 percent. He reported there was approximately \$200 million left on the school bond debt reimbursement bond; with interest, it would be a shift of approximately \$300 million to the borough. He shared that in 2011 there had been a large student crunch; the community had reported to taxpayers that the state would pick up 70 percent of the cost to build six schools and upgrade many others. Well over 60 percent of borough residents had voted for the 70/30 deal. The borough had been very disappointed three years back when former Governor Walker had cut "5.7," which the borough had been able to deal with through reductions. He thought the message to citizens was it was a switch; there had been agreement on the bill, but now the proposal meant the borough would be responsible for picking up all of the funds. He thought it hurt the trust established with citizens.

Mr. Moosey reported that the hit the borough could take was smaller than what Mr. Halter believed. He implored members to look at the message being sent to taxpayers. He appreciated the difficult work done by the legislature.

Mr. Halter agreed with Mr. Moosey. He stated that the challenge of the school bond debt combined with the school funding was about \$60 million for the Mat-Su Borough.

Mr. Halter congratulated the recent Iditarod winners.

[3:14:40 PM](#)

Representative LeBon referenced the school bond debt reimbursement and asked if there had been language in the bond put before voters specifying that reimbursement of 70 percent was subject to annual appropriation.

Mr. Halter replied in the affirmative. The bond had gone to the voters specifying an annual appropriation of 70/30.

Representative LeBon recalled the same language when he had been on the Fairbanks School Board. He asked if the borough's revenue cap allowed the borough to absorb and increase its cap if the reimbursement was modified to 50/50.

Mr. Halter answered in the affirmative. The borough could go above its mill rate cap of 10.5 (the borough had a mill rate tax cap, not a revenue cap); however, he did not want that to happen.

Representative LeBon understood the reluctance but stated it could be done.

Mr. Halter agreed.

Co-Chair Wilson thanked the presenters. She noted the legislature was aiming to be finished no later than May 15.

^NORTH SLOPE BOROUGH

[3:16:13 PM](#)

FADIL LIMANI, DEPUTY DIRECTOR OF FINANCE, NORTH SLOPE BOROUGH, a PowerPoint presentation titled "North Slope Borough" dated March 18, 2019 (copy on file). He began on slide 2 of the presentation related to the foundation of the borough. He detailed that the foundation of the borough was attributed to the vision and leadership of the founding father, Eben Hopson Sr. as prescribed in the borough's municipal charter preamble:

We, the People of the North Slope Borough area, in order to form an efficient and economical government with just representation, and in order to provide local government responsive to the will of the people, and to the continuing needs of the communities, do hereby ratify and establish this Home Rule Charter of the North Slope Borough of Alaska.

[3:17:28 PM](#)

Mr. Limani moved to slide 3 and provided an overview of the borough. The borough was the most northern municipal government in the United States, comprised of an area of approximately 95,000 square miles in the Arctic Circle of northern Alaska. The borough was larger than 40 states in

the U.S. and represented about 15 percent of Alaska's total land. He read from slide 3:

- The Borough extends 650 miles from Point Hope on the Chukchi Sea to the Canadian border and 225 miles south from Point Barrow.
- Most of the Borough's residents reside in eight communities: Utqiagvik, Anaktuvuk Pass, Atkasuk, Kaktovik, Point Hope, Nuiqsut, Wainwright, and Point Lay.
- The Borough's total population as of Jan. 1, 2019 was 16,302

Mr. Limani elaborated that the 16,302 population figure was for tax gap purposes. The local population was approximately 9,500 and the remainder accounted for the transient workers in the oil patch.

[3:19:00 PM](#)

Mr. Limani briefly highlighted a map of the borough on slide 4. He advanced to borough governance slide 5:

- The Borough was incorporated on July 2, 1972 and adopted its home-rule charter in 1974, giving it the ability to exercise any power not prohibited by State law, in addition to its mandatory powers of taxation, property assessment, education, and planning/zoning services.
- Legislative power of the Borough is vested in the Assembly, which now consists of eleven members elected to staggered three-year terms.

[3:19:53 PM](#)

Mr. Limani reviewed borough services on slide 6:

The Borough is a full-service municipality, providing a variety of services including:

- education
- police and fire protection
- search and rescue services
- sewer and sewage treatment facilities
- health services and clinic facilities
- light, power, water, and heat

- garbage and solid waste collection (among others)

Mr. Limani reported that the borough was comprised of 14 departments including administration and finance, the mayor's office, search and rescue, police, fire, wildlife, and many others.

Mr. Limani moved to slide 7 and shared that the current mayor's vision emulated the founding father's vision by providing a solid foundation and stable outlook on the borough's finances and continuing to work towards the founding father's vision of self-determination and sustainability of the home-rule government for the betterment of the borough's people. The mayor's objective was to strive towards the sheer basic necessities of the villages across the North Slope where some of the services were taken for granted in established cities.

[3:21:23 PM](#)

Mr. Limani turned to a table showing the borough's projected resources for FY 20 on slide 8. The slide demonstrated that the borough's property taxes were the most significant portion of its total revenue at \$378,490,000 for FY 19 to FY 20. Other revenues included federal and state grants, charges for services, investment income, other revenue comprised of payment in lieu of taxes (PILT) primarily with the oil industry. Total revenue was \$402,359,380.

Mr. Limani reviewed the borough's projected expenditures for FY 20 comprised of the borough departments, support to the school district, the tribal college, transfers from the general fund to the enterprise funds, and debt service. He reported the borough had a statutory cap on operations and debt service (debt service accounted for \$85 million). The total operating expenditures were \$402,359,380. He highlighted that of the \$253 million for borough departments, 40 percent represented contractual obligations. He elaborated that in essence it went to show the borough's ability to utilize contractors, professionals, and many other businesses outside the North Slope in an effort to provide its continuing services. Some of the contractual obligations were necessary to create efficiencies within the borough's government.

[3:23:22 PM](#)

Mr. Limani addressed the impacts of the governor's proposed budget on the borough on slide 10:

- The Governor's FY20 budget proposal would "Decimate" the North Slope Borough as a result of repealing the levy of tax surrounding the oil and gas properties.
- 95-97% of NSB Tax Base is Oil and Gas Infrastructure
- The Borough is subject to an operating tax cap and does not have other assets to tax to make up the difference of loss revenues
- The Borough does not have the ability to eliminate programs at any level to conform to such legislation

Mr. Limani elaborated on the third bullet point and reported that most of the tax base was comprised of Native allotments that were not subject to tax.

[3:24:02 PM](#)

Co-Chair Wilson handed the gavel to Vice-Chair Johnston.

Mr. Limani continued to review slide 10. He expounded on the fourth bullet point and explained that the borough did not have the reserves the Office of Management and Budget director believed it had. The borough's net assets were primarily comprised of long-lived assets that were not easily convertible into cash to offset its operating needs. He reported that the borough's use of the Permanent Fund was established in 1984 for the sole purpose of operating as a savings account when the oil and gas resources deplete to offset some of the basic needs across North Slope communities.

[3:24:58 PM](#)

Mr. Limani advanced to the borough's impacts of the governor's proposed budget on slide 11:

- The proposed legislation does not conform to Federal and State constitution
  - NSB pledged their "full faith and credit" including Ad valorem taxes on property within the Borough to secure and pay for general obligation bonds

- Current outstanding debt (P+I)  
\$251,431,154
  - Enacting such legislation would "impair" contractual obligations of the bonds
- Such proposed legislation would impede the Borough from fulfilling its Pension and OPEB obligations
  - NSB's share of Net Pension and OPEB liability  
\$150,693,191

Mr. Limani elaborated on the fourth bullet point and reported that impairing contractual obligations of the bonds was in violation of the state and federal constitutions. He addressed the pension obligation and other post-employment benefits (OPEB). He shared that prior to 2008, most of the municipalities had individual pension plans and were required to contribute to whatever the contribution rate needed to be. He elaborated that a bill had been adopted in 2008 that converted the pension plan into a cost sharing plan, which enabled all of the participants to contribute to a maximum of 22 percent. Annually, there was an actuarial valuation determined on the plan assets to see if there was additional contribution beyond the 22 percent; in most cases there was. The shortfall had been called a special provision that the state helped fulfill.

Mr. Limani continued that there had been a couple of bills a few years back that had contributed about \$1 billion into Public Employees' Retirement System (PERS) and \$2 billion into Teachers' Retirement System (TRS) that had helped increase funding levels of the plan assets. He explained that with the adoption of Governmental Accounting Standards Board (GASB) 67, 68, and 75 with OPEB, the borough was required to show its unfunded commitments in the balance sheet of the governmental-wide statements. The borough's share of the net pension and OPEB liability was \$150,693,191.

[3:27:28 PM](#)

Mr. Limani moved to slide 12 and continued to address the impacts of the governor's proposed budget on the borough:

Governor's proposal surrounding the reduction in Baseline Student Allocation creates a burden for the Borough in the amount of \$4,511,923 for FY20.

Mr. Limani reported that the borough provided the highest funding to its school districts - approximately twice the state's contribution. He addressed the school debt reimbursement program and detailed that currently the Department of Education and Early Development (DEED) reimbursed the borough on one project - design work for the Meade River School comprised in the 2014 B bonds. The borough had approximately \$65.9 million in capital projects for schools, which were eligible for reimbursement; however, DEED had not reimbursed the borough since its issuance of 2004 bonds with the exception of the Meade River work.

Mr. Limani discussed that several years earlier there was a suspension of the school debt reimbursement program for new projects. He explained the change did not necessarily mean a school had its lights turned off. He expounded that schools in the Arctic saw substantial deterioration due to the environment and the borough had continued to issue general obligation bonds to keep the infrastructure intact. The borough's total cost over the timeframe was \$131,509,000.

Mr. Limani addressed the borough's support to the state on slide 13:

- Since inception, the Borough has continued to be the solution in fulfilling the needs and obligations of the State across the North Slope by providing the following services on its behalf:
  - Education, Public Safety, Fire, Correctional Facilities, Search and Rescue, Health, Permitting, Roads and etc. Approx. \$175 million annually in operating funds.\*
- The Borough receives little to no support for such services
- In FY18, the Borough received approx. \$7.5 million from the State in the form of Grants.

\*Does not include capital infrastructure

Vice-Chair Johnston handed the gavel to Co-Chair Foster.

[3:30:33 PM](#)

Mr. Limani concluded his presentation with slide 14:

- The Borough has not levied taxes to its full taxing authority, resulting in significant resources to the State.

Mr. Limani expounded that the fact that the borough had not levied taxes to its full taxing authority was attributable to its financial conservatism, fiscal discipline, and ability to manage its resources within its means. He detailed that in the past 30 years the state had received in excess of \$643 million in which the borough had not levied to its full taxing capacity of 20 mills. The amount represented about 10 percent of the borough's annual budget for the past 30 years. He continued reviewing slide 14:

- o Over the last 3 budget cycles, the Borough has reduced its mill rate to 17.99 in an effort to provide additional resources to the State to offset some of its fiscal challenges. The .51 mill has resulted in approx. \$35 million to the State over this time frame.
- o As a result of the State's budget crisis over the last 4 yrs., the Borough entered into an MOU with DOR and has provided significant financial resources for the Assessment and Audit Functions of the State for AS 43.56 properties.

Mr. Limani expounded on the last bullet point on slide 14. Over the past four years the borough provided close to \$500,000 to \$700,000 to the Department of Revenue in an effort to avoid disrupting the assessment function of oil and gas properties.

Mr. Limani shared that the North Slope Borough had been without a state trooper office for the past 30 years. Several years back, through the state, the borough had been able to provide funding for a district attorney. The borough was the largest employer in the North Slope and eliminating 1,500 employees as a result of the governor's proposed budget would go beyond the livelihood of those communities.

Co-Chair Foster thanked the presenter. He reviewed the schedule for the following day.

#  
ADJOURNMENT

3:33:35 PM

The meeting was adjourned at 3:33 p.m.