

HOUSE FINANCE COMMITTEE
ANCHORAGE LIO
April 30, 2020
9:02 a.m.

9:02:17 AM

[Note: meeting took place in the Anchorage LIO and was recorded from Juneau.]

CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 9:02 a.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Jennifer Johnston, Co-Chair
Representative Dan Ortiz, Vice-Chair (via teleconference)
Representative Andy Josephson (via teleconference)
Representative Bart LeBon (via teleconference)
Representative Kelly Merrick (via teleconference)
Representative Colleen Sullivan-Leonard(via teleconference)
Representative Cathy Tilton (via teleconference)
Representative Adam Wool (via teleconference)
Representative Gary Knopp (via teleconference)

MEMBERS ABSENT

Representative Ben Carpenter

ALSO PRESENT

None

PRESENT VIA TELECONFERENCE

Nils Andreassen, Executive Director, Alaska Municipal League, Juneau; Paul Ostrander, Kenai City Manager, Kenai; Lucy Nelson, Mayor, Northwest Arctic Borough, Kotzebue; Bill Roberts, Mayor, Kodiak; Michael Powers, Manager, Kodiak Island Borough, Kodiak; Jason Bockenstedt, Chief of Staff to Ethan Berkowitz, Municipality of Anchorage, Anchorage; Verne Halter, Mayor, Mat-Su Borough, Wasilla; Bryce Ward, Mayor, Fairbanks North Star Borough, North Pole; Gregg Brelsford, Manager, Bristol Bay Borough,

Naknek; Cynna Gubatayao, Finance Director, Ketchikan Gateway Borough, Ketchikan; Speaker Bryce Edgmon; Representative Matt Claman; Representative Ivy Spohnholz; Representative Geran Tarr.

SUMMARY

COMMUNITY INVITED TESTIMONY ON COVID-19, CORONAVIRUS AID, RELIEF, AND ECONOMIC SECURITY ACT (CARES ACT) FUNDING

Co-Chair Foster reviewed the meeting agenda. He indicated the committee would be hearing from municipal governments regarding the use of COVID-19 response funding.

^COMMUNITY INVITED TESTIMONY ON COVID-19, CORONAVIRUS AID, RELIEF, AND ECONOMIC SECURITY ACT (CARES ACT) FUNDING

9:04:09 AM

NILS ANDREASSEN, EXECUTIVE DIRECTOR, ALASKA MUNICIPAL LEAGUE, JUNEAU, read a prepared statement:

Impact - lost revenue and expenditures

Many actions occurring at the local level are in response to CDC guidance or directives and State mandates; essentially, local lost revenues and expenditures are tied to State and Federal government action. Local governments in Alaska share in direct and indirect costs incurred in response to the public health emergency. Local budgets are based on economic activity that is restricted by State and Federal decisions.

Alaska's local governments are dependent on a healthy and active economy. Many local economies have single drivers, which influence the revenues of local governments. COVID-19 will negatively impact travel and tourism, retail, fishing and seafood processing, and may even slow mining, oil and gas. Local governments may see reductions in tax revenue of as much as 80-95%, with more likely scenarios of 50%. This will deplete savings, reduce overall budgets, escalate the need for increased local taxes, and affect local ability to pay for essential public services (including public safety and education) and

service debt. Again, this is occurring mainly as a result of State and federal mitigation measures.

AML estimates that local government revenues will be impacted in the short term - March through June - by as much as \$150 million, and longer-term impacts by another \$100 million. This includes loss of sales, bed, rental car tax, downturn in the fishing industry and related fisheries revenue, commercial passenger vessel fees, utility fee and other tax waivers, public facility, bingo and pull-tab closures, and non-payment of property tax, or property tax devaluation. The latter remains to be determined in terms of what that impact will actually look like for property tax dependent local governments.

In addition to these COVID-19 related budget impacts, local governments are considerate of real and potential expenditures during this public health crisis. We have estimated potential expenses for a variety of needs to be as much as \$250 million or more, which beyond the direct expenses of PPE and emergency management, includes:

- Mitigation measures within public facilities
- Expanded leave requirements of the FFCRA
- Vulnerable population support
- Social distancing measures for councils, assemblies and staff
- Reallocation of staff time to meet alternative schedules or as staff are moved to response
- Administrative expenses, and overtime for staff filling other roles
- Utility fee and connection waivers
- Workers comp claims/premiums
- FEMA or grant match requirements
- New contracts to replace vendors, transportation, food, and housing needs
- Postponed project and re-permitting fees

As you can see, our initial estimates of local government impact are nearly \$500 million, with longer term needs further adding to this. Local governments will need support from the State through whichever mechanisms result in efficient and effective disbursement.

CARES Act restrictions - Treasury guidance is helpful

When Congress passed the CARES Act, state and local governments were very hopeful that the \$150 billion funding provided under the Coronavirus Relief Fund would help address the challenges at hand. For Alaska's cities and boroughs, this impact was specifically felt in the form of unanticipated expenses and lost revenues.

The CARES Act funding will help with those unanticipated expenses, as they relate to the public health emergency. But the restrictions at the federal level mean that local budgets can't be made whole. In fact, CARES Act funding will need to be used by local governments on a wide range of new programs. This, in many ways, is exciting - local governments will be able to provide additional support to their community's most vulnerable residents, can work with nonprofit partners on service delivery, and can direct funds to individual and business support for those struggling during the economic impacts of the COVID-19 crisis.

This funding will enable local governments to be innovative as they work with the community to shore up community needs, even as they struggle to figure out how to meet their own.

Alaska's local governments are facing unprecedented budgetary pressures - not just the economic contraction related to COVID-19 but vetoes of school bond debt reimbursement and community assistance, among others that end up not being able to be backfilled with CARES Act funding. While CARES Act funding will likely help with the costs that come with responding to resident and business needs during a public health and economic crisis, revenue losses that might equal between 20 and 80% of total annual revenue are to date not eligible for any relief funding. As much as we were hopeful for flexibility in using these funds to meet these budgetary needs, current federal restrictions will limit the ability for local governments to make up the difference.

Uncertainty - questions but problem solving

Where does this leave us? Planning with a great deal of uncertainty. Local governments have a proposed distribution in front of them from the Governor, but don't know what legislative action will occur. We have guidance from Treasury that can be narrowly or broadly construed, but will need federal OMB and additional Treasury guidance to work through all the what ifs and compliance issues. Finally, we're in the middle of a budget process working under a current set of assumptions, with very little clarity about what the future holds when it comes to public health needs. Finally, it is entirely possible that there is further Congressional action. We just don't know what's coming.

While local governments have questions about what funds can and can't be spent on, there is still a lot of time to work toward better answers. We have time to work through reporting requirements, documentation, etc. We can work toward a mechanism to move community funds between communities, if there is any risk that the allocation may be unspent or not spendable. We can work toward a way that ensures recipients provide the State with the justification for spent funds that it needs.

Right now, when it comes to uncertainty, local governments are most concerned with the risk involved. That won't go away until we have some clear processes in place, established by OMB. It won't go away until we receive additional information from Treasury and the federal OMB, which is going to determine procurement and audit procedures, as well as further elaborate on allowable expenditures.

AML has committed to supporting members during this time, augmenting the capacity of members who need it for reporting and compliance. We'll expand our member services portfolio so that we can help manage that risk in partnership with members.

Insurance - two months into multi-year pandemic, and still 8 months left to spend

Spending of CARES Act funds must occur by the end of this calendar year, with a look back to March for

expenses already incurred. We're two months into a potentially multi-year pandemic. We're at a place in time where Alaska has flattened the curve. Most importantly, we still have restrictions on interstate travel that includes quarantine requirements. But we have a fishing season that's coming very soon, with tens of thousands of out of state workers coming into very small communities. We hope to have some kind of visitor season beginning in July, with in-state travel already occurring.

While things look manageable right now - and that depends on where you sit - CARES Act funding ensures that local governments have the resources necessary to respond to needs that are still to come.

It's important to keep in mind just how different local governments are. Different powers mean different types of responses. Everyone is practicing social distancing in different ways. We've had stories of city staff in small communities ensuring that elders are safe and have their needs met. Bingo or pull-tab receipts might seem small losses for one community, but are similar as tax revenue to others, as a % of overall budget. Closed facilities have meant layoffs and furloughs, increased leave taken, and very limited services in some communities.

Local governments will also experience risk management and risk tolerance differently. Everyone wants to be sure they comply with Treasury guidance, that's the bottom line. No one wants to be responsible for questionable expenses that need to be recouped at a later date. So, we'll have to approach this carefully. Recognizing that concern is important, even as we work really hard to implement this in support of our communities.

Making communities whole - local control

I want to leave you with some of the good ideas that have come out of conversations these last few weeks, as ways to leverage the CARES Act funding in support of our most vulnerable populations, businesses impacted by State mandates, overcoming challenges that residents might be experiencing, and to provide incentives for employees to come back to work.

1. Purchasing or further developing homeless shelters, senior centers and childcare infrastructure
2. Healthcare or childcare assistance for those returning to work
3. Mortgage, property tax or rental relief and assistance
4. Grants to nonprofits - focused on those with essential service delivery or that contribute to economic recovery and quality of life in the community
5. Grants to businesses - focused on small, locally-owned, or year-round businesses
6. Grants to residents - relief where economies have been impacted by 15% or more decreases
7. Improved food distribution, food bank investments, local food access, etc.
8. Support for schools, the university and hospitals
9. Marketing for health-informed visitor and retail activity
10. Projects that improve community access to safe water and sanitation

Beyond these broad support measures, we've heard ideas about incentives for residents that wear face coverings, or otherwise contribute to public health. Local governments may need to transform how they continue to provide services to residents. That means they'll need to implement long-term social distancing, hygiene, and sanitation measures. Community facilities will need to be renovated to meet public health concerns. We'll see enhancements to remote access of municipal services, including a move toward more online capabilities that don't exist in most communities. Local governments will need to partner with their school districts to enable continued or enhanced distance learning, support mental health, and accommodate social distancing measures in congregate settings.

We know that each of these needs to be tied back to the public health emergency, as required by the CARES Act guidance, and each innovative approach that is applied needs to be justified to the State and ultimately federal government. We're confident that

these - and dozens of other measures that have come from local governments - meet the intent of CARES. What's most important, from our perspective, is that local governments are in a position to support their communities. That is a fundamental priority for local governments. Together, they have the capacity to manage these funds with their residents and businesses in mind, in a way that can be tailored specific to the needs of their communities. Local control of these resources is critically important to making sure Alaska's residents and businesses are supported throughout the public health and economic crisis.

[9:15:44 AM](#)

Co-Chair Foster indicated Speaker Bryce Edgmon was online. He provided the line-up of testifiers.

Representative Sullivan-Leonard thanked Mr. Andreassen for his testimony. She, along with the Alaska delegation, wanted to make sure that communities received funding as quickly as possible. She asked what kind of conversations he had had with the U.S. Department of Treasury and the National Association of Counties (NACO) to access funds quickly for communities in need.

Mr. Andreasen indicated he was on daily calls with NACO and National League of Cities (NLC) partners in Washington D.C. He was encouraged by a call he had had earlier in the week with treasury officials that outlined and provided better guidance that he expected to receive more formally in the near future. They provided some latitude as he mentioned in his remarks. While the federal government was very clear that the funds could not be used for lost revenue, they could be used to support community needs. He was also hearing that needs were immediate, as many cities were on the brink across the nation. Some Alaskan communities had reported having to let go of personnel. It was critical to disburse funds immediately.

Representative Sullivan-Leonard asked if a particular route, the revised program legislative (RPL) process or the direct grant process, was more conducive for local governments. She wondered if getting the money out to where it was most needed was more important than which process was used.

Mr. Andreassen was not in a position to speak to the method used to disburse the funding. Instead, he emphasized the importance of getting the funding out to communities as quickly as possible. Alaskan communities were hurting and clearly had needs at a time of crisis.

[9:19:31 AM](#)

Representative Josephson took the committee back to June 28, 2019 and the governor's vetoes in the range of \$440 million. In early July 2019 in a special session, the legislature swiftly passed HB 2001 which restored about 85 percent of the \$440 million in vetoes. He believed the governor, under pressure, only vetoed about 55 percent of the restored funds. He noted that AML's members saw a veto of school bond debt reimbursement, K-12 monies, ferry system monies, and community assistance funding. He asked if the legislature should consider restoring the funds in order to know unequivocally that any treasury guidance would not hamstring the purpose of the appropriation.

Mr. Andreassen reported that AML was concerned with how to shore up local government finances and would appreciate the legislature's consideration in the matter beyond what the Cares Act could provide. The Cares Act had significant functionality when it came to how local governments could support their communities. It would provide a significant amount of funding for expenditures communities were not planning on in the current or upcoming fiscal year. Conversations would still need to take place about the effects of the vetoes around school bond debt reimbursement and community assistance for FY 21. He thought state and local governments would have to work together to determine what local governments would need in order to avoid taxes, reductions to services, or additional unemployment at a time when everyone was hurting.

Representative Josephson mentioned the ongoing discussion at the federal level about additional funding for states and cities. United States Senator McConnell seemed open to the idea but wanted a provision included to preclude liability for funds that had previously been appropriated in the CARES ACT. He wondered if the legislature should encourage the governor to join states wanting discretionary money that Mr. Andreassen had outlined in his opening remarks.

Mr. Andreassen responded affirmatively. His understanding was that the restrictions of the CARES Act funding were federal limitations. He was aware that the intent behind getting the funds to local governments was to help local government. At the federal level, the conditions placed on the funds restricted the ability for local governments to do the things they needed to. He encouraged every effort to be made by local and state governments to apply pressure on congress. He hoped Alaska's congressional delegation could be local government champions in the coming weeks by either fixing the CARES Act to allow for lost revenue or by creating a new funding distribution with fewer restrictions that went directly to local governments.

[9:24:31 AM](#)

Co-Chair Foster noted the committee had been joined by Representative Matt Claman.

Vice-Chair Ortiz thought it was clear, through Mr. Andreasen's testimony, that CARES Act money being provided by the federal government could be spent to mitigate costs related to dealing with COVID-19. However, the funding could not be used to supplement revenue losses experienced by communities around the state. He queried whether any flexibility in the use of the funds was indicated in any of the conversations Mr. Andreassen had had with federal government officials. He wondered if he was still hopeful about either a different appropriation from congress or a change in the terms around the Cares Act funding being used to supplement lost revenues by municipalities.

Mr. Andreassen reported that the U.S. Treasury had drawn a hard line about a lost revenue replacement. He was less confident in the ability to amend the CARES Act to include lost revenue replacement. However, he was hopeful about the work congress was doing to create new pathways for funds to reach local governments with legislation in the works. He indicated that the Cares Act funding was helpful for local governments to use for their communities and, at the same time, suggested that additional measures would be needed to help shore up budgets at the local level.

Vice-Chair Ortiz suggested that much of the funding would need to be returned if there were no changes made to the terms of use for the existing Cares Act funding and with no additional relief money in sight.

Mr. Andreassen was hearing from municipalities that they would be able to use the funding. However, it would be helpful if there was a mechanism in place to redistribute the funds within a broader allocation. He indicated that if a community was unable to spend its portion of the CARES Act funding, it would be important for a provision to be in place to ensure that the funding could be shared with another community in need. He thought reallocation was something to plan for in the near future.

Co-Chair Foster acknowledged Representative Ivy Spohnholz. He reviewed the list of invited testifiers in the order they would be heard.

[9:29:48 AM](#)

PAUL OSTRANDER, KENAI CITY MANAGER, KENAI thought Mr. Andreassen had done an excellent job of capturing most of the concerns of municipalities with his statement. He would add some things from the perspective of the City of Kenai. He suggested that the needs varied drastically between municipalities across the state depending on sources of revenue. However, every community in the state was hurting from the current pandemic. He agreed with Mr. Andreassen that revenue replacement was desperately needed by municipalities, and the Cares Act did not allow for it.

Mr. Ostrander reported that for decades the City of Kenai had been fiscally conservative and financially responsible. He reported no tax increases in the previous 5 years. The city had a fund policy in place requiring that expenditures equaled revenues over a 3-year period. Essentially, the city could not deficit spend. He relayed that the city did not carry an excess fund balance, as a fund balance of the municipal purse meant over-taxation. The preparation of the current budget had been the most difficult of his career because there were several uncertainties. The borough had had plans to address deferred maintenance but as soon as the pandemic hit, it had to restart its budget process. He mentioned that during the process the city cut over \$1 million in capital projects that had been planned for the following year. He noted furloughing 4 positions and identifying 3 additional positions that would need to be eliminated in the following year. The city was also increasing the amount that employers paid for healthcare premiums. Even with the steps the city had already taken, a

huge general fund deficit of approximately \$760,000 was projected for the following fiscal year. The city's total general fund budget was \$16.5 million. He reported that in the remainder of the current fiscal year (FY 20), the borough anticipated a revenue loss of \$600,000. He strongly encouraged the House to approve the CARES Act request for proposal (RPL) to the governor, specifically the portion for direct municipal relief in the amount of \$562.5 million. He noted the importance of distributing the funds to municipalities and boroughs across the state, as local control was critical. Municipalities were aware of the needs of their communities.

Mr. Ostrander expressed concerns about the current guidance by the U.S. Treasury Department. He noted having talked with several other municipalities around the state and found that the interpretation of the guidelines varied dramatically. The City of Kenai was struggling with determining the appropriate use of the CARES Act funds. He recommended guidance from the Office of Management and Budget (OMB), as communities would likely utilize the funds in a way that was not appropriate in the eyes of treasury. It was possible that communities would be asked to return funding to the federal government if misused. He asserted that every community was struggling with how to best utilize the funds. He strongly encouraged the legislature to approve the request from the governor and to request clear guidance as to how to spend the money appropriately.

Mr. Ostrander emphasized that the state needed to take the critical step of encouraging Alaska's congressional delegation and congress as a whole to pass legislation for additional stimulus funding that would allow for revenue replacement for municipalities. He concluded his comments and made himself available for questions.

[9:36:38 AM](#)

Co-Chair Johnston asked if the City of Kenai had used its bonding capacity. She asked if the city's fund balance backed up its bonding.

Mr. Ostrander responded that the city had one bond, a library bond, that was 10 years into a 20-year period. Essentially, the city had used \$2 million of its bonding capability. It was likely that the city would be using \$5 million to \$7 million more of its capacity in the

following several years. He elaborated that the city had been working on a bluff stabilization project for about 40 years and had finally made progress to the point of construction which will begin in FY 21 or FY 22. The project would require significant additional bonding and a match from the city.

Co-Chair Johnston asked if the fund balance was used to back the city's bond. She wondered how the city calculated the needed fund balance. Mr. Ostrander responded that the city based its' fund balance on the Government Finance Officers Association's (GFOA) best guidelines. He provided an example. If the city were to bond for an additional \$5 million to \$7 million it would increase its' expenditures in the general fund which would also increase the city's fund balance range. The guideline was comprised of a combination of expenditures and the minimum and maximum fund balances necessary to support expenses in future years. Co-Chair Johnston suggested that it was a significant impact on the city's fund balance.

Co-Chair Foster noted the committee had been joined by Representative Geran Tarr.

[9:39:39 AM](#)

LUCY NELSON, MAYOR, NORTHWEST ARCTIC BOROUGH, KOTZEBUE, reported she had provided a position statement to the governor and some of the legislative leaders previously. She wanted to talk about how the federal Cares Act was impacting the Northwest Arctic Borough. She thanked legislators for their strong state leadership in addressing COVID-19 and the transparent and frequent communication about what was happening. She reported that the economic impact to residents and communities from COVID-19 had been sudden and severe. She thought it was important that federal assistance was accurately targeted to meet the needs faced by communities.

Mayor Nelson continued that, as explained in her written position statement, she had concerns about the proposed payments to communities across the state. She provided a small history about the borough. The Northwest Arctic Borough had a population of approximately 7,700 and was comprised of eleven communities: Ambler, Buckland, Deering, Kiana, Kivalina, Kobuk, Kotzebue, Noatak, Noorvik, Selawik, and Shungnak. The borough was scattered across an area of

about 38,000 square miles with no road systems connecting its communities. The lack of a connecting road system made residents heavily dependent on expensive travel and increased costs for the transportation of goods and supplies. The large geographical size of the borough hampered its ability to provide adequate emergency and public safety services and other necessary public services.

Mayor Nelson also provided a general picture of the borough's finances. The borough had done its due diligence by being a good partner with the state, at the federal level, and with local organizations. The borough had leveraged huge projects with its excess funds including projects such as the Kivalina evacuation road in the amount of \$4.9 million. The borough had additional bond debt in the amount of \$12.7 million for the Kivalina new school. It had advanced funding for the Cape Lawson Road project to facilitate the mobilization of gravel. The project would begin in the coming spring.

Mayor Nelson reported that more than 50 percent of the borough's annual budget paid for bond debt for school construction and improvements. In addition, the borough helped with local education contributions and scholarships. The remainder of its operating budget went to public services such as public safety, fire-fighting, and search and rescue. The borough had over 140 volunteers that assisted with emergency needs. The budget also paid for administrative staffing. Every time the borough experienced a funding reduction, it had a significant impact on its ability to provide basic services.

Mayor Nelson indicated that when the borough received the governor's plan for the distribution of \$1.25 billion in Alaska CARES Act funding to communities a former allocation method was used to determine the funding amount for each community. The proposed formula calculation significantly reduced the funding the Northwest Arctic Borough usually received for school bond debt reimbursement, community assistance, Village Public Safety Officer (VPSO) funding. The borough's VPSO funding was cut drastically by about \$800,000. The CARES Act funding allowed 45 percent of the state's allocation to go directly to larger communities and counties above 500,000 residents but did not direct states to provide the same amount of funding for smaller communities. She emphasized the large decrease in the borough's funding. She recognized the importance of the

CARES Act funding - it was critical for local governments to continue to provide local prevention, mitigation, and response to COVID-19.

Mayor Nelson indicated the borough had been working closely with all of its communities. The borough had representatives from all of its villages and representatives from all of its local organizations on its COVID-19 Task Force. The task force had met for over a week to discuss how to slow and prevent the disease. The Northwest Arctic Borough had not yet had a case in any of its villages and would continue with the hunker down order through May 19, 2020.

[9:45:00 AM](#)

Mayor Nelson reemphasized that the funding was critical for maintaining and operating the Northwest Arctic Borough during the current public health emergency and economic crisis. The proposed funding of \$1.2 million was significantly less than what the borough usually received in state aid for community assistance, bond debt reimbursement, and other grants such as the one for the VPSO Program. The issue posed a significant problem and had to be fixed, as the borough could not impose additional taxes on its residents who were already economically distressed. Also, Native land was not taxable. Much of the borough's revenue came from a long-term agreement with Tech Incorporated and could not be modified or renegotiated until 2026. Unfortunately, the borough had no other options to increase revenue.

Mayor Nelson reported that previously the borough was reimbursed for \$4 million of the \$6.9 million that it was obligated to pay. The borough's total debt for 2020 was \$40 million. She had to look at the borough's budget closely to supplant the previous funding committed by the state for essential borough services which protected the lives, health, and safety of residents. Without additional funding, services would have to be reduced or eliminated. She reiterated that the borough had done its due diligence to improve the economic wellbeing of its residents. Any change in the state's commitment on school bond debt reimbursement and other grant programs posed a significant burden on its local communities. For example, through the Community Assistance Program the borough usually received \$300,000. It shared the funding with every municipality

including the Noatak Indian Reorganization Act (IRA) Council (Noatak did not have a local municipality). She furthered that whenever the Community Assistance Program was reduced, funding to the borough's small local governments was decreased or eliminated. She concluded that all of the progress the borough made in improving basic services like water, sewer, sanitation, fire protection, search and rescue, and other public service programs over the previous 20 years were negatively impacted. The proposed CARES Act distribution of \$1.2 million was 70 percent less than the amounts that the borough usually received in funding from the State of Alaska. At the same time, the borough's communities were facing increased expenses responding to COVID-19 as a public health emergency - a new type of disaster.

Mayor Nelson continued that there were other tangible impacts resulting from the pandemic included increased public safety, housing, homelessness, and mental health issues which had to be addressed. Basic local governments were being asked to do more with less money during a national health emergency and economic crisis. The borough strongly encouraged the state legislature and the House Finance Committee to reconsider the allocation formula. She suggested that, at minimum, the state legislature should include full funding of school bond debt reimbursement and community assistance through available funding mechanisms. The Northwest Arctic Borough requested that the legislature meet the needs of communities during the current unprecedented times. She thanked members for hearing her testimony and was available for questions.

[9:48:56 AM](#)

Representative Josephson commented that the Mayor's testimony was very helpful. He thanked her.

Co-Chair Foster commented that the borough operated under a PILT [Payment in lieu of taxation] system. He noted her remarks that the borough could not increase revenue and school bond debt reimbursement was vetoed. Normally, the options would be that the borough could make up for the money with increased revenue through increasing taxes such, as property taxes, or reduce expenses. In the borough's case, it could not increase taxes. The only option it had was to make cuts. He asked if his assessment was accurate. Mayor Nelson responded that the Northwest Arctic Borough

did not tax its residents with a property tax because 10 out of 11 communities were in economic distress.

Co-Chair Johnston asked if the borough had been working with the tribal governments for additional funding. Mayor Nelson responded that the borough had been contacted by several of the tribal communities. She explained that tribal communities had more power to get additional funding. The borough had applied for funding through federal and state programs and had not received any responses. She explained that the borough was different from a tribal entity.

Co-Chair Johnston commented, "I realize that does not help you in your situation."

9:51:13 AM

Representative Wool asked if the health facility in Kotzebue was under strain presently and whether it was community owned.

Mayor Nelson responded that the health facility was owned by Maniilaq Association who managed the clinics in all of the village locations including Point Hope. She confirmed that the health facilities were under strain. She elaborated that there were about 50 participants in the borough's COVID-19. They were able to get some rapid testing. The borough had huge concerns since it had not had a case to-date. She reported that the borough was trying to prepare should a case arise. There had been high concern regarding in-state travel. She had reached out to the governor to have certain mandates in place and a means of enforcing them, particularly at hub airports. She noted that people were supporting each other. She mentioned the Northwest Arctic Leadership Group which included NANA, Northwest Arctic Borough, Northwest Arctic School District, and Maniilaq. The group had contributed supplies. Preparedness in the event of an outbreak would depend on the resources the borough received.

Representative Wool asked if the borough expected a seasonal influx like other communities. He queried about the mine population and whether the mine was separate from the communities.

Mayor Nelson responded that the mine was separate from communities. The mine was flying its workers to Anchorage and housing them there. Travel for essential services was the only type that was being allowed. The borough had its public health nurses conducting screening at the airport, asking passengers about their reasons for travel. The borough was taking every measure possible to conduct screening.

[9:54:09 AM](#)

Representative Josephson wondered how the funding provided to tribal entities would help villages as members of AML. He wondered about a distinction. Mayor Nelson responded that tribal entities received their funding separately from the Northwest Arctic Borough. The tribes were responsible for making their own budget plans and determining how they spend the funds. The borough had been compiling its own general fund sources from the 4 entities and local organizations that were able to contribute such as cleaning materials and masks. Unless they asked for technical assistance, they decided how they would spend their money.

Representative LeBon asked about revenue. The mayor had mentioned that the borough had no property tax. He wondered about the PILT related to the Red Dog Mine. He asked her to explain how the funding worked. Mayor Nelson responded that because the borough's 10 of 11 communities were economically distressed, the assembly and administration decided not to impose a property tax. She further explained that through PILT, a different arrangement and under the borough's code, it had the authority to enforce a tax on mining companies. The borough had been doing it for more than 25 years. In the past the borough had negotiated agreements in 3-year increments. Currently, there was a 10-year PILT agreement (2016 - 2026) in place with an option to extend it for an additional 5 years. It was based on the mine's production volume after an annual audit. The borough's annual budget for 2020 was \$28 million, much of which went towards education and public services.

Representative LeBon noted Mayor Nelson had mentioned that the Village Public Safety Officer (VPSO) Program had been cut. He asked if the borough had been unable to fill any positions in which the borough had qualified applicants ready to go to work. He also wondered whether the Department of Public Safety assisted the borough when it

had asked for help in filling the positions with qualified applicants.

Mayor Nelson responded that in 2019 the grant agreement was for about \$1.1 million which included approximately 7 positions. In 2020 the program had been cut to \$353,000 which was equal to 2.5 positions. She had talked to the Department of Public Safety and the governor. They stated that if the borough was able to fill the positions, they would supplant them. Currently, there was one graduate from the VPSO academy. There were two others who returned home. There were 2-3 applicants being screened. One other person came onboard yesterday and another possible person will come on in June.

Representative LeBon wanted to confirm that if the borough had qualified applicants ready for the academy and ready to fill positions, the borough had received support from DPS to fill the positions. Mayor Nelson responded that Representative LeBon was correct. The borough had to work closely with them and provide a justification of increased positions. The department had been willing to work with the borough.

[9:59:34 AM](#)

BILL ROBERTS, MAYOR, KODIAK, was working with the governor's office because he thought the appropriation of Kodiak's CARES Act money was much lower than it should have been. Even if Kodiak were to get additional CARES Act money, the rules for spending it were very limited. He indicated that the largest concern was around the monies lost through the veto process for school bond debt reimbursement and community assistance. The reduction of both items would increase the tax burden of Kodiak's property owners by about 50 percent. He explained that it would be incredibly difficult for residents of Kodiak to backfill bond reimbursement and community assistance monies. The borough was currently working on the budget but had delayed submitting it hoping for an answer to the vetoes and to find out whether the CARES Act money could be used to help with bond debt. Apparently, the funding could not be used for bond debt.

Mayor Roberts indicated that one of the borough's largest problems was timing. It had to have a budget by June 8, 2020. The borough was required to hold 2 public meetings to

pass the ordinance for the budget. The borough was planning for the worst circumstance because of the foley of the previous year's budgeting process anticipating a veto override and incorporating it into the budget. Currently, it appeared the borough would have to plan for a 50 percent tax increase in order to fill the funding gap. He was concerned with the effects a tax increase would have on the community. He was looking to the legislature to move quickly to cover some of the costs associated with bond debt reimbursement and community assistance. He concluded his testimony.

10:03:04 AM

MICHAEL POWERS, MANAGER, KODIAK ISLAND BOROUGH, KODIAK, read a prepared statement:

The borough very much appreciates the House and Senate approving the full school bond debt reimbursement and community assistance funding this year. However, the governor's veto, with his hollow promise to make up the funds, left the borough facing over a \$5.8 million shortfall in debt service, and we are losing over \$300,000 from the community assistance program. This will result in a nearly 50 percent increase in our property taxes for every property owner on Kodiak.

While we appreciate the CARES funding and will put it to use, it cannot replace the funds that were vetoed by the governor. First of all, there are federal restrictions that prohibit it. Second, it was substantially less than what was provided by the legislature's funding of school bond debt and community assistance. The lack of flexibility in the CARES Act funding, the uncertainty of what the rules will be, and what the federal government may do all leave Kodiak Island Borough in the lurch.

At the same time as we are addressing COVID-19 issues, we are having to prepare for a potential second wave that "experts" are telling us we are likely to face this fall with unknown impacts at that time. Kodiak Island Borough has been fiscally conservative for years, and, like others, have kept our taxes as low as possible, provide services that our residents demand in an efficient manner, and keep our expenses in check. In light of last year's vetoes, we left

positions unfilled, reduced positions, and will continue to do so this year, as well as, reducing our capital expenditures at a time when much of our infrastructure is aging. I would urge you to consider the impacts of the governor's vetoes and their devastating impacts both on Kodiak and other communities and strongly urge you to take action to restore the funds vetoed by the governor.

Mayor Powers thanked the committee for taking the time to listening to the borough's needs and the needs of fellow communities. He was available for questions.

Co-Chair Johnston asked if the borough had a sales tax or fish landing fees. Mayor Powers responded that the borough did not have a sales tax measure although the City of Kodiak did. He indicated that the borough collected severance taxes for fish landing at the local level as well as receiving pass-through monies from the state fish business tax.

Co-Chair Johnston asked who was responsible for providing public safety - the city or the borough. Mayor Powers responded that the city provided public safety within the city limits. The Alaska State Troopers provided public safety and law enforcement within the borough. He reported that the borough had 2 fire protection districts that provided fire protection for the more urbanized areas that were outside the city limits.

[10:07:01 AM](#)

Co-Chair Johnston asked if the borough had a health authority. Mayor Powers responded affirmatively. He explained that when the borough was founded it took health powers. The borough operated a hospital that was leased to Providence. A long-term lease was in place that provided for the maintenance of the facility. Providence provided the health care piece. The borough partnered with Providence at various times on various issues including mental health and COVID-19.

Co-Chair Johnston wondered if the city and borough had an emergency response cooperative agreement. She was trying to determine where the borough could spend the CARES Act monies. Mayor Powers replied that by ordinance the city and borough functioned as a joint unit for emergency

operations. A jointly manned emergency operations center was in place. The emergency services council, made up of borough, city, and U.S. Coast Guard personnel, set policy. The emergency operations center and the emergency management team operated jointly between city and borough staff dealing with all emergencies in a joint manner.

Co-Chair Johnston wanted to confirm that the borough would be able to spend the CARES Act funding on emergency units and health related items, but it would not help with the borough's overall budget. Mayor Powers responded, "That is correct."

[10:09:12 AM](#)

Representative Wool gathered from multiple testimonies that the school bond debt reimbursement seemed to reflect the largest hole in the budget, and the CARES Act funding could not be used to backfill the gap. He garnered from the chart that the borough would receive \$3.8 million in CARES Act funding and the city would receive \$11.9 million based on lost tax revenue. He asked how much the borough was losing from the removal of school bond debt reimbursement. He also wondered if much of the borough funding issues would be relieved if the funding for school bond debt reimbursement was reinstated.

Mayor Powers replied that the 100 percent loss of school bond debt reimbursement previously approved by the legislature was \$5.8 million. He concurred that it was a significant amount of money that would be impacting residents. He noted there was an additional amount of about \$300,000 lost for community assistance that would otherwise be used for providing services.

Representative Wool commented that the City of Kodiak had access to \$12 million for COVID related expenses. He asked if the situation would be similar for other communities that were not currently experiencing a direct COVID impact. To his knowledge, Kodiak only had a few cases of COVID. He wondered if municipal funds could be used for the hospital. Mayor Powers responded that he could not speak on behalf of the city. However, the borough was surprised that the city received a significant amount of money. He wondered how the money would be used based on the response that had been necessary to-date and based on the limitations on the use of the funding.

Representative Merrick thought Mr. Powers had mentioned that the distribution of the CARES Act funding throughout the state was inequitable and that Kodiak received less than it should have. She wondered how much in additional funding the borough would need if it was used in the manner in which it was currently designated. Mayor Powers thought there was room in the CARES Act funding to offset some direct losses in the community. If the federal government agreed that such a path was appropriate, the amount of \$3 million to \$4 million would be suitable for the borough.

10:13:52 AM

JASON BOCKENSTEDT, CHIEF OF STAFF TO ETHAN BERKOWITZ, MUNICIPALITY OF ANCHORAGE, ANCHORAGE, read a prepared statement:

As you can imagine, we did not foresee or account for a global pandemic when the Municipality of Anchorage developed our 2020 budget. The ramifications of the COVID-19 pandemic are immediate, far-reaching, and will continue to impact residents and communities across our great state for many months to come. My comments today will explain Anchorage's steps to flatten the curve including unexpected expenses to fight the virus and how we encourage CARES Act funding to be allocated to local governments. In Anchorage, we've experienced the majority of the confirmed COVID-19 cases in our state. As the largest municipality in land area and population, that's to be expected. The decision to act early to hunker down and close businesses and restrict gatherings was not easy, especially because small businesses are the drivers of our economy, but it helped us flatten the curve and saved many lives.

This is an unprecedented health crisis, and protecting our residents is the most important thing we can do. All told, to-date we have spent or encumbered more than \$10 million in municipal funds. How have we spent these funds? Here are just a few ways. We activated our emergency operations center, reassigning almost 100 municipal personnel and contractors to perform a wide range of critical needs including collecting and distributing PPE and coordinating with the hospitals to track PPE burn rates across the municipality while

also working with DHSS to fight the spread of the virus by performing contact tracing on every known case of COVID-19. We placed a significant order for powered air purifying respirators for our first responders, reserved hotel rooms for those needing quarantine, contracted additional medical personnel to perform screenings, created a system to transport COVID positive individuals to medical appointments and COVID-suspected individuals to testing sites, and stood up temporary mass shelter space and quarantine facilities.

Additionally, we have postponed certain non-life, safety, and annual inspections for small businesses, reduced building permit fees by 25 percent for the remainder of 2020, and postponed our personal property and business property tax collection date. We have completed all of this and more to prevent our hospitals from becoming overwhelmed and to protect our most valuable residents. We did this knowing full well that as the primary transportation and healthcare hub in Alaska losing control of the virus in Anchorage could devastate the entire state. We knew that hunkering down would hurt the economy and our budget, but it was the right thing to do. And we counted on the federal government to have our back.

When congress passed the CARES Act to support local governments like the Municipality of Anchorage for doing the right thing we were encouraged. Now we are concerned that the law is being interpreted incorrectly and narrowly and in a way that will make the relief less effective. We are here to discuss how federal CARES Act funds should be allocated to local governments.

Clearly, we all have a major stake in this decision. We need these funds to provide needed flexibility for all of our unknown issues yet to come. Instead of getting into the political fray and jurisdictional issues, I would simply encourage anyone concerned about CARES Act interpretation to consult the letters sent by both sides of the aisle in the U.S. Senate to Secretary Mnuchin about how funding was intended to be used. Excerpts particularly poignant from democratic and republican letters from earlier this month include these statements clarifying congress' intent: "In the

midst of an economic collapse, the intent of the entire CARES Act is to provide flexible help to a wide range of Americans. To prevent the flexible use of these relief funds is a choice that is neither required nor intended by law."

Also, in a letter led by Alaska senators Murkowski and Sullivan, and signed by almost 20 members of their caucus, their letter states, "The purpose of the Coronavirus relief fund is to provide flexibility to state and local governments including those under 500,000 to fill the gaps in economic response inevitably left by the one-size-fits-all federal programs." From these statements it's abundantly clear the intent of congress is to allow for these funds to replace lost revenue by local government. As legislators, each of you know how important it is that your intent be honored by the executive branch. Congressional intent is clear here. This was not partisan legislation. A \$2.2 trillion stimulus bill passed unanimously.

Furthermore, this intent is strengthened because many of the direct expenditure incurred as we respond to this pandemic are already eligible for reimbursement by the Federal Emergency Management Agency (FEMA). CARES Act funding received by local governments supplements funds that local governments would receive as FEMA reimbursements. It is incorrect to assume that the CARES Act must be the source of all reimbursement for the COVID response.

The most significant effect COVID-19 will have on our budgets is through lost revenues. Not only is one of our major industries, tourism, particularly hard hit by cruise ship cancellations throughout the state, we will also have fewer landings at the Ted Stevens Anchorage International Airport, reduced group and independent travelers coming to our area, and we already know our hoteliers will experience a dramatic drop in guests. This means a major loss in bed tax and rental vehicle tax revenues. CARES Act funding to the municipalities will be used immediately so we can protect tax payers and recover the lost revenue from these unpredictable downturns in expected revenue we contemplated last year when planning our 2020 budget.

The purpose of the CARES Act is to infuse money into our economy while helping local governments cover costs related to the COVID-19 pandemic. I encourage the legislature and the governor to contemplate this as you work to allocate this major infusion of recovery funds from the federal government. Each community in our state has important needs. However, it can't be ignored that Anchorage has the largest population center with 3 major hospitals, the largest airport, and the Port of Alaska that provides goods to over three-quarters of the state bares the brunt of the responsibility to help keep residents safe.

As you work with the governor to determine where the funds should be allocated, the residents of the Municipality of Anchorage and I hope you will keep this in mind and help us build a stronger, more robust future, with adequate and appropriate CARES Act funds. I would be remiss if I didn't acknowledge the many people who helped get us here today. To me it's actually the silver lining of this entire situation and a meaningful reminder of what it means to be Alaskan. We take care of one another. I'd like to close by saying I've been privileged to witness people coming together to benefit the greater good.

On behalf of the mayor of Anchorage I'd like to thank the first responders and medical personnel who continue to protect our communities, the residents of the municipality who hunkered down despite the hardships, the business owners who adapted their business models on the fly to keep serving patrons during these unprecedented times, the municipal employees who continue to go above and beyond to provide critical services residents depend on, Senators Murkowski and Sullivan and Congressman Young, the Alaska Legislature, the governor, and all of the people across the state who assist those in need even though it may go unnoticed. Thank you. Thank you. Thank you. You are what sets our state apart from all the others. You are why we flattened the curve. You are the reason why Alaska is still the best place to call home.

Mr. Bockenstedt made himself available for questions.

[10:22:17 AM](#)

Representative LeBon noted the formula for allocating the CARES Act funds. He asked if he had an opinion about the allocation. Mr. Bockenstedt responded that Anchorage had significant expenses. If part of the intent was for the city to cover school bond debt reimbursement, municipal assistance, and other expenses, the allocation Anchorage was scheduled to receive through the governor's proposal would not be enough. The city would still need to rely on the federal government to continue to step in with future funding to help cover additional expenses.

Co-Chair Johnston asked how much the city expected to receive from FEMA. Mr. Bockenstedt explained that his understanding of the FEMA reimbursement and the process the city would go through was that FEMA would reimburse the city for close to 75 percent of some of the costs it had incurred.

Co-Chair Johnston asked if expenses included the city's emergency operations. Mr. Bockenstedt responded in the affirmative.

Co-Chair Johnston asked if there were any other costs the FEMA funding would cover. Mr. Bockenstedt explained that one of the things the city did when the City of Anchorage declared an emergency was to create different accounting codes for all of the expenses it incurred and would continue to incur. He indicated the city would attempt to get reimbursed for all of the expenses it had incurred. Anchorage would have to have a conversation with FEMA about what qualified for reimbursement and a corresponding amount.

Co-Chair Johnston mentioned \$2.8 [million] in the state budget. She clarified that FEMA would reimburse 75 percent first, followed by CARES Act funding. She asked if she was correct. Mr. Bockenstedt responded that Representative Johnston was correct. He noted that the \$2.8 million she had referenced was part of the funding vetoed by the governor.

[10:26:44 AM](#)

Representative Josephson thought Mr. Bockenstedt sounded more bullish than other officials and that it might be better to beg forgiveness than ask permission. He wondered

if he thought Secretary Mnuchin had not read or understood the senate's intent and that the city should proceed to aggressively use the funds in the hopes they would not have to be restored. He asked if he was accurate. Mr. Bockenstedt responded that it was exactly how the city saw it. He explained that while the term "lost revenue" did not specifically fall under the CARES Act, the city's interpretation assumed that lost or delayed revenues were a direct cost created by the virus, and they were never accounted for in any budget.

Representative Wool thought it would be the responsibility of the state to reimburse the federal government if CARES Act monies were spent inappropriately. He queried Mr. Bockenstedt's understanding. Mr. Bockenstedt concurred with Representative Wool's understanding. He added that the city's view was that the guidance was incorrect. The clear intent, based on all of the letters he had seen sent to Secretary Mnuchin from members of congress, was that lost revenues should be an allowable expense which was what the City of Anchorage was banking on.

Representative Wool hoped that lost revenue replacement would be allowed. He was aware of congress contemplating another bill that would specifically address lost revenues. He concluded that because they were addressing a bill specific to lost revenue implied that the intent of the CARES Act funding was in question. He suggested that Anchorage had some legitimate COVID-19 expenses - potentially more than other communities. He believed the city would be receiving a large amount of funding from the federal government according to the formula. He also asked for the amount of school bond debt reimbursement Anchorage was lacking. Mr. Bockenstedt thought the state's share was about \$42 million.

Representative Wool asked if the amount was Anchorage's share or the full budget item. Mr. Bockenstedt clarified that \$42 million was the full portion of the state's share of school bond debt reimbursement for Anchorage.

[10:31:24 AM](#)

VERNE HALTER, MAYOR, MAT-SU BOROUGH, WASILLA, thanked members for allowing him to testify. He hoped that some of things brought up by the City of Anchorage were accurate. He would be researching some of the information from an

audit, finance, and legal stand point. He thanked the governor and others for the way in which they had handled the pandemic. He appreciated what had been done by the State of Alaska. The Mat-Su Borough's case count as of the previous day was 21. The borough had been able to keep the numbers down.

Mayor Halter stated that budgeting was what it was all about for the Mat-Su Borough. The borough's dilemma had to do with the governor's veto of school bond debt reimbursement and community assistance totaling about \$18 million for the Mat-Su. The borough would have to impose a 2 mil increase on property taxes to compensate for the loss. It did not want to have to tax its citizens based on the impact of the pandemic. He opined that many people would struggle with paying additional property taxes. The economic devastation to the oil industry and tourism affected the borough significantly. He also noted the devastation to small family businesses. The borough was beginning a survey about how small businesses had been impacted by the pandemic. The borough had to close its budget around June 1. He reiterated the huge imposition on property owners if the borough had to raise property taxes by 2 mils. If the borough were to keep the mil rate the same, it would have to make substantial reductions. Those reductions would lead to eliminating a large capital project program. The loss of \$18 million in state revenue could virtually eliminate the program for FY 21.

Mayor Halter continued that in addition to eliminating another \$5.1 million in related staffing support items, the reduction could eliminate 66 capital projects for a total of \$12.9 million. He explained that 25 of the 66 projects were construction projects for \$6.5 million, and 34 projects were non-construction projects for \$6.4 million. The total loss to businesses and the negative impact would affect 245 local contractors, subcontractors, and suppliers. If the borough did not receive the school bond debt reimbursement money and did not raise its property taxes, it would have to move in the direction of significant capital budget cuts. He noted that the borough was at 10.338 mils approaching its cap of 10.5 mils. He argued that it was not the time to eliminate its capital budget. He thought it was the perfect time to work on capital projects.

Mayor Halter welcomed Anchorage's interpretation of the CARES Act. He thanked the federal government and the state for the CARES Act money. He indicated that the Mat-Su Borough, the City of Palmer, the City of Wasilla, and the City of Houston were allocated certain monies under the CARES Act. He was concerned about the restrictions on the use of the funding. He suggested that whether the CARES Act money could be used to make up for the revenue in the borough budget was debatable. He urged the legislature to re-fund school bond reimbursement and community assistance monies as soon as possible to allow for accurate budgeting by municipalities with a budget deadline of June 1.

Mayor Halter mentioned the borough experiencing a streak of disasters including the Sockeye Fire in 2015 which destroyed 55 or 60 homes, a cyber-attack on the borough's information technology system, and the earthquake. The borough still had schools that had not been repaired from the earthquake. He noted the McKinley Fire from 2019 which burned 50 or 60 homes followed by the Willow-Creek Flood at Christmastime 2019. The pandemic was the most recent disaster experienced by the borough. He emphasized that it had been stretched thin and had absorbed many of the costs in its budget. However, the Mat-Su Borough was at a point that it could no longer take on extra costs. He was aware that other communities were experiencing many of the same hardships associated with the pandemic. He suggested that in the short-term the State of Alaska needed to fund the school bonds which might allow the borough to meet some of the challenges it faced.

Mayor Halter supported the second-tier uses of the CARES Act funding to help businesses. The borough had several businesses that had been negatively impacted and might not survive into the future. He welcomed the opportunity to help small businesses with some sort of program. He also welcomed help from the State of Alaska to meet the school bond debt of about \$18 million - the borough's portion was just over \$16 million. He recalled that at the time the funding was vetoed the governor stated the money would be backfilled. He hoped the governor thought similarly to the City of Anchorage. He would be directing his staff to do some research on the legislative history of the CARES Act and supported more flexibility to any future CARES Act funding.

Mayor Halter spoke of the borough's bed tax revenue potentially declining 60 percent to 70 percent. At the same time, if the borough were to have to absorb the school bond debt and community assistance debt, it would have to strengthen its emergency services and its ambulance service. The growth of the Mat-Su Borough was the highest in the state. The borough's population was growing by about 1000 people per year. The borough helped with ambulance services and getting more personnel during the pandemic. The borough would be thoroughly restricted from continuing its help with emergency services if it had to absorb the school bond debt and community assistance.

Mayor Halter reported being a believer in jobs. The capital budget was needed to get jobs out on the street. If the borough could not use the CARES Act money to backfill its revenue, then the State of Alaska should refund it. He hoped the governor would not veto it. He was unsure how long the pandemic would last, but the Mat-Su Borough's FY 21 budget was critical and capital projects would extend into the future 4 or 5 years. He thanked the members and fellow boroughs for participating. He hoped the CARES allocation would reflect respect. He was available for questions.

[10:40:34 AM](#)

Representative LeBon asked if the borough's revenue cap allowed for expansion to cover the school bonds.

Mayor Halter responded that the tax code ordinance would allow the borough to go beyond the 10.5 mil cap. However, he anticipated a decline in property values in the Mat-Su Borough. He also assumed there would be a decline in housing starts. The borough was hesitant to raise property tax considering the struggle for many people. He believed if the state were to fund school bond debt, there would be a good argument for the borough to reduce the mil rate by 1 mil to help people that were struggling.

Representative LeBon asked the mayor if he had an opinion regarding the funding distribution formula for the CARES Act monies. Mayor Halter was pleased with the allocation the governor proposed for the Mat-Su Borough. He would not compare the borough's funding with anyone else's. He thought that if the borough used the money with the current restrictions, it could put out programs to businesses to

assist them. The borough would like to add EMS personnel and purchase at least 4 new ambulances. He also noted the importance of propping up the Mat-Su's Convention and Visitor's Bureau (CVB) because of the current decline in revenue. He explained that the borough and the CVB shared the bed tax funding. He also reiterated the importance of supporting the borough's capital projects.

[10:43:34 AM](#)

Co-Chair Johnston asked if the Mat-Su Borough had Health authority or public safety authority. Mayor Halter responded that the borough did not, as it was a second-class city. The borough did not have police powers or health powers. However, the borough had EMS. He noted that the Mat-Su Fire department had fought 2 fires in the prior 2 days.

Co-Chair Johnston noted the fires could be seen from Anchorage.

Mayor Halter commented that, unfortunately, people in the borough were almost specialists in disaster. The borough was growing with rural areas and high concentration areas. Roads, fire, EMS, and ambulances were extremely important to the borough and needed to be improved.

Co-Chair Johnston asked if there was an emergency response center in the borough. Mayor Halter responded affirmatively that it was through the City of Wasilla. There was some talk about changes being made. He deferred to the director of EMS.

Co-Chair Johnston wondered if he thought CARES Act funding could be spent on the emergency response center, EMS, or small businesses in its communities. Mayor Halter thought all would apply. He restated that he would have his staff look into the matter. It was up to interpretation but would relieve budgeting at a critical time.

[10:46:34 AM](#)

Representative Wool was referring to a document in front of him regarding a list of legitimate expenses. It listed emergency medical response expenses including emergency medical transportation. However, he was under the impression it had to be related to COVID-19. He wondered if

the expense had to be validated as a COVID-19 expense. He asked if Mayor Halter's interpretation was similar. Mayor Halter responded that it seemed like it was. He thought an argument could be made for using the funding for ambulances and increased staff due to COVID-19 rather than using it for school bond debt. School bond debt was causing the borough the most budgeting stress. He continued to argue that municipalities should be able to use CARES Act funding for lost revenue. The state should at least re-fund school bond debt reimbursement and community assistance to help municipalities meet current challenges.

Representative Wool appreciated the mayor's message. He understood that additional information was coming from the federal government. He queried the amount of the borough's sales tax. Mayor Halter responded that the City of Palmer, the City of Wasilla, and the City of Houston all had a sales tax. The three cities also received sizable allocations of CARES Act funds. The Mat-Su Borough did not have a sales tax. However, it was estimated that 75 percent of revenue produced by sales tax within the cities came from residents outside of the cities - borough residents. A borough sales tax had been on the ballot twice and voted down twice.

[10:50:08 AM](#)

BRYCE WARD, MAYOR, FAIRBANKS NORTHSTAR BOROUGH, NORTH POLE, commented that as the legislature considered any changes to the distribution formula, he thought it needed to be fair and equitable. There were some challenges with the methodology that was used. There was also a question about the fairness of the allocation of resources based on residential population or economic impact. He thought the legislature should be committed as well as local communities to using the funds to provide relief in whichever way possible. The state should not be looking at sending any money back to the federal government. He advocated a timely distribution to communities even if it meant that the distribution could not be changed. The money needed to be put to good work for impacts communities were facing. He also thought the legislature should begin conversations with the governor regarding unexpended funds. If communities were unable to allocate the available funding, the redistribution of funds to other communities needed to be decided on.

Mayor Ward reported that the Fairbanks North Star Borough conducted a review of the CARES Act and concluded that funding could only be used for non-budgeted expenses in response to the public health emergency. He emphasized the words response and expense. He thought it was very clear, based on the U.S. Treasury's guidance, that the Cares Act funding could not be used to supplant or replace lost revenues that communities might be facing. The U.S. Treasury provided guidance on 5 categories of allowable expenses. The first category was medical related costs in relation to the response to the public health emergency. The second category was public health response. The third category was payroll mitigation for public services employees including police and fire related to the public health emergency. The fourth category was compliance with public health mandates and measures as provided by the local community or the state government. The fifth category was economic support. The U.S. treasury had provided many examples of how the funding could be used. He thought with additional guidance from the state, plans could be developed for using the funds appropriately.

Mayor Ward continued that it was important that as the legislature considered how the funds would be used by the municipalities and local governments, it recognized there were 2 different aspects to consider. The first aspect was true municipal relief which was the intention of the governor early on in his proposal. However, he did not believe the funds could be used in the manner proposed by the governor. The use of the funds had to be related to expenses incurred due to the public health emergency. Some of the expenses the borough thought would be applicable were any costs (above and beyond budgeted expenses) related to manning the emergency operations center, personal protective equipment (PPE) for emergency response contractors and technicians, and communication technology and communication measures used for relaying information about COVID response to the public. The funding also helped with a unified command structure as part of response efforts which the Fairbanks North Star Borough was a partner. He noted that as the borough looked at the overall funding allocation, it was estimated that 5 percent to 10 percent of the amount allocated to the Fairbanks North Star Borough would be used to cover expenses related to COVID impacts over the next year.

Mayor Ward continued that the other aspect the CARES Act funding could be used for was local relief. He highlighted item 5 in the U.S. Treasury guidelines which was economic relief and economic support. He thought the majority of the funding could be used in a positive way for local communities. He thought it would involve standing up programs such as the Paycheck Protection Program (PPP) and other type of relief measures that fell under the economic support category from the U.S. Treasury. In communications with Alaska's congressional delegation, it was clear that the intent of the CARES Act funding was to be more flexible than the actual guidance from the U.S. Treasury Department. However, in conversations with the delegation, the chances of changing CARES Act funding requirements seemed highly unlikely. He thought state and local municipalities should prepare to use the treasury guidance and develop programs that fell within that guidance. He added that timeliness was critically important. The borough was working diligently with its 2 cities to develop programs in which the borough could first cover the costs incurred due to COVID relief and to decide how to best leverage dollars to provide local economic relief. He was available for questions.

[10:56:54 AM](#)

Representative LeBon thought that neither the City of Fairbanks nor the Fairbanks North Star Borough had health powers. Mayor Ward had mentioned that medically related expenses were eligible expenses in the CARES Act. He wondered if CARES Act monies could be used to assist the Fairbanks Memorial Hospital. Mayor Ward thought it was possible for the borough to develop programs that included a measure to provide relief to hospitals, clinics, or to other medical support related to the COVID response.

Representative LeBon asked for input regarding the allocation for the City of Fairbanks and the Fairbanks North Star Borough. Mayor Ward responded that on a per-capita basis and using the funding formula for community revenue sharing, it was apparent that the allocation provided to the Fairbanks North Star Borough and surrounding communities was substantially less than would have been provided under a different formula. Looking at the formula the governor considered, there were certain factors that might not be true indicators of economic

impact or relief. The borough definitely stood to benefit from a change to the formula based on population.

Representative Josephson asked if he was looking at expenses that were chargeable to the Cares Act and to the benefit of the borough. He provided a hypothetical scenario. He asked if the borough was conducting a detailed look at allowable expenses. Mayor Ward responded that the borough was taking a detailed look at all of the expenses that could potentially be allocated back to the CARES Act funding. The challenge the borough ran into was that many of the expenses related to its employees were budgeted expenses. The borough would have to incur costs above its budgeted numbers in order to take full advantage of the funding. He reconfirmed that the borough was looking at every available option.

[11:00:51 AM](#)

Representative Wool appreciated Mayor Ward's interpretation. He asked how much the borough had spent on the COVID response to-date. Mayor Ward expected to end the year at about \$500,000.

Representative Wool commented that Fairbanks was looking at the Carlton Center as a potential overflow location for the hospital. He wondered if the hospital incurred the expense of setting it up. It seemed like a public health expense that would also be a valid COVID expense back-filled with CARES Act funding. Mayor Ward responded that the Carlson Center alternative care site for the hospital was resourced through a state request. The borough was given a mandate from the governor which meant that the cost incurred for the facility was being paid for through the Emergency Operations Center (EOC).

[11:02:58 AM](#)

Representative Wool referred to section 5 of the federal guidelines which talked about economic support besides lost revenue and businesses that had been interrupted because of required closures. He wondered if the hospital would qualify because of being privately owned. Mayor Ward thought the borough would be able to include the hospital as a small business potentially eligible for some of the funding costs. The key would be expenses incurred. Loss of revenue was not an expense. However, he thought expenses

related to additional PPE, additional staffing, or additional care measures required by public health guidance would be eligible. Representative Wool read again from the federal guidelines. He thanked the mayor for his testimony.

Co-Chair Johnston asked the mayor if the borough anticipated receiving any FEMA monies. Mayor Ward responded that he was not aware of any specific FEMA funding coming to the Borough.

Co-Chair Johnston asked Mayor Ward to restate who would be carrying the cost for the Carlson Center. Mayor Ward responded that using the Carlson Center as an alternative care site was a mandate by the governor and was being paid for through the state's EOC.

[11:06:17 AM](#)

GREGG BRELSFORD, MANAGER, BRISTOL BAY BOROUGH, NAKNEK, indicated the chairman of the assembly and the borough mayor were not available, as they were on a radio show answering community questions about COVID.

Mr. Brelsford thanked Co-Chair Foster and Co-Chair Johnston. He also thanked the governor, Commissioner Crum, and Dr. Zink for the time they spent working with the borough regarding COVID issues. The Bristol Bay Borough was the first borough established in Alaska. It was formed in 1962 and encompassed 3 unincorporated cities - Naknek, South Naknek, and King Salmon. It also included 3 Alaska Native tribes - the tribal governments of South Naknek, Naknek, and King Salmon. The Bristol Bay Borough was the center of the red salmon [Sockeye] fishing industry for the world. In a normal year, it had been about a \$1 billion industry annually. Typically, the borough spiked in population from a year-round population of about 850 to about 13,000 to 15,000 for the summer fishing season. The surge would be building in about 4 to 6 weeks.

Mr. Brelsford continued that processors brought in 13,000 to 15,000 workers that they recruited from all over the world. Fishermen and their crews also came to the borough for the season. He reported that the borough had a great deal of good faith cooperation in working with processors, and fishermen through the Bristol Bay Regional Seafood Development Association on jointly developing a plan and strategy for minimizing the harm or risk of COVID coming

into the borough during the season. The group had also worked on a plan for intervening in any crisis that might arise.

Mr. Brelsford continued that the other part of the borough economy was tourism. Katmai National Park resided within the borough and in a normal year attracted upwards of 40,000 people to Brooks Camp for bear viewing. It was his understanding that the park did not intend to have a full season in the coming summer. The park was currently planning to open July 1, 2020 and expected approximately 10,000 tourists. The borough anticipated traffic through its airport of 15,000 workers and fishermen and 10,000 tourists during an intense part of the summer.

Mr. Brelsford conveyed the profound need for the \$2.5 million allocation in Cares Act funding. He wanted to let members know how the borough would use the funding. The borough did not have a hospital. Rather, it had a health clinic: Camai Community Health Center. The clinic did not have hospital beds. The Camai Community Health Center had been in operation for over a decade and had been working with processors throughout the years. The current circumstance was very unique with the prospect of the COVID-19. The borough would use a portion of the CARES Act funding for the clinic to enhance its testing capability to be able to test the people flooding into the borough starting in the next 4 to 6 weeks. Funds would also be used to stand up a quarantine facility and perhaps a field hospital. The funds would also be used for staffing for testing and the facility.

Mr. Brelsford reported that the borough, separate from Camai Community Health Center, had stood up an emergency operations command center. It started a mass messaging system to facilitate being able to reach out to everyone in the borough at a moment's notice. The borough was also looking at major enforcement issues to ensure that fishermen and processor employees complied with all of the rules and regulations that were being designed to minimize their contact with the community during the fishing season.

Mr. Brelsford indicated the borough would eventually look at using a portion of the funding for economic relief and support for businesses and individuals. The largest concern for the borough was the potential for a mass infection event and how it would be handled. The borough was

conducting pre-planning with the state in case of a mass event in which an intense and rapid intervention was necessary. He provided an overview of the borough's planning. He admitted it was a work in progress. Other communities in Alaska were starting to open up and focus on the new normal. The borough was focused on preparing for the coming fishing season and the surge in population. He reiterated the need for the \$2.5 million allocation in CARES Act funding. He thanked the committee for hearing his testimony.

[11:14:03 AM](#)

Representative Josephson mentioned shifting funding to communities from some of those that could not use all of their funding. He asked if he was correct that if the fishing season was successful, salmon would be sold to Pacific nations. Mr. Brelsford responded affirmatively.

Representative Josephson asked what the community knew about the ability of those countries to receive the salmon. Mr. Brelsford did not have an answer.

Representative Josephson asked if there would be universal testing for the flood of workers entering the borough and wondered who would be paying for the tests. Mr. Brelsford reported that the processors were planning to do initial screening. He was not sure that they had the materials and equipment to conduct testing. The Bristol Bay Borough was pressing the processors to conduct testing. The processors would be expected to cover the costs of testing. However, it was possible that the borough would assist.

Representative Josephson thought social distancing in the processing world was almost impossible. He wondered if the borough had concerns. Mr. Brelsford responded that the borough certainly had concerns, but wanted to continue with the fishing season. He did not deny there were concerns.

[11:17:39 AM](#)

Representative Wool asked, if there was a barge facility that could provide testing, whether the expense would be legitimate. Mr. Brelsford wondered if Representative Wool realized he was addressing the Bristol Bay Borough rather than the Ketchikan Borough.

Representative Wool addressed the same question applying it to the Bristol Bay Borough. Mr. Breilsford responded that testing was one of the highest priorities and was identified in the funding formula.

Co-Chair Foster thanked Mr. Breilsford for joining the hearing.

11:20:03 AM

CYNNA GUBATAYAO, FINANCE DIRECTOR, KETCHIKAN GATEWAY BOROUGH, KETCHIKAN, thanked the committee for the opportunity to speak and share the concerns of the communities within the borough. She also thanked Governor Dunleavy, Dr. Zink, the federal government, and all of its agencies for everything being done to protect its citizens. She thought that everyone recognized that the actions being taken to flatten the curve, which had protected the state and the country, were the very actions that impacted Ketchikan's local governments the most in terms of lost revenue. She thought her statement was probably true for Southeast Alaska in general. She indicated that things like shutting down local businesses, limiting travel, the no-sail orders for the cruise industry, had all impacted the borough.

Ms. Gubatayao reported that borough's FY 21 budget had to be finalized by the end of the current day in order for it to be introduced to the assembly on the following Monday. She concurred with a previous testifier that it had been the most difficult budget for her to prepare. On March 3, 2020 she had a balanced budget. Approximately 4 weeks later she was looking at a deficit of \$2.4 million in general funds after cutting everything she could except people. She also reduced capital funding by about \$1 million. Most of the funds were underwritten largely by sales tax. She reported that to make up the difference she would have to eliminate roughly 25 percent of the borough's general fund budget and shut down major programs such as the transit program and the recreation department which provided daycare and children's activities. She indicated that her estimates on the sales tax decline, 100 percent due to COVID pandemic, were just guesstimates presently. The decline could be much worse.

Ms. Gubatayao continued that the greatest fiscal impact of the current pandemic for the Ketchikan Gateway Borough had

just started. The first 2 cruise ships had not arrived and a couple more ships would not be arriving in the coming weekend. The borough had hesitated to furlough employees, as it did not want to add to the economic fear and pain in the community. One of the roles of government in such a time was to offer some measure of stability. She thought that the CARES Act funding was supposed to be part of that stability. Unfortunately, based on her reading, the CARES Act funding did not go far enough. She opined that the current guidance from the U.S. Treasury was too restrictive and prevented her from using it to replace lost revenue due to COVID economic impacts.

Ms. Gubatayao also had capital projects that could generate jobs locally, but she did not see how she could proceed with them under the current restrictions. By the same token, there might be ways she could use the funding to help local businesses and residents survive the loss of approximately \$200 million in sales activity in the local economy that was disappearing overnight. She suggested that opening up the restrictions on the use of the CARES Act funding and making it more widely useful was a critical piece. She thanked the committee.

[11:23:58 AM](#)

Co-Chair Johnston asked if the borough had an emergency response center. Ms. Gubatayao responded in the affirmative. She reported that the borough was currently operating a virtual EOC. Most borough employees were working out of their homes. The emergency operations center was staffed with members from the Ketchikan Gateway Borough, the City of Ketchikan, the City of Saxman, a couple of local private businesses including a local clinic, and some support from Public Health and the U.S. Coast Guard.

Co-Chair Johnston asked if the borough had public health authority or public safety authority. Ms. Gubatayao responded that the borough did not with the exception of fire and EMS in a couple of service areas. The city had public health authority.

Co-Chair Johnston suggested the borough was limited as far as COVID related expenses were concerned under the current U.S. Treasury guidelines. Ms. Gubatayao responded in the affirmative but noted that the borough had been working

closely with the state EOC and the Department of Military and Veterans Affairs who was coordinating with FEMA. The borough was doing more than it would, based on the governor's mandates.

Co-Chair Johnston asked if the borough had been working with FEMA. Ms. Gubatayao responded, "Yes, through the Department of Military and Veterans' Affairs."

Vice-Chair Ortiz thanked Ms. Gubatayao for her testimony. He asked about her interpretation of the federal guidelines. He wondered how much of the funding could be used and how much would have to be returned. Ms. Gubatayao indicated that to-date the borough had under \$200,000 of expenses that could be reimbursed between FEMA and CARES Act funding. There was an additional \$300,000 - \$400,000 that did not appear to be reimbursable under either program. The borough had upwards of \$2.5 million in lost revenue. If she could figure out a way to expand the programs to get funding into the hands of local businesses and residents, the money would not go very far to make up for the total lost revenue.

[11:27:34 AM](#)

Vice-Chair Ortiz asked if more than 75 percent of the funding would not be expendable. Ms. Gubatayao responded, "Potentially." She hesitated to provide a hard and fast "no." Presently, the borough was waiting for additional information clarifying the guidelines. The information was expected in the following week. If the guidelines opened up, it would change things. Based on what was currently known, the borough would have difficulty spending the full sum.

Co-Chair Foster thanked Ms. Gubatayao for her testimony and asked for any final comments or comments from finance members.

Representative Josephson commented that the committee had heard strong arguments for full funding for school bond debt reimbursement and community assistance. He thought it was unclear about the efficacy of using CARES Act money in a broad versus narrow way. He thought erroring on the side of caution and to help local governments, the administration's comments seemed amenable to signing off on the allocations.

Representative LeBon thanked all of the testifiers. He thought he had heard the need exceeded the funding level proposed under the CARES Act for the state. He agreed that the common theme was the need funding for school bond debt reimbursement and community assistance. He also heard the need for the guidelines to be expanded to allow CARES Act funding to be used for the replacement of lost revenue. He argued that the distribution of community assistance funding should be based on population numbers rather than on economic factors which were subjective. He thought the gap between Mat-Su, Anchorage, and Fairbanks could be narrowed in a more balanced manner. He suggested it was something that should be considered by the House Finance Committee.

[11:31:41 AM](#)

Representative Wool thought he had heard several comments about reinstating school bond debt reimbursement. He hoped to receive additional guidance from the federal government, as more clarification was needed. He noted rental relief and mortgage payments. He spoke of the disparity in funding allocations. He wanted to see the CARES Act funding spent by communities that needed it. He hoped the federal government would lessen the restrictions associated with the CARES Act monies.

Co-Chair Foster asked Co-Chair Johnston to close the meeting and review the agenda for the following day.

Co-Chair Johnston thanked the presenters. She thought it was imperative to get funds out to communities as quickly as possible. She understood that the federal funds had come with multiple restrictions. She hoped the limitations would be clarified by the U.S. Department of Treasury. She thanked everyone that testified.

ADJOURNMENT

[11:36:39 AM](#)

The meeting was adjourned at 11:36 a.m.