HOUSE FINANCE COMMITTEE
March 24, 2021
1:33 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:33 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Kelly Merrick, Co-Chair
Representative Dan Ortiz, Vice-Chair
Representative Ben Carpenter
Representative Bryce Edgmon
Representative DeLena Johnson
Representative Andy Josephson
Representative Bart LeBon
Representative Sara Rasmussen
Representative Steve Thompson
Representative Adam Wool

MEMBERS ABSENT

None

PRESENT VIA TELECONFERENCE

Nils Andreassen, Executive Director, Alaska Municipal League.

SUMMARY

PRESENTATION: MUNICIPAL IMPACTS FROM STATE BUDGET ACTIONS BY ALASKA MUNICIPAL LEAGUE

Co-Chair Foster reviewed the agenda for the meeting.

^PRESENTATION: MUNICIPAL IMPACTS FROM STATE BUDGET ACTIONS BY ALASKA MUNICIPAL LEAGUE

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NILS ANDREASSEN, EXECUTIVE DIRECTOR, ALASKA MUNICIPAL LEAGUE (AML) (via teleconference), introduced the PowerPoint Presentation: "Condition of Communities." He looked forward to walking through AML's perspective on the connection between state and municipal government, especially the budget intersections. He would provide a sense of the condition of the communities he represented.

Mr. Andreassen turned to slide 2: "The Basics." He would be reviewing the basics relating to local governments and the state budget He would also discuss how Covid-19 and the Coronavirus Aid, Relief, and Economic Security (CARES) Act funding had impacted local decision-making. He thought it was important to know how governments were structured. The state had 165 cities and boroughs out of 224 communities. He indicated there were 19 boroughs made up of 11 home rule boroughs, 1 first class borough, and 7 second class boroughs. He relayed that out of 145 cities there were 11 home rule cities and 18 first class cities. The remainder were second class cities. He noted there was 1 municipality that was organized under federal law, Metlakatla.

Mr. Andreassen indicated there had been conversations in the news about what a home rule government was and what a general law local government was. The difference was that the home rule community was allowed to do anything that was not prohibited by law. General law communities were only allowed to do things allowed by law. The home rule governments were the minority of the 165 cities and boroughs. However, their residents incorporated under a charter and had driven the level of government that they wanted as part of their lives. All other first and second class boroughs were considered general law governments following Title 29.

Mr. Andreassen continued that there were three required powers for boroughs including education, planning/platting, and taxation. Regarding education, the same requirement applied to first class and home rule cities outside of the organized borough. He reported that local governments served all Alaskans. He suggested there was more than the population of the state, as there was overlapping authority between boroughs and cities. Local governments were major employers. He reported just under 8,000 Alaskans were employed by local governments. If the number was combined with schools and enterprise organizations the number would increase to 20,000 employees that worked for local governments.

Mr. Andreassen relayed that over the course of the previous year, there had been a drop in employment of about 3,400 jobs. In terms of their financial tax revenues, cities and boroughs had experienced static numbers from FY 18 to FY 19, around $1.8 billion for a combined total revenue of approximately $2.5 billion. The difference was intergovernmental transfers and grants. The annual expenditures were around $2.5 billion. He wanted to provide some context on how the information fit into the state's budget. The Department of Revenue (DOR) had presented a slide showing where state revenue lined up: 48 percent federal; 20.8 percent investments; local governments fell in the middle; 19.7 percent petroleum; and 11.4 percent other revenue. He remarked that local governments fell in the middle between what the stat brought in from its investment earnings and from petroleum or oil taxes. He indicated that state and local revenues equated to a total of $10.5 Billion.

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Representative LeBon noted that there was one first class borough in the state. He asked Mr. Andreassen to identify the borough and queried what powers it chose not to have. Mr. Andreassen responded that it was the Municipality of Skagway. It was a consolidated government combining its city and borough structures into one. It was different than the City and Borough of Juneau. It had the same responsibilities as a home rule.

Representative LeBon asked if the home rule cities and boroughs could choose to have their own police powers. Mr. Andreassen responded in the affirmative.

Representative LeBon asked how many of the 11 home rule boroughs had police powers. Mr. Andreassen could look up the answer. He suggested a different approach to the legislator's question. He reported that there were 40 local governments with police departments. There were 70 local governments out of the 165 that had police powers with some level of law enforcement either a police department or a village police officer. He estimated that just under half of all local governments had police powers. He added that every city and borough had some level of police authority to ensure public welfare.

Vice-Chair Ortiz asked if the 3,400 job losses occurred since the onset of Covid-19. Mr. Andreassen responded, "That's correct."

Representative Edgmon asked how 825,000 Alaskans were served when the population of Alaska was only 730,000 to 740,000. Mr. Andreassen indicated that he was looking at layers of government and some of them overlapped. For instance, the Mat-Su Borough had the City of Wasilla and the City of Palmer. He was double counting those numbers because both levels of government had some responsibility to residents.

Representative Wool referred to the box on the right side of slide 2 where it showed state/local revenues. He asked why local governments were listed third. He wondered if the box showed sources of state and local revenues. Mr. Andreassen suggested that if thinking in terms of local governments as political subdivisions of the state, then it made sense to look at the combined revenues of those bodies. Therefore, the state plus local government revenues totaled approximately $10.5 billion - all of it being leveraged in the public's interest on behalf of Alaskans in some form or another. He pulled the percentages from a slide from DOR that mapped the different buckets for the state. He provided some sense of where local governments fit into the overall combined revenue picture of Alaska government.

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Representative Wool asked if $10 billion was the combined total revenue of the state and local governments. If the state brought in $5 billion, he wondered whether the local governments brought in the other $5 billion consisting of taxes such as sales, bed, and cruise ship taxes. He asked about the composition of revenues. Mr. Andreassen responded that generally Representative Wool was correct. He noted that the revenues included federal dollars. He thought the state level was closer to $9.5 billion. He was only adding the tax revenue of local governments to the amount. He was not including the transfers from the state to local governments so that he was not double counting. The box was provided to give an idea of how money was being expended and what was available.

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Mr. Andreassen continued to slide 3 to review local government revenues. In FY 19 revenue totaled $2.5 billion and was made up of a variety of sources. The state constitution gave local governments sole taxing authority outside of state government. Prior to statehood school districts also had that authority. He reported that for 15 of 19 boroughs and 21 cities there was a total revenue of $1.6 billion. He noted the state had a property tax in the form of a minimum requirement of a local contribution for education in the amount of $256 million. He reported that 95 cities and 9 boroughs had a sales tax which generated about $260 million. There were a variety of other taxes and fees ranging from tobacco, raw fish, car rental, and bed taxes adding up to $146 million. He noted that there had been dramatic decreases in local taxes such as passenger vessel taxes and raw fish taxes which was definitely impacting local governments.

Mr. Andreassen continued that outside of tax revenues state and federal transfers equaled about 20 percent of local government budgets. Examples included the the federal Payments in Lieu of Taxes (PILT) Program, the Secure Rural Schools (SRS) Program, the state's Community Assistance Program, and a number of other intergovernmental transfers and grant dollars that supplemented local budgets. He reported that all of the revenue he mentioned was less the state's mandatory exemptions including the mandatory senior citizen and disabled veteran property tax exemption. The value was $95 million for the current year, applications having doubled over the prior 10 years, and the amount significantly increasing. The amount had not been reimbursed for more than 20 years and should have been according to law.

Representative Josephson asked if the law stated "shall." He wondered if the state should have helped with the exemptions it imposed on local governments. Yet, legislators were the ultimate appropriators and were not appropriating the money. He wondered if the legislature was relying on it as a trump card. Mr. Andreassen responded, "That's correct."

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Mr. Andreassen detailed local government expenditures on slide 4. Local governments had balanced budgets. The total revenues for FY 19 were $2.5 billion and total expenditures were $2.5 billion. He reported that 5 percent of the expenditures was paid into the state's pension system ($130 million). The local governments also carried a total of $4.2 percent in bond debt. A large portion of their expenditures went to repay their own bond debt. Municipalities contributed a total of $486 million as the local education contribution or 20 percent of total expenses of local governments. He clarified that it was really about 36 out of the 165 cities and boroughs making the local contribution. Municipalities contributed slightly more than 25 percent of the state's overall obligation to public education. Some of the numbers might include local impact aid which was from the federal government to local school districts. However, because of the equalization formula of the state, it was used by the state against its own contribution.

Mr. Andreassen continued that the required local contribution in FY 18 was $256 million. Local governments gave beyond what was required, they gave $230 million. Another area of spending for local governments was for public safety. There were 40 police departments for local governments with combined budgets of $75 million more that the Department of Public Safety budget. He suggested that it was worth exploring the level of public safety being delivered by local governments.

Mr. Andreassen continued to report on slide 4. He noted the importance of keeping communities whole. There were many communities with pools, libraries, recreation and youth centers, and parks which make communities livable stemming outmigration. He indicated another bucket of municipal expenditures had to do with public facilities, works, and transportation infrastructure. Some expenditures included water and sewer, landfills, roads and transit, and ports and harbors. He pointed out that public safety, education, and public works were the largest expenses of local governments. He reported that local expenditures had been reduced over the prior 7 years, since FY 13. He highlighted the chart on the right of the slide which showed expenditure had decreased as less revenue had been available. At the state level municipal budgets had adjusted accordingly which had resulted in a different level of expenditures in each of the priority programs for municipalities.

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Mr. Andreassen advanced to slide 5 to discuss the state budget and municipal implications. In broad scope he noted that when the state considered reductions to the budget it really meant cost-shifting to local governments. It did not happen equally to all local governments although they were all impacted. He reported that in FY 20 cost-shifting equated to $900 million which fell on about 20 local governments. He argued that the state's budget should not be balanced on the backs of local governments. He spoke of the basic services provided by state and local governments essential to the functioning of communities keeping them whole. He noted some communities having to shut their doors a couple of decades previously. It took a significant amount of time for them to reopen having to reestablish their base level of funding. The base funding level kept the lights on and allowed small cities to address items such as landfills, electricity, and elections.

Mr. Andreassen surmised that there were other things that impacted local governments including expenditures on public radio or tv, the ferry system, or other building blocks to livable communities. He suggested that if communities were not livable through some of the state support, it made it challenging for residents. His final comment on the slide was that when budget reductions or cost-shifting were proposed, there were very few options at the local level. The first option was not to raise taxes in an attempt to keep communities whole and livable. However, it did happen. He reported that, within the first year or two following community assistance going away, many jurisdictions imposed increased or new taxes. Another response to state budget reductions was the reduction of the provision of services. Many governments had delayed their capital investments and maintenance protocols. Finally, local governments looked to reduce their government which meant eliminating programs and laying off staff. He argued that none of the responses were positive developments for municipalities and suggested they should be avoided.

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Representative Wool referred to the FY 20 reductions of $850 million for 20 local governments. He asked if it was fair to say that a large portion of that money was the real estate property tax on the oil properties on the North Slope. He wondered how much of the amount would be oil pipeline related. Mr. Andreassen thought that it was a combination of the petroleum property tax, school bond debt reimbursement, and reductions to the University of Alaska and the Alaska Marine Highway System. Research would argue that reductions in certain services would have direct impacts on local governments in the form of increased economic activities. He suggested that it was a combination of things that added up. Representative Wool clarified that he was wondering if one factor was disproportionate to all the rest.

Mr. Andreassen moved to slide 6 to review the vetoes in FY 20 and FY 21. In reviewing all of the vetoes enacted over FY 20 and FY 21, there were some specific groupings that were concerning for local governments. Many of the vetoes affected public health programs including behavioral and mental health. A large portion of them impacted local governments and schools. A large portion of them impacted things that communities depended on such as the unified court system, fish and game management, and transportation.

Mr. Andreassen suggested that an approach to governing through vetoes meant that local governments and stakeholders had little time to plan or prepare for how to adjust to the vetoes. Those that were enacted came in the middle or the end of a budgeting cycling making it very difficult to respond to them. Communities were left scrabbling to adjust in a very short amount of time. He noted that for FY 21 several of the vetoes were made thinking that CARES Act funding could make up the difference. However, it was not the case based on the federal guidelines that were released. He mentioned losing school bond debt reimbursement, community assistance, funding for K-12 education, municipal port and harbor reimbursement, and matching grants which all destabilized local governments at a time when they needed stability in support of responding to an economic and public health crisis.

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Mr. Andreassen advanced to slide 7 to discuss a short list of state budget priorities for local governments. He included a quote from the Office of Management and Budget from 2017. He asserted that one of the reasons there was a direct connection between state and local governments was the shared tax base. There were some portions of it that were restricted to the state. The state's Office of Management and Budget (OMB) memo from 2017 explained what that was and why there were different expectations of the state when it came to certain budget items than might be seen in other states. He would review each of the priorities.

Mr. Andreassen moved to the topic of school bond debt reimbursement on slide 8. School Bond Debt Reimbursement was one of the largest priorities for municipalities. He explained that school bond debt reimbursement was a deal made between state and local governments to address the state's constitutional obligation to fund public education. It was a mechanism that made sense whereby local governments went through a bonding process with a commitment by the state to reimburse for some portion of it. In the current case, it was approximately 30 or 40 percent depending on the year of the bond. The municipalities had experienced reductions to the reimbursements through the veto process over the past couple of years which had been a point of contention.

Mr. Andreassen explained that some communities had dropped off the school bond debt list since FY 20. Others would continue to drop off the list as they paid down their debt. By FY 26 he would be having a very different discussion with the legislature when the amount to be repaid each year changed to approximately 50 percent of full reimbursement. There was still $800 million in local government debt outstanding with the expectation that some portion would be repaid by the state.

Mr. Andreassen relayed that school bond debt reimbursement was a useful tool to the state. It placed less pressure on other funding mechanisms. He would discuss the school construction and grant program and the grant maintenance program later in his presentation. He highlighted that the debt made a significant difference in construction and maintenance of the state's obligation related to public education. The moratorium had placed more competition within the grant program between Regional Educational

Attendance Areas (REAAs) and municipal school districts. Recently, the Department of Education and Early Childhood Development reported the need for multiple funding mechanisms to fully meet the state's obligation.

Mr. Andreassen pointed to the table that showed a combination of the school bond debt and the senior exemption which was mandatory and specified in law. He reported that about 25 communities were heavily impacted by state decisions for large portions of their budget. He included the percentage of tax revenues on the chart which made sense in some instances and, in other instances caveats were added. The Northwest Arctic Borough was different because it had a payment in lieu of tax structure. Some municipalities relied on a fish tax versus a property tax potentially making things more complicated. He reasserted that the combination of shifting school bond debt reimbursement (or not reimbursing for it) and not reimbursing for the senior exemption made it challenging for municipalities. It shifted costs to other tax payers in the cities and boroughs.

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Mr. Andreassen turned to slide 9 to review community assistance. Community Assistance had been a longstanding program. He had included the original formula used in FY 70. It was originally established as a contract or cooperative agreement between state and local governments for the provision of certain essential services that the state could not provide. It had evolved over time and had gone through multiple iterations. As part of the evolution, and considering values adjusted for inflation, local governments had less available and were doing less than they had been. He suggested that when looking at whether the local governments could pick up the difference for public safety, schools, or road maintenance, the state had reduced its contributions and had left communities in a tough circumstance.

Mr. Andreassen hoped the flow chart on the slide conveyed that the failure to recapitalize community assistance had left community assistance in a precarious position. Communities were expecting an automatic formula driven transfer to occur in the current year in the amount of about $22 million ($7.5 million less than the $30 million that should go out). The community assistance amount would decline precipitously over the following few years. Once the state's contributions to communities were reduced to less than $20 million and the formula changed according to population in significant ways, by FY 24 only $12 million was expected to be distributed. He thought it would result in some communities being forced to shut their doors, reduce services, or look at new or increased taxes to make up the difference.

Representative Josephson hoped he had a reputation of someone who was very sympathetic to local governments and their needs. He noted a headline in the Anchorage Daily News. He wondered how a legislator could make sense of revenue and what amount was sufficient. The federal government had come to the rescue in the current year.

Mr. Andreassen thought it ended up being a matter of scale. It was insufficient for many communities. He had been talking with the City of Newhalen who was happy to receive $33,000. If there were ways to juxtapose the City of Newhalen's $33,000 with the Municipality of Anchorage's $100 million it was per capita, the level of service, the scale of the services that the governments were delivering to communities and their population sizes. He would address the question further on another slide.

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Mr. Andreassen addressed the question of why the state should invest in the Alaska Marine Highway System (slide 10. Over the prior year through the reshaping working group process he had heard a number of arguments about many communities that were not accessed by the AMHS. They suggested that many of these communities would be just as well serviced by air. He thought legislators should be looking at what kind of communities they wanted in Alaska. The other question was what contributions from these communities did the state need at a time it was facing its own fiscal policy decisions. He reported for the 33 ferry system communities, there were very strong contributions into the state's pension system, into the state's obligation for education, into carrying significant bond debt, and receiving very little from a program like Power Cost Equalization. On the other side in looking at the 106 cities simply served by air, they did not contribute significantly. The ferry system communities had economies of scale, a tax base, and were doing well with the building block the state provided in the form of a ferry system.

Mr. Andreassen suggested also looking at resolutions communities only serviced by air to put them on equal footing. He noted that overtime the state's contribution to the ferry system had decreased significantly since FY 07. At the time there were significantly shortfalls at the state level. Even at the time, the communities were making important investments in the system. The ferry system did not just benefit the 33 port communities or even the 106 communities served by air. He was talking about the vast majority of Alaskans who benefited from a ferry system that was intact and adequately providing service to the communities it served.

Representative Wool asked about the 33 port communities. He wondered if the number of communities the ferry system served had decreased recently. He was aware of some communities losing service temporarily. Mr. Andreassen thought the number had fluctuated over time. He indicated there were a couple of communities that had been removed from the list. He was aware that a number of communities had incorporated post ferry system. Many were in existence because of the transportation link of AMHS. Communities had thrived with the system supporting them.

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Representative Carpenter noted that there were 106 cities served only by air. He noted the picture of Alaska on slide 10 and the area covered in blue showing port communities. He wondered about the 106 communities only served by air. Mr. Andreassen replied that the data came from a McDowell Group report that talked about the economic impact of AMHS. The map included a list of communities that benefitted indirectly and directly from the ferry system. It showed port communities but was much more expansive. He had not included those communities that were not included in the McDowell Group report.

Representative Carpenter asked if the 106 cities were cities in Southeast Alaska that did not have a port. He asked what entities comprised the 106 cities. Mr. Andreassen could provide a list of the 106 communities. Many of them were on the coast represented in grey on the map.

Representative Carpenter was curious how many cities were on a river network that were served by barges, for instance. He wondered if the 106 communities were truly only served by air. Mr. Andreassen thought Representative Carpenter was talking about state-supported infrastructure. Representative Carpenter noted that it was Mr. Andreassen's slide and comparison. He was confused about the comparison.

Representative Thompson asked about the 33 port communities serviced by AMHS. He asked if all of those communities were also served by air. Mr. Andreassen believed the majority of them had air service. He offered that the point of the slide had more to do with the contributions the communities were making to the state. He was thinking about whether the state was seeing a return on its investment into the AMHS. He further clarified his point.

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Mr. Andreassen continued to slide 11: "PERS: Actuarial Determined Contribution Rate." The state pension was a critical issue for local governments. The sixty-four municipal employers made up 18 percent of the state's pension system. He reported that of the municipal payroll about $130 million went towards the 22 percent capped at the employer rate. A substantial investment would be needed to make up the difference between that and the actuarial rate.

Mr. Andreassen reported that there were two concerns within the state's pension system. First, it was not fully funded, and funding levels continued to decrease. He reported funding levels at 64 percent for pension benefits. The second concern was that a large portion of payroll was going into PERS. The contribution, whether 22 percent or 30 percent, made it difficult to recruit and retain employees. He reported that for defined benefits employees for pension benefits, it was 28.89 percent. The normal cost was 2.58 percent and the past service rate (what was necessary to address the unfunded liability) was 18.31 percent. Additionally, for defined benefits employees, the healthcare benefits percentage was 3.12 percent, and there was no past service rate - it was currently overfunded. The defined contributions employee plan had a percentage of 6.1 percent. It was all four of those elements that combined to make up the total rate of 30.11 percent. He indicated there was a total of about 15,000 defined benefits employees in the system and about 29,000 defined contributions employees in the system. He claimed that pension obligations made up a significant portion of local government budgets which they had no control over and no representation within the Alaska Retirement Management Board (ARMB). He hoped that the state would keep the cap in place. He also hoped for further discussions about how to get to a better type of pension system that addressed the unfunded liability, the additional state contribution, and how to bring the rate down so that employers could be more competitive relative to others in the nation.

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Mr. Andreassen turned to slide 12 to address keeping up with education. He pointed to the graph at the top right of the slide. He indicated the state had kept up with its education funding. It had remained flat if adjusted for inflation. The amount was not adjusted for pupil. He pointed out that the ADM count over the past 10 years had increased overtime. However, spending had not kept up with the ADM but had with inflation. The base student allocation (BSA) had not kept up with inflation. He pointed to the bottom right chart which showed how the BSA had declined over time. In many ways schools were being asked to do more with less.

Mr. Andreassen continued that since the majority of school districts were municipal, AML was concerned with whether the state was spending enough on education. There was an adequacy test within the system. He mentioned past litigation, the Kasayulie Case that looked at inadequacy relative to rural communities. He noted the Moore Case related to adequacy and the Mat-Su Case related to operations versus instruction. He also mentioned a Ketchikan case that looked at public education that could be relitigated according to a public education clause. The fundamental question was whether the state was meeting its constitutional obligation to deliver a system of public education to Alaskans. The Alaska Municipal League was concerned at a local government level in partnership with schools whether the state was meeting its obligation.

Mr. Andreassen discussed community and regional jails on slide 13. Similar to school funding, jails had tried to keep up with inflation. If community and regional jail funding was adjusted for inflation, the state was at FY 02 funding levels. Funding had been static at $7 million over the previous 6 years. The current year proposal was also $7 million. He opined that the amount was inadequate. In order to provide services for the state so the Department of Corrections (DOC) and the Department of Public Safety (DPS) did not have to add to their budget, local governments were picking up as much as 50 percent of expenses in some places. If things did not change, there was a real possibility that jails might not be maintained and costs would get shifted back to DOC and DPS.

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Mr. Andreassen advanced to slide 14 to address the question of how to look forward. He had mentioned inflation throughout the presentation. He tried to think about what it meant for local government. The graph on the left was OMB's inflation adjusted 10-year plan with a baseline in the current year that was slightly different than it should be if the proposed funds source changes were taken into consideration. A nominal 1.5 percent was applied to the 10-year budget. He did not know if it accounted for everything but it accounted for the things the state tracked for inflation-proofing. If the budget was adjusted to where it should be without items being paid for out of AHFC or AIDEA the number would be different. There would be an increase between the current year's budget and the budget in FY 32.

Mr. Andreassen commented that the numbers for the Alaska Permanent Fund Corporation (APFC) and for PERS reflected a growth of expenditures over the following 10 years. He wondered what it meant for programs important to local governments. He asserted that mostly, inflation had not been addressed within almost any formula program that transferred out to local governments. While there might be some accounting for inflation for some state programs such as payroll or agency work, elsewhere, he did not see the same increase play out over time. There would be very different numbers presently if, going back to FY 07, the state had invested differently in the programs. He mentioned a spending cap. The constitutional amendment passed in 1982. He speculated that if the state had adjusted for inflation the state's budget would be $12.9 billion or 26 percent above what was proposed in 2017 during periods considered high spending overall. He contended that if the state was not accounting for inflation, then it was requiring that its partners do less with less in terms of the services they were providing on behalf of the state.

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Mr. Andreassen reviewed slide 15: "Stabilizing State Budget." He hoped the legislature would look at how to stabilize the budget. The budget, as proposed, was insufficient in many ways in terms of meeting the needs of local governments and other partners. He included a list of several items that had necessary funding levels that, if not funded, would be destabilizing and have negative impacts to local governments. He argued that the legislature needed to recapitalize community assistance fully returning to the $30 million distribution. He indicated $32 million would necessary. He also asked for additional funding for the public safety system. All of the needs at a community level added up. He relayed that the proposed FY 22 budget was short by about $600 million. He admitted the request was not minimal.

Mr. Andreassen discussed addressing an infrastructure deficit on slide 16. He argued that it was critical to address the state's infrastructure deficit. The list on the slide totaled $22 billion but was not a request for the current year. He thought the state should be looking at its infrastructure needs. He mentioned DEED's 6-year plan for school construction and major maintenance that totaled $1.6 billion to $2.3 billion. He indicated that Indian Health Services (HIS) maintained a list water and wastewater needs of $1.9 billion. There was probably an equal need at the urban level. There were capital lists from at least 50 local governments totaling around $4 billion. There were also port and harbor needs. The state maintained its list of deferred maintenance and STIP. The broadband need was likely underestimated on the slide. He also hoped to improve the jail facilities and infrastructure. He requested that legislators be cognizant of needs at the local level. Maintaining a list and prioritizing was critical.

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Mr. Andreassen moved to slide 17 to review school construction and major maintenance grants. He indicated that one of the infrastructure needs was school construction and major maintenance. He had spoken earlier about the school bond debt reimbursement program. All that was left was the school construction and major maintenance grant program. The history of the grants was not inspiring. He thought it was a little scary that the state had only funded 14 percent of the total need since 2011. He reported that for maintenance projects, only .07 percent had been funded over a 10-year time horizon. He indicated that of just over 1000 schools about 75 percent were owned or maintained by municipalities. Almost half were older than 40 years which was the time to start worrying about the health of the infrastructure.

Mr. Andreassen stated that the requests in the currently proposed budget were not being met. The need for school construction was estimated to be $162 million. There was a request of $187 million for major maintenance: $119 million for municipal schools and $68 million for REAAs. He pointed out that the current maintenance compared to that of FY 15 provided a sense of the reversal that had occurred since school bond debt went away. Municipalities were more likely to apply for assistance relative to REAAs and the competition between the two. The need at the municipal level had increased over time. The grant programs weighed the requested needs against the investments that might be necessary in REAAs.

Mr. Andreassen continued that the 6-year plan would require about $1.6 billion and the FY 22 need was $500 million. If looking at the total eligible state share, the amount of need should be calculated differently and would total about $2.8 billion since FY 11. He noted that 16 districts did not submit any project need requests. The Department of Education and Early Childhood Development's facilities report indicated that the state's total deferred maintenance was $9.4 billion. In order to address that need the legislature would have to appropriate $283 million annually. The amount was significant and under-addressed in much of how the legislature had approached the state's constitutional obligation. He suggested that only 48 percent of the forecasted need was being addressed in the budget.

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Mr. Andreassen turned to slide 18: "Municipal Roads - Transportation." Another area of infrastructure important to look at was municipal transportation. It was one of the three or four buckets of funding in which local governments contributed. Local governments managed about the same number of road miles at DOT, approximately 5500 road miles. Municipal transportation budgets added up to about $190 million a large portion of which went towards maintenance. Municipal projects were not reflected well in the Statewide Transportation Improvement Program (STIP). He thought there were some process questions about how the state fully accounted for the transportation needs of its roads. There were 6 municipal airports. Also, there were many local governments that maintained state airports through contracts.

Mr. Andreassen also included information regarding ports and harbors. He reported that the majority of state ports and harbors were owned by municipalities. Many of them had been transferred by the state to local governments, as the state did not want the responsibility of maintaining them or thought local governments were in a better position to manage them. Resulting from the transfers came the harbor matching grant program. However, the program was outside the traditional operating or capital budget. Over time the state had contributed annually to the matching grant program. It was a deal that was made similar to school bond debt reimbursement - the state would help along the way with the ports and harbors if local governments took them and managed them for the state.

Mr. Andreassen continued that within the STIP there was no funding for ports and harbors because they were not state owned. There were some ferry terminals included. For ports and harbors he had an early estimate from members in 2010 of a total need of $595 million determined through a Corps of Engineers study. He highlighted the table on the bottom right of the slide. It showed those municipalities who responded to the survey. The full need of $595 million was not reflect on the table. The need for those communities that responded had doubled. He mentioned a port and harbor project assessment that was either planned or where there was need totaling about $2 billion. He noted having made agreements under a previous program (noted on the top right of the slide) under TIDSRA/HB528 municipal projects. The state made the agreement that if municipalities bonded for the projects listed, the state would reimburse them for some portion. The funds had been vetoed or otherwise not appropriated in recent years. He concluded his snapshot of transportation needs.

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Mr. Andreassen addressed the funding needs for municipal water and sewer on slide 19. He pointed to the pie chart on the right representing the rural Alaska sanitation fund need of $1.8 billion. Indian Health Services managed the list and the state provided funding through two forms; the revolving loan fund and the village safe water program. Ther revolving loan program went to some cities in the unorganized borough and more likely to cities and boroughs. Local governments could borrow from the program at low interest rates (1.5 percent interest) but were required to pay the money back. The state provided matching dollars through the village safe water program to be able to access a much greater amount of federal funding. Most of the projects associated with the village safe water program were within small communities in the unorganized boroughs. He thought the state, the federal government, and local governments should work together to address the need.

Mr. Andreassen continued to slide 20: "COVID and Limited Relief." He would address where the state was at in terms of how it had been impacted by Covid, the CARES Act, and the American Rescue Plan Act (ARPA). He indicated that the goal of local governments and hopefully the state was to stabilize government making sure there was continuity in operations to ensure that resident received what they needed in challenging times. He reported that in talking with mayors they were very focused on economic recovery that included public health and targeted relief with some big lifts at the state and local level. For some local governments, even with COVID funding, they could not be made whole.

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Mr. Andreassen advanced to slide 21 to discuss Covid's impacts. Covid impacts had been diverse across communities. The financial impacts of Covid included significant vetoes, reductions to the previous year's budget, lost revenue during hunker down orders and mitigation measure, and the additional activities taken on by local governments. There was a multitude of decision points or inputs that affected how local governments responded. Every local government approached the issue by asking how to make sure that residence had what they needed during the pandemic. It was the primary goal among other decisions. There were nine points he included on his slide worth reviewing:

> In response to the pandemic and impacts of vetoes, local governments have maintained fiscal stability and:
>
> - Implemented furloughs or reduced staff hours
> - Eliminated or reduced programs or services
> - Increased or added new taxes
> - Waived fees or other normal charges
> - Accessed grant programs or took out loans
> - Reduced capital budget
> - Spending down of emergency reserves
> - Eliminated travel and training
> - Adjusted prior year appropriations

Mr. Andreassen reported there had been a variety of responses from communities. There were a number of health mitigation strategies implemented. At the heart of local government response was state-level guidance that expected decisions at the local level. Some local governments partnered with public health experts to manage through the emergencies. Emergency operations centers were stood up across the state, and every local government had an incident commander and a public information officer. He reported that 165 counsels and assemblies met weekly to evaluate where they were at in dealing with the pandemic. There were a number of health mitigation measures that were put into place at the local level. He relayed that one of the things that stood out in the pandemic was that local governments set up resident support systems to ensure that residents had what they needed through the crisis.

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Mr. Andreassen continued to slide 22: "CARES Act." He noted how appreciative he was of the governor's and the legislature's decision to move CARES Act funding from the state to local governments exactly as the U.S. Treasury advised at 45 percent of the state's allocation. It made a huge difference for fine tuning the relief communities needed. He pointed out that out of the total expenditures of local governments during the period, economic support in the form of resident grants or business was number one in how they were expended. Payroll funding went to emergency operations and public safety. Another portion went to public health. Most local governments did not have public health powers. Therefore, they were not providing public health like other counties around the nation. However, entities worked together to be able to address public health and medical issues.

Mr. Andreassen continued that the majority of local governments had received their CARES Act funding. He noted that of his members, only 8 communities had not requested CARES Act funds for their communities for various reasons. Some were uncertain of eligibility and did not know about repayment. Some communities had not been significantly impacted by the pandemic. The vast majority of entities needed the funding and had spent 90 percent of their funding. He thought the state would have only reached 98 percent by the original date had it not been extended. Most communities had made quick decisions in the last week of 2020. He reported that $552 million of the federal funds had been distributed. The Alaska Municipal League had collaborated with OMB and the Division of Community and Regional Affairs (DCRA) among others. Local governments worked with AML to make sure they were in proper compliance at the state and federal levels to use the funds most effectively. He thought it was a success story.

Representative Merrick recognized that Representative Johnson had joined the meeting.

2:54:30 PM

Representative Wool thought the anonymous mayor quoted on slide 20, "We're hosed" was referring to ARPA. He suggested one could argue that some of the smaller communities faired disproportionately well with the first disbursement compared to some larger communities. He wondered if Mr. Andreassen agreed. Mr. Andreassen asked Representative Wool to restate his question. Representative Wool restated his question.

Mr. Andreassen agreed that the quote was in reference to ARPA. However, nothing was easy about the implementation of the CARES Act funding, nor was the funding a windfall for communities. Most communities had to jump through hoops to build capacity to figure out how to be compliant with the federal guidelines that changed frequently and state reporting requirements. Most communities were limited with how the funds could be spent. Although the quote referenced ARPA, it was important to know how challenging it was for local governments to use the CARES Act funds. It was challenging for both large and small communities to manage through CARES Act implementation.

Representative Wool agreed with Mr. Andreassen comments. He hoped that some of the state ARPA money could help some of the smaller communities such as Skagway and the Denali Borough who were heavily affected by the lack of tourism.

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Mr. Andreassen turned to slide 23: "COVID's Impact." The slide contained a rough list of how local governments had been impacted. Every local government was different in how COVID and the economic crisis impacted their finances. He could provide detailed numbers for each of the communities if anyone wanted them. Some of the impacts included lost taxes like sales taxes and fish taxes. Those communities that relied on ports, fishing, cruise ships, or tourism were most disproportionately impacted. He argued that no community stayed whole through the pandemic. Some communities' sales tax stayed flat and managed through the crisis. Some hub communities continued to see some domestic tourism. He indicated smaller communities reliant on revenue generating activities such as bingo and pull tabs were shut down. He noted that some communities had utility waivers through the pandemic. Municipalities did everything they could to avoid adding to residents' and businesses' burdens. They also stood up emergency operations. He indicated that for the majority of communities, they were negatively impacted financially. Although CARES Act funding helped, they could not be used for revenue replacement.

3:00:44 PM

Mr. Andreassen reviewed ARPA on slide 24. He reported that although the numbers were not final, they were a good assessment of where things were headed. He indicated that cities were split into two different groups and everything was based on a community development block grant (CBDG) or a U.S. Housing and Urban Development (HUD) grant. Anchorage was the only metropolitan area in Alaska. They received a direct appropriation, approximately $45 million. All other cities, because they were CBDG non-entitlement cities, had to go through the state and the legislature before going through distribution similar to the CARES Act funding. The city portion was about $88.5 million. Boroughs and census areas on the same list would receive about $142 million. Out of the census areas it was up to the state to develop a distribution methodology for unorganized boroughs. Anchorage would appear on both lists. He reported that the $100 million that was reported earlier was the combined amount between its city allocation and its borough allocation. Some communities were on both lists and others were not. The Alaska Municipal League had argued with the U.S. Treasury that some communities should be on both lists to help those that were most disproportionately impacted. He suggested that there was a huge opportunity to meet the needs of Alaskans by collaborating. He mentioned partnering with different entities to respond to economic impacts and the health emergency, to stabilize government through a lost revenue provision, and to make investments in water, sewer, and broadband. He had already initiated conversations about what collaboration for water and sewer, broadband, and child care might look like.

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Mr. Andreassen turned to slide 25 to discuss federal relief. He thought there was a formula for figuring out those local governments that had not been made whole. He suggested adding up lost revenues from fees and taxes, vetoes, and additional expenses incurred due to the COVID public health emergency. He would look at the allowable expenses under the CARES Act and consider what could be shifted within the CARES Act guidance. He would also look at the anticipated funding from ARPA. Taking into consideration all of those things he would look at whether communities were made whole. The CARES Act restrictions meant there were limited benefits to local governments. If federal relief was not sufficient to meet resident or business expectations, Alaskans might look to the state to provide additional relief or for local governments to provide continued levels of support. He thought there would be limited capacity for most communities to do so. As a result of federal relief, he speculated that most communities would come out even and some might be in a position to focus more on economic recovery. He relayed that the Alaska Conference of Mayors had a champaign related to a race to recovery. There would communities disproportionately impacted. He argued that federal relief was wholly insufficient. The slide provided a quick list of communities that were significantly impact and did not come close to being made whole. Most of the communities relied on tourism and travel. He was only providing a look back. There were communities in which ARPA funding would be insufficient. Communities were already considering laying off staff, reducing services, delaying capital projects, spending down reserves, and otherwise addressing revenues. He thought working together would be necessary to maximize relief.

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Representative Rasmussen noted the Denali Borough was seeking $4 million to $7 million. The other communities had more specific numbers. She wondered why the borough's range was so significant. Mr. Andreassen responded that AML had estimates for the Denali Borough from the previous and current year. The borough's losses from the prior year were $4 million and $3 million in the current year. It was not just about the prior year but what was anticipated in the following year.

Representative Josephson asked Mr. Andreassen to clarify the meaning of wholly inadequate. He wondered if direct funding was wholly inadequate. He noted the other opportunities with assistance listed in his outline. He asked if he was accurate. Mr. Andreassen responded that the other funding that was coming through the ARPA could be applied on behalf of those communities. There was nothing else that provided direct relief that was formula driven. Everything else was either competitive in the form of a grant or through the state. Unless there was a contribution with a formula from the state it would not go to fill the whole. Rather it would fill other parts of their budget.

Representative Josephson noted there were no provisions in the CARES Act, Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA), or ARPA that allowed the funding to be used to replace lost revenues for communities.

Mr. Andreassen responded, "Not specifically." There was something added within ARPA for Payments in Lieu of Taxes (PILT) or Secure Rural School (SRS) communities. He thought public lands communities would have access to some additional formula. It was pretty minimal in terms of what was included in ARPA, and there was no formula. The only other thing within ARPA that was specific to would disproportionately impacted communities was through the U.S. Economic Development Administration (EDA). It was unclear whether or how it would come to Alaska.

Representative Josephson thought that the panhandle would argue that it was a public lands community because of the Tongass National Forest. He recalled some trade dollars coming to the Southeast through congressional authority about 5 years prior in lieu of some harm that came from a trade act. He asked if Mr. Andreassen knew what he was talking about.

Mr. Andreassen was uncertain of what Representative Josephson was specifically talking about. However, he thought the representative was right that it would be the public lands, boroughs, and cities. They were all PILT recipients. He did not know how the monies would be allocated.

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Vice-Chair Ortiz pointed to Hoonah on the slide. The community thought it would be receiving $183,500. However, in order to make them whole they would need $2.7 million from the state. He asked if he was correct.

Mr. Andreassen relayed that the slide captured what the difference was between the funding they were receiving and the amount that would make them whole. He thought a conversation would be necessary to discuss how to address the communities that were most disproportionately affected. He wondered if there was a formula or mechanism that could be developed to offset a portion in the coming months.

3:15:02 PM

Representative LeBon wanted to look ahead at the final slide regarding the eight stars of gold. He wondered about the relationship between the state and local governments whether boroughs, cities, or municipalities and where the responsibilities begin and end. He represented a district that rested entirely within the city limits of Fairbanks. The residents of Fairbanks paid for their public safety in the form of the Fairbanks Police Department. He commented that none of the eight stars of gold on the slide suggested that public safety should be shared - at least some element of responsibility to pay for public safety among all organized communities. He asked if AML had a position on the responsibility towards public safety shared by all communities. Mr. Andreassen asked a clarifying question to Co-Chair Merrick.

Co-Chair Merrick indicated Mr. Andreassen could answer the question.

Mr. Andreassen replied, "Yes, to some extent." He noted that the eight stars of gold were not necessarily AML's eight stars of gold. From an AML perspective on state fiscal policy, a large part was to look at devolution of state powers, responsibilities, authorities to local governments that had the capacity to do so. He thought AML would be open to discuss the right formula mechanism relating to public safety or any other power as long as the local government had a tax base that could support it and the capacity to implement it. Implementation would not be a quick directive. Rather there would be a process in which capacity was built at the local level to incentivize taking on the additional responsibilities. He continued that the eight stars of gold were an attempt to highlight the following:

1) State spending was insufficient in some ways for some constitutional and other obligations.
2) The state needed an economic rebound post-pandemic and in general.
3) The state had an infrastructure deficit.

Mr. Andreassen concluded that some combination of the eight stars of gold needed to happen in the current legislative session. The stars represented what a comprehensive plan could or should look like and agreed to by the governor and the legislature. There were other areas or aspects that could be included.

3:19:21 PM

Representative LeBon pointed out that one of the eight stars of gold was to implement a broad-based tax and revenue measure. He commented that it would be tough to tell his constituents the there would be a broad-based tax and they would have to continue paying for police protection. He was unwilling to bring that message to his constituents. He assumed that the eight stars of gold represented the positions of AML. He asked about the PFD formula changes versus the community assistance program. He wondered if Mr. Andreassen was suggesting that the legislature reduce the PFD formula in some material way to make room for more community assistance.

Mr. Andreassen thought Representative LeBon had good questions. He was unsure what approach the representative would or should take with his constituents. He indicated the eight stars of gold were items that needed to be negotiated between a variety of different programs. The Alaska Municipal League had not taken a position on the amount of the PFD or the formula. There was a recognition that there was an emerging consensus that something needed to change within the dividend formula to make sure the state could pay for things in the budget and could fulfill its constitutional, debt, and statutory obligations. He thought all of the items would be negotiated in the process with the legislature and the governor. The eight stars represented what had emerged over the previous few years of debate around fiscal policy.

Representative LeBon appreciated that one of the goals was to ensure a sustainable draw from the Permanent Fund. He assumed AML would not support an overdraw of the Earnings Reserve Account (ERA) to enhance community assistance or any other shortfall Mr. Andreassen had addressed in his presentation.

Representative Wool assumed, as did Representative LeBon, that the eight stars of gold represented AML's position. His constituents supported some kind of broad-based tax. Of the 165 communities, many already had a sales tax. He asked if AML's communities had a preference of a type of broad-based tax. Mr. Andreassen responded that AML had a resolution in support of an income tax. He thought the resolution included that AML was open to a discussion about a sales tax that would not negatively impact a local sales tax. He thought an income tax might not be feasible currently. He noted that only the stat could implement one, as it was preempted for local governments. The state's tax base preempted its resource base from being taxed by local governments. He reiterated that AML supported a broad-based tax.

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Representative Johnson referred to ARPA and direct aid versus pass-through money. She asked if municipalities had any coordinated effort to find the ARPA money. She wondered if Mr. Andreassen was helping find that money. Mr. Andreassen replied that AML previously had a CARES Act coordinator and thought the position would evolve into an ARPA coordinator that assisted local governments in managing ARPA funds and maximizing them in their communities.

Representative Johnson was glad to hear Mr. Andreassen's response. She remarked that sometimes the federal requirements were difficult to meet. Smaller cities had limited resources to track those requirements. She wondered if he had heard of smaller cities having trouble meeting the federal requirements. Mr. Andreassen mentioned earlier about the collaboration that AML and communities had had with OMB and DCRA which was still in place. The state was the primary recipient of the funds. Therefore, the treasury action in relation to any of the communities had to go through OMB. Thus far, there had been good cooperation in the accounting.

Representative Johnson noted that ARPA had a spending plan through 2024. She asked if Mr. Andreassen had an opinion on how he would like to see the funding dispensed. She had heard the funding might be dispensed once per year for 3 years. Mr. Andreassen indicated AML was waiting for federal guidance. He thought funding for local governments would be dispensed in two tranches - one within the following 60 days (the state had 30 days to dispense it) and one the following year. The funding would be spread out to some extent over the following few years.

Representative Johnson referred to the eight stars of gold of which only 7 were discussed. She thought adopting a reasonable spending cap was an interesting idea. She wondered if AML had something specific in mind. Mr. Andreassen indicated that the eight stars of gold were factors AML believed would or should be part of a package to get the state on the right footing to stabilize state government. He did not have anything specific about a spending cap. In the past AML had not wanted a spending cap. However, AML realized that a spending cap was part of the formula that need to a part of the next steps for the state.

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Representative Johnson thanked AML for its work.

Representative Rasmussen asked how AML saw creating equity for those municipalities and boroughs who did not currently pay for certain services when the legislature was asking for broad-based taxes to support state services. She thought the legislature should be looking at making services more equitable so that certain communities such as hers and Representative LeBon's who have a sizable tax base and supported their own police or supported more of their education or school costs were not disproportionately impacted and double-dipped what they were asked to contribute. She invited Mr. Andreassen to comment.

Mr. Andreassen responded that he would follow up in written form due to time constraints. He remarked that the things Representative Rasmussen brought up were things he hoped could be negotiated. He thought it would require bills to be introduced and discussions to be had. All entities needed to be at the table working through what equity might mean and how to fulfill the state's constitutional obligations to public health, welfare, education, and public safety. He would follow-up with a more detailed response to the representative's inquiry.

Co-Chair Foster reviewed the agenda for the following day.

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ADJOURNMENT

3:32:50 PM

The meeting was adjourned at 3:32 p.m.