

SENATE FINANCE COMMITTEE  
February 17, 2021  
9:02 a.m.

[9:02:30 AM](#)

CALL TO ORDER

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

MEMBERS PRESENT

Senator Click Bishop, Co-Chair  
Senator Bert Stedman, Co-Chair  
Senator Lyman Hoffman  
Senator Donny Olson  
Senator Natasha von Imhof  
Senator Bill Wielechowski  
Senator David Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Nils Andreassen, Executive Director, Alaska Municipal League.

SUMMARY

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

Co-Chair Stedman discussed the agenda.

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

[9:03:33 AM](#)

NILS ANDREASSEN, EXECUTIVE DIRECTOR, ALASKA MUNICIPAL LEAGUE, informed that he had a comprehensive presentation for the committee. He wanted to provide a big picture of local governments and how they interacted with the state, as well as how state budget decisions affected

municipalities. He discussed the presentation "Condition of Communities - Fiscal Futures" (copy on file).

Mr. Andreassen turned to slide 2, "State Budget and Municipal Implications":

Those municipalities that contribute the greatest to the state's economy, experience the brunt of cuts and cost-shifting

- The Governor's proposed FY20 budget, for instance, included cuts, clawbacks, and cost-shifting of nearly \$900M - \$850M of that fell on just 20 local governments

Indirect costs to municipalities are the more significant challenge, and may impact rural Alaska disproportionately

- Direct cuts like Community Assistance reduce the capacity of local governments
- Reductions to things like public radio and TV, or the ferry system, impact communities

Most reductions that impact local governments do not reduce the size of State government, they eliminate the State's support for partners that are fundamental to quality of life and economic health

Unfunded mandates, cost-shifting, or reductions that result in resident expectations shifting local all push local governments toward few options -

- Increased or new taxes
- Reduction in the provision of services
- Reduced capital investments and maintenance
- Eliminate programs and staff

Mr. Andreassen acknowledged that he did not have the expertise of the Office of Management and Budget (OMB) nor the Legislative Finance Division, and he would welcome any adjustments to his figures.

[9:06:10 AM](#)

Mr. Andreassen looked at slide 3, "The Basics":

165 cities and boroughs out of 224 communities

- 19 boroughs -11 Home Rule; 1 First Class; 7 Second Class

- 145 cities - 11 Home Rule; 18 First Class
- 1 organized under federal law - Metlakatla

Home Rule -may do anything not prohibited by law  
General Law -may only do those things allowed by law  
Few musts -all boroughs, home rule/first class cities  
- education, planning/platting, and taxation

Serve 825,000 Alaskans  
Employ 7,700 Alaskans, or 20,000 combined with schools  
Tax Revenue: FY18 \$1.83B to FY19 \$1.86B  
Revenues: FY19 \$2.55B to FY20 \$2.57B  
Expenses: FY19 \$2.54B to FY20 \$2.63B

Mr. Andreassen commented that there had been much discussion about home rule communities during the COVID-19 pandemic. He acknowledged that there were overlapping jurisdictions between boroughs and cities. He cited that the overall number of people that Alaska's local governments were serving were greater than the state's population in some respects. He commented that local governments were a significant employer. He explained that the difference between tax revenue and total revenue was that total revenue included federal and state transfers such as community assistance. He would discuss revenues in more detail at a later part of the presentation.

[9:09:34 AM](#)

Mr. Andreassen reviewed slide 4, "Variation," which showed four state maps depicting the areas of the state participating in Public Employees' Retirement System (PERS), police powers, school contribution, and the Power Cost Equalization (PCE) Fund. He wanted to show how different communities in the state were. Local governments were impacted differently by state budget decisions. He cited that out of 165 cities and boroughs in the state, only 64 were PERS employers. Out of 165 cities and boroughs in the state, only 34 made the school contribution. He noted that just over 100 local governments and communities benefitted from the PCE Fund. He pointed out that 70 local governments out of 165 had police powers. He emphasized that not every local government experienced state budget decision-making the same.

Mr. Andreassen discussed slide 5, "What pays for State government?" He relayed that the slide came from Department

of Revenue, and showed a graphic entitled "Relative Contributions to Total State Revenue: FY 2020." He had added information in blue about where local governments fit into the picture. The information showed \$1.8 billion in local government tax revenue, which put local governments just above petroleum and above investment earnings in terms of the total number that funded state programs. He considered local governments and the provision of state services as part of the big picture.

[9:12:11 AM](#)

Mr. Andreassen presented slide 6, "Local Government: Revenues":

FY19 revenue was \$2.5 billion  
Property Tax: 15 of the 19 boroughs, and 21 cities,  
with total revenue - \$1.46 billion  
•Of this, local Governments collect State  
Property Tax of \$256M

Sales Tax: 95 cities and 9 boroughs have a sales tax,  
with total revenue - \$260 million

Additional Taxes and Fees: Tobacco, raw fish, car  
rental, alcohol, and bed = \$146 million

State and Federal transfers approximately 20% of local  
government budgets

- Federal Payment in Lieu of Taxes (PILT -\$31M)  
and Secure Rural Schools (SRS)
- Community Assistance
- Grants

Revenue is less the State's mandatory exemptions

- Mandatory Senior Citizen and Disabled Veteran  
Property Tax Exemption
  - Applications increased from 27k in 2010 to 47k  
in 2020
  - Exempted taxes over that period have gone from  
\$49M to \$95M in that same period

Senator von Imhof asked if there was a change whereby e-commerce purchases included local sales tax.

Mr. Andreassen answered in the affirmative. He noted that there had been a decision made by the Alaska Supreme Court.

Most states now that had sales tax had passed online sales tax laws, and Alaska's local governments had the same ability. There was a commission to work with local governments to collect the taxes. The value of the tax was approximately 5 percent. Physical sales tax collection was about the same as what was collected in remote sales tax collection.

Senator von Imhof asked if there was approximately \$1.3 million collected for e-commerce taxes from \$260 million in total taxes.

Mr. Andreassen agreed about that of about 106 local governments, only 34 were participating in the program and would have to sign on and adopt the uniform code. For the current fiscal year there would be just short of \$10 million collected.

[9:16:00 AM](#)

Senator Wilson asked if there was a way to know how much of the online sales tax might be over collected because of zip code variation. He used the example of a zip code in Wasilla.

Mr. Andreassen noted that taxing outside of boundaries would be against the law. He furthered that for those jurisdictions that joined the remote sales tax commission, the sales tax boundaries were GIS coded for sellers to use. A contractor had mapped out the areas. Applications for tax refunds could be taken up with sellers.

Mr. Andreassen spoke to slide 7, "Local Government: Expenditures":

In FY19, the total expenditures by local governments in Alaska was \$2.5 billion

- Contributed \$130 million into PERS - 5% of total expenditures
- Carry \$4.2 billion in bond debt

Contributed \$486 million as local education contribution -20% of total expenses

- Municipalities contribute over 25% of State's overall obligation to public education
- Required local contribution - \$256 million in 2018



- 17 vetoes fell on DOT programs, specifically to either AMHS or rural road/airport maintenance

Many FY21 vetoes were made thinking CARES Act funds could be applied in their place, which we know now is not the case. Local governments had to make these up on their own.

Mr. Andreassen thought that vetoes fell into four categories that affected local governments. He recounted that the Alaska Municipal League (AML) had analyzed all the vetoes made within the FY 20 and FY 21 budgets. He acknowledged that the legislature had done great work to adjust and respond to many of the vetoes that occurred. He mentioned impacts to courts, the Department of Fish and Game, and the Alaska Marine Highway System (AMHS).

[9:20:56 AM](#)

Mr. Andreassen referenced slide 9, "School Bond Debt Reimbursement":

Background: State had committed to paying 70/60% of all school bond debt, with 30/40% match by communities, but with clause that held municipalities liable for 100%. There's a current moratorium, which calls into question the State's ability to meet Constitutional obligations.

Challenge: Total debt \$800,000,000.

Options:

- 1.Absorb through current or added revenues
- 2.Examine legal options based on past payments by State creating condition of confidence
- 3.Not paying affects credit rating

Impact:

- Other priorities removed from budgets
- Taxes increase
- Spend from emergency reserves

Mr. Andreassen thought school bond debt reimbursement was one of the more significant issues for municipalities. He recalled that the total debt left for the current fiscal year was about \$800 million, and he knew that the governor's proposed FY 22 budget contained a 50 percent

reduction to what was owed for the fiscal year. School bond debt reimbursement had been vetoed out of the previous two budgets at 100 percent and 50 percent, which signified roughly \$200 million that the state had shifted back to local governments between FY 20 and FY 22. He relayed that many local governments had adjusted to the cuts in various ways including drawing down savings.

Senator von Imhof had recently learned that \$180 million had come to school district via Coronavirus Aid, Relief, and Economic Security (CARES) Act funding. She asked if school districts could put some of the funds into savings if the legislature raised the cap on fund balances.

Mr. Andreassen thought it would be helpful to allow for school districts to carry forward the funds for future fiscal years. He did not know if the federal funds could be applied to school debt reimbursement.

Mr. Andreassen continued to address slide 9. He noted that the same group of communities experienced lack of reimbursement for school bond debt as well as the mandatory senior exemption.

[9:24:04 AM](#)

Mr. Andreassen showed slide 10, "School Bond Debt Reimbursement - What's Ahead":

18 cities and boroughs who carried this debt in FY20-Wrangell, Unalaska and Hoonah dropped off since then

8 of 16 remaining have only eight years left

In FY26, debt reimbursed reduces by about half, to about \$48M

Is the State still required to reimburse for vetoed amounts, pending appropriation?

Could vetoed amounts get re-amortized, within the debt repayment schedule?

What is the right level of school debt that the State is able to carry?

Local bonding allows Legislature to bypass a GO bond and statewide vote, or corresponding legislation  
-What replaces the current moratorium?  
-What are the impacts of the current moratorium?

Mr. Andreassen drew attention to the table on slide 10 that listed the amount of school bond debt per municipality. He contended that while the law allowed the state to not reimburse for school bond debt during the fiscal year, local governments had to pay the debt. He argued that the vetoed amounts needed to be carried into future years and taken up by the state's debt manager as part of its debt schedule.

Co-Chair Stedman thought the funds were subject to appropriation.

Senator Wilson asked if AML was going to file suit so the third branch of government could make the decision.

Mr. Andreassen stated that AML was looking into legal considerations around the state's obligation regarding school bond debt reimbursements.

Senator Wilson asked if AML would be challenging matters around the senior exemption.

Mr. Andreassen asserted that it made sense that if the state's statutory obligation to school bond debt reimbursement debt needed to be carried forward, that the same would be true of the senior property tax exemption. He cited that in the last ten years, the amount owed by the state to local governments for the senior citizen property tax exemption totaled about \$761 million.

Co-Chair Stedman suggested that AML could file litigation if it so desired. He stated that the legislature had been working on policy to get school bond debt reimbursement paid in full as well taking care of the Regional Educational Attendance Area (REAA) issue. He thought the legislature had a policy disagreement with the administration.

Mr. Andreassen pointed out that the AML was not faulting how the legislature had approached school bond debt reimbursement, but rather was interested in the matter of tracking debt accurately. He thought considering the

moratorium in place on school bond debt reimbursement, there needed to be new solutions for addressing school construction and major maintenance. While local bonding allowed for the legislature to bypass a general obligation bond and a statewide vote or corresponding vote, he thought without the mechanism in place there was an increase in overall need for school construction and major maintenance.

[9:28:15 AM](#)

Mr. Andreassen addressed slide 11, "Municipal Bond Bank":

Lawsuit related to oil tax credit corporation, which State lost, resulted in uncertainty for the Alaska Municipal Bond Bank to issue any further bonds.

Supreme Court No. S-17377

On consideration of the State's Petition for Rehearing filed on 9/28/2020, and the Appellant's Response filed on 11/10/2020.

It Is Ordered:

The Petition for Rehearing is DENIED.

Entered at the direction of the court.

This may have real implications for the many local governments that utilize this instrumentality of the State.

Mr. Andreassen expressed that AML was seriously concerned about the future of the Alaska Municipal Bond Bank. He directed attention to a list on the slide that showed how different local governments had unutilized the bond bank. He noted that small communities particularly depended upon the bond bank for its ability to carry forward and address infrastructure needs.

Co-Chair Stedman asked for Mr. Andreassen to add another column to the chart to include the outstanding balance per capita for the communities listed.

Mr. Andreassen agreed to add the information.

Senator von Imhof did not understand the link between the oil tax credit bonding attempt and the Alaska Municipal Bond Bank. She did not understand the effect of the ruling.

Co-Chair Stedman thought the question was best directed to the Department of Law. He affirmed that there was a link and a concern to be address. He thought the issue went beyond just the bond bank to the matter of other bonding opportunities for the state. He mentioned that the constitution dictated that bonds had to be for capital projects. He affirmed that the committee could receive a briefing on the matter at some point.

Senator Hoffman asked what AML had done to get the issue of the bond bank clarified.

Mr. Andreassen relayed that AML had filed an amicus brief in support of the state's position, asking for clarification. The AML authority needed clarification from the court that the ruling, as it pertained to the oil tax corporation, should not extend to existing authorities (particularly like the bond bank). He thought the bond bank would be better able to answer specific questions on the matter.

Mr. Andreassen turned to slide 12, "Community Assistance":

Background: In place since 1968, this is a redistribution of state resource wealth for equitable use by local governments to provide essential services and keep local tax rates low.

Challenge: Meet needs where little tax base.

Options:

1. Absorb through current revenues - difficult with addition of other cost-shifting
2. Increase taxes - 25% of local governments did this in the 2000s, when revenue sharing went away
3. Close - this represents more than 70% of 14 local government budgets, and they will no longer be able to operate

Impact:

- Local government services revert to the State
- Local governments divest of powers
- Local governments increase taxes

Mr. Andreassen referenced one of the original formulas shown on the slide that showed how the state funded

community revenue sharing, which was a formula that was attributed specifically to the different powers local governments took up as well as the services provided. He commented that there had been ongoing erosion of the assistance over time.

[9:32:01 AM](#)

Mr. Andreassen looked at slide 13, "Community Assistance - Municipal Impact":

Affects every single community, with ranges from:

- Small cities -\$75-80,000
- Medium cities -\$80-95,000
- Large cities - \$115-250,000
- Boroughs - \$300-900,000•Largest boroughs -\$1.4-6.1 M

Mr. Andreassen highlighted that the graph on the slide showed the decline of revenue sharing. The graph started in 1985 and showed just over \$165 million. There was a period of time in the early 2000's when community assistance went away. He thought the Legislative Research Division could point to communities closing doors, and he referenced sales tax revenues and rates increasing during the period of time in response to the state action. Local governments recently saw reduction to community assistance by 50 percent. He noted that when the Community Assistance Fund was not capitalized, there had been an erosion in payments. The slide showed a table of a list of communities with community assistance payments for FY 21 through FY 23 as compared to statute. The formula included a per capita adjustment, which was lost when the fund was not capitalized. He thought all communities had seen significant reductions.

Mr. Andreassen reviewed slide 14, "Why invest in AMHS?":

33 AMHS port communities

- 119,170 residents
- 2,275 employees
- \$332 million in taxes
- \$584 million budgets
- Tax as % of budget = 56%
- \$73 million to education
- 20 have police powers (60%)
- 25 are PERS employers (75%)
- 15 receive \$3.7 million in PCE

- \$720 million in Bond debt
- \$24 million in fisheries taxes

106 cities served only by air

- 62,795 residents
- 1,064 employees
- \$54 million in taxes
- \$137 million budgets
- Tax as % of budget = 39%
- \$6.5 million to education
- 43 have police powers (40%)
- 34 are PERS employers (32%)
- 94 receive \$16.3 million in PCE
- \$25 million in Bond debt
- \$4.2 million in fisheries taxes

Mr. Andreassen mentioned the graph in the middle of the slide that showed declining funding for AMHS over time. He noted that port communities had active economies and were good contributors to state priorities. The economies took on bond debt, were less reliant on community assistance, were major contributors to PERS and education, and had police powers. He asserted that providing basic transportation to communities would strengthen local governments. He thought providing ferry service was a good way for the state to strengthen local governments. He mentioned that some cities could only be served by air without the ferry system. He thought the committee had been cognizant of the plight of AMHS.

Mr. Andreassen continued his remarks. He thought while there was potentially going to be no cruise ship season, AML saw a significant option for AMHS to meet the needs of coastal communities and out of state travelers.

[9:36:47 AM](#)

Mr. Andreassen discussed slide 15, "Power Cost Equalization":

Established in 1985  
Provides economic assistance to communities and residents in areas where kWh costs are 3 to 5 times as high as the average of urban areas.

PCE was established at the same time that urban communities benefited from major state-subsidized

energy projects such as the Four Dam Pool, Bradley Lake, and the Alaska Intertie.

Rural communities not on the road system that are dependent on diesel fuel do not benefit from the large subsidized energy projects, and PCE is a cost-effective alternative to provide comparable rate relief to rural residents.

Mr. Andreassen cited a list of communities on the slide that especially depended on the PCE. He thought the FY 22 budget included continued payment of PCE, and AML encouraged continued support of the program.

Co-Chair Stedman asked if the program pertained to payment for the first 500 kilowatts.

Mr. Andreassen thought Co-Chair Stedman was correct.

Senator Hoffman thought the community of Arctic Village paid a rate \$1 per kilowatt, which was 20 times the amount paid by other communities with a rate of 5 cents per kilowatt.

Mr. Andreassen thought that Senator Hoffman was correct.

Mr. Andreassen added that both the PCE and the ferry system brought down the transactional cost of communities, which meant the communities had a better ability to see economic development occur, which was a priority of local governments.

Senator von Imhof observed that Mr. Andreassen's presentation had some slides that pertained to CARES Act funding. She thought transportation and AMHS had received some CARES Act funding. She referenced slide 12, and police protection as well as hospitals. She thought safety and health were highlights of CARES Act funding, and she hoped the presentation would address how the funds had offset municipality spending.

Mr. Andreassen affirmed that he would touch on the topic.

[9:39:52 AM](#)

Co-Chair Stedman spoke to slide 15 and noted that many of the communities listed on the were not well established as cash economies. He continued that the income needed to meet expenditures was questionable. He discussed differences in communities and mentioned a community in his district that had no Christmas lights due to the high cost of electricity.

Mr. Andreassen presented slide 16, "PERS: Actuarial Determined Contribution Rate":

Total rate is 30.11%

- Pension Benefits is 20.89% = Normal cost of 2.58% / Past service rate of 18.31%
- Healthcare Benefits is 3.12% - No past service rate
- DCR is 6.10%

FY19 \$592M Municipal Payroll

- PERS is \$132 million w/ 22% cap
- \$50M more at full rate

64 municipal employers = 18% of PERS

15k PERS/TRS DB employees

29k PERS/TRS DC employees

Mr. Andreassen relayed that another AML priority was the state's pension system. He mentioned a graph on the slide that showed PERS and the Teachers' Retirement System (TRS) unfunded liability. He referenced the \$2.3 billion additional appropriation five or six years previously. He noted that the healthcare side of benefits was overfunded. He argued that when looking at the state's pension system, there were 64 percent of municipal employers that made roughly 18 percent of the overall pension system. Currently employees were hired with defined contribution plans. He saw an opportunity cost when considering recruitment and retention of police and fire service employees and other members of the work force.

[9:43:40 AM](#)

Mr. Andreassen spoke to slide 17, "How should we look forward?" The slide showed a line graph entitled 'Inflation Expenditures 10 Year Budget.' He was glad to see that the governor's ten-year plan produced by OMB mentioned 1.5 percent inflation proofing being tied to the state budget

going forward. He thought it was worth looking at the bigger picture and noted that the 1.5 percent was not applied to the whole state budget. He thought it was worth noting that the Alaska Permanent Fund Corporation (APFC) and the Alaska Retirement Management Board both used higher rates of inflation. He suggested that the state was not thinking of how things would cost moving forward.

Co-Chair Stedman thought the ten-year plan was not worth the paper it was printed on since it was not possible to forecast that far in the future. He mentioned examples such as the great recession and the COVID-19 pandemic. He noted there were substantial deficits in the plan. He asserted that the committee would be considering a three-to-four-year plan in which to make changes. He stressed the importance of short-term planning.

Senator von Imhof thought it was important to consider the reality that 20 percent of the state's revenue came from oil and about 60 percent to 70 percent came from the Permanent Fund. She asserted that commodity markets, and to some degree the equity market, were at the whims of supply and demand rather than being related to inflation. She thought it was not possible to project increased revenues.

Co-Chair Stedman noted that the ten-year plan was statutorily required, and his comments should not be considered overly disparaging.

Mr. Andreassen commented that there were many things that were not included in state planning, and community assistance and other formulas did not take inflation into consideration.

[9:47:30 AM](#)

Mr. Andreassen displayed slide 18, "Keeping up with Education":

Appears to keep up with inflation, but reality is:

- Adjustments for ADM
- Fails to adjust for increased costs of health or retirement

Schools asked to do more with less

Avoiding litigation:

- Kasayulie- rural inadequacy
- Mat Su- operations v. instruction
- Ketchikan - public education clause

Wheelock (2017) argues that the Public Education Clause has not been challenged, and that "a claim that the state has the responsibility to fund public education at a minimally constitutionally adequate level could succeed" (p. 125).

Mr. Andreassen relayed that AML was looking into unfunded mandates imposed upon schools and did not see state expenditures meeting the school's needs. He cited that the committee had met with the Department of Education and Early Development (DEED) Commissioner Michael Johnson the previous week and had discussed the school bond debt reimbursement and whether the state was following the law. He considered the question of the state's progress in avoiding litigation. He qualified that he was not arguing for litigation but thought there was a valid question to consider. He thought there were many that would argue that the constitutional education requirement could be successfully challenged. He suggested the legislature think about how to adjust appropriately for inflation and other school and community needs when considering where the state was headed.

Mr. Andreassen referenced slide 19, "Community and Regional Jails":

15 local governments provide community and regional jails on behalf of the State's criminal justice system; and these jails are an integral part of local and state law enforcement.

Community and regional jails are essentially State holding cells for pre-trial services.

State funding for community and regional jails has been static for the last six years, and if adjusted for inflation represents pre-2002 levels of State investment.

In many cases, State funding is only 50% of the full cost of managing the jail on the State's behalf, and in all cases less than it needs to be.

- Haines receives \$247k for \$500k in expenses
- Kodiak receives \$1.1M for \$1.4M in expenses
- Petersburg receives \$173k for \$393k in expenses
- Seward receives \$368k for \$685k in expenses
- Dillingham receives \$555k for \$674k in expenses

Mr. Andreassen noted that the graph on the slide was adjusted for inflation. He thought the state's payment to local governments for the previous six years had been \$7 million and had not increased according to need or inflation. Many local governments received half the budget from the state to complete the state service of jails. He noted that the topic had been flagged for the Department of Public Safety. He encouraged members to consider why the payment had been \$7 million for six years when considering the matter in budget subcommittee.

Co-Chair Stedman reminded that the answer to most of Mr. Andreassen's questions was that Alaska had a structural deficit.

[9:51:03 AM](#)

Senator Wilson asked if all the communities with community jails also had active police forces.

Mr. Andreassen answered in the affirmative.

Co-Chair Stedman explained that the legislature was aware of many of the issues, which needed to be balanced when the budget was contemplated. He thought it was clear that the state had not been able to make payroll with recurring revenue for over 5 years.

Mr. Andreassen thought local governments would have the same experience as the state when it came to delivering the state service of jails if it was not funded.

Mr. Andreassen showed slide 20, "Addressing an Infrastructure Deficit":

How do we plan for a \$21.2 billion list of infrastructure needs, in terms of time and resourcing?

- School construction and major maintenance  
\$2.3 billion
- Water and Wastewater - rural  
\$1.6 billion

- Water and Wastewater - urban  
\$1.6 billion
- Local capital needs  
\$4 billion
- Port and Harbor needs  
\$389 million
- State deferred maintenance  
\$2 billion
- STIP  
\$5 billion
- Broadband  
\$2 billion
- Jails  
\$500 million

Mr. Andreassen stated that to a large extent the presentation made a case for addressing the state's revenue shortfall. He emphasized that there was value being delivered by local governments that depended upon the state in partnership. He thought the state needed to be able to address its budget deficit. He highlighted the total infrastructure deficit and thought the information gave a good sense of needs and how resources were being deployed.

Co-Chair Bishop asked where Mr. Andreassen got the information for the \$2 billion for broadband listed on the slide.

Mr. Andreassen cited that the information was from an older report and could be an estimate. He offered to follow up with communities to get an updated number.

Co-Chair Bishop thought the number seemed low and would appreciate updated figures.

Senator Wilson asked if AML supported the governor's general obligation (GO) bond proposals and the use of the Alaska Housing Finance Corporation's (AHFC) dividend to leverage federal funds.

Mr. Andreassen supported the idea of the state taking necessary measures to support infrastructure but could not comment on what was in the GO bond package that was proposed. He asserted that the \$350 million bond package barely addressed the priority list for school construction and major maintenance for the current fiscal year, and barely addressed the port and harbor needs of the current

fiscal year. He stated that AML considered the proposal a step in the right direction but recognized that the state had not kept all its debt obligations such as school bond debt reimbursement. He could not comment specifically on the AHFC approach and how the state deployed its resources.

Co-Chair Stedman looked at the \$389 million in port and harbor needs and asked what comprised the total. He wondered if new construction was included.

Mr. Andreassen informed that a later slide would address the issue.

[9:55:00 AM](#)

Mr. Andreassen reviewed slide 21, "School Construction and Major Maintenance Grants":

Inventory

1,008 schools  
429 older than 40 years old in FY21  
461 are original construction  
23 million square feet x replacement cost  
(274.23/sq) = \$6.3 billion  
757 municipal owned/maintained schools

More than 75% of all schools in Alaska are owned by local governments

DEED just updated regs that for major maintenance requests must be above \$50,000 instead of \$25,000

Also considering tying energy efficiency to eligibility

- Average \$ funded = 16%
- 1,047 projects requested
- 114 funded
- 11% of projects funded

Mr. Andreassen thought it was important to note that of the total that had been advanced by communities and schools each year, 16 percent had been funded. A large portion of the school districts were REAA school districts, and more bond debt was utilized by school districts. Without school bond debt reimbursement, there was a shift in who was applying for the limited resource of grant funding.

Mr. Andreassen turned to slide 22, "School Needs":

- FY22 School Construction = \$162M
  - REAAAs \$145M          Municipal \$17M
  
- FY22 Proposed Budget = \$0 - GO Bond
  
- FY22 Major Maintenance = \$187M
  - Municipal \$119M          REAAAs \$68M
  
- FY22 Proposed Budget = \$0 - GO Bond
  
- Compare to FY15 Maintenance List
  - Municipal \$72M          REAAAs \$98M

Removal of bond reimbursement program has shifted competition between REAAAs and municipal

- FY22 Six-year plan = \$1.3B          FY22 Need: \$500M
- If calculated on average request = \$2.8B since FY11
  - 16 Districts did not submit any project needs
  - Districts/Municipalities report not submitting when likelihood of funding is so low

Mr. Andreassen thought DEED would be completing its school construction and major maintenance report soon, and the numbers on the slide would be updated. He observed that there was split between REAAAs and municipal school districts. He noted that in comparing the FY 15 maintenance list to the FY 22 list, there was a shift as previously mentioned. He used the example of Anchorage being on the FY 22 list, when during the school bond debt reimbursement program there was not the same competition between municipalities and REAAAs. He thought the six-year plan pointed to about \$1.3 billion in need, but from the average request there was probably a total closer to \$2.8 billion. He did not see anything in the FY 22 budget to address the matter.

Co-Chair Bishop thought that the maintenance list could be considered inaccurate and pointed out that that were 16 districts that did not even apply. He thought there was a fee for the pre-engineering to get on the list. He thought the number did not reflect the true amount of maintenance needed.

Mr. Andreassen thought there was no incentive for school districts to apply for the funding based on the low percentage of programs that were funded (11 percent to 16 percent).

Co-Chair Stedman relayed that almost 20 years ago, the legislature had funded the entire major maintenance list for one year, and the following year the list was as big or bigger as people realized the items would be funded. He encouraged his district to apply for the major maintenance list. He thought when the legislature prioritized capital spending, it had a tendency to look at maintenance obligations. He reminded that education was one of the state's constitutional requirements. He thought it was not advisable to not apply for the major maintenance school list.

10:00:00 AM

Mr. Andreassen looked at slide 23, "Municipal Roads - Transportation":

#### Roads

- 5,500 road miles = DOT road miles
  - Municipal transportation budgets = \$190 million
  - Annual Need = \$154-308 million annual maintenance (\$28k/mile)
  
  - Projects within boroughs: STIP allocation \$2.8 billion (\$4k/capita)
  - Projects outside boroughs: STIP allocation \$1.9 billion (\$47k/capita)
- Municipal Roads - Transportation

#### Municipal Airports

- Juneau International (City and Borough of Juneau)
- Merrill Field (Municipality of Anchorage )
- Ketchikan International (Managed by Ketchikan Gateway Borough)
- Kenai Municipal Airport
- Kodiak Municipal Airport
- Wasilla Municipal Airport

Majority of State airports maintained by contracts, which include with cities and boroughs

Mr. Andreassen noted that roads comprised a significant part of municipal budgets.

[10:01:08 AM](#)

Mr. Andreassen reviewed slide 24, "Ports and Harbors - Transportation":

133 Public Ports and Harbors  
-DOT&PF owns 16 harbors  
-Municipalities own 11 ports and harbors  
82 municipal facilities were transferred by DOT&PF

Grant program signed into law in 2006-24 harbors transferred since then

- Total Need 2010: \$595 million
- Ports and Harbor Matching Grants (2007-2019)
  - AS 29.60.800
  - Requested: 98      Awarded: 45
  - \$199,273,401.50 (total project need \$398,546,803)
  - Total harbor grants awarded- \$84,529,551.00
- AMHS terminals (STIP): \$68.25 million
  - No other port and harbor improvements included

Mr. Andreassen thought ports and harbors showed a glaring example of where state transportation planning was not connected back to the local level. He cited that Alaska had more coastline than the rest of the United States combined, and he thought that there was a huge gap in state planning. He discussed the transfer of properties by the state and the necessary construction. He pointed out the list of municipal debt reimbursement projects under the heading "TIDSRA/HB528 Municipal Projects." Each of the local governments listed had taken out bond debt to upgrade ports and harbors. The state had not been able to reimburse for the projects, and the amounts were not funded in the FY 22 budget. He noted that some of the same districts also had school bond debt.

Co-Chair Stedman referenced matching grant funds as mentioned by Mr. Andreassen, which used federal funding. He thought it would be inadvisable to use the funds for ports and harbors because of delays with the funds. He noted that the state harbor matching grant program was a 50/50 match

and targeted \$10 per year. Communities that wanted to participate could have 50 percent of initial harbor construction paid for by the state. The maintenance of the harbors would be the responsibility of the municipality. He thought it was unlikely that the legislature would want to involve federal funds in harbors. He referenced the state's challenge with meeting expenditures and mentioned the Harbor Matching Grant Fund.

[10:06:02 AM](#)

Mr. Andreassen addressed Co-Chair Stedman's comments. He clarified that the slide was not a suggestion that the projects be included in the Statewide Transportation Improvement Program (STIP), but rather a suggestion that the Department of Transportation and Public Facilities (DOT) consider port and harbor infrastructure as a piece of the state's economy.

Co-Chair Stedman asserted that DOT did not plan for ports and harbors, which led to dilapidated harbors and the need for the Harbor Matching Grant Fund.

Mr. Andreassen agreed. He noted that in 2010 the Army Corps of Engineers conducted a survey of port and harbor needs, and the same survey had been done again in 2020. He referenced the bar graph on the slide, which reflected the survey results and showed that the need had doubled between the two periods of time.

Mr. Andreassen discussed slide 25, "Municipal Water and Sewer":

SRF from 1989-2019 - a total of 275 projects that were advanced,

- 30 were applied for from cities within the Unorganized Borough for a total of \$34,301,207
- 245 projects (89% of all projects) advanced by cities within organized boroughs or by boroughs themselves account for \$504,349,476 (93% of the total funding).

VSW from 2015-2020 - 259 projects have been funded, including a total of \$80,202,219 of State funding, the 25% match for federal funds of \$224,584,607.

- Of that, 206 projects within the Unorganized Borough accounted for \$61,740,725 of State funding, or 77% of the total State expenditure.

The loan program required nearly the same amount of State funding as the grant program: \$61,471,546 from 2015-2019 compared to the VSW's \$61,740,725 from 2015-2020.

•SRF funds are not free, with the majority repaid to the State over time at 1.5% interest

Mr. Andreassen noted that the State Revolving Loan Fund and Village Safewater Program were good programs with different roles, that were not meeting the total needs of communities. He thought the Indian Health Service maintained a list of needs, which was roughly \$1.6 billion.

[10:08:47 AM](#)

Mr. Andreassen presented slide 26, "COVID's Impacts":

Local governments have experienced the pandemic differently, but all have felt an impact. The real differences are 1) lost revenue, and 2) implementation of public health actions.

Adak - lost \$555k in lost taxes and fees

Anchorage - lost \$23 million in taxes and fees

Anderson - 60% decline due to lost tourism

Aniak - did not bill city customers for three months

Brevig Mission - closed bingo and pull tabs resulting in lost staff

Chevak - closed bingo and pull tabs resulting in staff reductions

Coffman Cove - reduced moorage fees

Cordova - revenues declined by \$500,000  
Craig - sales tax down 20%, bed tax down 50%; employee furloughs

Denali Borough - lost \$4.25 million in taxes and fees

Dillingham - forgiving interest and penalties on taxes, utility fees

Fort Yukon - lost about \$300,000 due to gaming; staff reductions

Grayling - 30% reduction in revenue

Holy Cross - bingo and pull tab closures resulted in employee layoffs

Hughes - \$23,000 reduction resulted in staff and hour reductions

Huslia- down 8% leading to reduction to public services

Juneau - lost \$34.82 million in taxes and fees

Kake- losses of 35-45%; staff reductions  
Kenai Peninsula Borough - lost \$4.5 million in taxes  
Ketchikan Gateway -lost \$4.75 million  
Marshall - furloughs and reduced hours  
Metlakatla - lost \$1.15 million in fees  
Petersburg - lost \$420k in taxes and fees  
Platinum - \$35,000 decrease  
Sand Point - lost more than \$400k in taxes and fees  
Saxman - reducing staff  
Seward - lost \$2.5 million in taxes  
Shaktoolik- 2-5% drop in sales tax  
Skagway - lost \$8.82 million in taxes and fees  
Soldotna - stayed the same  
St. Michael - lost nearly \$150k in taxes and fees  
Unalakleet - lost \$5,000Whittier - loss of \$2 million

Mr. Andreassen thought more work was needed to fully understand the impacts of COVID-19 on communities. He stressed that everyone experienced the pandemic differently. He discussed lost revenues. He mentioned hugely increased community costs and the state's allocation of CARES Act funding. He mentioned additional public health, public safety, hospital and schools' action that could be covered by CARES Act funding; while lost revenue could not be mitigated by the funds. He discussed the impacts of COVID-19 on revenue-generating activities in small communities. He discussed the revenue impacts of reduced tourism.

[10:11:27 AM](#)

Mr. Andreassen spoke to slide 27, "COVID's Impacts":

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.

At the same time, the Governor asked of local governments appropriate local level actions in response to the pandemic. This meant that instead of statewide orders, local governments were charged with implementing public health mitigation strategies in response to CDC and DHSS guidance. This included:

- Emergency operations centers and incident commanders in place
- Metrics for evaluating risk levels and responses
- Public health mitigation measure
- Economic support mechanisms

Mr. Andreassen thought the slide gave an idea of how communities had responded to the pandemic.

Senator Wielechowski asked if AML had a position on whether the legislature should pass a law extending the disaster declaration.

Mr. Andreassen relayed that AML supported the extension of the disaster declaration.

Senator Wielechowski asked if Mr. Andreassen could discuss the impact to communities if the declaration was not reenacted.

Mr. Andreassen emphasized that local governments depended upon the state for many things during emergency response and emergency management. He felt local governments had lost a partner without a disaster declaration in place. Many of the items on the slide became more challenging without the state being able to respond. He continued that AML was concerned about what actions local governments would have to take.

Mr. Andreassen displayed slide 28, "CARES Act Doesn't Make us Whole":

157 cities and boroughs have applied for and received at least their 1st disbursement of CARES Act funds

- 26 communities have not requested CARES Act funds - only 8 of those are municipal
- \$18M of \$568M not yet disbursed, or 3% of all funds
- 88% of all funds reported spent by original deadline of 12/30/2020
- 91 recipients expended 90% or more of their allocation by the original deadline

- Many delayed attributing expenditures when the extension occurred

Expenditures:

- Payroll \$193M
- Public Health \$65M
- Economic Support \$225M
- Other\$18M

The CARES Act CRF came with restrictions, and provides that payments from the Fund may only be used to cover costs that:

1. are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19);
2. were not accounted for in the budget most recently approved as of March 27, 2020 (the date of enactment of the CARES Act) for the State or government; and
3. were incurred during the period that begins on March 1, 2020, and ends on December 30, 2020.

Mr. Andreassen stated that the majority of cities and boroughs had applied for and received CARES Act funding. He shared that that AML had hired a CARES Act program coordinator and had worked with communities to help. He thought communities had also received the funding through other sources such as tribal allocation. He thought some communities were so small there was concern about liability of taking on the funds.

[10:16:25 AM](#)

Senator Hoffman asked about communities that did not apply for CARES Act funding and asked if the law allowed for a regional entity to apply on behalf of a community. He used the example of the Association of Village Council Presidents, which comprised approximately 60 communities. He thought some cities might not have the resources to carry out the funding request. He asked if the matter had been considered by the Congressional delegation and if it was considered in light of the extension of the CARES Act.

Mr. Andreassen informed that the CARES Act allowed for transfer between governments. The prime recipient (tribes or local governments) would receive the funds and then grant them to a regional or local government level. The first recipient would be responsible for reporting.

Senator Hoffman asked if Mr. Andreassen was aware of any communities that had done the fund transfer, and if AML was assisting in getting the funding transfer accomplished.

Mr. Andreassen was not aware of any communities that had engaged in a fund transfer. He stated that AML had suggested the transfer and had tried to provide the pathways. He commented on the challenges of the CARES Act experience for cities and boroughs that had to put a lot of new processes into place. He thought there had been a high level of risk and uncertainty. He thought that there was an opportunity with the extension of the CARES Act deadline.

Mr. Andreassen noted that the majority of CARES Act funds received by local governments were not in the form of economic support. There had been a significant investment into the state's economy. He discussed restrictions on the funds and exemptions. The funds had displaced some losses in budgets.

[10:20:00 AM](#)

Mr. Andreassen referenced slide 29, "CARES Act Expenditures":

- Decontamination trailer
- Lease of airport facilities
- Monitors for fishing season
- Small scale quarantine/isolation unit
- Ambulance
- Renovate apartments for quarantine
- Pumps and equipment for water/sewer
- Updating city building for sanitation
- Transit van to assist elders
- Childcare assistance
- Commercial grade washer/dryers
- Heating oil and utility assistance
- Food credit at local restaurants
- Software upgrades
- Cameras for inmate/visitor communications
- Modifications to the clinic
- Air purifiers and sanitizing
- Updates to community pools, showers
- Telework and cloud-based solutions
- Shipping costs for PPE and emergency vehicles
- Property assessment technology - virtual

- Internet connectivity for students
- Water delivery
- Grants to hospitals
- Project postponement fees
- Non-congregate setting conversions

Mr. Andreassen showed slide 30, "FEMA upgrades":

- Biden Administration announces 100% reimbursement of eligible expenses since January 2020, and expansion of eligibility
  - All work eligible under FEMA's existing COVID-19 policies, including increasing medical capacity, noncongregate sheltering, and emergency feeding distribution will be reimbursed at 100% federal share.
  - The costs to support the safe opening and operation of eligible schools, child-care facilities, healthcare facilities, non-congregate shelters, domestic violence shelters, transit systems, and other eligible applicants will be eligible after Jan. 21.
  - Provision of personal protective equipment, disinfecting services and supplies
- State and Local Governments can/should consider items charged to CARES Act/CRF that could be applied to FEMA for, and the difference then available for economic recovery or to meet other needs, that would still be eligible to apply to the CARES Act funding.
- Potentially \$100M from local governments, if capacity to submit for reimbursement
- Review of DHSS \$330M - some portion of agency and non-agency support
- Unified Command expenses

Mr. Andreassen encouraged the committee and the state to look at how to reallocate funds to take advantage of the new opportunity to be reimbursed by the Federal Emergency Management Agency.

Mr. Andreassen turned to slide 31, "Next Aid Package":

Proposed right now at \$350B

- State of Alaska \$827M - 5th lowest in nation
- Local Governments \$258M

AML proposing floor of \$1.25B and additional \$500M floor for localities

Counties based on population; cities on CDBG

- Some Alaska localities on both lists, but not consistent
- Denali Borough, which will have lost \$7M in revenue last and this year, receives \$409k
- Municipality of Skagway, which lost \$9M just last year, receives \$221k
- Yakutat, Petersburg, Skagway, and Haines should be on both list, with consolidated cities

State role in distributing census areas funds (\$16M); city funds maybe (\$46M) - otherwise direct through Treasury; Treasury will track disbursements and reporting

Mr. Andreassen proposed that small population states had been penalized under the aid package formula.

Mr. Andreassen showed slide 32, "AML Perspectives - A Case for Revenue":

- Underfunded Priorities
  - Public safety, education, community assistance, health
  - Pensions and debt, unfunded mandates
- Economic Recovery and Growth
  - Reducing transaction costs - energy, transportation, broadband
  - Third leg of "stool"
- Infrastructure Deficit
  - Water/sewer, local CIP, deferred maintenance, roads, ports
  - Obligations like school construction and major maintenance

[10:24:09 AM](#)

Senator Wilson considered the slides and estimated that the budget would have to be about \$31.5 billion to meet all the expected needs as proposed by Mr. Andreassen. He asked how the deficit would be addressed by revenue.

Co-Chair Stedman asked what Senator Wilson had calculated.

Mr. Andreassen thought a big portion of the \$30 billion was the infrastructure deficit. He suggested that the deficit could be paid down over time. He relayed that AML struggled with seeing infrastructure obligations underfunded over time, which had been occurring because of a revenue shortfall. He mentioned the \$1 billion gap in the following year's budget. He thought the state needed some kind of revenue measure to meet the needs of next year's budget.

Senator von Imhof suggested thinking about "new cash." She considered whether new cash would be a result of increased oil revenue, budget cuts, or money from the state's savings. She pondered what to do with new cash and thought Mr. Andreassen was proposing competing priorities. She thought the governor proposed that any new cash would be paid out in dividends. She thought that rather than paying the full dividend, Mr. Andreassen was suggesting using any additional cash for the competing priorities laid out in the presentation.

Mr. Andreassen relayed that AML had formed a fiscal policy the previous fall after considering the same question posed by Senator von Imhof. He thought the organization had agreed that the state had clear constitutional obligations and queried how the state would balance the obligations with statutory obligations and other needs of the state. He cited public education, public health, public welfare (including public safety) as obligations that were underfunded.

[10:28:02 AM](#)

Senator von Imhof asked if AML had a one-page legislative priority list that had priorities and accompanying dollar figures.

Mr. Andreassen stated that AML had a two-page letter and would follow up with the committee.

Co-Chair Stedman lamented that there were not enough funds to keep everyone happy and that the state needed to prioritize its spending.

Senator Hoffman asked if AML had discussed the Permanent Fund Dividend (PFD) and if so, what was its position on the dividend amount and what was proposed in the governor's budget.

Mr. Andreassen relayed that AML had a resolution in support of the legislature finding a solution regarding the PFD. He thought there were as many opinions amongst local governments as there was in the legislature. He thought local governments agreed that stability was needed. He continued that AML had passed a resolution in support of a sustainable draw, and a resolution in support of the sustainability of the Permanent Fund's future. He noted that AML had no position on the governor's proposal.

Mr. Andreassen reviewed slide 33, "Tax to GDP - Where is Alaska, compared to other states?" The slide showed a scatter plot. He explained that the slide showed how Alaska compared to other states in an analysis of tax to GDP. He observed that local governments were doing their part. State tax compared to GDP was the lowest in the nation. He thought knowing how state taxation related to the economy was a new way of looking at the information. He considered that international research indicated that taxing the GDP effectively would result in economic growth while meeting infrastructure needs such as education. He asserted that there was room for the state to address its tax to GDP ratio, considering that the tax applied to one portion of the GDP more than others.

Co-Chair Stedman thought that one of the challenges with charts such as the one depicted on the slide was that Alaska was the only state that owned sub-surface rights. Most other states had income tax, sales tax, or some form of property tax. He thought it was hard to compare Alaska to other states.

[10:32:15 AM](#)

Senator von Imhof thought Co-Chair Stedman had made a good point. She thought Alaska was the only state in the union that paid a cash dividend to its citizens. She questioned what kind of cash potential was taken out of citizen's pockets if imposing a sales tax or income tax. She pondered if the state used additional cash to invest in job-creating projects as in other states.

Mr. Andreassen referenced slide 34, "Identifying our seed corn," which showed a line graph and a bar graph. He referenced Senator von Imhof's comments and considered how the state could do economic development and look at its GDP in the same way it viewed the Permanent Fund. He thought the presentation had described that if transactional costs were lowered, and investments were made; models had shown GDP growth. He offered to follow up with the committee as it considered prioritization and cash. He noted that the Alaska Conference of Mayors had been discussing the prioritization of GDP growth.

Co-Chair Stedman commented that it might be nice if the Alaska Conference of Mayors met and discussed what things might look like if the Earnings Reserve Account was significantly reduced, which was being faced currently. He thought the cost shifts would be unbearable across the state.

Senator Wilson appreciated the presentation. He recalled that Mr. Andreassen was not a legislator or state employee, but rather was a registered lobbyist. He was concerned about allowing registered lobbyists into the building before the general public.

Co-Chair Stedman thanked Senator Wilson for his comment, and recognized the point being made.

Co-Chair Stedman discussed the agenda for the following day.

#

ADJOURNMENT

[10:36:51 AM](#)

The meeting was adjourned at 10:36 a.m.