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STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

February 23, 1982

The Honorable Donald Gilman
Chairman
Senate Community and Regional
Affairs Committee
Alaska State Legislature
Pouch V
Juneau, AK 99811

Dear Senator Gilman:

I understand the Senate Community and Regional Affairs Committee will be conducting a hearing on SB 716, a bill to consolidate and reform the Revenue Sharing and Municipal Assistance programs, during the week of March 8.

This legislation is the product of extensive research by the Department of Community and Regional Affairs and is a high priority of my Administration. Enactment of this bill will go a long way toward streamlining administration of local financial assistance programs and toward insuring that municipalities receive an equitable share of the current State wealth.

I appreciate your willingness to examine this legislation and urge you to consider favorable action in the coming weeks.

Sincerely,

A handwritten signature in cursive script, appearing to read "Jay S. Hammond".

Jay S. Hammond
Governor

Department of Community & Regional Affairs
Position Paper on SB 716/HB 746

Attached is a copy of the Governor's transmittal letter for this legislation as well as a report entitled "Reform of Financial Assistance Programs for Localities in Alaska" prepared by the Department. Both of these documents provide strong support for SB 716.

The Department points out that SB716 contains several technical deficiencies that need to be addressed during committee action on this bill. Those changes are as follows:

Page 1, line 11 should read as follows:

*Section 1.AS 29.95.020 is amended to read:
Sec. 29.95.020 QUALIFICATION FOR [MINIMUM] PAYMENT.

Page 2, line 17 should be amended to read: this chapter, AS 29.88 and AS 43.20.016 for the fiscal year ending June 30, 1983.

Page 2, line 26 delete section (d)

Page 3, line 26 delete "in the unorganized borough"

Page 4, line 12-17 should be amended to read as follows:

(b) The department may not accept an application for a grant under this chapter from an Alaska Native village council, unless the council waives any immunity from suit which it might have, for all claims initiated by the State of Alaska concerning the entitlement agreement between the village and the State. The waiver must be on a standard form provided by the Department of Law.

Page 5, line 19 after "which" add "\$122,513,800 is appropriated for distribution under AS 29.88.035 and"

These changes bring SB 716 in technical conformance with the Governor's intent in introducing the bill.

February 4, 1982

The Honorable Jalmar Kerttula
President of the Senate
Alaska State Legislature
Pouch V
Juneau, AK 99811

Dear Mr. President:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill which revises the revenue sharing and municipal assistance programs for municipalities and unincorporated communities in the state.

During fiscal year 1982, over \$140 million will be distributed to local governments under the revenue sharing and municipal assistance programs. The Department of Community and Regional Affairs has examined these programs and found that the following problems exist with both programs:

1. revenue sharing emphasizes tax effort and ability to raise taxes while municipal assistance emphasizes population and tax relief;

2. municipal assistance distributes money according to outdated indicators of business activity and is linked to the declining corporate income tax collections;

3. revenue sharing, which was revised in 1980, contains a provision that reduces the impact of the distribution formula by requiring that the amount of assistance be determined by the historical amount of appropriations;

4. localities are growing increasingly dependent on the state for the financing of property tax relief and increased local services at a time when state revenues continue to fall and a constitutional spending limit is being considered by the voters of the state;

5. municipal assistance encourages municipal incorporation while revenue sharing does not; and

6. the revenue sharing and municipal assistance programs are administered by two principal departments which have different reporting and accountability requirements.

To correct these problems, I am proposing legislation to consolidate revenue sharing and municipal assistance to provide one program of assistance to local governments. The consolidated program will have a level of funding that is at least equal to the proposed fiscal year 1983 level and will increase in future years at a reasonable rate that can be accommodated by the state budget.

Specifically, this bill repeals AS 43.20.016 which provides for the municipal assistance fund in the Department of Revenue and requires all assistance to be distributed under the revenue sharing program of the Department of Community and Regional Affairs. The bill provides that each recipient under the new program will receive at least the entitlement provided in fiscal year 1983. Any amounts appropriated to the program in excess of that required to meet this requirement must be distributed under the revenue sharing formula.

To promote local responsibility and accountability for service delivery, the bill requires that at least 50 percent of the assistance received by a municipality be dedicated to the provision of basic services. The remaining 50 percent could be used for any other lawful purpose determined by the municipality.

To facilitate local service delivery, I propose that the legislature adopt a statement of intent which clearly provides that future appropriations for assistance to local governments will increase at the same rate of increase established for the proposed constitutional spending limit amendment. As a corollary to this pledge, I believe that it is also appropriate for the legislature to pledge to "draw the line" on the amount of assistance provided through other appropriations to state agencies for basic municipal services. These appropriations should be annually reduced in the same manner as the assistance programs are increased.

The bill increases the minimum entitlement for each municipality to at least \$100,000. The current minimum entitlement is \$25,000 adjusted by an area cost-of-living differential. The higher amount is needed to promote capacity for self-government in small communities.

By this bill, I propose to create a separate program of financial assistance for unincorporated communities. The current revenue sharing program provides for a payment of \$25,000 to Alaska Native village governments. The Department of Law has concluded that this assistance must be

shared with all unincorporated communities and that all recipients must contract for specific service delivery rather than using state money for general administrative purposes. This bill deletes the current provision and amends the existing rural development assistance grant program (AS 44.47) to allow all unincorporated communities to apply for grants up to \$100,000 for capital projects, operation and maintenance expenses, or community services. The bill also allows the department to contract directly with Native village governments in unincorporated communities where that entity is the most appropriate service provider. However, these entities must remain accountable for their agreements to provide these services. Under this bill, a Native village government must waive its immunity from suit before it contracts with the state to provide services under a rural development assistance grant.

I believe that this legislation provides a simpler system of assistance to local governments and will result in a more equitable sharing of the state's financial resources.

Sincerely,

Jay S. Hammond
Governor

February 18, 1982

(907) 272-0345

Senator Tim Kelly
Alaska Legislature
Pouch V
Juneau, AK 99811

Re: Comparison of Pending Revenue-Sharing Legislation

Dear Senator Kelly:

Disaie Simonsen of your office has requested my analysis of legislation recently introduced on behalf of the Governor concerning revenue-sharing payments to municipalities (SB 716). Before proceeding to a discussion of the bill, the following is a brief outline of the essential features of SB 716:

1. SB 716 would repeal the present municipal assistance program (AS 43.20.016) which allows municipalities to receive a portion of state revenues from corporate income taxes. The majority of these revenues are presently distributed on a per capita basis to local governments. During FY 1982, municipal assistance revenues delivered to municipalities totaled approximately \$87.4 million. In place of this program, SB 716 proposes to increase funding through the "tax resource equalization" or revenue-sharing program established under AS 29.88. This program distributes funds to local governments based on a "local effort" concept. Briefly, the revenue-sharing formula attempts to measure the relative tax base of a municipality and, more importantly, the "local effort" or the amount of local funds raised by the municipality. In theory, under the revenue-sharing statute, a municipality which holds down taxes is entitled to receive less than a municipality of the same population with a greater tax burden. For additional discussion of this program, you may wish to review pages 6 through 8 of the Preliminary Report delivered to your office December 1, 1981.

2. SB 716 would also increase the "minimum entitlements" received by small, primarily rural, municipalities by four times -- from \$25,000 to \$100,000. Also, all municipalities, in order to qualify for an entitlement, would need to spend at least 50% of their funds on no less than three "basic services" which are defined in the bill.

3. The Governor's proposal would also repeal the present sections of the revenue-sharing statutes which provide for payments of \$25,000 to Native village governments. In place of these sections, SB 716 would

amend the rural development assistance grant program (AS 44.47) to allow for grants of up to \$100,000 for capital projects or services to "unincorporated communities." These communities are defined as areas "in which 25 or more persons reside as a social unit" located outside of organized boroughs or cities.

4. Finally, SB 716 provides that, for each fiscal year after FY 1982, municipalities would be entitled to receive at least the amount received for FY 1983 under the bill. There is, of course, no way of knowing what these amounts might be until the appropriation level for the coming fiscal year is established by the Legislature. Also, the bill includes a statement of "intent" that amounts to be appropriated in fiscal years after FY 1983 will be increased by the same percentage as allowed under the proposed state spending limitation. This intent is, of course, not binding upon future legislatures, and there is no guarantee as to what future allocations to municipalities might actually be. Additionally, although Section 7 of SB 716 is not particularly clear, it appears that the bill would encourage direct state funding of various "basic services" in municipalities to be reduced after FY 1983 by the same percentage increase suggested for the proposed new revenue-sharing program. Such action, I believe, would in essence compel municipalities to pick up the costs for these services if they are desired, and would in essence mean that the municipality would receive no benefit from increases in its revenue-sharing entitlement. The bill states that it would become effective if not less than \$140,851,300 is appropriated for the revenue-sharing program. This amount appears to be somewhat less than amounts distributed to incorporated areas during FY 1982 under the present revenue-sharing and municipal assistance programs.

The basic philosophy behind SB 716 appears to be to discourage municipalities from applying state financial aid toward reduction of local taxes or toward restraining increases in local government spending. Indeed, in the transmittal letter to Sen. Kerttula, the Governor identified the fact that the present municipal assistance program emphasizes population and "tax relief" as a "problem." The most serious criticism of the proposed bill may therefore be that it is totally contradictory to the clear message that has been given to local governments over the past few years to the effect that local officials should refrain from expanding local government costs and should instead pass on state aid to local taxpayers in the form of reduced local taxes wherever possible.

In this regard, the City of Cordova may provide an interesting example. Upon receiving its greatly increased municipal assistance revenues last year, elected officials in Cordova decided not to expand their government costs and instead virtually eliminated their taxes on real property. The mill levy was in fact sliced from 15 mills to 1 mill. Under SB 716, the ironic result may apparently be that Cordova could be seriously penalized in terms of its future state aid. The same result, perhaps to a lesser degree, may apply to Anchorage, which also used its increased

state aid to hold down taxes rather than to increase significantly the size of the local budget.

The penalty effect described above is perhaps made more serious by the fact that the funds which may be denied to places such as Cordova and Anchorage will be distributed, under SB 716, to cities and boroughs which, for a variety of reasons, may have expanded local government costs and increased local taxes. In other words, assuming assessed valuation and population factors to be constant, the city which may not have exercised tight fiscal control over its spending could in essence receive a "gift" of state aid funds denied to a city which had held the line on local expenditures and held down or reduced local tax burdens.

Another impact of SB 716 which should be noted is the greatly increased allocations for small, rural communities. By increasing the minimum entitlement level by four times to \$100,000, the per capita entitlement of other municipalities may be reduced in the event that future funding is insufficient to pay all entitlements. Additionally, under Section 2 of SB 716, if future funding exceeds the minimum "hold harmless" level, any excess is first given to meet the \$100,000 minimum entitlements before any amount can be distributed to places such as Mat-Su, Kenai, Anchorage or Juneau.

The computer printouts released by the Department of Community and Regional Affairs concerning SB 716 appear to assume funding levels which are significantly in excess of the amount identified in the bill. The printouts appear to assume a total of approximately \$144.4 million as the FY 1983 "hold harmless" level, whereas the bill implies that only \$140.9 million, or approximately \$3.5 million less, may be appropriated. This difference may be very significant, and I believe that it is impossible to fully assess the impact of SB 716 unless more extensive analyses are performed showing the impacts on communities at a variety of funding levels. In particular, an analysis should be made using the total amount received by incorporated local governments during FY 1982 under the present revenue-sharing and municipal assistance programs. This would provide a clear indicator to municipalities as to how the bill will affect their future state financial assistance. Additional analyses should be made assuming, for example, 10% less than FY 1982 amounts and 10% increases from the FY 1982 level.

In summary, the proposed bill appears to possess many, if not all, of the major problems associated with the present "local effort" revenue-sharing concept and appears to multiply the impact of these problems by making the program virtually the only source of significant state aid for most municipalities. I do agree with the proposal contained in SB 716 to separate grants for unincorporated areas from the municipal revenue-sharing program. However, I believe that, particularly for more populous communities, the proposed bill should be carefully analyzed to

Senator Tim Kelly
February 18, 1982
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determine its fiscal impact, including its probable impact on local property tax rates. If you have questions concerning the above, please contact me at 272-0345.

Sincerely yours,

Theodore D. Berns

TDB:nf