

HB

1



Alaska State Legislature

House of Representatives
Community & Regional Affairs

TABLE OF CONTENTS

HOUSE BILL 1

ITEM 1:	SPONSOR MEMO
ITEM 2:	SECTIONAL ANALYSIS
ITEM 3:	POSITION PAPER - DC&RA
ITEM 4:	HOUSE RESEARCH REQUEST 89.302
ITEM 5:	LBC STATEMENT ON LOCAL GOVERNMENT IN AK
ITEM 6:	ALASKANS AGAINST MORE GOVERNMENT
ITEM 7:	DC&RA SUMMARY ON BOROUGH FEASIBILITY STUDIES
ITEM 8:	REGIONAL GOVERNMENT STUDY
ITEM 9:	HOUSE RESEARCH REQUEST 89.090
ITEM 10:	THE CONSTITUTION OF ALASKA
ITEM 11:	HB 1

STATE OF ALASKA
THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

April 26, 1989

SUBJECT: Sectional summary of HB 1
TO: Representative Eileen MacLean
FROM: Tamara Brandt Cook *TBC*
Director
Division of Legal Services

Sec. 1. Requires the Local Boundary Commission to conduct a boundary study of the unorganized borough. LBC may submit proposals for annexation compatible with the boundary study to the legislature and may also submit proposals for incorporation of boroughs during the first 10 days of the First Regular Session of the Seventeenth Legislature.

Sec. 2. By January 1, 1990 the Department of Community and Regional Affairs is required to prepare a provisional home rule charter for boroughs incorporated under this Act. The voters of a region scheduled for incorporation may petition for an amendment to the provisional charter for that new borough.

Sec. 3. The director of elections is required to hold an election of initial borough officials in each borough scheduled for incorporation. Any proposed amendments to the provisional charter are also to be submitted to the voters.

Sec. 4. A region is incorporated as a home rule borough on the first Monday following certification of the election.

Sec. 5. A committee on municipalities is established in the department to consider means to eliminate or reduce disincentives and enhance incentives for borough formation. It must submit a report to the Seventeenth Legislature within the first 10 days of the First Session.

Sec. 6. Provides and effective date.

TBC:kb
wkk4/050

Alaska State Legislature



Session Address:
STATE CAPITOL BUILDING
BOX V
JUNEAU, ALASKA 99801
(907) 465-3727

Interim Address:
BOX 53
PALMER, ALASKA 99645
(907) 745-3826 - Palmer
(907) 376-8628 - Wasilla

Representative Ronald L. Larson
District 16B

TO: Members of the House Community and Regional Affairs Committee
FROM: Representative Ronald L. Larson *R.L.*
SUBJ: Summary of House Bill 1
DATE: January 10, 1989

Once again, I have introduced House Bill 1, legislation dealing with borough organization in the Unorganized Borough. As you can see, however, the legislation is substantially different from the House Bill 1 I introduced during the Fifteenth Legislature.

Most importantly, unlike the original House Bill 1, the bill does not mandate borough formation for the entire Unorganized Borough. Rather, it mandates the Local Boundary Commission to conduct a study of the Unorganized Borough to determine which areas should be annexed to existing boroughs or unified municipalities, which should be incorporated as new boroughs, and which should remain in the Unorganized Borough. In completing the study the Commission is required to consult with existing municipalities, regional attendance areas, and coastal resource service areas and to hold at least one public hearing in each area it determines to be suited for annexation or borough formation.

The legislation directs the Local Boundary Commission to submit its recommendations to the legislature during the first 10 days of the First Regular Session of the Seventeenth State Legislature (i.e., January, 1991). The legislature would then have 45 days to act on each recommendation for annexation and borough formation by concurrent resolution of disapproval. If the legislature fails to act on any one recommendation, it would stand as approved by implied consent.

The bill also stipulates that each new borough be incorporated as a Home Rule Borough operated consistent with a provisional home rule charter prepared by the Department of Community and Regional Affairs. (The former House Bill 1 called for the formation of third class boroughs.) It provides means for local voters to amend the provisional charter as well as a process for electing borough officials.

page 7

The new boroughs would be incorporated in October of 1991, but borough officials would have up to two years to assume full powers and functions associated with a borough.

Finally, the legislation would establish a "Committee on Municipalities" in the Department of Community and Regional Affairs "to consider means to eliminate or reduce the disincentives and [to] enhance incentives for the formation of boroughs" and "to consider ways to ensure greater equity in the distribution of financial aid to municipalities." The committee would submit its report of findings and recommendations to the legislature during the first 10 days of the First Regular Session of the Seventeenth Legislature.

The legislation is based largely on the "Statement on Borough Government in Alaska" authored by the State of Alaska Local Boundary Commission. I enclose as part of this packet a copy of that statement for your review.

I am prepared to answer any of your questions regarding House Bill 1 or borough organization in general.

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

April 27, 1989

POSITION PAPER

- P.O. BOX B
JUNEAU, ALASKA 99811-2100
PHONE: (907) 465-4700
- 949 E. 36TH AVENUE, SUITE 400
ANCHORAGE, ALASKA 99508-4302
PHONE: (907) 563-1073

RE: HOUSE BILL NO. 1 "An Act relating to the incorporation of boroughs, to annexation of certain areas, and to the committee on municipalities, and providing for an effective date".

SPONSOR: Representative Larson

Program Effects of Bill

Section 1 of the bill requires the Local Boundary Commission (LBC) to conduct a study of the unorganized borough to determine: 1) which regions (if any) satisfy standards for incorporation of boroughs, and 2) which regions (if any) should be annexed to existing boroughs and unified municipalities.

In carrying out the study, the LBC is required to consult with existing municipalities, regional educational attendance areas and coastal resource service areas. The LBC must also conduct at least one hearing in each region found to meet the standards for borough formation and in each area which the commission determines should be annexed to an existing borough or unified municipality.

Under the bill, the LBC is authorized to submit to the legislature any proposal for the incorporation of a borough in a region found to satisfy standards for borough formation. Such proposals must be submitted during the first 10 days of the First Regular Session of the 17th Alaska State Legislature. Any proposal not disapproved by a concurrent resolution adopted by a majority of the members of each house within 45 days from the date of receipt would be approved. Current law permits the LBC to submit recommendations to the legislature in a like manner for annexations to boroughs and unified municipalities.

Section 2 requires the department to prepare a provisional home rule charter for boroughs to be incorporated under the legislation. The charter would provide that the boroughs exercise only those powers required by law (education, planning and taxation (the latter, only to the extent necessary to support local services)).

Voters in a region scheduled for incorporation would be allowed to propose amendments to the provisional charter. Such proposed amendments would be decided at the incorporation election.

Section 3 provides that elections be conducted by the State for the election of initial officials and for proposed charter amendments for each borough to be formed under the Act. The elections must be conducted by the first Tuesday in October 1991.

Section 4 provides that boroughs formed under the legislation are formally incorporated on the first Monday following certification of the election. This section also expressly provides that statutes allowing up to two years for transfer of powers exercised by cities and service areas applies to boroughs formed under the legislation. Further, these boroughs would be entitled to organizational grants in the amount of \$600,000 each and other types of transitional assistance.

Section 5 provides for the creation of a "committee on municipalities" within the department. The committee is to consider 1) means to eliminate or reduce disincentives and enhance incentives for the formation of boroughs and 2) ways to ensure greater equity in the distribution of financial aid to all municipalities.

The committee would be comprised of eight members consisting of the Commissioners of the departments of Community and Regional Affairs, Education, and Revenue (or their designees); the Chairman of the LBC, and the following individuals appointed by the Governor: a member of the Senate, a member of the House of Representatives, an employee or official of a borough or unified municipality with a population of less than 10,000 and an employee or official of a borough or unified municipality with a population of 10,000 or more.

The committee must report its findings to the legislature during the first 10 days of the First Regular Session of the 17th Alaska State Legislature. The committee terminates upon submission of its report.

Section 6 provides that the legislation take effect immediately.

Comments

Recent accounts (e.g., Anchorage Daily News "People in Peril" series and the Alaska Federation of Natives report) have clearly delineated the growing social and economic crisis in rural Alaska. In part, these problems stem from the feeling of helplessness and frustration resulting from the lack of control people in rural Alaska, particularly Native Alaskans,

have over their lives. The greater part of rural Alaska remains in the unorganized borough. While the State has assumed the role of local government for the unorganized borough, mechanisms for local control and input on decisions affecting residents of the unorganized borough are often ill defined or inadequate.

At the direction of the Legislature, the department undertook a study of issues in 1987 relating to regional service delivery throughout the State. Since then, the department has also been conducting borough feasibility studies in ten different regions of the State which make up approximately two-thirds of the unorganized borough.

As a consequence of this work, the department has concluded that the creation of regional governments, specifically home rule boroughs, offers an effective means of improving the quality of lives of rural Alaskans. For example, the formation of boroughs would enhance:

1. Local Control. Home rule boroughs provide the most effective way to transfer power to local residents. Decisions about local issues are made by the local assembly which has been elected by local residents, rather than well meaning, but distant bureaucrats. Further, empowerment at the local level may be realized through the transfer to the borough of various State functions accompanied by associated funds.
2. Cultural Sensitivity. Of any form of municipal government, home rule boroughs permit the greatest degree of cultural sensitivity to traditional institutions and values. For example, a home rule charter could provide for local native councils to serve as advisory boards, service area management boards, etc. Such boroughs could also provide for greater local control of education than under other institutional arrangements. Home rule charter provisions may mandate locally relevant curriculums.
3. Local hire and economic development. The transfer of powers and duties (accompanied by funds to enable the borough to carry out such powers and duties), coupled with effective local hire provisions, would provide new jobs for rural Alaskans. Public employment is the largest provider of jobs in rural Alaska. Local governments are not bound by State registers or personnel systems. Similarly, local hire provisions and minority contracting policies not suitable at a statewide level often can be developed and adopted at a regional level. In this manner, home rule boroughs may serve as instruments of local hire and economic development.

4. Response to alcohol abuse. Home rule boroughs could provide a mechanism for a regional response to the problem of alcohol abuse. Regional governments could provide for a comprehensive approach to alcohol control and treatment throughout a region, not simply in individual communities. Such efforts could include coordination of law enforcement efforts of state and local authorities, coordinated cooperation with the judicial system, and pursuit of state and federal funding opportunities on a regional basis.
5. Efficiency of service delivery. The present method of delivering services to the unorganized boroughs does not appear to be particularly efficient. Such services are delivered through more than 200 organizations, many of which operate as single purpose or limited purpose organizations. Home rule boroughs provide a means to lower costs and improve efficiency of government services through improved economies of scale. Many functions which are too expensive, or for which human resources do not exist at the community level, could be provided on a regional basis by circuit riding employees. Better service and increased employment for local residents would be the result.
6. Funding for local services. Recent and expected continued reductions in State revenues have already and will continue to adversely affect the level of funding available for local services. The formation of boroughs will enable regions to tap State, Federal and local revenue sources presently unavailable. It is often possible to develop a structure for the generation of local revenues which minimizes the burden on local residents (e.g., fish tax, bed tax, severance tax, property tax with partial exemption for residential property).
7. Security of regional boundaries. As financial aid from the State continues to decline and other circumstances develop, it is inevitable that existing boroughs will seek to annex portions of the unorganized borough. The Kodiak Island Borough recently successfully annexed a portion of the Alaska Peninsula. The Fairbanks North Star Borough's proposal to annex an area north of its present North Star Borough was narrowly defeated by the Legislature in March of this year. The department is aware of interest by the City and Borough of Juneau and the Matanuska-Susitna Borough to seek annexations in the current year. The Fairbanks North Star Borough may also make another attempt to annex territory. In addition, regions which seek to form new boroughs often include territory which residents

of adjacent regions believe should be rightfully reserved for their use. Such circumstances lead to significant inter-regional conflicts.

These potential benefits notwithstanding, the history of Alaska has clearly shown that residents of the State are unwilling to form boroughs unless there are vastly superior advantages in doing so. Indeed, 96 percent of those Alaskans who reside in boroughs today, live in boroughs which were formed in the 1960's under mandates from the Legislature. The remaining 4 percent of Alaska's borough residents live in boroughs which were formed in areas encompassing vast natural resources capable of supporting boroughs with relatively little cost to the residents.

While significant resources still exist in certain unincorporated regions of the State, there are simply too many disincentives for incorporation under current law to believe that many new boroughs will be formed. Examples of such disincentives are provided in the Statement on Borough Government in Alaska (copy attached) issued last year by the Local Boundary Commission.

House Bill No. 1 has evolved from legislation considered by the 15th Legislature (HB 1, SSHB 1 and 2d SSHB 1). The department offered extensive comments concerning the previous legislation. Most of the previous concerns have been accommodated by the current version of the bill. The following is a statement of the few remaining concerns of the department.

A. Financial Impacts. Economic conditions in rural Alaska are so critical that the department cannot support any action which would result in a loss of financial resources to the unorganized borough. The establishment of regional governments will be supported only if there is no financial penalty for adopting the borough form of government. For this reason, the issue of incentives and disincentives of borough formation must be addressed before the formation of new boroughs.

B. Schedule. With the current legislative session coming to an end, it seems that the earliest this bill will be acted upon is next year. The requirement that the work of the LBC and the Committee on Municipalities be submitted to the First Session of the 17th Legislature means that there would be less than one year to undertake this important work. The department believes that a minimum of two to three years would be necessary to complete this effort. A conceptual plan developed by the department for the completion of the boundary study required by Section 1 of the bill is attached.

POSITION PAPER
HB 1
PAGE SIX

C. Regions Should Incorporate Voluntarily. While the department supports the establishment of boroughs, it strongly favors the concept of voluntary boroughs over those created under mandate from the Legislature. Once the Committee on Municipalities has identified changes needed to make boroughs more attractive and viable, and once the LBC has identified regions which meet the standards for borough formation, it is hoped that a number of regions would seek to form boroughs voluntarily. For these reasons, the department recommends that there be no provisions requiring mandatory incorporation.

CONCEPTUAL PLAN FOR BOUNDARY STUDY

OBJECTIVE: TO IDENTIFY TERRITORY APPROPRIATE FOR ANNEXATION TO EXISTING BOROUGH AND UNIFIED MUNICIPALITIES, AND TO DETERMINE THE BOUNDARIES OF REGIONS IN THE UNORGANIZED BOROUGH WHICH MEET STANDARDS FOR INCORPORATION OF NEW BOROUGH.

STEP ONE: PREPARE A MAP OR MAPS SHOWING THE FOLLOWING:

- All communities in the State
- Major geographic features (rivers, mountain ranges)
- Transportation corridors (highways, air routes, marine routes)
- Boundaries of boroughs and unified municipalities
- Boundaries of ANCSA Regional Corporations
- Boundaries of regional educational attendance areas
- Boundaries of coastal resource service areas
- Boundaries of federal census areas
- Boundaries of military and Indian reservations
- Areas which are culturally interrelated
- Areas which are socially interrelated
- Areas which are economically interrelated
- Traditional land use patterns
- Boundaries of judicial districts
- Boundaries of regional health corporations
- Boundaries of State election districts
- Boundaries of State and federal land use plans
- Boundaries of State and federal parks, wilderness areas, wildlife refuges, recreation areas, preserves, national forests, etc.
- Boundaries of commercial fishing management areas
- The location of the Trans-Alaska Pipeline and all pumpstations

STEP TWO: PREPARE A NARRATIVE STATEMENT DESCRIBING THE MANNER IN WHICH EACH OF THE ABOVE RELATES TO BOROUGH BOUNDARIES.

Some of the above factors have little or no significance to prospective borough boundaries (e.g., judicial districts) while others have great significance. Some means of assigning values to each of these factors should be considered. Too, consideration should be given to the fact that certain of the boundaries will change or are likely to change in the near future (e.g., election districts will be changed following reapportionment in 1991).

STEP THREE: CONDUCT WORKSHOPS IN CONJUNCTION WITH KEY GATHERINGS TO OBTAIN INITIAL INPUT ON BOUNDARIES

These workshops would include 1) the annual local government conference of the Alaska Municipal League; 2) the annual convention of the Alaska Federation of Natives, and 3) the annual convention of the school boards throughout the state.

STEP FOUR: DEVELOP CONCEPTUAL BOUNDARIES

It is possible that the various parties consulted in Step Three may have widely ranging opinions on where tentative borough boundaries should be set. Further, certain of areas of the State may be difficult to place in one region over another. Nonetheless, this step should result in the identification of a single set of prospective boundaries. Where appropriate, secondary choices (i.e., "alternative" boundaries) may be shown.

STEP FIVE: PUBLISH MAP(S) OF CONCEPTUAL BOUNDARIES AND NARRATIVE BACKGROUND MATERIAL FOR STATEWIDE DISTRIBUTION.

Publish 5,000 "newspaper-type" publications describing the boundaries and the considerations which went into them. Distribute these materials to each of the 161 municipalities in the state, the 100 or so unincorporated communities, the 4 CRSAs, the 22 REAAs, the ANCSA Regional Corporations and Non-profit corporations. Publish maps in newspapers, do press releases, video tape, etc.

STEP SIX: OBTAIN PUBLIC REACTION TO BOUNDARIES

The LBC would conduct a number of hearings on the conceptual boundaries. Both regional hearings and statewide hearings would be conducted. More than one hearing in each region may be necessary.

STEP SEVEN: FINALIZE PRODUCT


For _____
David G. Hoffman
Commissioner



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

P.O. Box Y, State Capitol
Juneau, Alaska 99811-3100
Mail Stop 3100
(907) 465-3991

April 21, 1989

MEMORANDUM

TO: Representative Eileen MacLean

ATTN: Louann Christian

FROM: Karen Oakley *KO*
Legislative Analyst

RE: Boroughs: Methods to Encourage Their Formation
Research Request 89.302

You requested an analysis of House Bill 1 and asked what other steps the legislature could take to encourage or facilitate the formation of boroughs.

This memorandum discusses: how existing boroughs were formed; the current and former versions of HB 1 and the effects that HB 1 has already had; and other methods to encourage the formation of boroughs.

In summary:

- Historically, boroughs have been slow to develop by local initiative. Only five of the state's 13 boroughs were formed by local initiative; the others were formed under the Mandatory Borough Act of 1963.
- The introduction of HB 1, which was patterned after the Mandatory Borough Act, has stimulated considerable interest in the formation of boroughs during the last two years. One new borough has already held an incorporation election, and nine borough feasibility studies are underway.
- The legislature could further stimulate interest in borough formation by proposing to institute a tax in the unorganized borough. However, given the current high level of interest, such a step may not be necessary at the present time.
- At this point, the legislature can probably best encourage borough formation by supporting the existing borough studies, revamping the programs that provide aid to local governments, and addressing issues (such as discrepancies in fish tax reporting) that surface during the process of forming the new boroughs.

How Existing Boroughs Were Formed

The borough is the form of regional local government in Alaska and was devised by the framers of the Alaska Constitution to provide for

maximum local self-government with a minimum of local government units, and to prevent duplication of tax-levying jurisdictions.¹

Boroughs are analogous to counties in that boroughs provide areawide government, but unlike counties, boroughs are the only form of areawide government in Alaska, and they alone were delegated the power to levy taxes on an areawide basis.

Deciding that boroughs could not be expected to form immediately upon statehood, and that some rural areas would not be financially or otherwise ready to organize for some years, the framers of the constitution mandated that the state would be divided into boroughs, organized and unorganized. At statehood, the entire state consisted of a single unorganized borough. Since statehood, 13 boroughs have been formed, thereby carving large chunks out of the unorganized borough. These organized boroughs comprise roughly 35 percent of Alaska's land area; approximately 85 percent of Alaska's population lives in these boroughs.

The history of the formation of Alaska's boroughs is summarized in Table 1. To implement the local government article of the constitution, the legislature passed the Borough Act of 1961 which provided for the formation of boroughs under local option. Two years after passage, only a single borough--the tiny Bristol Bay Borough--had formed, and it was obvious that local initiative was not working. There was an increasing demand for local services, particularly in the areas outside cities, an increasing demand for local control of essentially local functions, and perceived needs to equalize tax burdens and to integrate the special service districts (such as the independent school districts) into constitutional forms of local government. These needs provided the impetus for passage of the Mandatory Borough Act.

The Mandatory Borough Act required that the eight most populous regions of the state incorporate as boroughs. Any of the designated regions not incorporated by local option by January 1, 1964 would become boroughs by default on that date. To provide an incentive for incorporation, the legislation provided for grants of both land and money to the new boroughs. By January 1, 1964, four boroughs--the Ketchikan, Sitka, Kodiak and Juneau boroughs--were formed by local option. Incorporation elections failed in the Anchorage, Matanuska-Susitna, Kenai and Fairbanks areas, and these areas became boroughs by default.

¹Article 10, Section 1. Alaska Constitution.

TABLE 1

ALASKA'S BOROUGHES: A HISTORY OF THEIR FORMATION

BOROUGHES AND HOW THEY WERE FORMED	YEAR ORIGINALLY INCORPORATED	CURRENT TYPE OF BOROUGH	JULY 1, 1987 POPULATION
FORMED BY LOCAL OPTION UNDER BOROUGH ACT OF 1961			
Bristol Bay Borough	1962	second class borough	1,326
FORMED BY LOCAL OPTION UNDER MANDATORY BOROUGH ACT			
Kodiak Island Borough	1963	second class borough	14,127
City and Borough of Sitka	1963	unified home rule municipality	8,160
City and Borough of Juneau	1963	unified home rule municipality	29,370
Ketchikan Gateway Borough	1963	second class borough	12,982
FORMED BY DEFAULT UNDER MANDATORY BOROUGH ACT			
Fairbanks North Star Borough	1964	second class borough	75,079
Kenai Peninsula Borough	1964	second class borough	43,612
Metanuska-Susitna Borough	1964	second class borough	44,280
Municipality of Anchorage	1964	unified home rule municipality	248,263
FORMED BY LOCAL OPTION SINCE 1964			
Haines Borough	1969	third class borough	1,991
North Slope Borough	1972	home rule borough	8,308
Northwest Arctic Borough	1986	home rule borough	6,696
Aleutians East Borough	1987	second class borough	2,091

Prepared by the House Research Agency, April 1989 (89.302A).

Since the creation of eight boroughs under the force of the Mandatory Borough Act, only four boroughs have been created by local option. The first of these was the Haines Borough in 1969. In 1972, the North Slope Borough was incorporated to take financial advantage of a world class oil field within its bounds. No boroughs were formed for 14 years. Then, in 1986, the Northwest Arctic Borough was formed due to the impending construction of a world class mine within its bounds. The Aleutians East Borough was formed next, incorporating in October 1987.

Although at this moment there are only 13 boroughs, a 14th borough is expected to be officially incorporated within a couple of weeks. The Lake and Peninsula area near Dillingham just voted to incorporate. As soon as the Division of Elections certifies the results of the election (possibly as soon as May 2), the new Lake and Peninsula Borough will be incorporated.²

Thus, borough formation has been, and continues to be, a slow process. Only five of the state's 13 boroughs were formed by local initiative. The four most populous regions of the state (Anchorage, Matanuska-Susitna, Kenai Peninsula, Fairbanks) were forced to organize as boroughs despite local opposition. Four other regions were organized by local option, but only under the threat of the Mandatory Borough Act.

The generally slow development of boroughs and the concomitant equity problems have been of continuing concern to the legislature. Between 1969 and 1979, the legislature considered at least eight bills addressing the organization and financing of regional governments in the unorganized borough. During the period 1979 - 1981, the House and Senate Community and Regional Affairs Committees and the Department of Community and Regional Affairs (DCRA) conducted an extensive study of the "local government" problem, including holding hearings in many villages and contracting with outside experts for reports on various aspects of the problem.³ Although two regions--the Yukon Flats and the Yukon-Kuskokwim Delta (Association of Village Council Presidents area)--conducted borough formation studies during this period, neither held an incorporation election.

²The incorporation ballot included a measure that would have approved a one percent sales tax in the new borough; voters failed to approve the tax measure. News reports on the election falsely stated that because the tax measure failed, the state would prohibit the borough from incorporating. The state's only opportunity to disapprove of new boroughs is when the Local Boundary Commission reviews the incorporation petition. If the petition is disapproved, no election is held.

³The findings of the DCRA study were published in a report entitled "Problems and Possibilities for Service Delivery and Government in the Unorganized Borough," 1981.

Between 1981 and 1987, there appears to have been little interest at the state level in addressing the continuing slow development of boroughs by local initiative. With the introduction of HB 1 in 1987, the stage was set for a replay of many of the same issues and concerns that occupied the 1963 Legislature when it passed the Mandatory Borough Act.

House Bill 1

Representative Ron Larson from Palmer is the prime sponsor of HB 1, which was introduced at the beginning of the 15th Legislature. The bill was heard by the House Community and Regional Affairs Committee, and two sponsor substitutes were introduced during 1987 and 1988. The HB 1 under consideration by the 16th legislature is a "stepchild" of the original HB 1 and reflects the work done during the 15th legislature on the bill. Copies of all versions of HB 1 are provided in Attachment A.

The first Sponsor Substitute HB 1, which is the version of the bill that has received the most consideration, was directly analogous to the Mandatory Borough Act. The bill mandated the formation of boroughs from the remaining unorganized borough area by July 1, 1989. The boundaries of the Regional Educational Attendance Areas (REAAs), which are the service areas set up by the legislature to provide for education in the unorganized borough, were to serve as the boundaries of the new boroughs, and the boroughs were to be incorporated as third class boroughs. Third class boroughs exercise only two areawide powers--education and taxation. There is only one third class borough, the Haines Borough, and current statutes prohibit the formation of new third class boroughs.

House Research Agency Report 88-A provided a detailed analysis of SSHB 1, and a copy is provided as Attachment B. This report analyzed the potential revenues and education costs of each of the 21 new boroughs that would have been formed. The report reached an unexpected conclusion:

. . . this analysis of the finances of the proposed boroughs dispels the commonly held notion that borough formation requires substantial sums to be raised locally and that there is a financial disincentive to borough formation. In fact, the converse is true: Under the current laws governing the transfer of State funds to local governments, most areas of the unorganized borough would benefit financially from organization. That some of these areas have not yet organized--despite the financial incentive to do so--suggests either that people are not aware of the financial benefits of organization or that people do not want to organize. Based on this analysis, the generally slow development of boroughs from the unorganized borough should probably be attributed more to sociological than to financial factors.

Representative MacLean
April 21, 1989
Page 6

At the beginning of the 1988 legislative session, a second sponsor substitute was introduced. This bill pushed the deadline for borough formation back one year to 1990 and changed the boundaries that would be used for the new boroughs and the class of boroughs that would be formed. Under the second sponsor substitute, the Local Boundary Commission (LBC) was required to study what the boundaries of the new boroughs should be, and the new boroughs were to be incorporated as home rule boroughs. The DCRA was given the responsibility of drafting a provisional home rule charter for the new boroughs. House Research Memorandum 88.154, which is provided as Attachment C, analyzes the second sponsor substitute and compares it to the first sponsor substitute.

The current version of HB 1 is similar to the second sponsor substitute considered during the 15th legislature. The current version includes a new section creating a "Committee on Municipalities." This committee, composed of the commissioners of DCRA, Revenue, Education, the chair of the LBC, a member of the House, a member of the Senate, and two representatives of existing boroughs, would be charged with studying the means to eliminate or reduce disincentives to borough formation. The committee would be required to report their findings at the beginning of the 17th Legislature (1991).

In introducing HB 1, Representative Larson hoped to stimulate discussion of and interest in the problems presented by the slow development of boroughs; he did not expect that the bill, as originally written, would pass. As he hoped it would be, HB 1 has been incredibly successful at stimulating interest in and debate about boroughs and their formation; HB 1 is at least partially responsible for the incorporation of the Lake and Peninsula Borough. Most likely, several other boroughs will also be incorporated within the next year or two. Within the past year, the DCRA has been asked by residents from almost all regions within the unorganized borough to prepare borough feasibility studies. According to Dan Bockhorst, with the DCRA, the only areas that have not requested borough feasibility studies are the areas represented by the Southeast Island, Bering Straits, Kuskokwim, and Lower Kuskokwim REAAs. The department expects to finish most of the studies by the end of FY 89. They have just undertaken a study of the Tanana Chiefs Conference region which they expect to complete by December 1989. Attachment D summarizes the status of the borough feasibility studies.

With the great interest in borough government that was stirred up by HB 1, the Local Boundary Commission developed a "Statement on Borough Government," which was adopted at their December 2, 1988 meeting. One of their primary conclusions was that the state programs that distribute aid to local governments need to be modified to ensure that funds are distributed equitably. A copy of this statement is provided as Attachment E.

Representative MacLean
April 21, 1989
Page 7

Other Methods to Encourage the Formation of Boroughs

You requested discussion of alternatives to HB 1 as a means to encourage the formation of boroughs. One alternative suggested to you was to create a single borough out of the unorganized borough and to create service areas within this borough for education and other functions. The problem with this proposal is that it basically describes the status quo: the unorganized borough is a single "borough." The legislature, acting as the assembly for this borough, has already created service areas for education--the REAAs--and for coastal management--the coastal resource service areas. The legislature has the power to create other types of service areas as well. For example, we recently analyzed a proposal to provide service areas for solid waste management in the unorganized borough.⁴

The legislature could continue to authorize new types of service areas within the unorganized borough as various needs arise. However, the proliferation of service areas is not entirely consistent with the local government article of the Alaska Constitution. Moreover, the creation of service areas within the unorganized borough, particularly the REAAs, may have actually slowed the development of boroughs. People living within the unorganized borough (outside of first class and home rule cities) have control over their schools but the state continues to pay the entire operating and capital costs of the schools. Under this situation, unorganized borough residents have very little incentive to seek borough formation.

One way that the legislature could stimulate borough formation would be to introduce a bill that would levy a tax within the unorganized borough. (As we have seen with the reaction to HB 1, the simple introduction of a bill proposing to change the status quo can have a major effect.) The legislature, as the assembly for the unorganized borough, has the power to establish a tax in the unorganized borough. Because equity (or rather, the lack of it), particularly in education financing, is the major complaint with the status quo, instituting a tax in the unorganized borough is a logical step. Residents of the unorganized borough would probably react to the tax proposal by seeking to form their own boroughs.

Given the current interest within the unorganized borough in forming boroughs, there is probably no immediate need to further stimulate interest in borough formation by proposing a tax. Some areas in the state are clearly capable of supporting a borough government, and these areas will most likely be incorporated within the next year or two. There are other areas that are not ready to undertake formation of a borough government, and these areas may remain unorganized for several more years.

⁴See House Research Memorandum 89.090, "Options for Regional Garbage Collection and Disposal Services in the Unorganized Borough," provided as Attachment F.

Representative MacLean
April 21, 1989
Page 8

At this point, the legislature can probably best encourage borough formation by the following means:

- continue consideration of HB 1;
- continue to provide funds to the DCRA to prepare borough feasibility studies;
- undertake a comprehensive evaluation of the formulas for state aid to municipalities, as recommended by the LBC; and
- closely monitor and react as necessary to the particular issues that arise in the process of forming the new boroughs.⁵

I hope this information is useful. If I can provide any further information, please let me know.

Attachments

⁵For example, in preparing the borough feasibility studies, the DCRA discovered major discrepancies in the reporting of Fisheries Business Tax revenues. Fish tax revenues are an important revenue source for some of the proposed boroughs (also for some existing boroughs), and the financial viability of some proposed boroughs could be misjudged due to the uncertainty of the fish tax projections.

STATE OF ALASKA LOCAL BOUNDARY COMMISSION

949 EAST 36TH AVENUE, SUITE 405, ANCHORAGE, ALASKA 99508
TELEPHONE 561-8586

C.B. BETTISWORTH, CHAIRPERSON
JO ANDERSON, 1ST JUDICIAL DISTRICT
BEN NAGEAK, 2ND JUDICIAL DISTRICT
LAMAR COTTEN, 3RD JUDICIAL DISTRICT
SHELLEY DUGAN, VICE-CHAIRPERSON, 4TH JUDICIAL DISTRICT

STATEMENT ON BOROUGH GOVERNMENT IN ALASKA

The Local Boundary Commission (LBC) was established under Alaska's Constitution to deal with certain critical local government matters. Its constitutional and statutory duties include making studies of local government boundary problems and judging proposals for borough incorporation and annexation. The LBC consists of five members appointed by the Governor. It is independent of all State agencies and other boards.

Due to a substantial increase in interest concerning borough government, conflicts over regional jurisdiction have begun to surface in several areas of the state (e.g. annexation by existing boroughs vs. incorporation of new boroughs). The LBC feels that dealing with such matters on a piecemeal basis is neither efficient nor effective. Therefore, the LBC has developed this statement in an effort to generate discussion among citizens of the state, policy makers and lawmakers concerning future regional service delivery in Alaska. This statement was formally adopted by the LBC on December 2, 1988.

INTRODUCTION

The structure for the delivery of regional services in Alaska is in need of improvement. It can be argued that the evolution of regional government over the past thirty years appears to have fallen short of the intent of the State Constitution. The present system for the delivery of regional services is inequitable and, in some respects, inefficient. While there is a strong need to change the system in order to improve the delivery of local government services to all Alaskans, substantial barriers stand in the way.

CONSTITUTIONAL INTENT FOR THE FORMATION OF BOROUGHS¹

The State Constitution provides the framework for borough governments. Article X, Section 3 of the Constitution provides that "The entire state shall be

divided into boroughs, organized or unorganized." Senator Vic Fischer, a member of the Committee on Local Government at the Constitutional Convention, wrote that the initial principles set forth by the Committee included the guideline that "provision should be made for subdividing all Alaska into local units (boroughs) based on economic, geographic, social, and political factors; initially not all need be organized" (emphasis added).²

It was clearly the position of the Local Government Committee that "although voluntary incorporation was preferable, organized boroughs should be created without approval in the area if considered necessary by the state." Further, the Committee believed that "the state may want to mandate incorporation if an area is deemed to have reached a position where 'it should take on the burden of its own government'."³

INTENT VS. IMPLEMENTATION

During the first four years of statehood, only one borough had formed. The area encompassed by that borough was a mere 87.5 of Alaska's 586,400 square miles. By 1963, the need for the creation of boroughs in other areas of the state became so apparent that the Legislature was willing to adopt "one of the most controversial statutes ever passed by an Alaskan legislature" — the Mandatory Borough Act.⁴ This act required the formation of boroughs in the regions encompassing Ketchikan, Juneau, Sitka, Kodiak, the Kenai Peninsula, Anchorage, the Matanuska and Susitna Valleys, and Fairbanks.

Presumably, boroughs were mandated for those regions because, in the words of the Local Government Committee, they were "considered necessary by the state" and each area was "deemed to have reached a position where it should take on the burden of its own government."

property values. In one case, the law requires that the borough contribute a millage rate equivalent of only 0.33 mills in support of education. *This is only one-twelfth of the amount required for the 31 other municipal school districts.* Elimination of this inequity would save the State in excess of \$10 million annually.¹⁰

Inequities are found in programs other than those relating to education. The Municipal Assistance Program has elements which are not only inequitable, but extremely arbitrary. Under that program, a borough formed after June, 1977 with a population outside of cities ranging from 2,207 to 4,097 would receive vastly greater aid over what it would receive if its population were either higher or lower by even one person. Thus, a new borough with a population of 2,207 would receive nearly \$1.4 million in annual program funds while a borough with a population of 2,206 would receive less than \$200,000 in annual payments.

Policy concerns abound with respect to factors used in the State Revenue Sharing Program (e.g. population and local tax effort determinations). Concerns over perceived inequities in this program have led to court challenges in the past.

The structure of the State-shared fisheries tax program actually serves as a substantial disincentive to the formation of boroughs in certain areas of the state. Under the present law, some cities outside of boroughs would lose several hundreds of thousands of dollars in annual program payments if their regions incorporated.

SOME BOROUGH BOUNDARIES ARE NOT REASONABLE

Some of today's boroughs have boundaries which present unique problems for efficient delivery of regional services. An interesting example of this is the Haines Borough. Klukwan, which is located well within the borders of the borough, exists as a "jurisdictional hole" in the borough. Educational services in Klukwan are not provided by the borough, but by the State operated Chatham Regional Educational Attendance Area (REAA). The seat of the school district is located in Angoon, a community approximately 170 air miles distant. It is apparent that a more reasonable approach to serving Klukwan's education needs would likely be through the borough surrounding it.

It should also be noted that the boundaries of four of the eight boroughs formed pursuant to the mandatory

Borough Act were not originally set according to standards used today. Rather, those boroughs had their boundaries set along State election district lines. The LBC substantially modified the boundaries of one of those boroughs upon petition shortly after incorporation. However, the boundaries of the remaining three boroughs are substantially unchanged.¹¹ Their borders would not necessarily meet today's standards for the formation of boroughs. Boundaries of other boroughs in the state have not necessarily kept pace with development within their regions.

CURRENT STRUCTURE IS INEFFICIENT

The present configuration of school districts surrounded by larger school districts is one example of the inefficiencies of the current structure. Regardless of the size of each district (which can be either an REAA, a first class/home rule city in the unorganized borough, or a borough) each maintains independent administrative structures. Establishing boroughs throughout the state would consolidate many of the smaller school districts and produce millions of dollars in savings throughout the state. The most dramatic example of this can be found in Southeast Alaska. If a borough were formed along the lines of the Southeast Island REAA (including Metlakatla), eight separate school districts would be consolidated into one. It is projected that savings from reduced administrative costs from this one consideration alone would total \$1,400,000.¹²

BARRIERS TO CHANGE

Unless there are overwhelming advantages to entice residents of a region to form a borough, it seems clear that if most Alaskans were given a choice, they would prefer to remain outside any regional government. Before the mandatory creation of their borough, residents of Anchorage rejected a proposal to incorporate by a margin of more than 3 to 1. Residents of Fairbanks also rejected a voluntary borough by a margin of nearly 3 to 2.¹³ It is even more telling that today nearly 96% of borough residents live in boroughs which were formed under the Mandatory Borough Act.

CONCLUSION AND RECOMMENDATIONS

The LBC has formed the following conclusions:

- Because of the disparity of resources and problems with current State aid programs, a comprehen-

⁶ Ibid, pp. 1 & 3 (proposed FY 89 State aid to REAA schools is \$110,224,629 of the total of \$442,643,697); (projected FY 89 average daily membership for REAA schools is 12,826.55 while projected average daily membership for total schools is 100,904.05).

⁷ Cease and Saroff, p. 94 (see also pp. 87-89, 93, 117).

⁸ Department of Community and Regional Affairs, Regional Government Study (Anchorage: January, 1988) p. 28. See also, pp. 4 - 7 for a discussion of disparities in the distribution of other resources within boroughs and unincorporated regions.

⁹ Technically, a third municipal school district falls under the 35% rule, however, the difference between its required contribution and the 4 mill equivalent is a mere \$3,011. In fact, its required contribution is the equivalent of a 3.999228 mill tax. Thus, in effect, it is paying a 4 mill equivalent.

¹⁰ By requiring each municipal school district to contribute the lesser of: 1) a 4 mill equivalent or 2) "basic need" less federal aid (deductible PL-874), a savings of \$10,234,157 would result in the current year. Such a requirement would still have the districts with large tax bases paying far less than a 4 mill equivalent (0.95 mills in one case and 2.42 mills in the other case). It is believed that this change in the formula could be made without violating federal equalization requirements relating to local support of schools.

¹¹ The boundaries of the Fairbanks North Star Borough originally included some 23,110 square miles. Two days after the borough was incorporated under the Mandatory Borough Act, the LBC approved the detachment of some 17,082 square miles to the south and the annexation of some 1,333 square miles to the west. The boundaries of the Kenai, Anchorage and Matanuska-Susitna boroughs remain largely unchanged from those established 25 years ago.

¹² See Table C.4 of A New Mandatory Borough Act: Local Education Costs and Potential Revenues of Newly Created Boroughs by House Research Agency of the Alaska State Legislature, February, 1988.

¹³ Cease and Saroff, p. 30.

(The following page is a map of Alaska showing which regions of the State are incorporated and which are not.)

STATE OF ALASKA

STEVE COWPER, GOVERNOR

DEPT. OF COMMUNITY AND REGIONAL AFFAIRS

MUNICIPAL AND REGIONAL ASSISTANCE DIVISION

940 EAST 36TH AVENUE, SUITE 400
ANCHORAGE, ALASKA 99508-4302
PHONE: (907) 581-3586

PO BOX 348
BETHEL, ALASKA 99559-0348
PHONE: (907) 543-3476

PO. BOX 296
DILLINGHAM, ALASKA 99576-0296
PHONE: (907) 842-6135

1001 NOBLE STREET, SUITE 430
FAIRBANKS, ALASKA 99701-4948
PHONE: (907) 452-7126

PO. BOX 2H
JUNEAU, ALASKA 99811-2110
PHONE: (907) 485-4750

710 MILL BAY ROAD
KODIAK, ALASKA 99815
PHONE: (907) 486-5736

PO. BOX 350
KOTZEBUE, ALASKA 99752-0280
PHONE: (907) 442-3696

PO BOX 41
NOME, ALASKA 99782-0041
PHONE: (907) 443-5457

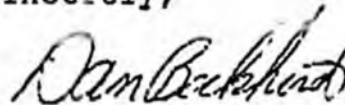
April 19, 1989

Mr. Larry Bussone
Aide to Representative Larson
P.O. Box V
Juneau, AK 99811

Dear Mr. Bussone:

Per your request, enclosed is a summary of the status of our efforts in preparing various borough feasibility studies. Included is a statement of expenditures incurred during the month of February for matters relating to the Reimbursable Services Agreement between the Legislative Budget and Audit Committee and this agency. If you have any questions or need further clarification of the expenditures, please contact me.

Sincerely,



Dan Bockhorst
Local Government Specialist

Enclosures

STATEMENT OF EXPENDITURES FOR FEBRUARY, 1989
BOROUGH STUDIES - RSA BETWEEN DCRA AND LB&A

\$306.00 per diem for 1 staff person to travel to Levelock, Igiugig, Kokhonak, Pedro Bay, Iliamna, Port Alsworth and Nondalton to conduct informational meetings regarding incorporation of the Lake and Peninsula Borough.

\$238.00 per diem for 1 staff person to King Salmon, Chignik Lake, Port Heiden, Egegik and Pilot Point to conduct informational meetings regarding incorporation of the Lake and Peninsula Borough.

\$32.01 to Anchorage Telephone Utility for December phone bill.

\$36.75 to Era Aviation to goldstreak the Lake and Peninsula Borough Incorporation Report and Recommendation to Frank Hill of King Salmon for distribution in and around that area.

\$726.95 to State of Alaska, Central Duplicating for printing of the Yukon-Koyukuk, Railbelt, Delta Greely and Copper River draft borough study reports.

\$1,723.00 to Computerland for purchase of Macintosh software.

\$\$4,878.00 to Computerland for purchase of Macintosh terminal and full page radius display screen.

\$434.99 for postage to mail draft borough study reports.

\$1.32 for postage machine expense.

COPPER RIVER BASIN

On December 9, 1988 approximately 90 copies of the draft study were distributed for public review and comment. A meeting to discuss the draft report is scheduled in Clennallen on May 1, 1989.

DELTA GREELY REGION

On December 9, 1988 approximately 80 copies of the draft report were distributed for public review and comment. A meeting to discuss the draft report will be held in Delta Junction either May 10 or 12, 1989.

LOWER YUKON REGION

On March 10, 1989 approximately 60 copies were distributed for public review and comment. The comment period expires April 21. A number of meetings have already been conducted in the region by the Department.

ALEUTIANS WEST REGION

On April 7, 1989 approximately 75 copies were distributed for public review and comment. The comment period expires June 2.

NORTHWEST BRISTOL BAY

Staff is currently working on the draft report. It is anticipated that it will be released for public review and comment no later than April 28.

CHATHAM REGION STUDY

A draft borough feasibility of much of central Southeast Alaska, extending from Dry Bay south of Yakutat and extending south to include the greater Kake area, was mailed to seventy interested parties, including business and community leaders, municipal officials and school district administrators on March 31.

Informational meetings in Kake, Angoon, Hoonah and Pelican have been tentatively scheduled for the week of May 1-5.

DENALI REGION STUDY

On December 9, approximately 55 copies of the first draft of the Denali Region borough feasibility study were distributed for review and comment. The draft study concludes that even though the area clearly meets most of the standards for borough incorporation, financial characteristics of the region are such that "...under the current structure of entitlement funding programs, formation of a borough in the study area is at best marginally feasible."

Recipients included Senator Coghill and Representatives Shultz and Larson. The Fairbanks Regional Office was provided with ten copies. Copies were also distributed to various municipal officials in the region, non-profit corporations, regional and village corporations within the study area and the adjacent Fairbanks North Star Borough and the Matanuska-Susitna Borough, REAA administrators and leading organizations in the adjacent REAA'S. Copies were also provided to other State agency personnel who were involved in providing data contained the report, including the Departments of Natural Resources, Labor and Education. The deadline for receipt of comments was January 23, 1989.

YUKON-KOYUKUK STUDY

On December 9, approximately 65 copies of the first draft of the "Koyukon" Region borough feasibility study were distributed for review and comment. The draft study concludes that the area appears to meet the standards for borough incorporation.

Recipients included generally the same types of interested parties discussed above. The deadline for receipt of comments was January 23, 1989.

REGIONAL GOVERNMENT IN ALASKA

The publication entitled "Regional Government in Alaska" was completed by staff as a general guide to borough governments. It is intended to serve as a companion document to the other borough feasibility studies. Seven hundred copies were printed and nearly half have been distributed since August.

SOUTHWEST REGION/DILLINGHAM STUDY

Printing and distribution of the final report and executive summary of the REAA 6/Dillingham borough feasibility study was accomplished in August, 1988. Copies of the 42 page report and/or eight page executive summary were distributed to some 250 interested parties.

TCC BOROUGH STUDY

On March 16, 1989, the Department entered into an agreement for the preparation of a borough feasibility study in the TCC region. This study effort is outside of the provisions of the RSA.

The agreement calls for the evaluation of "no more than three (borough) scenarios" (boundaries, classification, powers and taxation). The largest of the three boundary scenarios encompasses all of REAAs 11, 12, 13, 14 and 16.

The agreement calls for "informational hearings throughout the region to gather comments on the (draft) study" to be conducted between September 20 and November 30, 1989. By December 30, 1989, TCC is to "inform the Department of its intent regarding borough formation".

ANNUAL REPORT TO THE STATE LEGISLATURE
JANUARY 1989

The election code today continues to allow the conduct of elections in this fashion. The Commission continues its concerns over this practice. In fact, the Commission would like to see AS 15.20.800 amended to exempt municipal incorporations and dissolutions from mail-in election procedures this legislative session.

Regional Government in Alaska Study

The 1987 Legislature directed the Department to "conduct public hearings and examine the issues of forming regional municipal government in the Unorganized Borough and report back to the Legislature by January 1, 1988" (Page 105, Chapter 95, SLA 1987).

In response to this direction, the Department published two documents. The first entitled *Regional Government in Alaska* provides general information concerning borough government. The second, *Regional Government Study*, deals more with issues relating to borough government in what is now the Unorganized Borough. In addition to identifying issues, this latter report discusses options for dealing with those issues. In 1988 the Department received \$45,000 from the Legislative Budget and Audit Committee to update the *Regional Government Study* and, more significantly, to conduct borough feasibility studies (as requested by local residents) and to educate citizens of the state about borough government in Alaska. With the exception of the Prince William Sound study, all others listed below are being funded by this initiative.

Prince William Sound Borough Feasibility Study (State Election District 6)

In 1986, the City Councils of Valdez, Cordova and Whittier requested funds from DCRA to conduct a feasibility study of borough formation in the area. They were granted an award and subcontracted for the study. The Department provided project administration and technical assistance.

The study began in mid-September, 1986 and was completed in April, 1988. The report concluded that a borough exercising only the mandatory powers of education, taxation, planning, platting and land use regulation at a level of funding to cover basic education needs is a very viable proposition, and at maximum education funding levels is not an unreasonable proposition. These conclusions assume levy of a maximum of 6.18 mill real property tax (at maximum education funding levels) or levy of a maximum 5.14% sales tax (at basic education funding levels).

Southwest REAA Borough Feasibility Study (State Election District 26)

In response to a request from Senator Fred Zharoff in early 1987, the Department began a study of the feasibility and effects of establishing a borough in the area known as the Southwest Region REAA (REAA 6). This area included the communities of Dillingham, Clark's Point, Aleknagik, Ekwok, Koliganek, Levelock, Manokotak, New Stuyahok,

Portage Creek, Togiak and Twin Hills.

The study was completed in August, 1988. It was prepared by staff of the Department as guided by an advisory committee comprised of residents of the region. The Department subcontracted with the Bristol Bay Native Association to assist in establishing the committee and coordinating and funding its travel and meetings.

The study provided area residents with information about how a borough could be formed in the Southwest Region REAA including the City of Dillingham, how it would operate and what kind of revenues would be available to operate it. The report concluded that formation of a borough exercising only the mandatory powers of education, taxation and planning is financially viable. This conclusion is based upon the assumption of a 1% general borough sales and use tax and 1% sales and use tax on fish. The conclusion projects substantial revenue from State shared raw fish taxes.

In the course of this report, the Department planned to conduct a borough feasibility study of REAA 7 as requested by the Steering Committee. However, while in its preliminary stages of study, a petition for incorporation of the Lake and Peninsula region was filed. Therefore the issues of borough government were evaluated as a result of the Department's report and recommendation to the LBC on the proposed Lake and Peninsula Borough.

Copper River Basin Borough Feasibility Study (State Election Districts 17 and 6)

Following a number of meetings with Department staff during 1987, residents of the Copper River Basin submitted a petition with ninety-one signatures requesting a borough feasibility study be conducted in the region under the provisions of AS 44.47.700. The petitioners represented the area defined by REAA 17 which includes the communities of Paxson, Slana, Chistochina, Nabesna, Gakona, Gulkana, Glennallen, Tazlina, Copper Center, Kenny Lake, Tonsina, Lower Tonsina, Chitina and McCarthy.

On December 9, the Department issued an initial draft of the study on the feasibility of borough government in the area. It was distributed for extensive review and comment. The Department anticipates publication of the final report in the first half of 1989. This draft report concludes that borough government is indeed feasible in the area defined by REAA 17. Significantly, it finds that under the assumption of minimal powers and services, a borough would have sufficient operating funds its first two years absent property or sales tax. Beginning the third year of operation it is projected that a 0.7 mill property tax would be necessary and the fourth year would require a 0.9 mill property tax to generate sufficient surplus funds to maintain a borough. From that point forward, it is projected that a 0.9 mill levy would be adequate to operate the borough.

ANNUAL REPORT TO THE STATE LEGISLATURE
JANUARY 1989

Delta-Greely Borough Feasibility Study (State Election District 17)

In January of 1987, Governor Steve Cowper received a letter from the chairman of the *Concerned Citizens Group of Delta Junction*. This letter states that *In the shadow of House Bill 1 [mandatory borough formation], and the threat of annexation[,] the Concerned Citizens Group of Delta Junction is petitioning the State of Alaska to give us a chance to exercise our right of self determination in the selection of a local government structure.*

Enclosed with that letter was a petition signed by over 500 area residents also requesting, among other things, *the funds to . . . study and implement a form of self government: equally acceptable to the majority of the people living in the Delta/Greely School District, [and] the State of Alaska . . .* This sentiment was reinforced by an advisory vote on February 16, 1988, in which 421 of 467 voting residents in the region indicated their support of a task force to research or study a minimum form of self government. On April 12, 1988, a formal request for a feasibility study was submitted to the Department from the president of the Task Force Committee.

On December 9, the Department issued an initial draft of the study on the feasibility of borough government in the area. It was distributed for extensive review and comment. The Department anticipates publication of the final report in the first half of 1989. This draft report concludes that borough government is indeed feasible in the area defined by REAA 15. Significantly, it finds that under the assumption of minimal powers and services, a borough would have sufficient operating funds its first year absent property or sales tax. Beginning the second year of operation it is projected that a 1 mill property tax would be necessary to generate sufficient surplus funds to maintain a borough. From that point forward, it is projected that a 1 mill levy would be adequate to operate the borough.

Lower Yukon Borough Feasibility Study (State Election Districts 23 and 24)

In February, 1988, the Coastal Yukon Mayors' Association unanimously passed a resolution requesting a \$50,000 grant from DCRA for an independent study and analysis of borough formation in the Coastal Yukon area (communities of Russian Mission, Marshall, Pilot Station, St. Mary's, Pitka's Point, Mountain Village, Kotlik, Emmonak, Alakanuk, Sheldon Point, Scammon Bay, Hooper Bay and Chevak). The issue had been discussed locally and the Mayors' Association considered the present time to be appropriate for further examination of the issue.

The Department responded to the Association's request by offering to perform the study in-house. The mayor's Association accepted the offer and the first draft report of a study in the region was issued in 1988. After extensive review and comment, a second draft report was Commissioned. Revisions to the first draft primarily concerned the

ANNUAL REPORT TO THE STATE LEGISLATURE
JANUARY 1989

report format, but in some cases, examination of additional data with specific conclusions was provided. The second draft is anticipated for release in early 1989.

Indications at this point are that, given the relatively low estimated full and true value of taxable property in the region, the absence of significant regional revenues combined with the high cost of living, high unemployment rate and low per capita income, the Department will conclude, (as it did in its first draft report) that borough government in the region is financially infeasible.

Koyukon (Yukon-Koyukuk REAA) Borough Feasibility Study (State Election District 24)

On December 8, 1987, the Galena City Council unanimously adopted a resolution to *pursue through the City Manager the possibility of bringing someone in from the State to do a feasibility study of formation of boroughs*. In February, 1988, then City Manager Lee Wyatt, wrote to the Department requesting that DCRA prepare such a study. The Department agreed. The result was an examination of the feasibility of borough formation in an area that included approximately 75% of the Yukon-Koyukuk Regional Educational Attendance Area. The study specifically excluded the communities of Tanana, Nenana, Manley Hot Springs, Minto and adjacent areas.

The report finds that the study area contains a significant property tax base due to the location of a 130 mile portion of the Trans-Alaska Pipeline in its northeast section. It is estimated that every mill of property tax could generate tax revenues in excess of \$500,000. Such revenues could allow the potential borough to provide basic services and encourage economic growth to the extent that the latter might be desired by residents of the region. The Department projects that with a 6 mill borough property tax, a borough in the study area would generate a slight surplus of funds its first year and sufficient surplus funds in subsequent years to operate a borough.

Denali (Railbelt REAA) Borough Feasibility Study (State Election Districts 17 and 24)

In April, 1988, the Department received a request from the City of Nenana to prepare a borough feasibility study for an area that would encompass *an area along the 'Railbelt' between the boundaries of the Mat-Su Borough and Fairbanks North Star [B]orough*. The scope of the region was further defined to embrace the entire Railbelt REAA and a small portion of the Yukon-Koyukuk REAA. At a May 26, 1988, meeting in Nenana representatives of the City of Nenana proposed the study area be called the *Denali Region*.

On December 9, the Department issued an initial draft of its feasibility report. This draft was widely distributed throughout the region and comments were solicited. The draft report indicates that under the structure of existing formulae governing distribution of

ANNUAL REPORT TO THE STATE LEGISLATURE
JANUARY 1989

entitlement funds to borough governments, a borough in the study area would likely face severe financial difficulties if it does not impose a relatively heavy burden of borough taxation. For example, given the comparatively low estimated assessed valuation of the study area (approximately \$63,000,000 compared to a 1987 estimate of \$934,498,200 in the neighboring Yukon-Koyukuk REAA) a property tax would verge on being uneconomic. It is noted that residents of Nenana already pay a 9 mill property tax which annually generates \$117,095 (61.7% of the city's tax revenues.). It is anticipated that the need for a borough in the study area to impose a relatively high borough tax burden would tend to undermine popular support for a borough government and weaken its effectiveness.

Chatham REAA Borough Feasibility Study (State Election District 2)

In February, 1988, the DCRA was requested by the City of Hoonah to prepare a borough feasibility study for the area including that portion of the Chatham REAA south of Dry Bay plus the Greater Kake Area.

Preliminary indications are that a borough in the study area is financially viable and that for a *Chatham Region* borough to execute the powers and services required by law, a levy of moderate property taxes or a combination of property and sales taxes would be necessary. The draft study is scheduled for distribution in February, 1989.

Bering Sea (Aleutian, Pribilof and Adak REAA's) Borough Feasibility Study (State Election District 26)

In 1988 the City of Unalaska formally requested that the Department conduct a borough feasibility study in the area west of the Aleutians East Borough. The Department is in the preliminary stages of this study and anticipates issuing a report in the first half of 1989. Included within the report will be a special examination of the Pribilof REAA as a part of the area examined for borough feasibility.

Northwest Bristol Bay Borough Feasibility Study (State Election Districts 25 and 26)

In October of 1987, DCRA received a request from the Togiak City Council to prepare a borough feasibility study for the area encompassing Togiak, Twin Hills, Manokotak, Alegnagik, Clark's Point, Ekuk and possibly Goodnews Bay and Platinum. The request followed the start of the Department's borough feasibility study in REAA 6 and REAA 7.

The rationale behind the study request was succinctly stated by the City of Togiak. It wrote that *these communities have more in common with one another because of their size and*

ANNUAL REPORT TO THE STATE LEGISLATURE
JANUARY 1989

economic base than they do with other communities in REAA 7. Therefore, the request was made for examination of a smaller borough in the study area. The Department compiled portions of the report during 1988. It anticipates release of the draft of the complete report in the first half of 1989.

Suggested Review of Raw Fish Reporting Practices

While compiling the borough feasibility reports, the Department discovered that data from the Alaska Department of Revenue and data from the Alaska Department of Fish and Game concerning the estimates and actual reports of raw fish processing within identified areas differed considerably and consistently. In fact, estimated raw fish tax revenues generated by the discrepant information and data amounted to as much as a potential \$913,040 in annual revenues in one region of the state.

It appears that the differences can be attributed to the reporting practices of floating fish processors. The Department of Revenue indicates that there is substantial reporting of processor activity outside the State's jurisdiction and therefore, outside the possible jurisdiction of any borough. Conversely, Department of Fish and Game data consistently indicate that only a portion of the fish caught in borough study areas is processed outside the State's jurisdiction or in neighboring regions. Improved enforcement (on the part of the State and/or any borough) of accurate fish processing reports would seem to resolve much of the difference.

Prominent Prospective Actions

The Department routinely receives a large number of inquiries concerning prospective boundary changes and other actions to be brought before the Commission. Often these proposals are never formally initiated. However, the Commission feels that it is appropriate to list some of the more prominent proposals currently under consideration.

Tanana Chiefs Conference Borough (Doyon Corporation Region) (State Election Districts 24 and 17)

In January, 1989, Tanana Chiefs Conference raised the prospect of borough formation with the Local Boundary Commission. The area of interest was defined by the boundaries of the Doyon Corporation (excluding the Fairbanks North Star Borough and the Delta-Greely Region). This area includes all or portions of five Regional Education Attendance Areas. These are the Yukon-Koyukuk, Railbelt, Yukon Flats, Iditarod and Alaska Gateway REAA's. The Department has received no petition to date.

ALASKANS AGAINST MORE GOVERNMENT
P. O. Box
Delta Junction, Alaska 99737

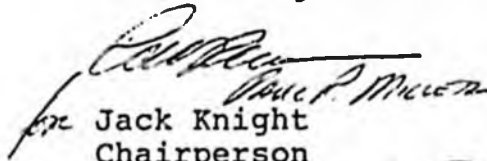
April 20, 1989

Honorable Steve Cowper
Governor for Alaska
Pouch A
Juneau, Alaska 99811

Dear Governor Cowper:

This is in reply to the Department of Community and Regional Affairs study on borough formation in the REAA 15 portion of the State of Alaska. A petition against borough formation or annexation into an existing borough is appended.

Alaskans Against More Government


for Jack Knight
Chairperson

5300 Knight Road
Delta Junction, Ak
99737

Encl:Petition

cc: Senator Jack Coghill
Representative Dick Shultz
Department of Community & Regional Affairs

Prepared by:
PR Miller
Carl Bandy

In reference to the feasibility study of borough formation in the Delta/Greely area the following rebuttal is submitted:

On April 11, 1989, a group of Alaskans Against More Government met to discuss the study as presented by the Community and Regional Affairs Department. The separate publication titled Regional Government in Alaska as a reference for this study is not valid as this publication is written by DCRA and is flawed. To be brief - we cannot afford a borough. In 1986 we could have made a borough from REAA 15, and a viable borough, but events since that time indicate that by 1993 the borough would be bankrupt with a small property tax, or bankrupt and needing assistance to survive with a large property tax. The deficit could be more than four million dollars.

The following errors or omissions have been noted.

On page 3 the communities of Dot Lake and Whitestone Farms are omitted.

Page 6, population is now in error due to the severe economic conditions in the area. Also Fort Greely is scheduled to lose Cold Regions Test Center (CRTC) with an estimated loss of 330 military and forty civilians by March 1990.

Page 8 shows two medical clinics. There is now only one clinic with one doctor available. The Deltana Community Corporation is located in the unincorporated community of Clearwater. Big Delta Historical Park is located in Big Delta. Along with Dry Creek we have another religious community of Whitestone Farms and yet another smaller community located near Big Delta. Along with Healy Lake there is a much larger native community of Dot Lake on the Alaska Highway. The Tanana Chiefs Conference, in their proposed borough, want both Healy Lake and Dot Lake in the scenerios.

Page 10 talks of garbage disposal which is performed by the City through a contracting firm and has been so for many years.

Page 11 talks of Jurisdictional Integrity of a Region: This would be insured with the passage of HJR 26 (Schultz). The taxable property of 660 million for the pipeline is a 1966 figure and it has been reduced at a rate of 10% per year since that time. Real estate is in a poor market with lower prices, no buyers. Many houses and apartments are vacant. Another tax problem is - how do we tax agricultural rights farm land? The taxing of the pipeline is misleading as the maximum tax is 20 mill of which the local communities can receive only 5 mill.

Page 12 on land entitlement is a laugh. Where could we get nearly 30,000 acres of land that has not been already titled or is swamp or mountains?

Changing patterns of public policy? With the center of population for the State of Alaska being in one city, and comprising more than half of the state residents, and with taxable property of under three million acres out of the 365 million acres of the state, public policy will be dictated from the population center. There should be no change as to borough assuming educational powers, as the constitution of the State of Alaska places their requirement on the state and not on the local communities. In a recent issue of the Fairbanks Daily News Miner 3492 parcels of property were listed as tax delinquent. This is the future for the REAA 15 district if formed into a borough.

Page 19 shows State Aid going down by one half and the loss being picked up by local residents. Is this any way to sell boroughs to the public? Costs on the Delta REAA 15 are low by at least one million dollars for 1988, but near for 1989.

Page 21, a recreational fisheries tax would not be easily collected unless a surcharge is placed on fishing licenses. Local guide services in Delta are a post office box with the operation based at some distance.

Page 22 is using figures from 1987 and the 10% decrease in the value of the pipeline would have lowered the value by more than 50% by 1993. Therefore, an increase of taxes would be a reality and by 1993 the rate would have to be above 20 mill local taxes for survival.

Page 25 shows no cost of living increases or allowances that go along with the cost of living index annual increases.

Page 26 rent and utilities at 1,000 dollars. This amount could be spent in any one month in the winter. Bonding and insurance is too low, try 6 to 10 thousand dollars.

Page 27 about contract lawyers. The FY 90 cost is about right for the other years with an increase to 20,000 dollars or more for the first FY 90. Where can you get these cheap lawyers?

Page 29 on the Delta/Greely REAA (FY 88). The PL 874 places monies at 10% equals which is 110,457, not 122,730.

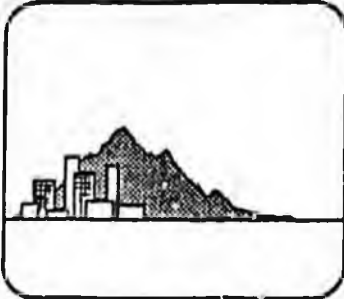
Page 30, personnel services shows a half secretary - Delta presently has three and as a borough we could expect to have at least three. And again, insurance and bonding for only 1,000 dollars? That might cover a month but surely not a year.

Page 32 shows a more realistic figure for an attorney.

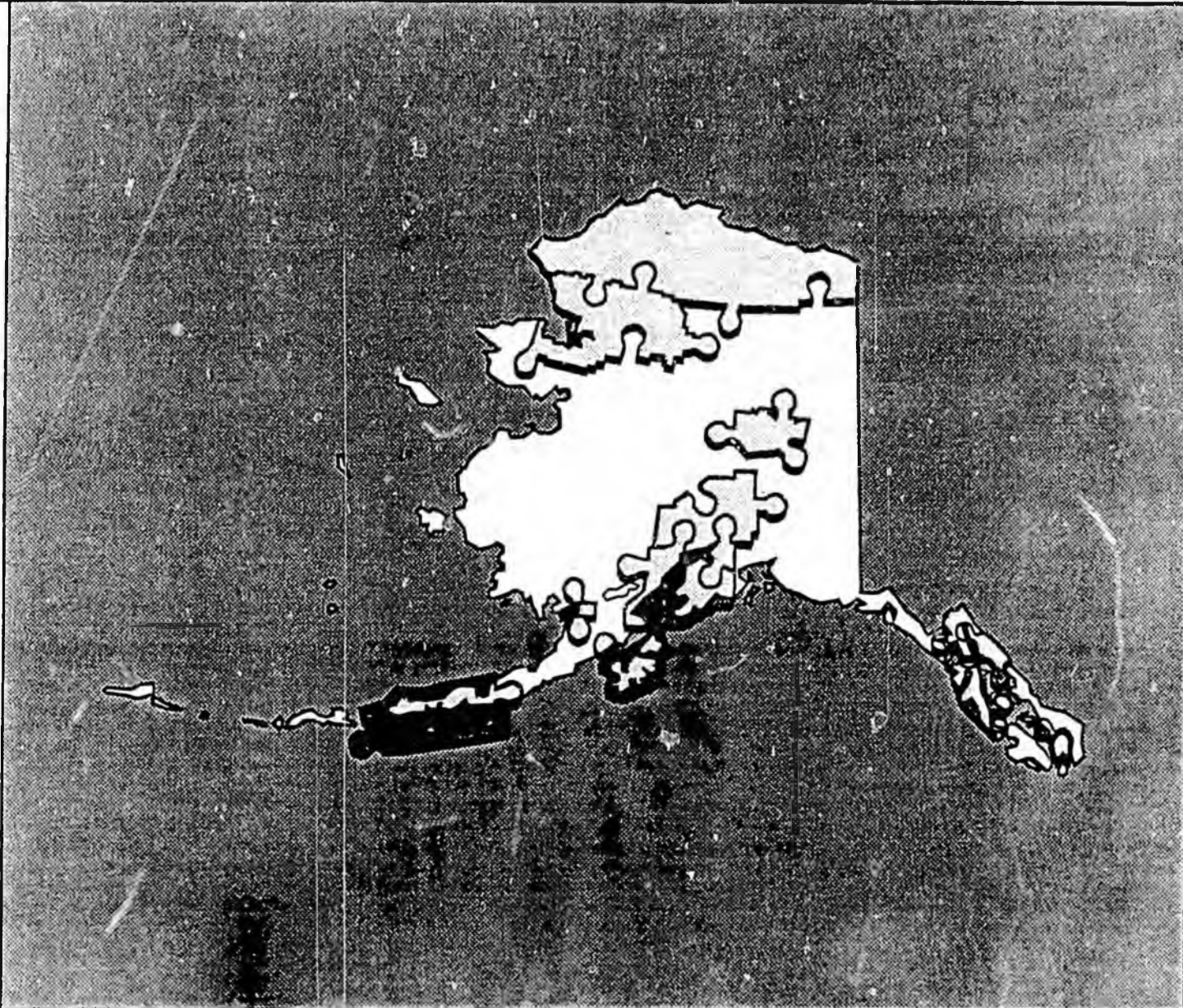
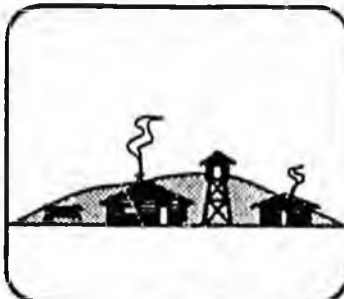
Page 36, the conclusion. This was probably true for 1986 but with a rock bottom economy, about 30% unemployment, Fort Greely losing about half of the troops and about a third of the civilians, many itinerate persons leaving the area, and very poor projections for the future economy; the formation of a borough is presently not feasible. By 1993 at 20 mill tax rate we would have nearly a five million dollar deficit. In other words, we cannot afford a borough, the state cannot afford a borough, so no borough should be formed. By the TCC proposed borough scenarios, they don't want us either as part of the new borough. We are too expensive!

Please find attached petitions signed by local residents as a protest against borough formation.

Alaskans Against More Government



Regional Government Study



State of Alaska
Steve Cowper, Governor

Department of Community and Regional Affairs
David G. Hoffman, Commissioner

January 1988



Regional Government Study

TABLE OF CONTENTS

INTRODUCTION	PAGE 1
SECTION I PRESENT STRUCTURE OF SERVICE DELIVERY	PAGE 2
SECTION II A COMPARISON OF REGIONS IN ALASKA	PAGE 4
SECTION III OPTIONS FOR DECISION MAKERS	PAGE 11
SECTION IV CONCLUSIONS	PAGE 17
SECTION V FINAL COMMENTS	PAGE 18
FOOTNOTES	PAGE 20
APPENDIX	
Table 1 - Taxable Values Per Student	PAGE 28
Table 2 - FY 87 Distribution of Business Fisheries Taxes In Cities Within the Unorganized Borough (by REAA)	PAGE 30
Table 3 - Ex-Vessel Values of Commercial Fisheries Harvests (All Species) For Average of Survey Years (Generally 1975 - 1982)	PAGE 32
Table 4 - 1984 Per Capita Income	PAGE 33
Table 5 - 1986 Alaska Average Monthly Wage	PAGE 34
Table 6 - 1986 Unemployment Rates	PAGE 35
Table 7 - 1986 Population Densities	PAGE 36
Table 8 - 1980 Alaska Population Racial Composition	PAGE 38
Table 9 - Regional Cost of Living Differences	PAGE 39
Map 1 - Boroughs, REAAs, etc.	PAGE 40
Map 2 - Federal Census Areas	PAGE 41
Map 3 - Districts For Cost of Living Study	PAGE 42



Regional Government Study

EXECUTIVE SUMMARY

At the direction of the Legislature, the Alaska Department of Community and Regional Affairs undertook a study of the issues relating to the formation of boroughs in the unincorporated regions of the state (i.e., the Unorganized Borough). Many of the observations and conclusions reached as a consequence of this study are certain to cause spirited debate over the delivery of public services in Alaska. Listed below are some of our more important observations and conclusions:

1. The establishment of boroughs in regions of the Unorganized Borough would benefit both residents of those regions and the State of Alaska.
2. Incentives for regions in the Unorganized Borough to remain unincorporated are so great that few regions are likely to form boroughs under present law.
3. A number of regions in the Unorganized Borough presently have financial capacities to support borough government which are vastly superior to the financial capacities of most existing boroughs.
4. Many programs for State funding of local government services are outmoded and/or result in very substantial inequities to local governments. These could be modified both to make funding within existing boroughs more fair and to make it financially viable for the poorer regions of the state to form boroughs.
5. The present method of delivering services to the Unorganized Borough is inefficient. Such services are delivered through more than 200 organizations, many of which operate as single-purpose or limited-purpose organizations. This system seems contrary to the intent of several provisions of the State Constitution.
6. While residents of the Unorganized Borough would generally be expected to oppose the mandatory formation of boroughs (as proposed by SSHB 1), nearly 80% of them already live within a structure identical to, or similar to, a borough. Nonetheless, formation of boroughs would still improve the delivery of services to such individuals.

Details concerning these and other important issues relating to the formation of boroughs in the Unorganized Borough are included in our report on the topic.



INTRODUCTION

In 1987, the Alaska Legislature directed this agency to "examine the issues of forming regional municipal governments in the Unorganized Borough and report back to the legislature by January 1, 1988."¹

This directive from the legislature was in response to current and pending economic, political and social forces which are causing Alaskans to consider, and in some cases, undergo major changes to their system of delivering public services.² The changes being considered and undertaken include:

VOLUNTARY BOROUGH INCORPORATIONS - Since June, 1986, two new boroughs were formed in the state.³

LEGISLATION MANDATING THE FORMATION OF BOROUGHs - SSHB 1, introduced in the 1987 session of the Legislature, would convert all unincorporated regions of Alaska into as many as 20 organized boroughs.⁴

EXPANSION OF BOUNDARIES OF EXISTING BOROUGHs - Certain boroughs, apparently motivated to an extent by a desire to increase revenues and to remedy perceived inequities in the present structure of regional government, have expressed interest in annexing portions of the Unorganized Borough.⁵

ATTEMPTED EXPANSION OF BOUNDARIES OF CITIES TO ENCOMPASS REGIONS - Some cities, motivated largely by a desire to increase revenues, have sought to annex vast territories.⁶ Such proposed annexations have been denied by the Local Boundary Commission largely because of the commitment that regional services should be delivered by boroughs.

INTEREST IN BOROUGH GOVERNMENT BY UNINCORPORATED REGIONS - Five regions and several cities within the Unorganized Borough are presently involved in borough feasibility studies or have otherwise expressed interest in exploring government.⁷ In certain cases the interest in exploring borough government is apparently motivated by the threat of legislation mandating boroughs. In other cases, the interest is apparently motivated by the threat of being annexed to an existing borough. Still, in other cases, the motivation may be more to improve local services.

Presented here is our report to the legislature on issues concerning the formation of boroughs in the Unorganized Borough. It is our hope that this report will serve to generate informed debate on issues having great significance to the lives of many Alaskans. In it, we identify and examine issues relating to the delivery of services in the Unorganized Borough to which the Department has been exposed. Additionally, we offer some insights into various alternatives for dealing with the issues.

SECTION I PRESENT STRUCTURE OF SERVICE DELIVERY

The following is a brief summary of relevant aspects of the present methods of service delivery in Alaska, both inside and outside of organized boroughs. For those readers who are interested in greater details, numerous publications exist which provide information on the origination and evolution of the structures and methods of service delivery.⁸

EDUCATION - Public education in Alaska is provided by two distinctly different types of organizations — municipal school districts and regional educational attendance areas.

Municipal school districts consist of the 13 boroughs and 19 home rule/first class cities in the Unorganized Borough. These districts educate more than 87% of Alaska's estimated 102,142 students. State law requires that these districts provide minimum levels of financial aid in support of education. The Alaska Department of Education estimates that these municipal school districts will contribute nearly \$136,000,000 toward this effort during the 1987 - 1988 school year.

Regional education attendance areas (REAs) provide educational services in the Unorganized Borough (exclusive of home rule and first class cities). There are presently 22 REAs which educate just under 13% of Alaska's students. Unlike municipal school districts, REAs are not required to provide local financial support for educational costs.

PLANNING/PLATTING/ZONING - Municipal governments have the power, and in many cases, the duty to provide planning, platting and land use regulation.⁹ Municipalities exercising such powers encompass an estimated 537,806 Alaskans, 93.7% of the residents of the state. Of these, 497,230 live in boroughs, 27,690 live in first class/home rule cities in the Unorganized Borough and 12,886 live in second class cities in the Unorganized Borough.¹⁰

Coastal Resource Service Areas (CRSAs) may be set up in the Unorganized Borough to provide for regional coastal planning. With the pending assumption of planning powers by the newly formed Aleutians East Borough, four CRSAs will remain. These CRSAs presently encompass the area lying within the Bering Straits REAA, Lower Yukon REAA, Lower Kuskokwim REAA, Southwest Region REAA, Lake and Peninsula REAA and Aleutian Region REAA. These areas contain an estimated 32,289 Alaskans, 16,821 of whom live outside of municipal governments which conduct planning.

All told, an estimated 554,627 individuals or 96.6% of all Alaskans live within municipal governments and/or CRSAs which provide planning services. While the coastal area can rely upon CRSA's for planning, there exists no formal planning authority for the non-coastal areas of the state in the Unorganized Borough outside cities. Although the legislature may establish service areas within the Unorganized Borough to provide special services, no such service areas have been established with the exception of REAs and CRSAs.

The Department of Natural Resources is the platting authority for the Unorganized Borough in the area outside cities.¹¹

OTHER SERVICES - Thirteen boroughs and 147 cities in the state provide a wide range of services beyond those discussed above. These may include police, fire protection, road maintenance, water, sewer, telephone and electrical utilities, solid waste collection and disposal, ports and harbors, parks and recreation, libraries, cemeteries, mass transit, sidewalks, taxi regulation, health and environmental protection, civic centers, animal control and a host of other services.

Home rule and first class cities in the Unorganized Borough have powers and duties which are virtually identical to boroughs. There are nineteen such cities in Alaska. The population of these nineteen cities totals 27,690, which is more than 36% of the population of the Unorganized Borough.

While second class cities lack certain powers and duties of home rule and first class cities in the Unorganized Borough (principally education) they are similar to boroughs in many important respects. Like boroughs, second class cities are organizations created to provide public services and facilities for their residents. Both are governed by elected officials. Second class cities and boroughs are both recognized by the state and federal governments as legal entities which may represent the interests of all of their residents. Further, both qualify for a broad range of state and federal financial assistance.

There are 87 second class cities in the Unorganized Borough. These cities contain a population of 32,923, which is nearly 43% of the population of the Unorganized Borough. Thus, nearly 80% of the population of the Unorganized Borough lives within a municipal government structure.

An estimated 16,134 Alaskans live in some 90 unincorporated communities in the Unorganized Borough. Of these, an estimated 3,200 live on federal military properties. The remainder, 12,934 live in civilian unincorporated communities. The population of the latter comprises less than 17% of the population of the Unorganized Borough.

In many cases, residents of these unincorporated communities in the Unorganized Borough may receive some or all of the services provided by cities. These services are provided by the state and federal governments through such groups as Traditional or IRA Councils, or regional or local non-profit corporations. Services are rendered with funds from such programs as state revenue sharing, legislative grants, or the Village Public Safety Officers program.

SECTION II A COMPARISON OF REGIONS IN ALASKA

The nature of the changes to the system of regional services delivery under consideration (as outlined in the introduction to this report) demands awareness of relevant characteristics of the regions which would be affected. Such characteristics include:

- value of taxable property
- value of resources
- per capita income
- average monthly wages
- unemployment rates
- population densities

The appendix to this report contains tables providing such information.¹² Generally, the data in these tables are for the most current available year or years.

The reader is cautioned that these data need to be carefully considered and understood. There are qualifications for practically every table. To the extent that the Department is aware of aspects of these data which may be misleading, they are noted at the bottom of each table. A discussion of the data presented in the appendix follows.

VALUE OF TAXABLE PROPERTY PER STUDENT

A region's value of taxable property per student is a key indication of the ability of an area to support a borough. Consideration of such information is specifically required by law in judging whether a region meets the standards for formation of a borough.

Table 1 of the appendix presents estimates of the value of taxable property per student for 12 boroughs and 20 regional educational attendance areas in the Unorganized Borough. The estimates for each REAA include values of property and numbers of students in first class and home rule cities within the respective REAA.

The estimated taxable value of property per student in boroughs ranges from \$11,024,197 in the North Slope Borough to \$143,583 in the Northwest Arctic Borough. The ratio of taxable property to students in the North Slope Borough is highly exceptional. The second highest ranked borough was the Municipality of Anchorage at \$497,591. Excluding the North Slope Borough (because of its anomalous value) and the Aleutians East Borough (for which data were unavailable), the average value of taxable property per student within all organized boroughs is \$421,978.

The estimated taxable value of property per student in the twenty regional educational attendance areas identified ranged from \$2,654,954 in the Yukon Flats REAA to \$0 in both the Adak REAA (federal military reservation) and Annette Island (federal Indian reservation). The next lowest ranked region in the Unorganized Borough was the Kuspuk REAA with a per student taxable value of \$53,477.¹³

The following list shows how much more or less (in both dollar amounts and percentages) the value of taxable property per student was in each region of the state as compared to the \$421,978 average value per student of all organized boroughs (except the North Slope Borough).

NAME	ABSOLUTE DIFFERENCE (\$)	RELATIVE DIFFERENCE (%)
<i>(Boroughs With Higher Values)</i>		
North Slope Borough	+10,602,219	2,512.5%
Anchorage Borough	+75,613	17.9%
Kenai Peninsula Borough	+42,170	10.0%
Bristol Bay Borough	+17,593	4.2%
<i>(REAs With Higher Values)</i>		
Yukon Flats REAA	+2,232,976	529.2%
Copper River REAA	+1,714,788	406.4%
Chugach REAA	+1,040,951	246.7%
Yukon Koyukuk REAA	+492,404	116.7%
Delta Greely REAA	+369,759	87.6%
<i>(Boroughs With Lower Values)</i>		
Juneau Borough	-24,006	5.7%
Ketchikan Borough	-52,842	12.5%
Fairbanks Borough	-62,735	14.9%
Matanuska-Susitna Borough	-118,090	28.0%
Haines Borough	-150,807	35.7%
Sitka Borough	-152,476	36.1%
Kodiak Island Borough	-183,751	43.5%
Northwest Arctic Borough	-278,395	66.0%

(continued on next page)

(table continued from previous page)

(REAs With Lower Values)

Aleutian Region REAA	-30,907	7.3%
Southwest Region REAA	-257,841	61.1%
Southeast Island REAA	-259,052	61.4%
Chatham REAA	-273,074	64.7%
Bering Straits REAA	-302,338	71.6%
Lower Kuskokwim REAA	-313,636	74.3%
Pribilof REAA	-328,865	77.9%
Railbelt REAA	-334,764	79.3%
Alaska Gateway REAA	-334,927	79.4%
Lake & Peninsula REAA	-339,196	80.4%
Iditarod REAA	-362,077	85.8%
Lower Yukon REAA	-368,038	87.2%
Kuspuk REAA	-368,501	87.3%
Adak REAA	-421,978	100.0%
Annette Island REAA	-421,978	100.0%

**RESOURCE VALUES
(VALUES OF COMMERCIAL FISHERIES)**

The commercial fisheries resource of a region is one example of a potentially significant source of revenue to municipal governments. For example, the newly formed Aleutians East Borough will rely almost exclusively upon revenues from the State Business Fisheries Tax and its local 2% sales and use tax on raw fish. The Bristol Bay Borough has, for many years, relied heavily on revenues derived from fishing activities.

Data on collections and distributions of State Business Fisheries Taxes during FY 87 indicate that certain areas of the Unorganized Borough have considerable potential for forming regional governments funded largely by state and local taxes on fisheries. For example, had boroughs existed in the unincorporated regions of the state, they would have been entitled to an estimated \$7,028,508.50 in FY 87 proceeds from the State Business Fisheries Tax. This amount is nearly twice the \$3,642,118.02 actually distributed to the 11 organized boroughs which qualified for program funding during the same period.¹⁴

The prospect of such shared revenues from the state, coupled with the prospect for municipal sales and use taxes on fisheries resources represents a potentially significant source of revenue for prospective boroughs.

Table 2 of the appendix reports the distribution of FY 87 Business Fisheries Taxes to cities within the Unorganized Borough by REAA. The data in this table identify 5 regions of the state with particularly significant fisheries resources. These are the Southeast Island REAA, Aleutian Region REAA (excluding Aleutians East Borough), Chugach REAA, Lake and Peninsula REAA and Chatham REAA.

One weakness of this table is that it is based upon fish processing activities which occur within the boundaries of cities. This may tend to underestimate the potential revenue generating capacity of fisheries in some regions. For example, Table 2 does not recognize the Southwest Region REAA as having a particularly significant fisheries resource. However, it was recently estimated that a borough in that REAA would be entitled to more than \$400,000 annually over the long-term in proceeds from the State Business Fisheries Tax.¹⁵

Additional data on fisheries resources in Alaska are provided in Table 3. This table supports the contention that the Bristol Bay Region, which includes the Southwest Region REAA, has a very significant fisheries resource.

(OTHER RESOURCE VALUES)

Other resources, such as timber and minerals may also offer significant sources of revenue to future boroughs. One such source for the Chatham REAA and Southeast Island REAA is the National Forest Receipts program. Upon incorporation, those two regions (including Annette Island) would be entitled to 69.4% of the funds available for distribution to boroughs in the Tongass National Forest. In the best years, this program could potentially provide those two regions with more than \$4 million in annual revenues. Conversely, in lean times, the program would offer little revenue.¹⁶

Prospective boroughs whose boundaries would encompass rich mineral resources might use a severance tax as a means of generating local revenues.¹⁷ The Northwest Arctic Borough, which encompasses the world class Red Dog zinc mine and other significant mineral deposits, had considered such a tax before other sources of revenue made it unnecessary.

1984 PER CAPITA INCOME

Table 4 of the appendix lists the 1984 per capita income for 12 boroughs and 11 federal census areas in the Unorganized Borough. Again, such data is important in determining whether a region can support a borough.

The 1984 per capita income ranged from a high of \$26,077 in the North Slope Borough, to a low of \$7,466 in the Wade Hampton Census Area (which corresponds approximately to the Lower Yukon REAA, including Chevak).

The lowest level of per capita income within an area organized as a borough was the Northwest Arctic Borough (\$11,822). The per capita income of the Kodiak Island Borough was only \$4 higher than the Northwest Arctic Borough (NAB).

Seven of the eleven federal census areas in the Unorganized Borough had per capita incomes greater than the Kodiak Island Borough and the Northwest Arctic Borough. Four of the eleven areas in the Unorganized Borough had lower per capita incomes than the Northwest Arctic Borough.

The following list shows how much more or less (in both dollar amounts and percentages) the per capita income was in each census area in the Unorganized Borough compared to that of the Northwest Arctic Borough:

NAME	ABSOLUTE DIFFERENCE (NAB)	RELATIVE DIFFERENCE (NAB)
<i>(Areas With Higher Income)</i>		
Valdez Cordova Census Area	+\$5,714	48.3%
Aleutian Islands Census Area	+\$4,893	41.4%
Skagway-Yakutat-Angoon Census Area	+\$4,302	36.4%
Wrangell-Petersburg Census Area	+\$3,990	33.8%
Prince of Wales/Outer Ketchikan C.A.	+\$2,638	22.3%
Nome Census Area	+\$2,443	20.7%
Southeast Fairbanks Census Area	+\$863	7.3%
<i>(Areas With Lower Income)</i>		
Dillingham Census Area	-\$970	8.2%
Bethel Census Area	-\$1,772	15.0%
Yukon-Koyukuk Census Area	-\$2,285	19.3%
Wade Hampton Census Area	-\$4,356	36.8%

1986 ALASKA AVERAGE MONTHLY WAGE

Table 5 of the appendix provides a measure of the monthly payroll in the 12 boroughs and 11 federal census areas in the Unorganized Borough.

The data shows that the 1986 average monthly wage ranged from \$3,695 (North Slope Borough) to \$1,655 (Wade Hampton Census Area). The lowest average monthly wage reported by a region organized as a borough was \$1,729 (Kodiak Island Borough). Except for the Wade Hampton Census Area, all regions of the Unorganized Borough reported higher average monthly wages than those reported for the Kodiak Island Borough area. The average monthly wage in the Wade Hampton Census Area was \$7 (4.3%) less than the wage in Kodiak.

Eight of the eleven census areas covering the Unorganized Borough had average monthly wage rates greater than those of the second lowest ranked borough (Matanuska-Susitna Borough).

1986 UNEMPLOYMENT RATES

The rates of unemployment in 1986 in the 12 boroughs and 11 federal census areas in the Unorganized Borough reported in Table 6 of the appendix ranged from a high of 18.3% to a low of 3.5%.

The rate of unemployment among the 12 boroughs reported ranged from 18.3% (Matanuska-Susitna Borough) to 6.1% (North Slope Borough). The rate of unemployment among the 11 federal census areas which encompass the Unorganized Borough ranged from 17.2% (Skagway-Yakutat-Angoon Census Area) to 3.5% (Aleutian Islands Census Area)

The average rate of unemployment among each of the 12 boroughs reported was 11.4%. The average rate of unemployment in the 11 federal census areas which encompass the Unorganized Borough was 12.3%.

1986 POPULATION DENSITIES

Population densities can provide some indication of the relative ease with which services may be provided to a region. The assumption is that economies of scale allow services to be provided more easily to regions with higher population densities.

Population densities in the 13 boroughs and 19 REAAs reported in Table 7 of the appendix ranged from a high of 131.77 persons per square mile (Anchorage) to a low of 0.03 persons per square mile (Yukon Flats REAA).

The population density of Anchorage is highly exceptional. The region with the second highest population density was the Adak REAA with 15.46 persons per square mile.

Nine of the thirteen boroughs listed had population densities in excess of 1 person per square mile. The four exceptions were the Haines Borough (0.70 persons/sq.mi.), the Aleutians East Borough (0.23 persons/sq.mi.), the Northwest Arctic Borough (0.18 persons/sq.mi.), and the North Slope Borough (0.09 person/sq.mi.). Only two of the REAAs listed had population densities in excess of 1 person per square mile. The two REAAs with relatively high population densities were Adak (15.46 persons/sq.mi.) and the Pribilof Islands REAA (10.53 persons/sq.mi.).

CULTURE

In the sense that culture may influence preferences for and attitudes concerning delivery of municipal services, it may be of value to reflect upon the culture of each region as measured by racial composition. Table 8 of the appendix contains a listing of the data obtained from the 1980 Federal Census. These data give us a general picture of the racial composition of the identified areas throughout the state.

Keeping in mind the limitations in obtaining the data (as noted at the bottom of the table), some observations can be made. Ten of the thirteen boroughs in the state have predominantly white (50% or more) populations. Six of the eleven federal census areas in the Unorganized Borough have predominantly white populations. Three of the thirteen boroughs in the state have predominantly native (50% or more) populations. Five of the eleven federal census areas in the Unorganized Borough have predominantly native populations.

REGIONAL COST OF LIVING DIFFERENCES

Table 9 provides information concerning 1985 cost of living differences throughout Alaska. The data was compiled on the basis of boundaries of 1961 state election districts.

Information provided in Table 9 becomes important when planning for the delivery of services and the relative income available for payment of services when per capita income is considered. Using Anchorage as a baseline, the cost of living in various areas is expressed in terms of ratios to the base. The data support widely held perceptions of cost differentials throughout Alaska. For example, Barrow and Kotzebue held the highest cost of living with Bethel, Nome, Yukon-Kuskokwim, Bristol Bay, Wade Hampton and the Aleutian Islands just behind. The Palmer/Wasilla area, Petersburg/Wrangell, Anchorage, Seward, Kenai/Cook Inlet, Ketchikan, Juneau and Fairbanks area had the lowest costs of living in the State.

SECTION III OPTIONS FOR DECISION MAKERS

This section of the report considers the current methods of service delivery and identifies and examines alternatives to these methods. As noted in the Introduction to this report, such options are offered in the hope that they will serve as a mechanism to generate discussion on the topic.

OPTION 1 - RETAIN STATUS QUO

Certainly one option is to do nothing — to leave matters as they are. However, there appears to be growing concern over the present method of service delivery. The following is a summary of such concerns to which the Department of Community and Regional Affairs has been exposed:

INEFFICIENT ADMINISTRATIVE STRUCTURE FOR EDUCATIONAL SERVICES: With the pending assumption of education responsibilities by the newly formed Aleutians East Borough, there will be 54 school districts in the state. Regardless of their size, each of these maintains separate and independent administrative structures.

Establishing boroughs throughout the state would consolidate many of the smaller school districts. For example, if a borough were formed along the lines of the Southeast Island REAA, seven separate school districts, each averaging less than 315 students, would be consolidated into one district with more than 2,200 students.

INEQUITABLE PROVISIONS REQUIRING FINANCIAL SUPPORT OF EDUCATION: Alaska's 32 municipal school districts educate more than 87% of the state's students. State law requires that municipal school districts provide minimum levels of financial aid in support of education. It is estimated that each of the boroughs and home rule/first class cities in the Unorganized Borough will, on average, contribute more than \$1,500 per student in support of education during the 1987 - 1988 school year. However, the other 22 districts in the state (REAs) are not required to contribute to the operation of their schools. Forming boroughs throughout the state will eliminate this inequity.

DISPARITIES IN THE MANNER IN WHICH EDUCATIONAL FUNDS ARE DISTRIBUTED: The state formulas for funding education result in great disparities in the level of funding per pupil. For example, during the 1987 - 1988 school year, the Matanuska-Susitna Borough is expected to receive less than \$3,600 per student in state and federal (PL 874) funds, while the immediately adjacent Copper River REAA is expected to receive more than \$8,700 per student.¹⁸ Formation of boroughs would reduce, but not eliminate, the disparities in funding.

Additionally, disparities exist with respect to the construction of school facilities. Capital improvements for schools in REAAs are funded entirely by the state. Municipal governments pay a portion of the cost of capital improvements for schools funded by bonds.

PERCEPTIONS OF THE NEED TO IMPROVE THE MANAGEMENT OF THE DELIVERY OF PUBLIC SERVICES: The concern has been expressed that without a requirement for local financial support of services, particularly with respect to education, recipients have less motivation to oversee the efficient administration of those services. Examples cited in this respect include the recent report that in 1986, teachers in the Copper River REAA received the highest salaries of any public teachers in the state — \$11,000 more per year than the state average. In December of 1986, this same school district became the first and only one in Alaska (and the second in the nation) to file for bankruptcy.¹⁹ Establishment of boroughs would address this concern.

CONSTITUTIONAL AND OTHER CONCERNS OVER THE DELIVERY OF GENERAL SERVICES AND FACILITIES: The Alaska Constitution states that "All local government powers shall be vested in boroughs and cities." From this, concern has been expressed that the method of delivering state services generally in unincorporated communities (i.e., through non-profit corporations, tribal councils, etc.) may be a violation of the Constitution.

Concerns have also been expressed over the public policy of funding services in communities through organizations which, unlike municipalities, may not represent all of the residents of the community. This raises questions with the "democratic" process afforded those who may not be eligible to become members of the groups providing services. Examples of such organizations include non-profit corporations, Traditional Native Councils and IRA Councils.

Other concerns center on the prospect for the long-term existence of organizations, particularly non-profit corporations, to which the state has granted millions of dollars to fund the construction and operation of public facilities in unincorporated communities. For example, a number of non-profit corporations organized in the early 1980's to receive state aid to unincorporated communities under the provisions of Chapter 60, SLA 1981, have dissolved leaving their affairs in a state of limbo.

A final concern relates to the competition for limited funding sources. Given the recent declines in state aid, there has been an increase in the number of incidents where separate organizations within a community compete in an effort to receive revenue sharing or other state aid on behalf of that community. Such competition often causes divisiveness within a community. In such instances state agencies typically spend a disproportionately greater amount of time administering such funding.

A borough has the legal capacity to provide all types of local government services. Therefore, establishment of boroughs would resolve this concern to the extent that the borough was responsible for the delivery of the services in question.

OPTION 2 - CREATION OF BOROUGHS WITH POWERS LIMITED ABSOLUTELY TO EDUCATION AND TAXATION

In effect, this option provides for 1) the granting of taxing powers to all existing regional educational attendance areas (REAs) and 2) the consolidation of REAs and city school districts. Because the Alaska Constitution states that "The State may delegate taxing powers to organized boroughs and cities only" the REAs would have to be formally organized as boroughs. If the power of a borough created under this option was to be limited absolutely to education and taxation, a new class of borough government (presumably 4th class) would have to be established.

This option offers a simply implemented solution to certain of the problems identified with option 1. In particular, it would address those concerns relating to 1) administration of small school districts; 2) inequities relating to municipal vs. non-municipal school funding; 3) reducing disparities in funding for education; and 4) perceptions of diminished desire to oversee delivery of education services.

However, this option would not address all of the concerns identified with the status quo. Because the borough's powers would be limited absolutely to education and taxation, it could not provide other services to the residents of the region. The Department of Community and Regional Affairs considers this to be a severe limitation. In that this option is inflexible and cannot address service needs of regions/communities other than education, the Department believes that this option is not as attractive as other options.

Another problem with this option concerns the financial viability of some of the boroughs which would result from an across-the-board mandate to incorporate all regions of the state. Certainly, a number of the boroughs which would result from such an approach would be financially viable. These may include the unincorporated regions which encompass the trans-Alaska oil pipeline and those regions fortunate enough to contain rich resources such as fish, timber and minerals.

A final problem identified with this option stems from the boundaries of existing REAs. In some cases, the boundaries of REAs would make poor borough boundaries. In the most extreme cases, some of the existing REA boundaries would even fail to meet the standards in law for the establishment of borough boundaries. Further, in some cases it may be more appropriate for all or portions of certain REAs to be annexed to existing boroughs rather than incorporated as new boroughs.²⁰

OPTION 3 - PROVIDE FOR THE FORMATION OF 3RD CLASS BOROUGHs IN UNINCORPORATED REGIONS

With one notable exception, this option has the same strengths and weaknesses as those identified earlier for option 2. The exception being that, unlike the mechanism discussed under Option 2, a third class borough has the authority (upon voter approval) to perform services other than education and taxation in limited areas of the borough.

Nonetheless, the Department believes that this option still lacks desirable traits. The creation of third class boroughs was outlawed by the legislature in 1986 (the one third class borough in existence at the time was permitted to continue).

New third class boroughs were precluded from forming because of unique limitations of that class of borough. Unlike all other boroughs, third class boroughs are not required to provide planning, platting and land use regulation throughout their jurisdiction. Another significant limitation of a third class borough is that, while it can exercise powers other than education and taxation, it can only do so on a service area basis.

Certainly the need for and importance of region-wide planning, as well as the legal ability to provide a wide range of services throughout a borough's boundaries were significant factors in the legislature's decision to preclude future third class boroughs. The Department does not support the creation of new third class boroughs.

OPTION 4 - PROVIDE FOR THE FORMATION OF 1ST OR 2ND CLASS BOROUGHs IN UNINCORPORATED REGIONS

As with Options 2 and 3, this option offers a simply implemented solution to certain of the problems identified with the status quo. In particular, it would address those concerns relating to 1) administration of small school districts; 2) inequities relating to municipal vs. non-municipal school funding; 3) disparities in funding for education; and 4) perceptions of diminished desire to oversee delivery of education services.

However, this option shares the weaknesses of Options 2 and 3 regarding the uncertain financial viability of some of the boroughs which would be created and problems with the boundaries of some of these prospective boroughs.

This option offers two distinct advantages over Option 3 in that it 1) provides for areawide planning, platting and zoning, and 2) permits the exercise of other powers on an areawide basis. While this alternative offers greater benefits than ones examined earlier, the Department believes that the next option represents the best choice.

OPTION 5 - PROVIDE FOR THE FORMATION OF HOME RULE BOROUGHS IN UNINCORPORATED BOROUGHES

This option would have all of the strengths and weaknesses associated with Option 4, with one notable exception. The borough government which would be formed would, as far as possible, be tailor made for the region.

Unlike all other types of boroughs, the powers, duties and procedures of home rule boroughs are established generally by a charter approved by the voters of the borough. By comparison, the powers, duties and procedures of general law boroughs (1st, 2nd and 3rd class boroughs) are governed in an exact fashion by some 450 provisions of law established as Title 29 of the Alaska Statutes.

Some state laws still apply to home rule boroughs. For example, a home rule borough is required by state law to provide public education in the same fashion as a general law borough. A home rule borough is also required to "provide for planning, platting and land use regulation." However, with respect to the latter, there appears to be considerable flexibility in the manner in which a home rule borough implements the functions of planning, platting and land use regulation. While extensive provisions of state law dictate how general law boroughs conduct these functions only two of these sections seem to apply in full or part to a home rule borough.²¹

Home rule status may also be used to provide "ironclad guarantees" to residents that their government will not grow "out of control". Voters of one home rule borough who were concerned about the prospect of burdensome property taxes recently approved a charter provision which generally prohibits the borough from levying any property taxes unless authorized by the voters.²² Concerns over the prospect of "excessive regulation" and "unwarranted growth of government" could be addressed through the adoption of charter provisions which control the manner in which the borough may assume regulatory duties and discretionary powers.

Other innovative options could be used in combination with a carefully crafted home rule charter to further promote public acceptance of a borough and to further enhance its effectiveness and efficiency. For example, as described in detail below, a borough could transform what, in many cases, may be an inefficient system of service delivery into one which is coordinated and efficient.

Today, the delivery of services to the 76,747 residents of the Unorganized Borough is accomplished in a highly fractionalized manner. Services are delivered through the efforts of 22 regional educational attendance areas, 4 coastal resource service areas, 106 cities and well in excess of 100 non-profit corporations and tribal councils administering public services in an estimated 90 unincorporated communities. Each of these more than 200 entities works in a largely independent fashion to deliver services.

Each organization is likely to employ one or more administrators to oversee the delivery of services. However, given the limited (and diminishing) funds made available by the state to these organizations, many of them spend disproportionately large amounts of their revenues on administration. As a result, there are fewer dollars for the actual delivery of services and/or the maintenance of facilities already constructed.

Others of these organizations may skimp on administration or simply may not be able to afford fully trained and competent administrators. This may result in services and facilities which are poorly planned and carried out. Often financial accountability will suffer in these instances.

Boroughs can obtain the powers to provide virtually every service which is now provided by the hundreds of organizations independently serving the residents of the Unorganized Borough. It would seem apparent that public services could be provided better and more efficiently through a borough structure.

Further, services could be provided by a borough without unduly diminishing the role of each community in the planning for and providing of the delivery of services. Such could be done through the creation of service areas. The assembly is authorized by law to "provide for an appointed or elected board to supervise the furnishing of special services in a service area".

Such provisions might be used in certain instances to enhance the acceptability of a borough. For example, cultural preferences of some regions might be accommodated through the appointment of the community IRA or Native Traditional Council to serve as the borough service area board for that community.

SECTION IV CONCLUSIONS

From information discussed in this report, certain important conclusions can be made regarding issues of regional government in the Unorganized Borough. These are:

1. There appears to be considerable interest in promoting major change to the present structure of the delivery of services to the Unorganized Borough.
2. Extending regional government to the Unorganized Borough would potentially serve the interests of the state and its residents in many ways. Principal examples of how this interest might be served were identified by the sponsor of SSHB 1 as goals which led to the introduction of the bill. These are: ²³
 - To maximize local control and to share local responsibility for programs and services;
 - To fully implement the system of local government intended by the state constitution which provides for "a minimum of local government units" and that "All local government powers shall be vested in cities and boroughs";
 - To unite the residents of Alaska in an effort to make the state the best that it can be - to eliminate the divisiveness which results from "rural versus urban" thinking;
 - To provide more equitable services and to foster economic development throughout Alaska — these would be done through the use of the borough's own legal powers and resources coupled with grants of lands and financial assistance from the state.

The Department would add to this list the benefit of converting a fractionalized system of delivering services into one which is uniform and potentially far more efficient.

3. To be welcome, a regional government must serve useful functions as defined by its residents and the state. It must also be of a form which is considered acceptable to its residents. To this end, the Department believes that a home rule borough is the best vehicle to address the needs of the state and regions.
4. Ideally, residents of unincorporated regions would seek to form boroughs on their own initiative. However, reality indicates that this is not likely to happen. Nearly 96% of all the Alaskans who live in boroughs today, live in boroughs which were mandated to be formed by the legislature in 1963 - 1964. Only four boroughs have incorporated since 1964. Without some compulsory action, it is unlikely that many unincorporated regions of the state will form boroughs in the foreseeable future.
5. Many of the residents of the Unorganized Borough already live within a local government structure similar to a borough. More than 36% of the residents of the Unorganized Borough live

within home rule and first class cities — organizations whose powers and duties are virtually identical to boroughs. Further, 43 percent of the residents of the Unorganized Borough live within second class cities — organizations which, in many respects, are identical to boroughs. Thus, nearly 80% of the population of the Unorganized Borough lives within a structure similar or identical to a borough.

6. Clearly, the “natural resources” of the state — whether they are fishing, minerals, timber or property used in oil and gas exploration, production and transportation — are not located so as to promote equitable distribution of the benefits of those resources. It is apparent that some unincorporated regions presently have the resources to support a borough government. In fact, some seem to have far greater resources than many existing boroughs. Other regions, however, have resources which are much more limited and may not be able to support a borough under the present formulas for funding public services.

7. In many cases, the boundaries of regional educational attendance areas would serve as poor boundaries for prospective boroughs.

SECTION V FINAL COMMENTS

The role of the Department in this matter was simply to examine and report on issues relating to regional government in the Unorganized Borough as directed by the Legislature. It is the role of the Legislature and others to make decisions regarding what, if anything, is to be done concerning such issues.

While the Department does not advocate any particular course of action in this regard, this report would not be considered complete without the following final comments.

Before any across-the-board changes implemented, such as that envisioned by SSHB 1, it is essential that appropriate boundaries for prospective boroughs be identified. This could be done by directing the Local Boundary Commission to examine the Unorganized Borough and to formally determine:

1. which areas of the Unorganized Borough should be annexed to existing boroughs; and
2. what boundary lines should be drawn to incorporate regions in the rest of the Unorganized Borough.

Because of the vast disparities in the ability of existing and potential borough governments to support the cost of local government, it may be necessary and would certainly seem appropriate, to examine and perhaps restructure public funding programs in order to provide more equitable funding to all municipal governments in Alaska.

There are numerous options and opportunities which could be used to ensure that every region in the state has sufficient financial resources to provide a minimum level of services. While the in-depth examination of such options is beyond the scope of this report, the Department would welcome the opportunity to pursue the matter if requested by the Legislature. For purposes of this report, however, the following are offered as examples of options to make all regions of the state financially viable as boroughs:

1. Examine and pursue, if available, the prospect of extending the recognized offshore jurisdiction of the State of Alaska (and consequently boroughs) to include all of the territory within the U.S. Exclusive Economic Zone. If successful, such an effort could result in substantially increased revenues available to coastal boroughs.²⁴
2. Revise state formulas for providing financial assistance to municipal governments.²⁵
3. Transfer substantial responsibility of and funding for direct provision of services from the state to regional governments.
4. Expand municipalities' powers to tax.²⁶

As an alternative to an across-the-board mandate for the formation of boroughs throughout the state, it may be more practical and appropriate (at least for the short-term) to provide that those areas which are presently deemed capable of supporting boroughs do so. This could be done through using standards to trigger the formation of new boroughs. Examples of factors which might be used to set such standards include the value of taxable real and personal property; the value of taxable sales transactions; the value of resources; per capita income; the population of the region (i.e., when a region's population reaches a certain threshold); and finally, the population of a region as a percentage within city school districts.

In conclusion, the Department appreciated the opportunity to prepare this report. We hope that it may lead to improving the delivery of services to all Alaskans.

FOOTNOTES

1. Chapter 95, Session Laws of Alaska 1987 (page 105).
2. Among the more prominent economic, social and political forces are the decline in state revenues, legislative reapportionment which will follow the 1990 census, the prospect of a legislative mandate to form boroughs and the desire to assume greater local control. For a discussion of these factors, as well as a general discussion of borough government in Alaska, see *Regional Government in Alaska*, Department of Community and Regional Affairs (December, 1987).
3. This contrasts with the previous 22 years during which only 2 boroughs were formed (Haines Borough on 8/29/68 and North Slope Borough on 7/1/72). The two boroughs formed since June, 1986 were the Northwest Arctic Borough which became the state's twelfth borough on June 2, 1986 and the Aleutians East Borough which became the state's thirteenth borough on October 23, 1987.
4. See *Regional Government in Alaska*, Department of Community and Regional Affairs (December, 1987) for a discussion of Sponsor Substitute for House Bill 1. In 1963, the State legislature adopted a measure similar to SSIB 1. That law resulted in the creation of 8 of the 13 boroughs which presently exist. Those 8 "mandatory boroughs" encompass nearly 96% of all Alaskans who live in boroughs today.
5. The Kodiak Island Borough is considering annexing Shelikof Strait and a portion of the Alaska Peninsula. The Matanuska-Susitna Borough is considering a proposal to extend its boundaries to the east to include a portion of the trans-Alaska oil pipeline. The Fairbanks North Star Borough is also considering expanding its boundaries to include a portion of the trans-Alaska oil pipeline. Residents of the REAA 6 are examining options relating to an expansion of the boundaries of the adjacent Bristol Bay Borough.
6. For example, in 1986 the City of Dillingham petitioned for the annexation of more than 900 square miles encompassing all of Nushagak Bay and adjacent lands.
7. Regions considering borough government include the Western Aleutian Region, the Bristol Bay Region (REAA's 6 & 7), the Prince William Sound Region, the Lower Yukon Region and the Copper River Basin. Several cities in Southeast Alaska have also expressed interest in the topic including Yakutat, Hoonah and Kake.
8. Readers who wish further information are urged to read *Regional Government in Alaska*, Department of Community and Regional Affairs (December, 1987); *Alaska's Urban and Rural Governments*, Thomas A. Morehouse (1984); *The Metropolitan Experiment in Alaska - A Study of Borough Government*, Ronald C. Cease and Jerome R. Saroff (1968).

9. Home rule boroughs, first class boroughs, second class boroughs, home rule/first class cities within third class boroughs and home rule/first class cities in the Unorganized Borough must provide planning, platting and zoning. However, the boroughs may delegate the powers to cities within the boroughs. In addition, second class cities in the Unorganized Borough have the power (but not the duty) to provide these services. A third class borough may exercise platting, planning and zoning on a service area basis upon authorization from the voters.
10. In addition to those municipalities required to provide planning, a municipality was considered to have planning powers if the *Alaska Municipal Officials Directory, 1987* indicated the municipality had a planning commission or planning staff.
11. AS 29.03.030 provides that the Department of Natural Resources, subject to AS 40.15.075, is the platting authority in the Unorganized Borough in the area outside all cities. AS 40.15.075 limits that authority for "only the purpose of hearing and acting on petitions for the change or vacation of plats". AS 40.15.075 also extends the same duties to DNR within the area of third class boroughs outside of cities.
12. Where possible, the information is provided to permit a comparison of regions by boroughs and regional educational attendance areas. In some cases, however, data are presented by federal census areas. Each borough in the state exists as a separate federal census area. Except, however, that the newly formed Aleutians East Borough is not identified as a separate area. The federal census areas in the Unorganized Borough do not conform to the boundaries of the regional educational attendance areas. The 22 REAAs are encompassed within 11 federal census areas.

In some of the tables in this report the smaller REAAs (Kashunamiut, Yupiit and Annette Island) were included in adjacent REAAs. Data on fisheries is reported by fish management areas which differ from other areas listed in the tables. Data on regional cost of living differences was based upon state election districts in effect in 1961. Notwithstanding the differences in boundaries, important regional comparisons are still possible. Maps showing the boundaries of REAAs, boroughs, federal census areas and the 1961 election districts are included in the appendix. Maps and more detailed information on fisheries districts were not included in the appendix due to space limitations. Those readers wishing further information on fisheries resources should contact the Department of Community and Regional Affairs.

13. For purposes of compiling Table 1, the Kashunamiut REAA (consisting only of Chevak) was included in the Lower Yukon REAA. The Yupiit REAA consisting only of Akiachak, Akiak and Tuluksak was included in the Lower Kuskokwim REAA.

14. Since no commercial fish processing activity was reported in the North Slope Borough, it received no funding for FY 87. The Aleutians East Borough had not organized in time for funding during FY 87. Thus, only 11 boroughs are reported. Calculation of the entitlement of prospective boroughs was based upon the following. The state collected \$27,025,050.12 during FY 87 from its Business Fisheries Tax (note: this figure may not be a totally accurate reflection of the taxes levied for FY 87 in that it might include pre-payments, late payments and other adjustments). Boroughs and cities within boroughs received \$4,891,479.85 during FY 87. Cities in the Unorganized Borough received \$3,185,073.42. (Municipalities were actually entitled to approximately \$600,000 more than the \$8,076,553.27 distributed during FY 87, however, appropriations for the distribution of program funds did not allow distribution of full entitlements). From this it is calculated that prospective boroughs in the Unorganized Borough would, based upon FY 87 receipts, have received \$7,028,508.50 (assuming they were not then under the phase-in provision stipulated by AS 43.75.130 applicable to newly formed boroughs during their initial 4 years of existence). This \$7,028,508.50 includes funds to which the Aleutians East Borough would be entitled. The petitioners for incorporation of the Aleutians East Borough estimated first year program receipts at \$421,000.

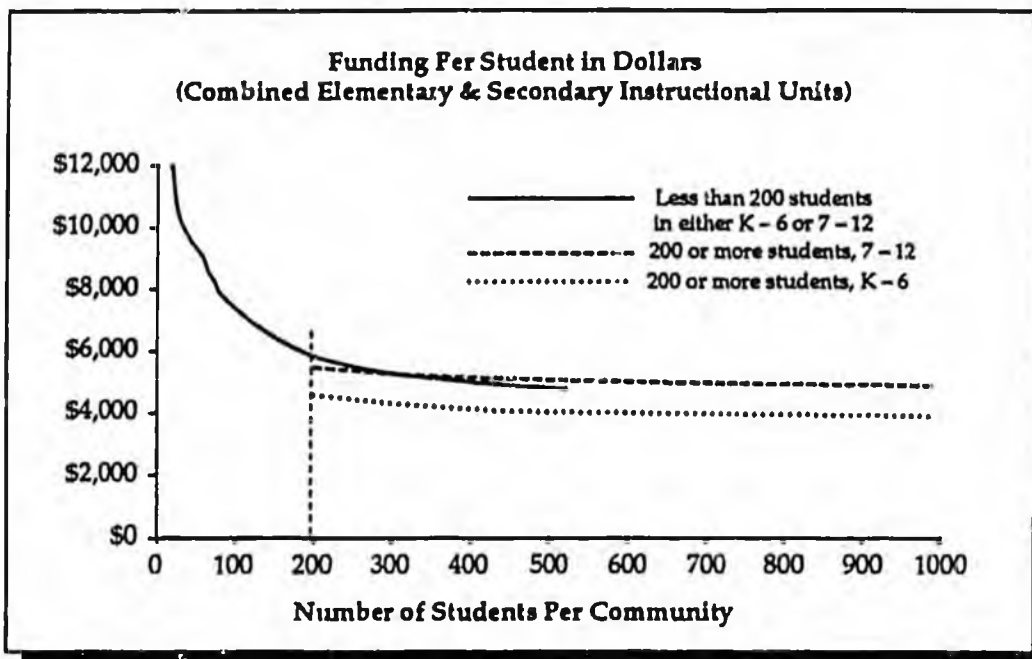
15. The estimate is after the phase-in provision stipulated by AS 43.75.130 applicable to newly formed boroughs during their initial 4 years of existence. Source: *Borough Feasibility Study, REAA 6 Region (Including City of Dillingham) Preliminary Draft Report*, Department of Community and Regional Affairs (September 28, 1987).

16. The state distributes federal funds received for commercial activities within National Forests. The proceeds are distributed on the basis of the land area of National Forest located within the boundaries of boroughs. The level of program funding typically fluctuates from year to year. One of the largest program distributions occurred in FY 81 when some \$6 million was received from the federal government. Last year, only \$500,000 was received. This year, because of some unique and unexpected factors in the complex federal formula for determining the level of funding, no program funds will be received from the federal government. Most of the funds are distributed to boroughs in the Tongass National Forest. However, a relatively modest amount of funds is available for distribution to boroughs in the Chugach National Forest. Approximately 30.6% of the program receipts for the Tongass National Forest are distributed to the four boroughs in Southeast Alaska. The remaining 69.4% of such funds would be distributed to boroughs encompassing the Chatham REAA and Southeast Island REAA (including Annette Island).

17. See opinion from Assistant Attorney General Deborah Vogt dated April 29, 1986 (file no. 663-86-0456) for a discussion of the authority of a borough to levy a severance tax.

18. The disparities in state funding per student stem from three principal factors. These are:

- A. The number of "instructional units" of each district. Instructional units are determined by numbers of students, grade levels, and numbers of students enrolled in vocational, special or bilingual education programs. As noted on the graph below, schools with smaller numbers of students per instructional unit receive higher levels of funding per student than do larger schools.



In relation to the example given in the text, one instructional unit in the Matanuska-Susitna Borough (MSB) includes 12.49 students, while one instructional unit in the Copper River (CRREAA) includes 7.85 students. For the 1987 - 1988 school year, instructional units are funded at \$60,000 each. Thus, for this aspect of the formula, students in the MSB school district are funded at the rate of \$4,804 per student while students in the CRREAA school district are funded at the rate of \$7,643 per student, which is 59% higher than the MSB rate.

- B. The second major factor is the area cost differential which is intended to adjust for higher costs incurred by some districts, particularly for personnel.

The MSB is given no area cost differential adjustment while the immediately adjacent CRREAA is given a cost differential of +14%. Thus, the disparity between the two districts grows in a proportionate amount. The rate of funding per student in the MSB remains at \$4,804 while the rate of funding in the CRREAA increases to \$8,713 (\$7,642 x 1.14). Under this second factor, the per student rate of funding in the CRREAA is now 81% greater than the MSB (up from 59% under factor one.)

C. The final principal factor concerns the required local contribution. In the example in the text, the MSB is required to pay an estimated \$1,216 per student, while the Copper River REAA is not required to provide any local support. Thus, the funding per student in the MSB is reduced to \$3,588 per student (\$4,804 - \$1,216) while the rate of funding for the CRREAA remains at \$8,713 per student. Under this third factor, the per student rate of funding in the CRREAA is now nearly 143% greater than the MSB (up from 59% under factor one and 81% under factor two).

19. *Anchorage Daily News*, August 9, 1987.

20. Some of the existing boundaries of REAAs would not conform to the standards for incorporation of a borough (AS 29.05.031 and 19 AAC 10.160 - 19 AAC 10.180). For example, some REAAs encompass only one community or less than 1,000 residents (Pribilof Islands REAA, Kashunamiut REAA, Yupiit REAA, Annette Island REAA). One REAA (Adak) exists as an enclave within another REAA (Aleutian). A portion of one REAA is even an enclave within an organized borough (Klukwan, which is part of the Chatham REAA, is an enclave within the Haines Borough). In some cases it may be more appropriate for all or portions of some REAAs to be annexed to existing boroughs rather than incorporated as new boroughs (e.g., Klukwan and Skagway to the Haines Borough; Port Alexander to the City and Borough of Sitka, Metlakatla to the Ketchikan Gateway Borough and portions of REAAs 6/7 to the Bristol Bay Borough).

21. See AS 29.10.200 for the limitations of home rule boroughs; AS 29.10.200(39) and AS 29.10.200(40) specifically limit home rule boroughs with respect to the exercise of planning, platting and land use regulations.

22. Section 11.03 of the Charter of the Northwest Arctic Borough, adopted October 6, 1987, provides that "Property tax shall not go into effect prior to a popular vote in which the majority of voters approve the property tax, except that this provision shall not apply either to taxes to pay or secure payment of principal and interest on bonded indebtedness as per AS 29.45.100 and actions taken pursuant to Section 10.07 of this Charter". Section 10.07 of the Charter states that "The Assembly may authorize general obligation bonds or notes without ratification of the qualified voters for disaster bonds or notes to be issued only in case of calamity which has caused great loss. In this instance, obligations are to be used for the preservation, rehabilitation, or reconstruction of borough capital improvements".

23. See October 3, 1987 letter sent to all REAA superintendents and board chairs from Representative Ronald Larson discussing SSHB 1.

24. See memorandum from Marty Rutherford, Director of the Division of Municipal and Regional Assistance Division, Department of Community and Regional Affairs, November 2, 1987, requesting opinion on the subject from the Office of the State Attorney General. See also, *Coastal States and the U.S. Exclusive Economic Zone*, Coastal State Organization (April, 1987).

25. State funding formulas could be revised to better reflect a municipality's revenue generating ability and the expenses which it incurs in providing certain basic services. In many instances existing programs may intend to reflect this but do not. Examples of such circumstances are provided below:
- A. The state formula for education funding provides that municipal districts must contribute the lesser amount of: 1) the equivalent of funds generated by a four mill (0.004) tax on the full and true value of taxable real and personal property; or 2) 35% of a district's basic need for the preceding school year. Most municipal school districts are required to pay the four mill tax equivalent to support their schools. Yet, the districts which have vastly superior property tax resources end up being required to pay less in terms of tax rates. Generally, the existing and potential boroughs along the trans-Alaska Oil Pipeline are the ones which would be required to pay the lower tax rates for education. It is estimated that in the most extreme example, one such region would only be required to pay the equivalent of funds generated by three-tenths of one mill (0.0003) on the full and true value of taxable real and personal property. That represents only 7.5% of the tax equivalent of funds that would be required of most boroughs. The state may be in a better position to assist poorer regions of the state if the funding formula were changed. The formula might be adjusted to increase the required local contribution of the "richer" districts and reduce the state's share. This could be done while maintaining the standards required under the federal PL-874 relating to disparity in local student expenditures among school districts.
 - B. The state might alter provisions concerning the distribution of resource revenues to ensure a more equitable sharing of the benefits. For example, the status quo with respect to current municipal taxation of existing oil and gas exploration, production and transportation property might be imposed as future limitations for municipalities. Thus, municipalities would be precluded from raising current rates of taxation and from taxing future oil and gas properties. The state could then "pool" revenues received from taxes which it levies on such properties under AS 43.56.010. That pool of funds could then be used to more equitably share revenues with other regions which lack adequate revenues.
 - C. For FY 87 eleven of the twelve boroughs in the state received between \$101.55 and \$125.31 per qualifying resident (population outside of cities) under the Municipal Assistance program. However, one borough received \$487.69 for each qualifying resident. The 289.2% disparity in per capita funding between the borough with the highest funding rate and the borough with the next highest rate had nothing to do with financial need.
26. Although municipalities enjoy broad authorities to tax, there are some limitations which might be eased in order to help make borough government more viable. For example, AS 43.20.290 prohibits a municipality from levying an income tax. There are some regions of the state in which non-residents (individuals from both outside the area and the state) gain significant economic benefits from the region (e.g., fishing industry). A borough which presently levies only sales or property taxes might be able to shift a substantial portion of the tax burden onto non-residents through the enactment of an income tax. Prudent limitations on such expanded authorities would, of course, be expected.



Appendix

Table 1
Taxable Values Per Student

<u>School District</u>	<u>January 1, 1986 Full Taxable Value</u>	<u>FY '88 Projected Students</u>	<u>Value Per Student</u>
1. North Slope Borough	\$13,570,786,300	1,231	11,024,197
2. Yukon Flats REAA	1,035,432,040	390	2,654,954
3. Copper River REAA	1,198,725,880	561	2,136,766
4. Chugach REAA	1,843,290,222	1,260	1,462,929
5. Yukon Koyukuk REAA	934,498,200	1,022	914,382
6. Delta Greely REAA	813,113,635	1,027	791,737
7. Anchorage Borough	19,343,356,800	38,874	497,591
8. Kenai Peninsula Borough	3,905,341,700	8,414	464,148
9. Bristol Bay Borough	101,541,000	231	439,571
10. Juneau Borough	1,688,992,300	4,244	397,972
11. Aleutian Region REAA (includes Aleutians East Borough)	206,485,320	528	391,071
12. Ketchikan Gateway Borough	904,384,100	2,450	369,136
13. Fairbanks Borough	4,726,913,900	13,158	359,243
14. Matanuska-Susitna Borough	2,716,755,900	8,940	303,888
15. Haines Borough	97,621,600	360	271,171
16. Sitka Borough	441,175,000	1,637	269,502
17. Kodiak Island Borough	552,447,400	2,319	238,227
18. Southwest Region REAA	157,571,260	960	164,137
19. Southeast Island REAA	358,763,515	2,202	162,926
20. Chatham REAA	131,333,718	882	148,904
21. Northwest Arctic Borough	235,045,200	1,637	143,583
22. Bering Straits REAA	240,477,297	2,010	119,640
23. Lower Kuskokwim REAA (including Yupiit)	321,017,462	2,963	108,342
24. Pribilof REAA	14,153,160	152	93,113
25. Railbelt REAA	30,176,160	346	87,214
26. Alaska Gateway REAA	45,500,000	523	87,051
27. Lake & Peninsula REAA	30,546,520	369	82,782
28. Iditarod REAA	23,181,360	392	59,901
29. Lower Yukon REAA (including Kashunamiut)	89,378,063	1,657	53,940
30. Kuspuk REAA	19,839,960	371	53,477
31. Adak REAA	0	600	0
32. Annette Island REAA	0	432	0

Table 1, Notes:

1. The estimates of values of taxable property and the estimates of numbers of students within regional educational attendance areas (REAs) include those for home rule and first class cities located within the boundaries of the REAs.
2. The estimates of the values of taxable property are as of January 1, 1986.
3. The estimates of the numbers of students are based upon projected entitlements for the 1987 - 1988 school year.

sources: 1) Alaska Taxable, 1986, Vol. XXVI January 1987, State of Alaska Department of Community and Regional Affairs, Municipal and Regional Assistance Division; 2) Estimated Value of Regional Education Attendance Areas, State Assessor, revised 4/14/87; and 3) a review - The Alaska Public School Foundation Funding Program - Effective July 1, 1987, Alaska Department of Education, prepared May 28, 1987.

TABLE 2

**FY 87 DISTRIBUTION OF BUSINESS FISHERIES TAX
IN CITIES WITHIN THE UNORGANIZED BOROUGH (BY REAA)**

NAME	BUSINESS FISHERIES TAXES	% OF \$ DISTRIBUTED IN UNORGANIZED BOROUGH
Southeast Island REAA		
Kake	31,190.13	
Klawock	7,122.20	
Petersburg	636,229.42	
Wrangell	<u>70,375.72</u>	
TOTAL	744,917.67	32.8%
Aleutian Region REAA (excluding Aleutians East Borough)		
Unalaska	538,147.14	23.7%
Chugach REAA		
Cordova	387,454.87	
Valdez	65,040.68	
Whittier	<u>12,774.32</u>	
TOTAL	465,270.37	20.5%
Lake and Peninsula REAA		
Chignik	179,266.55	7.9%
Chatham REAA		
Hoonah	30,515.34	
Pelican	106,405.08	
Skagway	23.25	
Tenakee Springs	132.31	
Yakutat	<u>41,453.61</u>	
TOTAL	178,529.59	7.8%
Lower Kuskokwim REAA		
Bethel	59,476.66	
Toksook Bay	<u>77.21</u>	
TOTAL	59,553.87	2.6%

TABLE 2 (continued)

NAME	BUSINESS FISHERIES TAXES	% OF \$ DISTRIBUTED IN UNORGANIZED BOROUGH
Southwest Region REAA		
Dillingham	35,025.99	
Togiak	<u>17,019.95</u>	
TOTAL	52,045.94	2.3%
Lower Yukon REAA		
Emmonak	15,170.50	
Marshall	5,852.33	
Mountain Village	19,796.95	
Saint Mary's	<u>39.88</u>	
TOTAL	40,859.66	1.8%
Yukon-Koyukuk REAA		
Galena	8,882.86	
Kaltag	1,575.64	
Nenana	1,826.04	
Nulato	<u>11.62</u>	
TOTAL	12,296.16	0.5%
Iditarod Area REAA		
Anvik	1,557.20	0.1%
Pribilof Islands REAA		
Saint George	528.53	insignificant
Kuspuk REAA		
Aniak	189.66	insignificant

Source: Department of Revenue

CAUTIONS: Entitlements to revenues are based upon reports of fish processing activities which occur within the boundaries of municipalities. Where significant fish processing activities occur outside the boundaries of a municipality they are not reflected in this table. Thus, this table may tend to underestimate the value of some regional fisheries.

TABLE 3

**EX-VESSEL VALUES OF COMMERCIAL FISHERIES HARVESTS
(ALL SPECIES) FOR AVERAGE OF
SURVEY YEARS (GENERALLY 1975-1982)**

<u>Management Area</u>	<u>Total of Average</u>
Bristol Bay	\$148,455,000
Southeastern	69,049,000
Kodiak	68,845,000
Bering Sea	51,348,000
Prince William Sound	35,975,000
Cook Inlet	35,807,000
Peninsula Aleutians	35,479,000
Chignik	12,909,000
Dutch Harbor	9,356,000
Lower Yukon	4,746,000
Kuskokwim	3,512,000
Yakutat	3,108,000
Adak	2,696,000
Norton Sound	1,696,000
Kotzebue	1,433,000
Upper Yukon	776,000

These figures are an indication of the strength of the regional fishery. However, it should be noted that boundaries of districts for various fish species extend beyond the three mile limit of state jurisdiction. There is also no indication what amount of these fish landed are actually processed within the boundaries of these management districts. Finally, the districts for the species of fish, although they have the same name, are not co-terminus, therefore may not present the same opportunity for revenue. For example, the Bristol Bay district for salmon is certainly expanded under the Bristol Bay district for king crab, which is again different for Bristol Bay herring. Further details on the resources of the districts and the boundaries of the districts are available from the Department of Community and Regional Affairs.

(source: Alaska Habitat Management Guide. Economic Overview of Fish and Wildlife. Vol. I: Commercial Fishing. State of Alaska, Department of Fish and Game, Division of Habitat, 1986.)

TABLE 4

1984 PER CAPITA INCOME

<u>Federal Census Area</u>	<u>Per Capita Income</u>
1. North Slope Borough	\$26,077
2. Juneau Borough	21,253
3. Fairbanks North Star Borough	20,764
4. Bristol Bay Borough	20,472
5. Anchorage Borough	19,188
6. Ketchikan Gateway Borough	18,138
7. Valdez-Cordova Census Area	17,536
8. Haines Borough	17,250
9. Aleutians Islands Census Area (includes AEB)	16,715
10. Skagway-Yakutat-Angoon Census Area	16,124
11. Sitka Borough	16,090
12. Wrangell-Petersburg Census Area	15,812
13. Prince of Wales-Outer Ketchikan Census Area	14,460
14. Nome Census Area	14,265
15. Matanuska-Susitna Borough	14,197
16. Kenai Peninsula Borough	13,237
17. Southeast Fairbanks Census Area	12,685
18. Kodiak Island Borough	11,826
19. Northwest Arctic Borough	11,822
20. Dillingham Census Area	10,852
21. Bethel Census Area	10,050
22. Yukon-Koyukuk Census Area	9,537
23. Wade-Hampton Census Area	7,466

The above personal income data from the U.S. Department Commerce includes all possible legal sources of income. There are three primary components to personal income: 1) earnings, 2) dividends, interest and rent, 3) transfer payments. The largest component is earnings which is the sum of wages and salaries, other labor income (work or tips) and proprietors' income. Transfer payments are derived from government assistance to individuals. In Alaska, these include permanent fund dividend payments and unemployment payments.

Noncash sources of goods and services, which are important in many Alaskan rural census areas, are not included in personal income data. The data may be further misleading since many census areas with low per capita income have exceptionally high costs for energy, food and other goods and services not reflected in this table.

(source: Greg Huff and Judy Hallanger, "Income Measures," Alaska Economic Trends, Vol. 7, No. 9 p. 11, September 1987).

TABLE 5
1986 ALASKA AVERAGE MONTHLY WAGE

<u>Federal Census Area</u>	<u>Average Monthly Wage</u>
1. North Slope Borough	\$3,695
2. Haines Borough	2,680
3. Southeast Fairbanks Census Area	2,359
4. Valdez-Cordova Census Area	2,351
5. Anchorage Borough	2,278
6. Fairbanks North Star Borough	2,229
7. Ketchikan Gateway Borough	2,209
8. Juneau Borough	2,199
9. Yukon-Koyukuk Census Area	2,144
10. Kenai Peninsula Borough	2,132
11. Prince of Wales-Outer Ketchikan	2,129
12. Bristol Bay Borough	2,127
13. Wrangell-Petersburg, Census Area	2,118
14. Sitka Borough	2,105
15. Skagway-Yakutat-Angoon Census Area	2,097
16. Aleutian Islands Census Area (w/AEB)	2,055
17. Nome Census Area	1,997
18. Northwest Arctic Borough	1,991
19. Matanuska-Susitna Borough	1,934
20. Dillingham Census Area	1,916
21. Bethel Census Area	1,842
22. Kodiak Island Borough	1,729
23. Wade Hampton Census Area	1,655

Average monthly wages are compiled by dividing total yearly payroll by average yearly employment and then further dividing by 12.

A point to keep in mind is that these figures could be skewed at either the high end or the low end of the scale. For example, industries characterized by high proportions of part-time workers will have average monthly wage levels appreciably below the actual monthly levels of regular full-time employees and of those industries that have few part-time workers. The retail trade and services industries are prime examples of this situation.

The opposite effect characterizes industries with low proportions of part-time workers or industries which typically schedule heavy weekend and overtime work. Examples of this situation are the construction and oil and gas industries. Thus, areas of the state with these types of primary industries can attribute a large percentage of their average monthly wage to the effects of these dynamics.

(source: Greg Huff and Judy Hallanger, "Income Measures," Alaska Economic Trends, Vol. 7, No. 9 p. 17, September 1987).

TABLE 6
1986 UNEMPLOYMENT RATES

<u>Federal Census Area</u>	<u>Unemployment Rate (%)</u>
1. Matanuska-Susitna Borough	18.3
2. Kenai Peninsula Borough	17.6
3. Skagway-Yakutat-Angoon Census Area	17.2
4. Yukon-Koyukuk Census Area	17.0
5. Northwest Arctic Borough	15.7
6. Prince of Wales-Outer Kechikan Census Area	15.1
7. Southeast Fairbanks Census Area	14.9
8. Fairbanks North Star Borough	13.9
9. Nome Census Area	13.8
10. Wade Hampton Census Area	13.6
11. Haines Borough	13.0
12. Wrangell-Petersburg Census Area	11.1
13. Valdez-Cordova Census Area	11.0
14. Ketchikan Gateway Borough	10.5
15. Bethel Census Area	10.1
16. Sitka Borough	8.7
17. Juneau Borough	8.6
18. Bristol Bay Borough	8.4
19. Anchorage Borough	8.4
20. Dillingham Census Area	8.1
21. Kodiak Island Borough	7.4
22. North Slope Borough	6.1
23. Aleutian Islands Census Area (w/AEB)	3.5

(source: Alaska Department of Labor, Research and Analysis Division, monthly reports).

TABLE 7
1986 POPULATION DENSITIES

<u>School District</u> <u>(Borough/REAA)</u>	<u>Population</u>	<u>Land Area</u> <u>(sq. mi.)</u>	<u>Persons/</u> <u>Square Mile</u>
1. Anchorage Borough	248,263	1,884	131.77
2. Adak REAA	3,169	205	15.46
3. Ketchikan Gateway Borough	14,314	1,250	11.45
4. Pribilof Islands REAA	790	75	10.53
5. Fairbanks North Star Borough	75,079	7,500	10.01
6. Juneau Borough	29,370	3,100	9.47
7. Kenai Peninsula Borough	43,612	14,697	2.97
8. Kodiak Island Borough	13,952	5,440	2.56
9. Matanuska-Susitna Borough	44,280	20,544	2.16
10. Bristol Bay Borough	1,271	1,200	1.06
11. Sitka Borough	8,221	7,927	1.04
12. Southeast Island REAA (includes Annette Island)	11,468	15,092	.76
13. Haines Borough	1,847	2,620	.70
14. Lower Kuskokwim REAA (includes Yupiit REAA)	11,644	24,304	.48
15. Chugach REAA	6,771	14,700	.46
16. Aleutian Region REAA	2,052	5,488	.37
17. Bering Straits REAA	8,403	26,460	.32
18. Lower Yukon REAA (includes Kashunamiut REAA)	6,027	19,600	.31
19. Delta/Greely REAA	1,634	6,860	.24
20. Chatham REAA	3,634	15,484	.23
21. Aleutians East Borough	2,017	8,868	.23
22. Southwest Region REAA	4,180	22,148	.19
23. Northwest Arctic Borough	6,696	36,000	.19
24. Railbelt REAA	969	9,212	.11
25. Copper River REAA	2,464	24,892	.10
26. North Slope Borough	8,308	88,281	.09
27. Alaska Gateway REAA	2,062	23,520	.09
28. Kuspuk REAA	1,021	12,348	.08
29. Yukon-Koyukuk REAA	4,873	64,484	.08
30. Lake and Peninsula REAA	1,556	29,400	.05
31. Iditarod Area REAA	1,705	47,824	.04
32. Yukon Flats REAA	1,657	59,388	.03

Table 7, CAUTIONS:

Population densities were computed by dividing the area of each region (total square miles of each district) by its total population. While population densities can provide some indication of the relative ease with which services may be provided to a region, other factors may have an even greater influence on the delivery of services. Examples of such factors include transportation facilities/networks serving a region and the geographic location of communities within a region.

Also, consideration of population densities alone may be misleading. A region, as reported in this publication, may consist of only one or two densely populated communities within a large area which is otherwise virtually unpopulated (e.g., Sitka).

(source: Department of Community and Regional Affairs).

TABLE 8
1980 ALASKA POPULATION
RACIAL COMPOSITION
(IN ALPHABETICAL ORDER)

<u>Federal Census Area</u>	<u>AK Native</u>	<u>White</u>	<u>Other</u>
	%	%	%
Aleutian Island Census Area (includes AEB*)	25	61	14
Anchorage Borough	5	85	10
Bethel Census Area	84	15	1
Bristol Bay Borough	33	60	7
Dillingham Census Area	76	23	1
Fairbanks North Star Borough	6	85	9
Haines Borough	13	85	2
Juneau Borough	11	84	5
Kenai Peninsula Borough	7	91	2
Ketchikan Gateway Borough	12	84	4
Kodiak Island Borough	19	71	10
Matanuska-Susitna Borough	4	94	2
Nome Census Area	79	20	1
North Slope Borough	77	22	1
Northwest Arctic Borough (Kobuk Census Area)	85	14	1
Prince of Wales-Outer Ketchikan CA	43	54	3
Sitka Borough	21	74	5
Skagway-Yakutat-Angoon Census Area	42	56	2
Southeast Fairbanks Census Area	13	79	8
Valdez-Cordova Census Area	13	83	4
Wade Hampton Census Area	93	6	1
Wrangell-Petersburg Census Area	19	78	3
Yukon-Koyukuk Census Area	55	42	3

*At the time of the 1980 census, the Aleutians East Borough was not in existence. At the time of its incorporation in 1987 the racial composition of the borough was estimated to be 63.7% native and 36.3% other.

The data on race were derived from answers to a question on the 1980 census form which was asked of all persons. The concept of race as used by the Census Bureau reflects self identification by respondents. It does not denote any clear cut scientific definition of biological stock. Since the 1980 census obtained information on race through self identification, the data represent self-classification by people according to the race with which they identify.

(source: 1980 Census Report).



Unified Home Rule Municipalities

1. Municipality of Anchorage
2. City and Borough of Juneau
3. City and Borough of Sitka

Home Rule Boroughs

4. North Slope Borough
5. Northwest Arctic Borough
(note: NAB adopted a Home Rule Charter 10/6/87)

Second Class Boroughs

6. Aleutians East Borough
7. Bristol Bay Borough
8. Fairbanks North Star Borough
9. Kenai Peninsula Borough
10. Ketchikan Gateway Borough
11. Kodiak Island Borough
12. Matanuska-Susitna Borough

Third Class Boroughs

13. Haines Borough

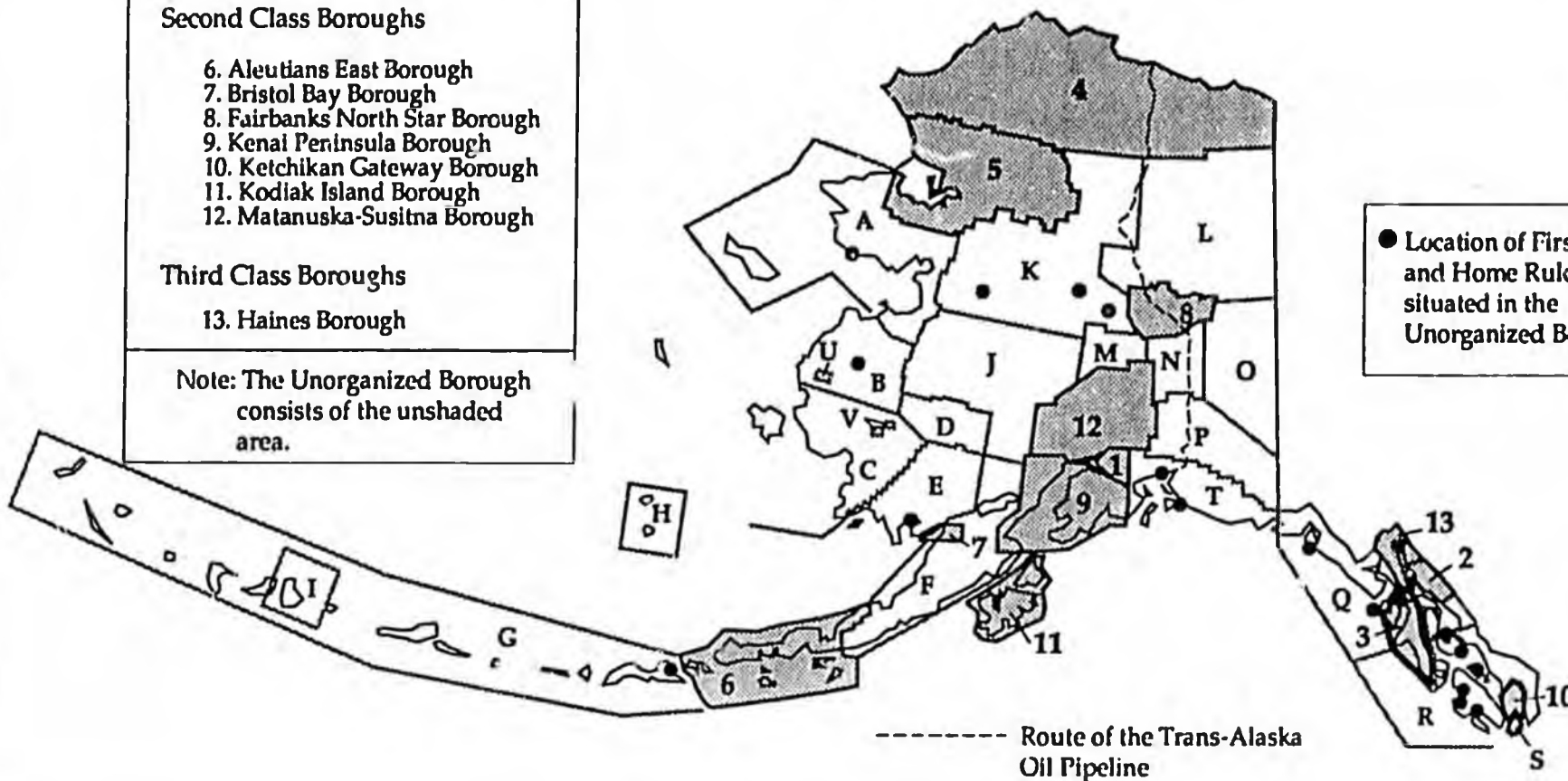
Note: The Unorganized Borough consists of the unshaded area.

Regional Educational Attendance Areas

- | | |
|---------------------|-------------------------------|
| A. Bering Straits | L. Yukon Flats |
| B. Lower Yukon | M. Railbelt |
| C. Lower Kuskokwim | N. Delta/Greely |
| D. Kusuk | O. Alaska Gateway |
| E. Southwest Region | P. Copper River |
| F. Lake & Peninsula | Q. Chatham |
| G. Aleutian Region | R. Southeast Island |
| H. Pribilof Islands | S. Annette Island |
| I. Adak Region | T. Chugach |
| J. Iditarod Area | U. Kashunamiut (not to scale) |
| K. Yukon - Koyukuk | V. Yupiit (not to scale) |

MAP 1 - Boroughs, REAAs, etc

Department of Community and Regional Affairs



● Location of First Class and Home Rule Cities situated in the Unorganized Borough

----- Route of the Trans-Alaska Oil Pipeline

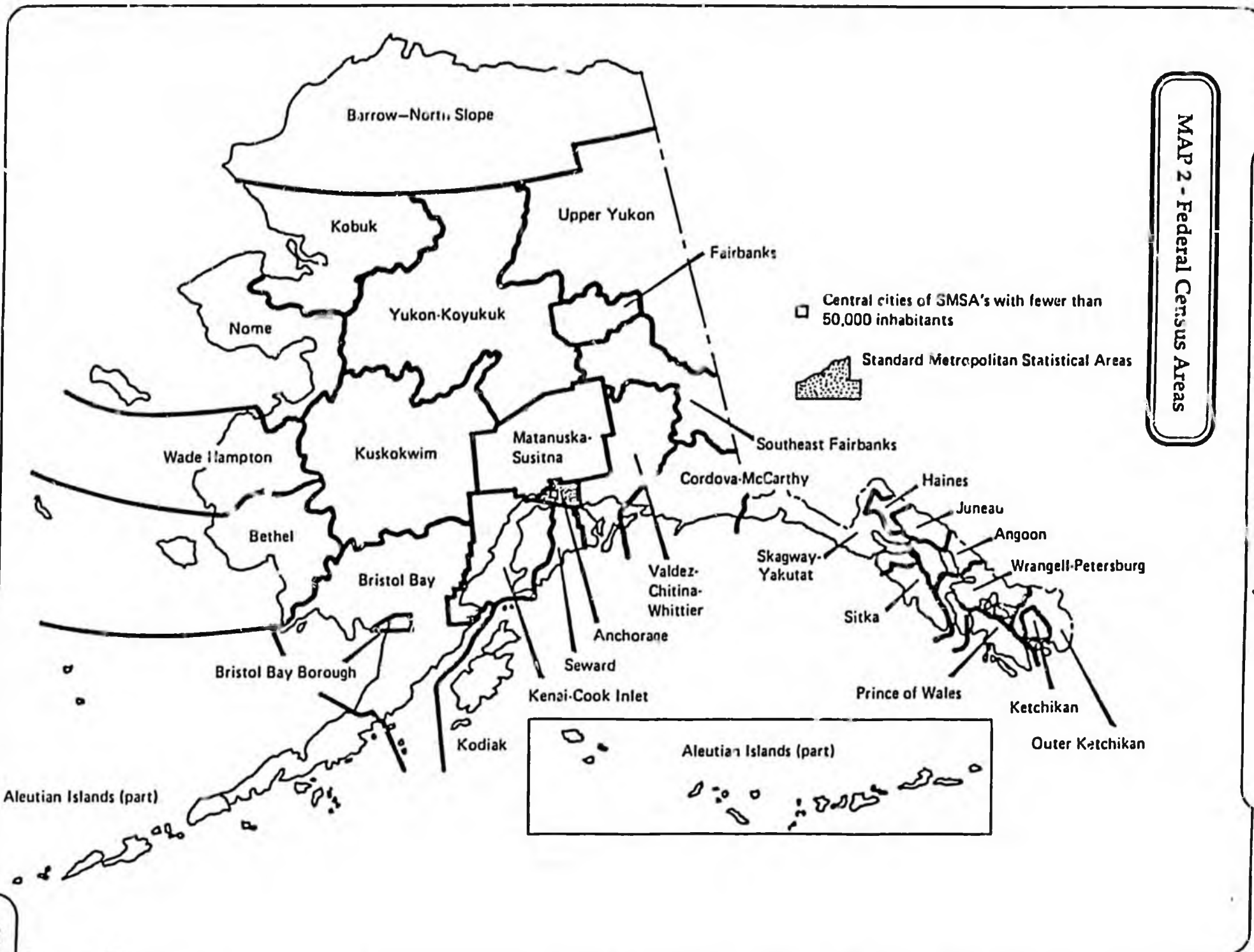
TABLE 9
REGIONAL COST OF LIVING DIFFERENCES

<u>District</u>	<u>Cost of Living Differential</u>
Palmer/Wasilla	.94
Petersburg/Wrangell	.98
Anchorage	1.00
Seward	1.00
Sitka	1.01
Kenai/Cook Inlet	1.01
Ketchikan	1.02
Juneau	1.03
Fairbanks/Fort Yukon	1.03
Icy Strait/Lynn Canal	1.05
Kodiak	1.06
Cordova/Valdez	1.11
Aleutian Islands	1.26
Wade Hampton	1.26
Bristol Bay	1.29
Yukon-Kuskokwim	1.29
Nome	1.33
Bethel	1.39
Barrow/Kotzebue	1.45

The districts listed above represent the 1961 election districts for the state. This study provides one of the largest amounts of information that has been gathered to date about the differing costs of living within Alaska. Factors used to determine cost of living consisted of housing (shelter, fuels, utilities, taxes); food (meats, cereals, dairy products, fruits, vegetables, prepared foods, non-alcoholic beverages, food away from home) transportation (gasoline, parts, repair, insurance for automobiles, snow machines, three wheelers, boats, bus, non-local transportation); clothes (purchase and maintenance); recreation and entertainment; medical services, hospital care, miscellaneous (cigarettes, haircuts, personal care).

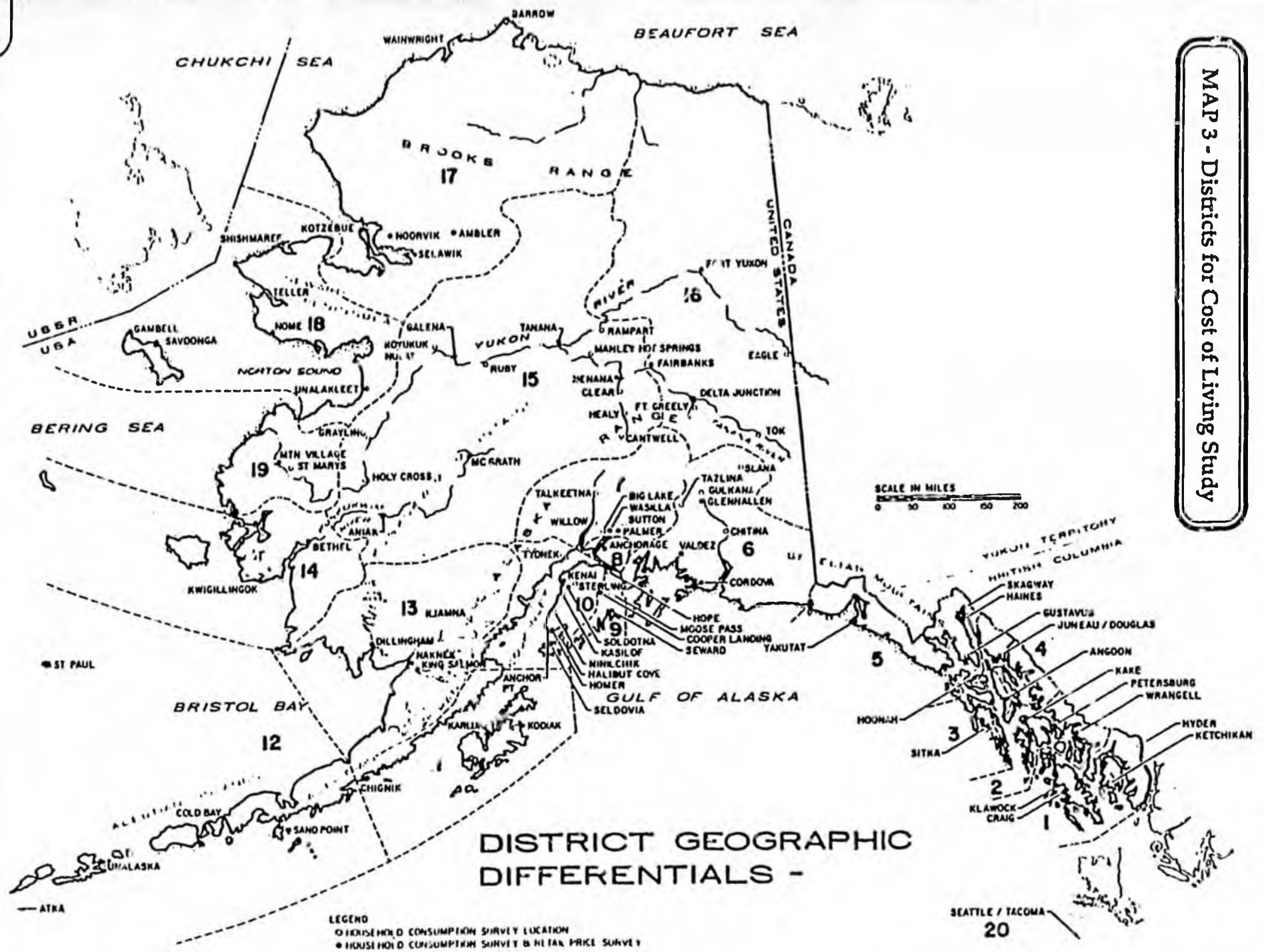
(source: Alaska Geographic Differential Study, State of Alaska, Department of Administration, Division of Labor Relations, April, 1985).

MAP 2 - Federal Census Areas



MAP 3 - Districts for Cost of Living Study

Department of Community and Regional Affairs



RECEIVED



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

P.O. Box 7, State Capitol
Juneau, Alaska 99811-3100
Mail Stop 3100
(907) 465-3991

November 8, 1988

MEMORANDUM

TO: Representative Peter Goll

FROM: Karen Oakley *ko*
Legislative Analyst

RE: Options for Regional Garbage Collection and Disposal Services in
the Unorganized Borough
Research Request 89.090

You asked this agency to investigate options, other than borough formation, for providing garbage collection and disposal services on a regional basis within the unorganized borough. Specifically, you asked:

- What structure will permit the collective operation of a solid waste facility by several incorporated communities?; and
- What structure will mandate that unincorporated communities use and help pay for the operation of a regional solid waste facility?

In this memorandum, I first provide background information on the Prince of Wales Island garbage situation which motivated your questions. General information about the regulation of garbage collection and disposal in Alaska is then presented. The final section of the memorandum discusses options for regional solid waste management in the unorganized borough.

In summary, I found that the only entity that can mandate that the public use and pay for garbage collection and disposal services is a municipally-owned public utility. The only means to create a garbage utility with the power to mandate use of its services within a region of the unorganized borough, other than forming a borough, is for the legislature to establish, or provide a mechanism for establishing, special service areas, such as those that have been established for education and coastal management.

Background

Solid waste disposal is an issue of immediate concern to the 3,600 residents of the ten or so communities on Prince of Wales Island, a large island in southern Southeast Alaska located within the unorganized borough.¹ The primary dump for the communities of Craig and Klawock has been on fire for several months, and the Department of Environmental Conservation has issued a Notice of Violation to the City of Klawock, the current operator of the dump. In discussing the options for correcting the problems of the Craig-Klawock dump, Prince of Wales Island residents have decided to take a regional approach. Because Prince of Wales Island has little topsoil, conventional landfills are not the most desirable solid waste disposal option. All of the island's communities could benefit from construction of a centralized disposal facility. At present, an incinerator/landfill operation appears to be the most viable alternative. Most of the communities are connected by roads, originally built to support logging, so transport of garbage from each community to a centralized disposal facility is feasible.

Although Prince of Wales Island residents desire a regional solution to their garbage disposal problem, the majority of residents do not desire to form a borough at the present time. Thus, you have asked what entities, other than a borough, could provide the regional garbage collection and disposal services that Prince of Wales Island residents desire.

Regulation of Garbage Collection and Disposal in Alaska Generally

In Alaska, garbage collection and disposal services are subject to economic regulation.² Like water, sewer, electricity, telephone, natural gas, and cable television services, garbage collection and disposal services may be provided only by public utilities certificated by the Alaska Public Utilities Commission (APUC). Pursuant to AS 42.05.720(4) a garbage "public utility" includes:

. . . every corporation (whether public, cooperative, or otherwise), company, individual, or association of individuals, their lessees, trustees, or receivers appointed by a court, that owns, operates, manages or controls any plant, pipeline or system for . . . furnishing collection and disposal service of garbage, refuse, trash or other waste material . . .

¹Prince of Wales Island communities include the first class cities of Craig, Klawock and Hydaburg, the second class cities of Kasaan and Thorne Bay, and the unincorporated communities of Coffman Cove, Hollis, Point Baker, Naukati, Whale Pass and Laboucher Bay.

²This section addresses the economic regulation of garbage collection and disposal services. Solid waste disposal is also subject to environmental regulation pursuant to AS 46.03 and various federal laws.

Under AS 42.05.711(i), a garbage utility with annual gross revenues of \$200,000 or less is exempt from the rate regulation powers of the APUC unless 25 percent of the subscribers or subscribers representing 25 percent of the gross revenue of the utility petition the APUC for regulation.

Under AS 29.35.050, municipalities may (by ordinance) provide systems for the collection and disposal of solid waste for the entire municipality or for portions of the municipality. In addition, the municipality may require all persons in the municipality to use and pay for the collection and disposal system. Under AS 42.05.711(b), public utilities owned and operated by a political subdivision of the state that are not in competition with any other utility, are exempt from rate regulation by the APUC unless they choose to be so regulated.

All garbage utilities, whether or not they are owned by a municipality and regardless of their annual gross revenues, must be certificated by the APUC under the provisions of AS 42.05.221 - 42.05.281. To obtain APUC certification, the utility must demonstrate they are fit, willing and able to provide the utility service and that the services are required for the convenience and necessity of the public. Relevant portions of Title 42.05 and Title 29 are found in Attachments A and B, respectively.

Options for Regional Garbage Collection and Disposal Services in the Unorganized Borough

Under existing state law, Prince of Wales Island residents have several options, other than forming a borough, for obtaining regional garbage collection and disposal services for their communities. As defined under AS 42.05, a "public utility" can take several forms, including a private company, a municipality, and an association of individuals. Whatever its form, the public utility must be able to demonstrate that it is "fit, willing and able" to provide the proposed service. Thus, Prince of Wales Island residents could form a private garbage utility company or they could entice an existing private garbage utility to their area. Alternatively, Prince of Wales Island residents could form an "association" and seek certification as a public utility. While all of these options are possible under existing law, none would allow the resultant utility to mandate the use of the collection and disposal service by all residents or communities within the region. The only type of utility that has the power to mandate that the public use (and pay for) its services is a public utility that is owned and operated by a municipality. Thus, to create a public utility that is not part of a municipality but which has the power to mandate the use of its services will require statutory changes.

The most obvious method for creating this type of public garbage utility within a region of the unorganized borough is for the legislature to provide (through statute) for the creation of special service areas. Under Article X, Section 6 of the Alaska Constitution, the legislature

shall provide for the performance of services it deems necessary or advisable in unorganized boroughs, allowing for maximum local participation and responsibility. It may exercise any power or function in an unorganized borough which the assembly may exercise in an organized borough.

The assembly of a borough has the power to establish special service areas, and the legislature, acting as the assembly for the unorganized borough, has previously provided for the creation of education and coastal management service areas in the unorganized borough. Thus, the legislature has the power to also establish service areas within the unorganized borough for garbage collection and disposal. The legislature could also require all persons in the special service areas to use and pay fees for the use of the garbage system. In contrast to the two existing types of service areas in the unorganized borough, which rely entirely on state and federal funds, service areas for garbage collection and disposal would presumably rely on local revenues, specifically user fees.

In creating the special service areas for education and coastal management in the unorganized borough, the legislature took two different approaches.³ In providing for education, the legislature defined the boundaries of each service area in statute and mandated the provision of educational services by the service areas. In providing for coastal management, the legislature provided a mechanism by which residents of the unorganized borough could petition to establish a coastal resource service area within the bounds of each educational service area.

The approach taken towards providing service areas for coastal management appears to be the most applicable to the problem of regional garbage collection and disposal in the unorganized borough. Because most unorganized borough communities are isolated from one another, regional solid waste management solutions are not universally feasible or appropriate. Thus, mandating the formation of garbage service areas within the entire unorganized borough does not appear desirable or necessary. Providing a mechanism whereby those regions desiring a garbage service area could petition for the creation of a garbage service area does appear to be an option for solving the problem faced by Prince of Wales Island residents.

³Copies of the relevant statutes, AS 14.08 (Education in the Unorganized Borough) and AS 46.40.110 - AS 46.40.180 (Coastal Management Programs in the Unorganized Borough), are Attachments C and D, respectively.

Representative Goll
November 8, 1988
Page 5

According to Tamara Cook, Director of the legislature's Division of Legal Services, a law creating service areas in the unorganized borough for garbage collection and disposal would have to provide for the creation of such service areas generally. A law creating a "Prince of Wales Island Garbage Service Area" would almost certainly be found to conflict with Article II, Section 19 of the Alaska Constitution which prohibits local or special acts. According to Glenn Miller of the Department of Environmental Conservation (DEC), the communities along the Alaska and Glenn Highways near Tok are experiencing a "garbage crisis" similar to the situation on Prince of Wales Island.⁴ A law providing a mechanism for creating garbage service areas in the unorganized borough would therefore be immediately applicable to at least two regions of the unorganized borough. Presumably, an act creating a mechanism for establishing garbage service areas, in contrast to an act establishing one or two garbage service areas, would not violate the local or special acts clause.

* * *

I hope you find this information useful. If you need any additional information, please let us know.

Attachments

⁴For more information about the situation in Election District 17, you may wish to contact Glenn Miller of the DEC at 465-2666 or David Stancliff of Representative Dick Shultz's office in Tok at 383-2345.

THE
CONSTITUTION
of the
STATE OF
ALASKA



LEGISLATIVE INFORMATION OFFICE
3111 "C" STREET, SUITE 150
ANCHORAGE, ALASKA 99503

ARTICLE X

LOCAL GOVERNMENT

Purpose and Construction

SECTION 1. The purpose of this article is to provide for maximum local self-government with a minimum of local government units, and to prevent duplication of tax-levying jurisdictions. A liberal construction shall be given to the powers of local government units.

Local Government Powers

SECTION 2. All local government powers shall be vested in boroughs and cities. The State may delegate taxing powers to organized boroughs and cities only.

Boroughs

SECTION 3. The entire State shall be divided into boroughs, organized or unorganized. They shall be established in a manner and according to standards provided by law. The standards shall include population, geography, economy, transportation, and other factors. Each borough shall embrace an area and population with common interests to the maximum degree possible. The legislature shall classify boroughs and prescribe their powers and functions. Methods by which boroughs may be organized, incorporated, merged, consolidated, reclassified, or dissolved shall be prescribed by law.

Assembly

SECTION 4. The governing body of the organized borough shall be the assembly, and its composition shall be established by law or charter.

(The amendment to this section was approved by the voters of the state August 22, 1972 and became effective October 14, 1972. It deleted the second and third sentences which specified city and non-city representation on the borough assembly.)

Service Areas

SECTION 5. Service areas to provide special services within an organized borough may be established, altered, or abolished by the assembly, sub-

ject to the provisions of law or charter. A new service area shall not be established if, consistent with the purposes of this article, the new service can be provided by an existing service area, by incorporation as a city, or by annexation to a city. The assembly may authorize the levying of taxes, charges, or assessments within a service area to finance the special services.

**Unorganized
Boroughs**

SECTION 6. The legislature shall provide for the performance of services it deems necessary or advisable in unorganized boroughs, allowing for maximum local participation and responsibility. It may exercise any power or function in an unorganized borough which the assembly may exercise in an organized borough.

Cities

SECTION 7. Cities shall be incorporated in a manner prescribed by law, and shall be a part of the borough in which they are located. Cities shall have the powers and functions conferred by law or charter. They may be merged, consolidated, classified, reclassified, or dissolved in the manner provided by law.

Council

SECTION 8. The governing body of a city shall be the council.

Charters

SECTION 9. The qualified voters of any borough of the first class or city of the first class may adopt, amend, or repeal a home rule charter in a manner provided by law. In the absence of such legislation, the governing body of a borough or city of the first class shall provide the procedure for the preparation and adoption or rejection of the charter. All charters, or parts or amendments of charters, shall be submitted to the qualified voters of the borough or city, and shall become effective if approved by a majority of those who vote on the specific question.

Extended
Home Rule
Home Rule
Powers

SECTION 10. The legislature may extend home rule to other boroughs and cities.

SECTION 11. A home rule borough or city may exercise all legislative powers not prohibited by law or by charter.

Boundaries

SECTION 12. A local boundary commission or board shall be established by law in the executive branch of the state government. The commission or board may consider any proposed local government boundary change. It may present proposed changes to the legislature during the first ten days of any regular session. The change shall become effective forty-five days after presentation or at the end of the session, whichever is earlier, unless disapproved by a resolution concurred in by a majority of the members of each house. The commission or board, subject to law, may establish procedures whereby boundaries may be adjusted by local action.

Agreements:
Transfer of
Powers

SECTION 13. Agreements, including those for cooperative or joint administration of any functions or powers, may be made by any local government with any other local government, with the State, or with the United States, unless otherwise provided by law or charter. A city may transfer to the borough in which it is located any of its powers or functions unless prohibited by law or charter, and may in like manner revoke the transfer.

Local
Government
Agency

SECTION 14. An agency shall be established by law in the executive branch of the state government to advise and assist local governments. It shall review their activities; collect and publish local government information, and perform other duties prescribed by law.

Special
Service
Districts

SECTION 15. Special service districts existing at the time a borough is organized shall be integrated with the government of the borough as provided by law.

(B) 2d SSHB 1

**A NEW MANDATORY BOROUGH ACT:
LOCAL EDUCATION COSTS AND POTENTIAL REVENUES
OF NEWLY CREATED BOROUGHES**

**House Research Agency
Alaska State Legislature
February 1988**

House Research Agency Report 88-A

The House Research Agency is the permanent, nonpartisan research support arm of the Alaska State House of Representatives. The agency performs research at the request of legislators. A bipartisan governing committee composed of the House Speaker, Minority Leader and ranking House member of the Legislative Council (i.e., either chair or vice-chair), oversees the agency's work. While the legislature is in session, most research is of a discrete scope. During the interim between legislative sessions, projects of larger scope are undertaken.

**A NEW MANDATORY BOROUGH ACT:
LOCAL EDUCATION COSTS AND POTENTIAL REVENUES
OF NEWLY CREATED BOROUGHES**

**Karen Oakley
House Research Agency
Alaska State Legislature
February 1988**

House Research Agency Report 88-A

TABLE OF CONTENTS

	Page
INTRODUCTION.....	i
EXECUTIVE SUMMARY.....	iv
CHAPTER ONE: THE UNORGANIZED BOROUGH.....	1
Political Status.....	1
Location.....	2
Population.....	2
Communities.....	4
Economy.....	6
Education.....	8
CHAPTER TWO: HOUSE BILL 1.....	11
House Bill 1.....	11
The Third Class Borough.....	12
Previous Similar Legislation and Legislative Study.....	14
Configuration of School Districts Under House Bill 1.....	16

TABLE OF CONTENTS (Continued)

	Page
CHAPTER THREE: LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS.....	23
Required Local Contributions Under the Public School Foundation Program.....	24
Current Foundation Program Formula.....	25
Full Property Values in the Proposed Boroughs.....	26
Required Local Contributions of the Proposed Boroughs.....	30
Comparison of Required Contributions to Current Local Contributions.....	30
Changes in Foundation Aid to the Proposed Boroughs.....	34
School Debt Service Requirements.....	36
Potential Savings From Consolidating School Districts.....	39
Discussion.....	44
New Boroughs That May Not Need to Tax.....	44
New Boroughs Where Taxation Will Be Required.....	46
CHAPTER FOUR: EFFECTS OF BOROUGH FORMATION ON STATE REVENUES AND EXPENDITURES.....	47
Effects on State Revenues.....	47
Oil and Gas Pipeline Property Taxes.....	48
Shared Taxes.....	50

TABLE OF CONTENTS (Continued)

	Page
CHAPTER FOUR: EFFECTS OF BOROUGH FORMATION ON STATE REVENUES AND EXPENDITURES (Continued)	
Effects on State Expenditures.....	54
Annual Entitlement Programs.....	54
Public School Foundation Program.....	54
Revenue Sharing.....	54
Municipal Assistance	57
Nonrecurring Entitlement Programs.....	59
Transitional Assistance.....	59
Municipal Land Grants.....	60
Discussion.....	60
CHAPTER FIVE: POTENTIAL REVENUES OF THE PROPOSED BOROUGHES AND THE NECESSITY OF LOCAL TAXES FOR EDUCATION.....	65
Potential Revenues from Entitlement Programs Other than Education.....	66
The Necessity of Local Taxes for Education in the New Boroughs.....	68
Boroughs Where Additional Taxation is Required.....	69
Boroughs Where Additional Taxation is Not Required.....	72
An Unexpected Result: Boroughs with More Education Revenue than Under the Status Quo.....	73
Conclusions.....	74

TABLE OF CONTENTS (Continued)

Page

APPENDICES

A: Sponsor Substitute for House Bill 1.....	A-1
B: Second Sponsor Substitute for House Bill 1.....	B-1
C. Local Education Costs of Boroughs Formed Through Consolidation.....	C-1

LIST OF TABLES

TABLE NO.		Page
1.1	Average Annual Rate of Population Change Between 1980 and 1985 for Organized Borough and Unorganized Borough Census Areas.....	5
2.1	Configuration of Rural Educational Attendance Areas (REAs) and City School Districts into Third Class Boroughs Under House Bill 1 as Used in This Report.....	17
2.2	Communities Located Within Each of the 17 Third Class Boroughs Proposed to be Created Under House Bill 1.....	19
3.1	Full Taxable Property Values of Proposed Boroughs Compared to Values of Existing Boroughs.....	28
3.2	Full Taxable Property Values and Student Populations of Proposed Boroughs Formed by Combining City Districts With Their Surrounding Rural Educational Attendance Area (REAA).....	29
3.3	Local Contributions Required by the Public School Foundation Program of the Proposed Boroughs.....	31
3.4	Comparison of Required Local Contributions Under the Public School Foundation Program to Current Local Contributions of the Proposed Boroughs.....	33
3.5	Estimated Foundation Aid to the Proposed Boroughs.....	35
3.6	School Construction Bonded Indebtedness of City School Districts in 1987.....	37
3.7	Alaska School Districts Ranked by Percent of Total FY 87 Expenditures for Administration.....	41
3.8	Potential Savings From Reduced Administrative Costs From Consolidation of School Districts Under House Bill 1.....	43

LIST OF TABLES (Continued)

TABLE NO.		Page
3.9	Proposed Boroughs Categorized by Their Need to Tax to Meet Their Required Local Contribution Under the Public School Foundation Program.....	45
4.1	Taxes or License Fees Shared with Municipalities and the Effect of Borough Formation on Distribution of These Tax Revenues.....	52
4.2	Estimated Tax Resource Equalization Entitlements of the Proposed Boroughs.....	56
4.3	Estimated Municipal Assistance Entitlements of the Proposed Boroughs.....	58
4.4	Estimated Land Entitlements of the Proposed Boroughs.....	61
4.5	Summary of Effects of New Boroughs on State Revenues and Expenditures.....	62
5.1	FY 87 Shared Tax Revenues of Cities Within the Proposed Boroughs and Estimated Shared Tax Revenues of the Proposed Boroughs.....	67
5.2	Estimated Net Change in Education Revenues of the Proposed Boroughs.....	70
5.3	Proposed Boroughs Categorized by Their Need to Levy Additional Taxes for Education.....	71

LIST OF TABLES (Continued)

TABLE NO.		Page
	<u>Appendices</u>	
C.1	Full Taxable Property Values and Student Population of Proposed Boroughs Formed by Combining City Districts with Their Surrounding Rural Educational Attendance Area (REAA) or by Combining REAAs.....	C-2
C.2	Estimated Required Local Contributions and Foundation Aid to Proposed Boroughs Formed by Combining City Districts with the Surrounding Rural Educational Attendance Area (REAAs) or by Combining REAAs.....	C-4
C.3	Comparison of Required Local Contributions Under the Public School Foundation Program to Current Local Contributions of the Proposed Boroughs Formed Through Consolidation.....	C-7
C.4	Potential Savings From Reduced Administrative Costs From Consolidation of School Districts.....	C-10

LIST OF FIGURES

FIGURE NO.		Page
1.1	Location of the Alaska Unorganized Borough in 1988.....	3
1.2	Unorganized Borough Residents Living in Communities of Various Types and Percent of Unorganized Borough Communities of Various Types.....	7
4.1	Estimated State Revenues From the Oil and Gas Pipeline Property Tax With and Without the Formation of the New Boroughs.....	49

INTRODUCTION

In Alaska, all local government powers, including the powers of education and taxation, are vested in boroughs--a form of local government roughly analogous to the county--and in cities. Local government was provided for in this way by the Alaska Constitution to ensure maximum self-government with a minimum of local government units and tax levying jurisdictions. Alaska currently has 13 boroughs which together encompass about 35 percent of Alaska's land area; the remaining area constitutes a single unorganized borough. The legislature is charged with the provision of services to this unorganized borough.

The legislature is also charged with the duty to establish and maintain a public school system open to all children of the state. To meet this mandate, the legislature in 1962 established a Foundation funding program. The Foundation program has historically paid 100 percent of operational costs not paid by the federal government for schools in Rural Educational Attendance Areas (REAs) which are those schools located outside of cities within the unorganized borough. Receipt of Foundation funds by city and borough school districts, however, has generally been contingent upon raising a certain amount of funds locally. The legislature has also paid costs of constructing schools within the REAs, whereas city and borough districts have had to rely on local revenues for construction of schools. While the legislature in 1980 established a program to reimburse city and borough districts for a portion of their construction costs, funding for this program has been reduced in recent years.

Thus, while the State of Alaska can be categorized as a strong supporter of all its schools, there are two classes of school districts in terms of this support: The school districts in the rural portions of the unorganized borough receive 100 percent of their operating and construction costs from the State, while the city and borough districts do not. The complete subsidization of schools located outside of cities within the unorganized borough by the State raises two issues of long concern to legislators:

Disincentive to Borough Organization. School operation and construction costs are a major component of any local government's budget, and becoming a borough requires that the residents of the area make a local contribution to education. The payment of all school costs by the State and federal governments is a powerful financial disincentive to seeking borough formation.

Equity. Property owners in urban areas of the state pay taxes to support schools, and equity demands that property owners in rural areas of the state also pay taxes to support schools. The lack of local contributions by unorganized borough residents means that communities in the unorganized borough receive a disproportionate share of State education funds.

Eight of Alaska's 13 boroughs were formed during 1963 and 1964 because the legislature required their formation through passage of the Mandatory Borough Act. The legislature is currently considering a similar bill, House Bill 1 (HB 1), which would require REAAs and city school districts in the unorganized borough to combine and form third class boroughs. A third class borough has only two areawide powers: education and taxation. The REAAs have already been delegated the authority to administer education; HB 1 changes the status quo by requiring that the REAAs, as boroughs, exercise taxing power for the support of education. This report is intended to aid in the discussion of HB 1 by:

- estimating the amount of revenue each new borough would have to raise to meet the local contribution requirement;
- evaluating the effect of borough formation on State revenues and expenditures;
- estimating the potential revenues of the new boroughs from entitlement programs other than education; and
- assessing the need for local taxes to maintain education funding in the new boroughs at the current level.

Chapter One provides basic information about the unorganized borough--its political status, population, communities, economy and school system.

In Chapter Two, House Bill 1 is explained. The powers and duties of the third class borough are described, and previous legislation similar to HB 1 is briefly discussed. I also explain the groupings of REAAs and city districts into "proposed boroughs" whose local education costs and potential revenues are analyzed in the remainder of the report.

In Chapter Three, the local education costs of the proposed boroughs are discussed. The amount of local revenue each proposed borough would have to generate to meet the requirement for local contributions to education is

estimated, taking into consideration current local contributions. Debt service requirements for school construction bonds and the possible savings from consolidating districts are also discussed.

Chapter Four examines how the formation of the new boroughs would affect State revenues and expenditures.

In Chapter Five, the potential revenues available to each proposed borough from entitlement programs other than education are analyzed to determine the extent to which local taxation will be required to maintain education funding at current levels.

EXECUTIVE SUMMARY

CHAPTER ONE: THE UNORGANIZED BOROUGH

Political Status and Location

The borough is the form of regional local government in Alaska and was devised by the framers of the Alaska Constitution to provide for ". . . maximum local self-government with a minimum of local government units, and to prevent duplication of tax-levying jurisdictions." Boroughs are the only form of areawide government in Alaska, and they alone are delegated the power to levy taxes on an areawide basis (page 1).

At statehood, the entire state consisted of a single unorganized borough. The legislature was given the responsibility of providing services to the unorganized borough. Since statehood, 13 boroughs have been formed, carving large chunks out of the unorganized borough. The unorganized borough today contains roughly 65 percent of Alaska's land area; it is rural and, for the most part, roadless. The unorganized borough touches all regions of the state, including: western Alaska south of the Seward Peninsula; the Aleutian Islands and all but the southern tip of the Alaska Peninsula; much of Interior Alaska; Prince William Sound; and much of Southeast Alaska. Twelve of the 27 House Election Districts contain unorganized borough lands (pages 1-2).

Population

About 80,000 people, representing roughly 15 percent of Alaska's population, reside in the unorganized borough. Nearly half of unorganized borough residents are Alaska Natives. These Natives are primarily Yu'pik Eskimos, Athabaskan, Tlingit, Haida, and Tsimshian Indians and Aleuts, and they represent over half of Alaska's Native population. Their distribution within the unorganized borough is clumped; Natives comprise over 50 percent of the population in the western and interior regions and smaller percentages elsewhere (pages 2-4).

Communities

Unorganized borough residents live in approximately 190 communities. These communities are of four types recognized under State law: 1) Home rule cities, 2) first class cities, 3) second class cities, and 4) unincorporated communities. Home rule and first class cities must exercise land

use planning and taxation powers, and they must establish and maintain schools. Second class cities are prohibited from establishing a school system; they may tax and plan but are not required to exercise these powers. Unincorporated communities are recognized communities that have not incorporated under State law and therefore have no local powers or duties (pages 4-6).

There are four home rule cities, 15 first class cities, 88 second class cities and over 80 unincorporated communities within the unorganized borough. While home rule and first class cities represent only 10 percent of the communities in the unorganized borough, over 30 percent of unorganized borough residents live in home rule and first class cities. Second class cities represent similar percentages of the number of communities and of population--about 40 percent. Unincorporated communities account for 43 percent of communities, but contain only 20 percent of residents. Approximately ten percent of unorganized borough residents live outside of any recognized community (page 6).

Economy

The communities of the unorganized borough are of two general types in terms of their economies: 1) communities with well-developed cash economies, which are generally those that have organized as first class or home rule cities, and 2) communities with mixed subsistence/cash economies, which are generally those that have organized as second class cities or which have not organized. In those communities with subsistence/cash economies, the cash portion of the economy is derived primarily from government employment and transfer payments and is therefore not particularly robust (pages 6-8).

Education

Education in the unorganized borough was formerly provided by the State through the State Operated School System, and by the U.S. Bureau of Indian Affairs (BIA). Three major changes occurred during the 1970s which created the school system in place today. These changes were:

- The BIA transferred responsibility for its schools to the State.
- The legislature created the Rural Educational Attendance Areas (REAA's) to allow for local control of schools located outside of first class and home rule cities in the unorganized borough.

The State constructed or renovated high schools in 126 communities as the result of the Molly Hootch lawsuit, which required that schools be provided in all communities where there are at least eight elementary students. Molly Hootch schools represent over 70 percent of the schools within today's REAAs.

Today, education in the unorganized borough is provided by 19 city school districts and 22 REAAs. Together these districts operate 208 schools and provide education to over 18,000 students, thereby representing 38 percent of the state's schools but only 18 percent of the state's students. The relatively large number of schools required to educate unorganized borough students is due to the rural nature of the unorganized borough and to settlement of the Molly Hootch case. Because REAAs and city districts do not enjoy the same economies of scale that borough districts do, the costs of operating these districts are relatively high. In FY 87, the State expended a total of \$413.4 million in operational support of schools under the Public School Foundation Program, of which \$132.9 million (32 percent) went to schools in the unorganized borough (pages 8-9).

CHAPTER TWO: HOUSE BILL 1

House Bill 1 mandates the formation of boroughs from the unorganized borough. The first sponsor substitute of House Bill 1, which is the version of HB 1 analyzed in this report, mandates the formation of third class boroughs from all areas which have not incorporated as a borough by July 1, 1989. REAA boundaries form the basis of the new borough boundaries, and city school districts become part of the borough school district in which they are located. All property, contracts and other legal obligations, and faculty and staff of the REAAs and city districts are transferred to the borough upon incorporation.

The Lieutenant Governor is required to hold elections to select the initial assemblies of the boroughs no later than June 1, 1989. These assemblies, which will have seven members elected at large, will provide for the form of representation, composition and apportionment of the assembly. The terms of all REAA and city district school board members end on the date that the election of the initial borough assembly is held (pages 11-12).

The Third Class Borough

The third class borough is a general law municipality that exercises only two areawide powers--education and taxation. In contrast, the other classes of boroughs must exercise three areawide powers--education, taxation and planning. A third class borough may exercise planning and other powers only within a service area. In a third class borough, the assembly is the school board. As in other types of municipalities, the members of a third class borough assembly are elected at large unless another method of election has been approved by the voters (page 12).

Of Alaska's 13 boroughs, only one--the Haines Borough--is a third class borough. The third class borough was, in fact, created in Alaska law by the legislature at the specific request of the people in the Haines area (pages 13-14).

In 1985, the legislature prohibited the formation of any additional third class boroughs. Because a third class borough can exercise discretionary power only on a service area basis, the third class borough does not appear to fully serve the purposes of the local government article of the constitution. The prohibition of additional third class boroughs was intended to ensure that all new boroughs provide integrated areawide government (page 14).

Previous Similar Legislation and Legislative Study

House Bill 1 is directly analogous to the Mandatory Borough Act enacted in 1963. The Borough Act of 1961 had allowed for the formation of boroughs under local option, but after two years only a single borough had formed. The need for local areawide governments was increasing and provided the impetus for the Mandatory Borough Act. This act required that the eight most populous regions of the state incorporate as boroughs by January 1, 1964. As an incentive for incorporation, the legislature provided for grants of both land and money to the new boroughs. By the deadline, four boroughs--the Ketchikan, Sitka, Kodiak, and Juneau boroughs--had formed by local option. Incorporation elections failed in Anchorage, Matanuska-Susitna, Kenai and Fairbanks, and these areas became boroughs by default (pages 14-15).

Only four boroughs have been created by local option since the Mandatory Borough Act. The generally slow development of boroughs and the concomitant equity problems have been of continuing concern to the legislature. Between 1969 and 1979, the legislature considered several bills addressing the organization and financing of regional governments in the unorganized borough. During 1979-1981, there was intensive legislative study of the "local government problem," but there has been little legislative action since. With the introduction of House Bill 1, the stage is set for a replay of many of the issues and concerns that occupied the 1963 Legislature when it passed the Mandatory Borough Act (pages 15-16).

Configuration of School Districts Under House Bill 1

Currently, Alaska is divided into 54 school districts: 13 borough districts, 19 city districts and 22 REAAs. House Bill 1 would affect all 22 REAAs and all 19 city districts. Each REAA would become a borough or be part of a borough, and each city district would be subsumed by a borough (page 16).

Analysis of education costs and potential revenues of the boroughs created by House Bill 1 requires some assumptions about how many boroughs would be formed and which communities would be included in each borough. As

prescribed by the bill, the boundaries of the REAAs in 1982 form the basis of the new borough boundaries. Current incorporation standards require that there be at least two communities and at least 1,000 residents. Following these standards and the instructions of the bill, 17 "proposed boroughs" were defined, as follows (pages 16-22).

Boroughs formed from single REAAs were:

- Alaska Gateway;
- Copper River;
- Delta/Greely;
- Iditarod;
- Kuspuk;
- Lake and Peninsula;
- Railbelt; and
- Yukon Flats.

Boroughs formed by combining districts were:

- Aleutian Region (Unalaska, Adak and Pribilofs);
- Bering Strait (Nome);
- Chatham (Yakutat, Pelican, Hoonah, Skagway);
- Chugach (Valdez, Cordova);
- Lower Kuskokwim (Yupiit);
- Lower Yukon (St. Mary's, KASHANAMUIT);
- Southeast Island (Kake, Petersburg, Wrangell, Klawock, Craig, Hydaburg, Annette Island);
- Southwest Region (Dillingham); and
- Yukon-Koyukuk (Tanana, Galena, Nenana).

CHAPTER THREE: LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

Required Local Contributions Under the Foundation Aid Program

The State of Alaska funds a major portion of the operating costs of public schools through its Foundation aid program. Receipt of Foundation aid by city or borough school districts is contingent upon local contributions that include at least:

- 1) the equivalent of a four mill tax levy on the full and true value of the taxable real and personal property in the district; or
- 2) 35 percent of the district's basic need (page 26).

The "basic need" of each district is determined by a formula that accounts for differences in cost due to location and that provides each district with a set amount to provide a particular type of education to a group of students. The full and true value of taxable real and personal property is determined by the Department of Community and Regional Affairs (DCRA) in

consultation with the assessor of each district. The full value is based on the value of all real and personal property that could be taxed under State law, without regard to what property is actually taxed by the municipality (page 26).

To determine how much each of the proposed boroughs would have to contribute to education, it is necessary to determine both its basic need and its full property value. We assumed that the basic need of each new borough would be the sum of basic need values for all the districts which comprised the new borough. Full property values of the REAAs were estimated by the Department of Community and Regional Affairs in April 1987.

The total full value of the proposed boroughs is \$7.4 billion. Fifty-one percent of this value is derived from the TransAlaska Oil Pipeline, 36 percent from cities, and 13 percent from property other than oil and gas property in the REAAs. In comparison, the total full value of existing boroughs is \$48.4 billion--over six times the value of the proposed boroughs. Most existing boroughs have full values of a billion dollars or more. The five proposed boroughs through which the TransAlaska Oil Pipeline passes have taxable values in the billion dollar range, but the taxable values of the other proposed boroughs are much less, ranging from \$20 million (Kuspuk) to \$359 million (Southeast Island). For those boroughs formed by consolidating city districts and REAAs, the area outside of cities generally represents a smaller percentage of the borough value and a higher percentage of borough student population (pages 26-27).

In total, the proposed boroughs would be required to contribute \$18.7 million for education. Under the status quo, the city districts will be required to contribute \$6.4 million. Thus, the additional amount raised locally due to incorporation of the REAAs is \$12.3 million. Required local contributions for the proposed boroughs range from less than \$100,000 to over \$3.7 million. For most boroughs, the revenue from a four mill property tax is considerably less than 35 percent of their basic need. Only four boroughs--all pipeline boroughs--have potential tax revenues greater than 35 percent of their basic need. For these four boroughs, the required local contribution is 35 percent of their basic need (page 30).

In meeting the local contribution requirement, school districts may include the following types of revenue: tax appropriations, investment earnings, the value of in-kind services, State tuition payments, and ten percent of their federal funds received under Public Law 81-874. Because these kinds of revenues are considered as "local contributions," the amount that a district must raise through taxation to meet its required contribution is reduced. Local contributions of the districts forming the new boroughs in FY 87 were \$15 million, of which only \$6.3 million was tax revenue derived from city districts (pages 30-34).

For ten of the proposed boroughs, current local contributions exceed the required local contributions, and these boroughs could therefore organize without having to levy any additional taxes to meet the required local contribution. In six of these boroughs--Iditarod, Kuspuk, Lower Kuskokwim, Lower Yukon, Lake and Peninsula, and Alaska Gateway--no property taxes are currently levied. That current contributions exceed required contributions in these boroughs is generally the result of low property values combined with high earnings on investments and high PL 81-874 payments. In the four other boroughs whose current contributions exceed the required local contribution--Bering Strait, Aleutians West, Chugach, and Southeast Island--the boroughs include at least one major city district where property taxes are currently levied and a REAA with relatively low property values (pages 44-45).

In the remaining seven boroughs, required contributions exceed current contributions, and these boroughs would have to institute taxes to meet the required local contribution. The four pipeline boroughs which currently levy no property taxes--Yukon-Koyukuk, Yukon Flats, Delta/Greely, and Copper River--would each have to raise \$1.5 to \$3 million and would therefore have to institute a property tax. Three other boroughs (Railbelt, Southwest Region, Chatham) would have to tax to meet their required local contribution, but because the amounts needed to be raised are less than \$200,000, these boroughs could conceivably raise the money through sales taxation (page 45).

Changes in Foundation Aid to the Proposed Boroughs

In 1987, the legislature enacted a new and relatively uncomplicated method to calculate the amount of Foundation aid that school districts will receive. Under this formula, Foundation aid is equal to the basic need of the district minus required local contributions and minus 90 percent of the federal aid received by the district under Public Law 81-874. Under Public Law 81-874, the federal government pays school districts for the potential loss of tax revenue created by the presence of federal land and personnel within the district (page 25).

Under House Bill 1, the amount of Foundation aid--given FY 88 basic need--to the proposed boroughs would be approximately \$13.5 million less than under the status quo. For most of the proposed boroughs, the reductions in Foundation aid are one to four percent, however, for the pipeline boroughs, the declines are much greater--about 40 percent. For the pipeline boroughs, the relatively large reduction in Foundation aid stems from their higher property values. For the other boroughs, their property tax capacity is low relative to their need and subtracting the amount they could raise under a four mill tax does not substantially alter their Foundation aid (pages 34-36).

School Debt Service Requirements

Five of the city districts that would be integrated into boroughs have outstanding bonded indebtedness totalling \$39.6 million for school construction (see below). Upon incorporation, these debts will become borough debts to which the full faith and credit of the borough is pledged. Although funds for repayments would be derived from the area incurring the debt, the debts will affect the new boroughs because a major portion of their property tax capacity will be committed to debt service, thereby reducing the amount of their tax capacity that can be exploited for operating or other expenses (pages 36-39).

SCHOOL CONSTRUCTION BONDED INDEBTEDNESS OF CITY SCHOOL DISTRICTS

CITY	BOROUGH	OUTSTANDING DEBT	REPAYMENT PERIOD
Nome	Bering Strait	\$6.0 million	9 years
Unalaska	Aleutians West	0.9 million	14 years
Valdez	Chugach	19.8 million	13 years
Wrangell	Southeast Island	8.9 million	18 years
Petersburg	Southeast Island	4.5 million	11 years

Potential Savings From Consolidating School Districts

Nine of the 17 proposed boroughs will be formed through consolidation of existing school districts and REAAs or by combining REAAs. Combining districts should reduce costs through the consolidation of central office administrative functions, including: school boards; superintendents' offices; planning and research; fiscal services; central purchasing; and statistical and data processing services.

The estimated savings from consolidation of districts under House Bill 1 total \$4.6 million. For most of the proposed boroughs, the potential savings represent from one to two percent of their expenditures. However, for the two proposed boroughs in Southeast and for the Yukon-Koyukuk, Aleutians West and Chugach boroughs, the potential savings are greater--representing from four to nine percent of current expenditures. These districts each combine two or more city districts with one or more REAAs (pages 39-43).

CHAPTER FOUR: EFFECTS OF BOROUGH FORMATION ON STATE REVENUES AND EXPENDITURES

Effects on State Revenues

Alaska shares revenue with boroughs by allowing boroughs to tax oil and gas pipeline property within the borough's boundaries and through its shared taxes programs. By creating 17 new boroughs, House Bill 1 will decrease State revenues by increasing the amounts of pipeline taxes and shared taxes going to localities (page 47).

The State taxes oil and gas pipeline property at the rate of 20 mills. Municipalities that contain this property are required to levy and collect a tax on the property at the same rate of taxation that applies to other property taxed within the municipality, and these local taxes are credited against the amount due the State. Thus, for each dollar raised locally from the pipeline, State General Fund revenues are reduced one dollar. If the affected boroughs set their property tax rates at four mills, revenues from taxation of the pipeline by the proposed boroughs will be about \$10 million, thus General Fund revenues will be reduced about \$10 million (page 48).

Taxes or license fees from seven sources are refunded in total or in part to the local government in which the taxed activity occurred. These shared taxes include gaming taxes, the aviation fuel tax, utility cooperative taxes, liquor license fees, and the fisheries business tax. In FY 87, over \$28 million was collected from these sources, of which \$10.3 million (37 percent) was refunded to local governments. Under House Bill 1, an additional \$3.2 million would be refunded (pages 50-53).

Effects on State Expenditures

The State transfers funds to boroughs through several entitlement programs, including the Public School Foundation, Municipal Assistance, and Revenue Sharing programs, which provide entitlements on an annual basis. The Transitional Assistance and Municipal Land Grants programs are nonrecurring entitlements provided at the time of borough formation.

Required local contributions for education by the new boroughs will result in a \$13.5 million decrease in the amount the State would otherwise spend on Foundation aid under the status quo (page 54).

Under the Revenue Sharing program, funds are distributed to municipalities from two accounts: the Tax Resources Equalization Account and the Miscellaneous Municipal Services Account. A municipality's entitlement from the equalization account is based upon how much tax effort it makes relative to the value of its property and upon its population. To receive funds from the miscellaneous account, a municipality must provide certain services.

Each new borough that levies taxes of some sort will be eligible for Revenue Sharing funds from the equalization account. We do not know how much tax effort each new borough will make, so we cannot make a precise estimate of their entitlements. We do know that formation of 17 new boroughs will increase the total entitlement granted by statute, and the legislature will need to appropriate an increased amount to the account to give each municipality its full entitlement. If the new boroughs each raise enough revenue through taxation to produce a millage rate equivalent of 3.5, a value typical of smaller boroughs, a total of \$1.4 million would be required (pages 54-56).

Under the Municipal Assistance program, the State distributes funds to municipalities based on Corporate Income Tax revenues generated within the municipality. Each municipality's entitlement is equal to a base amount plus a prorated share of any additional amount appropriated. For municipalities formed prior to 1977, the base amount is the amount received under the former Gross Business Receipts Tax program in FY 78. For boroughs formed after 1977, the base amount is equal to the base amount received by the existing borough whose population outside cities most closely approximates the population outside cities of the new borough (page 57).

The formation of the 17 new boroughs will add \$3.8 million to the total base entitlement, raising it from \$10.6 to \$14.4 million. The base entitlements of most of the boroughs would be relatively small amounts, i.e. less than \$35,000. Three of the boroughs (Southeast Island, Copper River, Delta/Greely), however, have populations that most closely correspond to the population of the North Slope Borough, which had FY 78 business tax refunds totalling \$1.2 million. For these boroughs, the base entitlement is \$1.2 million (page 57).

The formation of 17 new boroughs will increase the portion of the Municipal Assistance fund devoted to "base" entitlements, thereby decreasing the portion that is "excess" and divided on a per capita basis. If the total appropriation to Municipal Assistance were to remain the same--\$65 million--and the 17 new boroughs were formed, the excess entitlement would drop from \$99 to \$88 per capita. To keep the excess entitlement at \$99 per capita, an additional \$6.1 million would be required (page 59).

The State provides grants to new boroughs to help defray the costs of transition to borough government. The grants are \$300,000 for the first full or partial fiscal year, \$200,000 for the second year, and \$100,000 for the third year. The total amount that would be needed for organization grants for the 17 new boroughs would \$10.2 million; these monies would be disbursed over a three year period (page 59).

The Department of Community and Regional Affairs (DCRA) is required to assist each new borough in establishing the initial sales tax department and in determining the initial property tax assessment roll, if the new

borough establishes these taxes. We do not know how much would be required for DCRA to fulfill each of these obligations, but a considerable sum could be required, particularly if the new boroughs choose to institute a property tax (page 59).

New boroughs are entitled to a general land grant equal to ten percent of the maximum total acreage of vacant, unappropriated and unreserved State land within their bounds. However, a new borough may not receive more than 20 acres per person. The estimated total land entitlement for the proposed boroughs is 787,231 acres. Estimated costs to transfer these lands are \$1 million, to be expended over several years (page 60).

In summary, the effects of borough formation on oil and gas property tax and shared tax receipts will largely offset the \$13.5 million annual reduction in Foundation aid. An additional \$8 million will be required annually for the Municipal Assistance and Revenue Sharing programs, if the entitlements of existing municipalities are to stay the same, and an estimated \$12 million will be required for initial borough formation expenses (pages 60-63).

CHAPTER FIVE: POTENTIAL REVENUES OF THE PROPOSED BOROUGHS AND THE NECESSITY OF LOCAL TAXES FOR EDUCATION

The need for local taxes for education in the proposed boroughs was analyzed by examining the net change in education revenues that would occur upon organization. To a third class borough, whose only areawide powers are education and taxation, revenues from the shared taxes, Revenue Sharing and Municipal Assistance programs are, in fact, education revenues. These additional entitlements will offset, to varying degrees, the reductions in Foundation aid. In addition, savings from consolidation should also offset the reductions in Foundation aid (page 65).

Local taxes will be required in the new boroughs if current local contributions are less than the required local contribution. In addition, boroughs must tax to maintain education expenditures if the combination of additional entitlements, consolidation savings, and tax revenues necessary to fulfill the required local contribution do not offset the reductions in Foundation aid (page 68).

The additional entitlements offset nearly \$10 million of the \$13.5 million shortfall in Foundation aid to the proposed boroughs, and the savings from consolidation offset another \$4.6 million. The distribution of the entitlement dollars and of consolidation savings among the proposed boroughs is uneven, however, and some boroughs have a net increase in revenues while other boroughs have a net decrease. For the boroughs with a net decrease, local taxes must be levied--in addition to any taxes already levied in cities for education and to any taxes needed to fulfill the local contribution requirement--to maintain education funding at the current level (page 69).

Ten boroughs would need to levy additional taxes for education:

- Six boroughs must tax to meet their required local contribution but do not need to raise additional funds. These boroughs include three pipeline boroughs--Yukon-Koyukuk, Delta/Greely, and Copper River--which must each raise \$1.5 to \$3 million to meet their local contribution, and three other boroughs--Southwest Region, Railbelt and Chatham--which each need to raise less than \$200,000.
- Three boroughs do not need to tax to meet their required local contribution but must tax to cover the portion of the reduction in Foundation aid not offset by additional entitlements and consolidation savings. These boroughs include the Iditarod and Kuspuk boroughs, which would need to raise less than \$35,000 to maintain education funding, and the Lower Kuskowkim borough which would need to raise \$650,000.
- One borough--the Yukon Flats borough--would need to raise \$1.9 million to fulfill its local contribution requirement and an additional \$11,500 to maintain education funding (pages 69-72).

Seven boroughs would not need to levy taxes--in addition to any currently levied for education by cities within the borough--because their current local contributions exceed their required local contributions and because additional entitlements and consolidation savings offset the reductions in Foundation aid. These boroughs include the Bering Strait, Aleutians West, Chugach and Southeast Island Boroughs, which each include city districts that currently tax for schools, and the Lower Yukon, Lake and Peninsula and Alaska Gateway boroughs, which are formed from REAAs. The boroughs formed from REAAs could organize without levying local taxes and actually increase revenues for schools. For the boroughs which include cities, the current tax appropriations for school operations could be reduced or eliminated (page 72).

An Unexpected Result: Boroughs with More Education Revenue Than Under the Status Quo

When the additional entitlements, tax revenues needed to fulfill the local contribution, and consolidation savings are considered, 13 of the proposed boroughs have more revenues for education than under the status quo:

- For the Bering Strait, Chugach, Alaska Gateway and Railbelt boroughs, the increases are less than \$50,000 and are therefore insignificant.

- For the Southwest Region, Yukon-Koyukuk, Lower Yukon, and Lake and Peninsula boroughs, the increases are moderate, ranging from \$200,000 to \$500,000.
- For the Aleutians West, Southeast Island, Delta/Greely, Copper River and Chatham boroughs, the increases are on the order of \$1 million and are therefore significant (page 73).

For three of the boroughs that would have increased revenues of over \$1 million, the increase is largely due to receipt of a base Municipal Assistance entitlement of \$1.2 million. The base entitlement of a new borough is the base entitlement of the existing borough that has a similar population residing outside cities. The Southeast Island, Delta/Greely, and Copper River boroughs each have populations outside cities that correspond most closely to population outside cities in the North Slope Borough. Because the North Slope Borough has a base entitlement of \$1.2 million, these new boroughs would have base entitlements of \$1.2 million (pages 73-74).

Consolidation savings and fisheries business tax refunds are also important in increasing education revenues for some boroughs, particularly the Southeast Island, Chatham and Aleutians West boroughs.

The four boroughs that would not have increased education revenues are the Lower Kuskokwim, Iditarod, Kuspuk and Yukon Flats boroughs. Without local taxes, these boroughs would have decreased revenues.

Conclusions

In the long run, all of the proposed boroughs will surely have to levy local taxes to support school operation and construction and other borough duties, and careful study of fiscal capacity should therefore be a prerequisite of borough formation. Nonetheless, this analysis of the finances of the proposed boroughs dispels the commonly held notion that there is a financial disincentive to borough formation. In fact, the converse is true: Under the current laws governing the transfer of State funds to local governments, most areas of the unorganized borough would benefit financially from organization.

This analysis suggests that the legislature should re-evaluate the methods by which State funds are distributed among local governments. The method of determining the base Municipal Assistance entitlement of new boroughs produces inequitable results: Based solely on the number of people residing outside cities, some boroughs would receive a base entitlement of \$7,275; others would receive a base entitlement of \$1.2 million. Such large differences in entitlements help create the situation where some new boroughs could organize without levying additional taxes and other new boroughs could not (pages 74-75).

CHAPTER ONE
THE UNORGANIZED BOROUGH

POLITICAL STATUS

In Alaska, regional local government is provided by the borough. The borough was devised by the framers of the Alaska Constitution to provide for:

". . . maximum local self-government with a minimum of local government units, and to prevent duplication of tax-levying jurisdictions."¹

Boroughs are analogous to counties in that boroughs provide areawide government, but unlike counties, boroughs are the only form of areawide government in Alaska, and they alone were delegated the power to levy taxes on an areawide basis. Thus, in Alaska, the multiplicity of single purpose jurisdictions common in other states is avoided.

Deciding that boroughs could not be expected to form immediately upon statehood, and that some rural areas would not be financially or otherwise ready to organize for some years, the framers of the constitution mandated that the state would be divided into boroughs, organized and unorganized. At statehood, the entire state consisted of a single unorganized borough. The legislature was given the responsibility of providing what services were necessary to this unorganized borough, and the legislature was given the power to exercise any power or function that the assembly of an organized borough may exercise. In providing for services in the unorganized borough, the legislature was to allow maximum local participation and responsibility.

In a sense, "unorganized borough" is a contradiction of terms, because a borough is, by definition, organized. The framers of the Alaska Constitution viewed local government as the highest form of democracy and wished to promote its development within the state. By dividing the entire state

¹Alaska Constitution, Article X, Section 1.

THE UNORGANIZED BOROUGH

into boroughs, organized and unorganized, they expressed their view that eventually all areas of the state would be organized at the local level. The legislature would simply provide services on an areawide basis until the residents of the unorganized borough were ready to assume responsibility over their affairs. As a political subdivision, the unorganized borough may be thought of as a "holding tank" for communities that have not yet joined together to form a local areawide government.

LOCATION

Since the unorganized borough is comprised of those areas not within organized boroughs, the boundaries of the unorganized borough are subject to change. At statehood, the entire state constituted a single unorganized borough. Since statehood, 13 boroughs have been formed, thereby carving large chunks out of the unorganized borough. The unorganized borough today comprises roughly 65 percent of Alaska's land area (Figure 1.1) touching all but the most northern regions of the state and including: western Alaska south of the Seward Peninsula; the Aleutian Islands and all but the southern tip of the Alaska Peninsula; much of both the roaded and unroaded portions of Interior Alaska; Prince William Sound; and, much of Southeast Alaska.

The unorganized borough falls within 12 of the 27 House of Representative Election Districts. Districts 17, 23 and 25 consist entirely of unorganized borough land, and Districts 1, 2, 3, 6, 21, 24, 26, and 27 contain both organized and unorganized borough lands.

The unorganized borough is rural and primarily roadless. Approximately 30 of the unorganized borough's 190 communities are located on Interior highways; otherwise, the communities in the unorganized borough are not connected by roads.

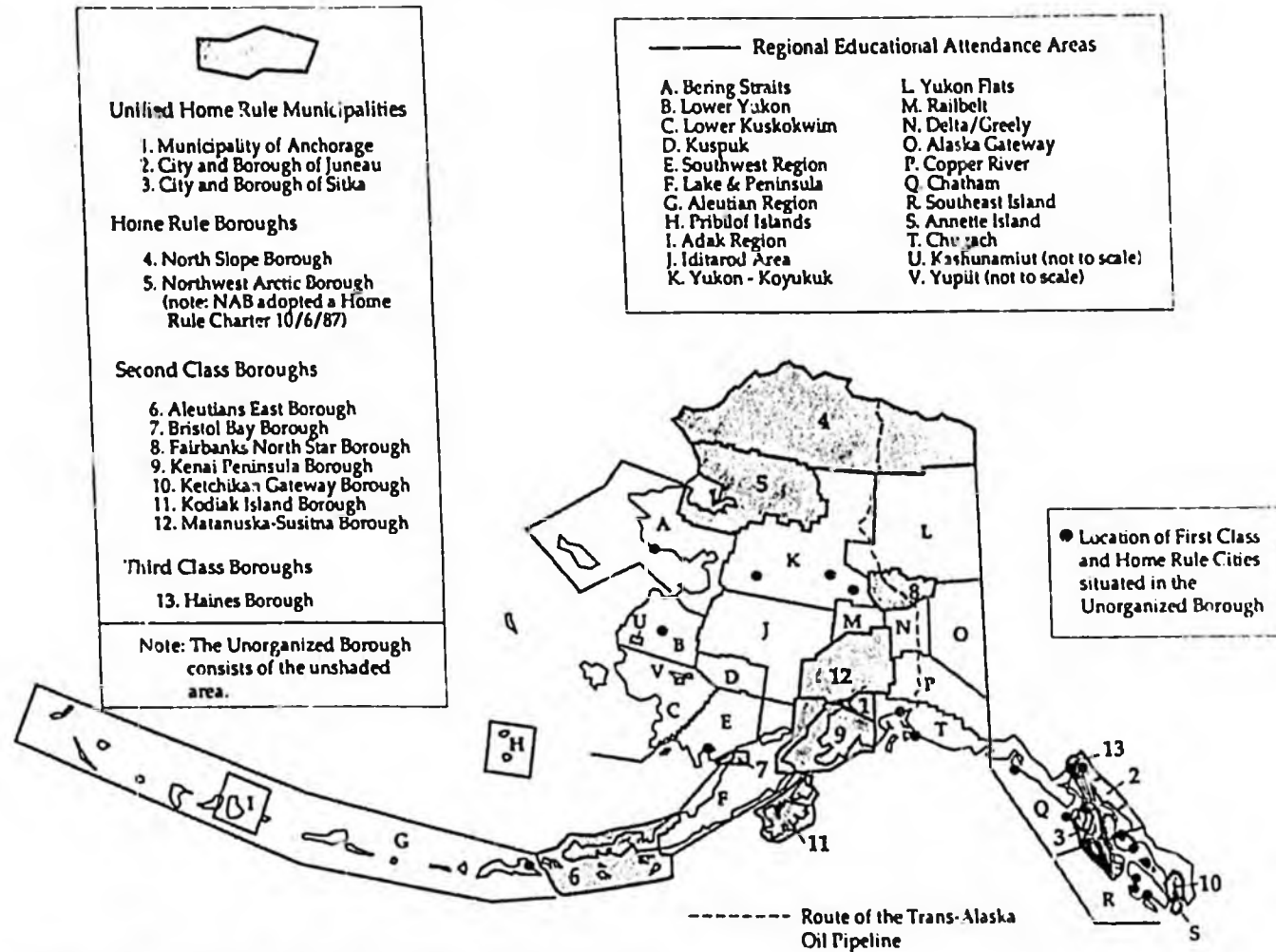
POPULATION

About 80,000 of the state's 539,600 residents, roughly 15 percent, lived in the unorganized borough in 1985. In 1980, the population of today's unorganized borough was 69,949 people.² Thus, over this five year period, the population grew by 11,694 people--an increase of 17 percent. During this same period, the population of the organized areas of the state grew by 126,065 people--an increase of 38 percent. During the 1980s, the population of the unorganized borough has grown at a generally slower rate

²This population figure does not include the Kobuk Census Area which in 1980 was part of the unorganized borough but which is today the Northwest Arctic Borough.

FIGURE 1.1

LOCATION OF THE ALASKA UNORGANIZED BOROUGH IN 1988



Source: Alaska Department of Community & Regional Affairs

THE UNORGANIZED BOROUGH

than the population of the boroughs. The major component of Alaska population growth during this period was in-migration, and as shown in Table 1.1, the impact of these migrants has been felt more heavily in urban than in rural areas.

According to the 1980 U.S. Census, which provides the most recent assessment of the racial composition of Alaska's population, nearly 47 percent of unorganized borough residents are Yu'pik Eskimos, Athabascan, Tlingit, Haida, and Tsimshian Indians, and Aleuts.³ These 32,727 Natives represented 51 percent of Alaska's 64,949 Natives.

While Alaska Natives represent a significant proportion of the unorganized borough population, their distribution is clumped. Alaska Natives comprise over 50 percent of the population in certain regions of the unorganized borough, notably the Bethel, Dillingham, Wade Hampton and Yukon-Koyukuk Census Areas. Alaska Natives comprise from 20 to 40 percent of the population of the census areas in the Aleutian, Bering Straits, and Southeastern regions. In the Southeast Fairbanks and Prince William Sound regions, Alaska Natives comprise about 13 percent of the population.

COMMUNITIES

Unorganized borough residents live in approximately 190 communities which range in size from Tatalina in the Yukon Flats area with 13 people, to Bethel, the largest community, with 4,462 people. These communities are of four types recognized under State law:

- 1) Home Rule Cities. These are cities that have adopted a home rule charter specifying the powers and duties of the city. As home rule cities located outside of a borough, these cities are required to establish and maintain schools. They are also required to exercise land use planning and taxation powers. There are four home rule cities in the unorganized borough: Cordova, Valdez, Petersburg and Wrangell.
- 2) First Class Cities. These cities do not have charters and may exercise only those powers conferred by State law. They must meet certain standards for incorporation and must have populations of 400 or more persons. As first class cities outside of a borough, these cities must--as home rule cities must--operate a public school system and exercise planning and taxation powers. There are 15 first class cities in the unorganized borough.

³Most of Alaska's Inupiaq Eskimo population resides in the North Slope and Northwest Arctic Boroughs.

TABLE 1.1

AVERAGE ANNUAL RATE OF POPULATION CHANGE BETWEEN 1980 AND 1985 FOR ORGANIZED
BOROUGH AND UNORGANIZED BOROUGH CENSUS AREAS

Organized Borough Census Areas		Unorganized Borough Census Areas	
	Average Annual Rate Of Change		Average Annual Rate of Change
Matanuska-Susitna	12.98%	Prince of Wales-Outer Ketchikan	4.11%
Kenai	7.73	Dillingham	3.37
Anchorage	5.10	Southeast Fairbanks	3.16
Fairbanks	5.04	Wade Hampton	2.75
Juneau	4.92	Nome	2.72
Kodiak	4.59	Bethel	2.35
North Slope	4.43	Yukon-Koyukuk	2.14
Bristol Bay	2.91	Aleutian Islands	2.11
Northwest Arctic	2.81	Wrangell-Petersburg	1.22
Haines	2.44	Valdez-Cordova	0.62
Ketchikan	0.66	Skagway-Yakutat-Angoon	0.44
Sitka	0.04		
AVERAGE	4.47	AVERAGE	2.27

Source: Alaska Department of Labor.

THE UNORGANIZED BOROUGH

- 3) **Second Class Cities.** Second class cities must meet the same standards for incorporation as first class cities except they may have less than 400 residents. (They may also have more than 400 residents.) Second class cities are prohibited from operating a school district. They are not required to exercise planning power, but they may elect to do so. They may levy both property and sales taxes. There are 88 second class cities in the unorganized borough.
- 4) **Unincorporated Communities.** These are recognized communities that have not incorporated under State law and therefore have no local powers or duties. There are over 80 of these communities in the unorganized borough.

First class and home rule cities represent only 10 percent of the communities in the unorganized borough, but over 30 percent of unorganized borough residents live in these cities (Figure 1.2). Second class cities represent about 40 percent of the number of communities, and about 46 percent of the population live in second class cities. Unincorporated communities account for 43 percent of communities, but contain only 20 percent of the residents. Approximately ten percent of unorganized borough residents live outside of any recognized community.

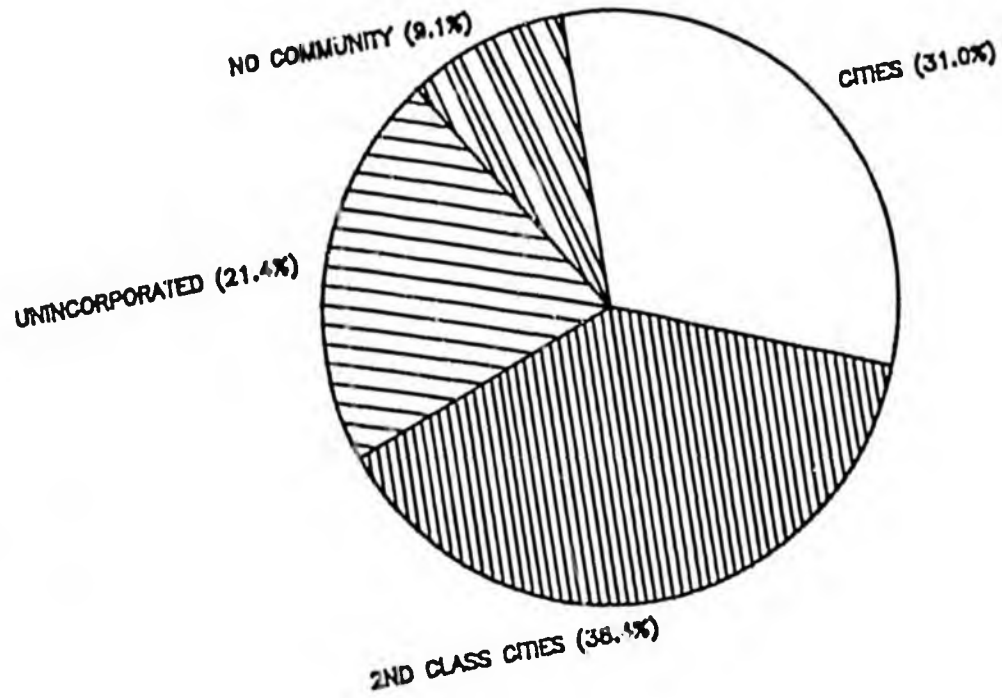
The above discussion categorized communities by how they are recognized under the State municipal code. These communities may also be categorized by how they are recognized under federal law. Some 77 villages in the unorganized borough are recognized under the Indian Reorganization Act. One community in the unorganized borough, Metlakatla, is an Indian village incorporated under federal law. Of the 190 communities in the unorganized borough, 144 are Native villages recognized under the Alaska Native Claims Settlement Act (ANCSA). Two communities, Adak and Fort Greely, are federal military bases.

ECONOMY

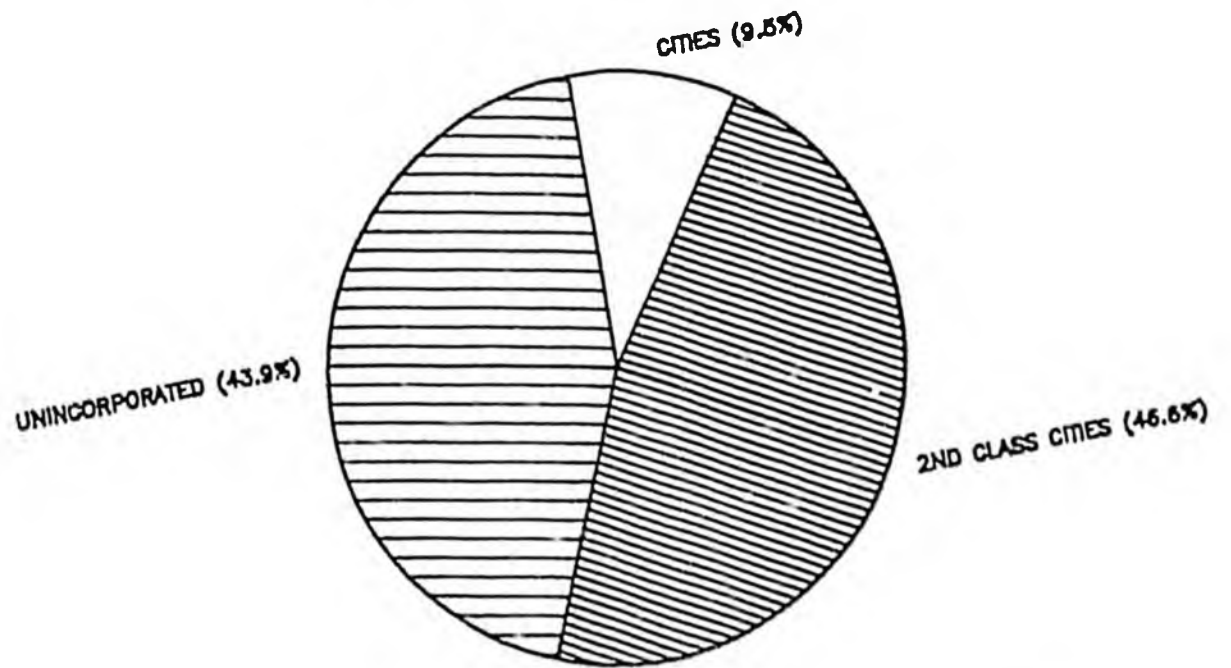
A detailed description of the economy of the unorganized borough is beyond the scope of this introductory chapter, but a general description is provided. The unorganized borough encompasses a large area that crosses regional boundaries and therefore does not, on its own, comprise an easily defined economic unit. In general, however, the communities of the unorganized borough are of two economic types: 1) communities with well-developed, relatively self-sufficient cash economies; and 2) communities with a mixed subsistence/cash economy.

The communities with well-developed cash economies are generally the communities that have organized as first class or home rule cities. The economies of these communities are based on such activities as fish harvesting and processing, tourism, and oil and gas transportation.

FIGURE 1.2
UNORGANIZED BOROUGH RESIDENTS LIVING IN
COMMUNITIES OF VARIOUS TYPES



PERCENT OF UNORGANIZED BOROUGH
COMMUNITIES OF VARIOUS TYPES



THE UNORGANIZED BOROUGH

The communities with mixed subsistence/cash economies are generally those that have organized as second class cities or those which have not organized. Cash in a mixed subsistence/cash economy is used to purchase the equipment and supplies needed to undertake subsistence activities. The cash portion of the economies of these communities is based primarily on government employment and transfer payments. For those coastal communities that support fish harvesting and processing, fishing may also provide a significant source of cash.

Because much of the cash in these communities is derived outside the region, i.e., government payrolls and transfer payments, and because much of the cash generated by fishing leaves the region (and the State), the cash economy of many unorganized borough communities is not particularly robust. The relative fragility of the rural cash economy has been underscored by recent events: when the drastic drop in oil prices significantly reduced State revenues, State funds to rural communities were also significantly reduced, precipitating what has been termed the "rural economic crisis." The relative fragility of the cash economy of many unorganized borough communities is of significance to the question of borough formation because boroughs are dependent, in part, on local revenues.

EDUCATION

Education in the unorganized borough was provided initially by two entities: the State, through the State Operated School System, and the U.S. Bureau of Indian Affairs (BIA), which operated schools for Alaska Natives. During the 1970s, three major changes occurred which created the school system of the unorganized borough today:

- The BIA transferred responsibility for its schools to the State.
- The Alaska Legislature created Rural Educational Attendance Areas to allow for local control of schools located outside of first class and home rule cities in the unorganized borough. The REAAs were delegated the authority to operate the schools in their region. The REAAs were similar to city and borough districts in their functions, but because REAAs did not have the authority to tax, the State continued to provide funds for operation and construction of REAA schools.
- The State constructed or renovated high schools in 126 communities in the unorganized borough, primarily within the REAAs, as the result of the Molly Hootch lawsuit. These Molly Hootch schools represent over 70 percent of the schools within today's REAAs.

Education in the unorganized borough today is provided by 19 city school districts and 22 REAAs. Together, these districts operate 208 schools and provide education to over 18,000 students. There were a total of 550 public schools and 102,212 students in public schools in Alaska in FY 87, thus school districts in the unorganized borough are responsible for the operation of 38 percent of the state's schools yet they educate only 18 percent of its students. The relatively large number of schools required to educate unorganized borough students is related to the rural nature of the unorganized borough, i.e., it has many small communities rather than one or two large communities, and to the settlement of the Molly Hootch case, which required that schools be provided in all communities where there are at least eight elementary school students.

Thus, unorganized borough school districts do not enjoy the same economies of scale that organized borough districts do, and the costs of operating the unorganized borough districts are consequently relatively high. The higher costs of these unorganized borough schools are recognized by the State in the formula it uses to calculate the amount of Foundation aid each district receives, and the REAAs receive a higher percentage of the total appropriated to the Public School Foundation Program than would be expected based on the number of students in the unorganized borough. In FY 87, the State expended a total of \$413.4 million in Foundation funding of which \$132.9 million, 32 percent, went to school districts in the unorganized borough.

CHAPTER TWO

HOUSE BILL 1

This chapter is devoted to a discussion of House Bill 1.⁴ First, House Bill 1 is explained. Because HB 1 would create up to 21 new third class boroughs, and because the third class borough is a rare creature-- there is only one in the state--and thus relatively little known, a brief history and explanation of the third class borough is provided. To put HB 1 into perspective, previous similar legislation is recalled. Analysis of education costs and potential revenues of the individual boroughs that would be created under HB 1 required some assumptions about how Rural Educational Attendance Areas and city districts would be combined; consolidation of REAAs and city districts into the 17 proposed boroughs whose education costs and potential revenues are evaluated in the following chapters is described.

HOUSE BILL 1

House Bill 1, introduced by Representatives Ron Larson and Curt Menard, mandates the formation of third class boroughs from the Rural Educational Attendance Areas, effective July 1, 1989. The current version of the bill, Sponsor Substitute for House Bill 1 (SSSB 1), is divided into five sections, described below.

Section 1 mandates the creation of boroughs from the REAAs on July 1, 1989 and specifies how the boroughs will be created. The REAA boundaries in effect on July 1, 1982 will form the basis for the new borough boundaries. City school districts located within the boundaries of boroughs formed under this bill will become part of the new borough school district.

The Lieutenant Governor is required to hold elections to select the initial assemblies of these boroughs no later than June 1, 1989. The initial assembly of each borough will have seven members elected at large and will provide for the form of representation, composition and apportionment of the assembly.

.....

⁴The version of HB 1 analyzed in this report is the Sponsor Substitute dated March 13, 1987. A copy of the bill is found in Appendix A. Just as this report was being completed, a second Sponsor Substitute was introduced which requires that the Local Boundry Commission determine how the unorganized borough should be divided into new boroughs or annexed to existing boroughs. The new version also requires the foundation of home rule boroughs. The second Sponsor Substitute is found in Appendix B.

HOUSE BILL 1

Section 2 addresses transition. The Department of Education (DOE) is charged with assisting the transition from REAA to borough status. On the effective date, July 1, 1989:

- all property of the REAAs and city districts becomes the property of the boroughs;
- each borough succeeds to all contracts, obligations and other proceedings, pending or in effect, of the REAAs and city districts forming the borough; and
- all faculty and staff of the REAAs and city districts are transferred to the boroughs.

The terms of all REAA and city district school board members end on the date that the election of the initial borough assembly is held.

Section 3 directs the Division of Legal Services of the Legislative Affairs Agency to prepare a bill entitled "An Act relating to the unorganized borough, school districts, and third class boroughs." This act would make the changes necessary to implement Sections 1 and 2 of HB 1.⁵

Sections 4 and 5 specify effective dates for the other sections. Section 5 specifies that Section 3, which directed the preparation of an implementing act, would occur immediately. Section 4 specifies that Sections 1 and 2 become effective on the effective date of the act prepared under Section 3.

THE THIRD CLASS BOROUGH

The third class borough exercises only two areawide powers--education and taxation. In contrast, the other classes of boroughs must exercise three areawide powers--education, taxation, and planning. While it is tempting to classify the third class borough as simply a school district with taxing power, that classification is incorrect: A third class borough may exercise planning and other powers within a service area.

The third class borough is a general law municipality which has legislative powers conferred by law, not by charter. In a third class borough, the assembly is the school board. The mayor of the borough serves as both the president of the school board and presiding officer of the assembly. As in other types of municipalities, the members of a third class borough school board are elected at large, unless another method of election has been approved by the voters.

⁵At minimum, AS 29.05.031(b), which prohibits the formation of third class boroughs, would have to be repealed.

Of Alaska's 13 boroughs, only one--the Haines Borough--is a third class borough.⁶ The third class borough was, in fact, created in Alaska law by the legislature at the specific request of the people in the Haines area. Since long before statehood, the people of the Haines area had operated an independent school district, and it was their wish to continue operating this district despite the constitutional provision that the only local governmental units that could tax were cities and boroughs. Since the Haines Independent School District encompassed areas outside the city limits, the City of Haines could not assume the responsibilities of the independent school district. Although the people of the Haines area continued to operate their school district, their actions were technically illegal.

An early version of the Mandatory Borough Act of 1961 included Haines as one of the several areas mandated to become boroughs by January 1, 1964 (see discussion below). These boroughs would exercise three areawide powers--education, taxation, and planning. The Haines people were adamant that they did not want to become this type of borough--they just wanted to operate their schools--and they were successful in lobbying for the removal of Haines from the act.

The continued operation of their independent school district was still in violation of the law, and recognizing that the removal of Haines from the Mandatory Borough Act had only bought them some time, they began the process of forming a borough. The only forms of boroughs available to them required that the borough exercise the planning function on an areawide basis, and the voters continued to reject borough formation. Finally, the people of Haines went to the legislature and asked that a new form of borough be created--one which had only two mandatory areawide powers--the powers of education and taxation. They were successful in their efforts, and in 1969, the Haines third class borough was incorporated.

Today, the Haines Borough continues to operate its schools and to tax on an areawide basis. The Haines Borough also maintains a library and a museum; the operation of these institutions is considered to be a legitimate use of the education power. Several fire district service areas have been formed,

⁶Current Haines Borough Mayor R.E. Henderson, who has been an active participant in Haines area local government since before statehood, kindly related the story of how the Haines Borough was formed. Further information can be found in "A Short History of Haines Local Government," a ten-page report prepared by Karl Ward for the Haines Centennial Commission in 1980 and available from the Haines Borough.

HOUSE BILL 1

and one group of citizens is currently investigating the possibility of forming a planning and zoning district. The Haines Borough sold most of the lands it received from its land entitlement and placed the receipts in a Permanent Fund.⁷ The earnings from this fund will eventually be used to decrease property taxes. As a borough, the Haines Borough receives Municipal Assistance, Revenue Sharing and Shared Taxes. These funds are expended on education.

In 1985, the legislature prohibited the formation of additional third class boroughs.⁸ Undoubtedly, the creation of the third class borough in Alaska law provided for the Haines situation during a time of transition. However, because a third class city borough can exercise discretionary power only on a service area basis, the third class borough does not appear to fully serve the purposes of the local government article of the constitution, and the prohibition of additional third class boroughs was intended to ensure that boroughs provide integrated areawide government.

PREVIOUS SIMILAR LEGISLATION AND LEGISLATIVE STUDY

House Bill 1 is directly analogous to the Mandatory Borough Act enacted in 1963.⁹ The Borough Act of 1961 had allowed for formation of boroughs under local option. After two years, only a single borough--the tiny Bristol Bay Borough--had formed, and it was obvious that local initiative was not working. The need for local areawide governments was increasing, however. There was an increasing demand for local services, particularly in the areas outside of cities, an increasing demand for local control of essentially local functions, a need to equalize tax burdens, and a need to integrate the special service districts--like the Haines Independent School District--into constitutional forms of local government. These needs provided the impetus for passage of the Mandatory Borough Act.

⁷Under AS 29.65, boroughs are entitled to ten percent of the vacant, unappropriated and unreserved State land within their boundaries. The Haines Borough received a land entitlement of 2,800 acres.

⁸Alaska Statute 29.05.031.

⁹This discussion of the Mandatory Borough Act relies primarily upon "The Borough: History, Powers, and Organization," pp. 1 - 80 in The Metropolitan Experiment in Alaska by Ronald C. Cease and Jerome R. Saroff, Frederick A. Praeger, Publishers, 1968, 449 pp.

The Mandatory Borough Act required that the eight most populous regions of the state incorporate as boroughs. Any of the designated regions not incorporated by local option by January 1, 1964 would become boroughs by default on that date. To provide an incentive for incorporation, the legislation provided for grants of both land and money to the new boroughs. By January 1, 1964, four boroughs--the Ketchikan, Sitka, Kodiak and Juneau boroughs--were formed by local option. Incorporation elections failed in the Anchorage, Matanuska-Susitna, Kenai and Fairbanks areas, and these areas became boroughs by default.

Since the creation of eight boroughs under the force of the Mandatory Borough Act, only four boroughs have been created by local option. The first of these was the Haines Borough in 1969. In 1972, the North Slope Borough was incorporated to take financial advantage of the presence of a world class oil field within its bounds. No boroughs were formed for 14 years. Then, in 1986, the Northwest Arctic Borough was formed due to the impending construction of a world class mine within its bounds. Most recently, the Aleutians East Borough was formed, incorporating in October 1987.

The generally slow development of boroughs and the concomitant equity problems have been of continuing concern to the legislature. Between 1969 and 1979, the legislature considered at least eight bills addressing the organization and financing of regional governments in the unorganized borough.¹⁰ During the period 1979 - 1981, the House and Senate Community and Regional Affairs Committees and the Department of Community and Regional Affairs (DCRA) conducted an extensive study of the "local government" problem, including holding hearings in many villages and contracting with outside experts for reports on various aspects of the problem.¹¹ Although two regions--the Yukon Flats and the Yukon-Kuskokwim Delta (Association of Village Council Presidents area)--conducted borough formation studies during this period, neither ever held an incorporation election.

Between 1981 and the present, there appears to have been little interest at the State level in addressing the continuing slow development of boroughs by local initiative. With the introduction of HB 1 in 1987, the stage is

¹⁰See Section V (Legislative proposals related to organization and financial equalization in the unorganized borough) in "A Final Report Prepared by the Joint Senate and House Community and Regional Affairs Committee Local Government Study," January 1980.

¹¹The findings of the DCRA study were published in a report entitled "Problems and Possibilities for Service Delivery and Government in the Alaska Unorganized Borough," 1981.

HOUSE BILL 1

set for a replay of many of the same issues and concerns that occupied the 1963 Legislature when it passed the Mandatory Borough Act.

CONFIGURATION OF SCHOOL DISTRICTS UNDER HOUSE BILL 1

Currently, Alaska is divided into 54 school districts: 13 borough districts, 19 city school districts and 22 REAAs. House Bill 1 would affect all 22 REAAs and all 19 city school districts. Each REAA would become a borough or be part of a borough, and each city district would be subsumed by a borough.

Analysis of education costs and potential revenues of the boroughs created by HB 1 required some assumptions about how many boroughs would be formed and which communities would be included in each borough. As prescribed by HB 1, the boundaries of the REAAs in 1982 formed the basis of new borough boundaries. The Kashanamuit and Yupiit REAAs were formed after 1982, thus these REAAs were merged with their surrounding REAAs. All city districts were placed within their surrounding REAAs. Current standards for incorporation of a borough require that there be at least two separate communities and that there be at least 1,000 residents.¹² To be consistent with these standards, the Adak, Pribilof and Annette Island REAAs, which alone did not meet these standards, were incorporated into adjoining REAAs.

The result is 17 new boroughs formed from 22 REAAs and 19 city school districts.¹³ Table 2.1 shows how REAAs and city districts were combined to form these boroughs. These are the "proposed boroughs" whose education costs and potential revenues are analyzed in the remainder of this report. Further information about these boroughs, including a listing of all

¹²See 19 AAC 10.160 for standards for incorporation of organized boroughs.

¹³While the combination of districts could be different than presented here, two important effects of HB 1 on the configuration of school districts in the state should be noted. First, the total number of school districts would be significantly reduced. Using the assumptions made above, the number of districts is almost halved. Second, all school districts would be organized at the borough level.

TABLE 2.1
 CONFIGURATION OF RURAL EDUCATIONAL ATTENDANCE AREAS (REAA)S AND CITY SCHOOL DISTRICTS
 INTO THIRD CLASS BOROUGHS UNDER HOUSE BILL 1 AS USED IN THIS REPORT

.....
 Boroughs formed from single REAA

Boroughs formed by combining REAA with city districts or with other REAA

	This REAA:	Will absorb these city districts:	and these REAA:

Alaska Gateway	Aleutian Region	Unalaska	Adak, Pribilof
Copper River	Bering Strait	Nome	
Delta/Greely	Chatham	Yakutat, Pelican, Hoonah, Skagway	
Iditarod	Chugach	Cordova, Valdez	
Kuspuk	Lower Kuskokwim		Yupiit
Lake and Peninsula	Lower Yukon	St. Mary's	Kashunamiut
Railbelt	Southeast Island	Kake, Petersburg, Wrangell, Klawock, Craig, Hydaburg	Annette Island
Yukon Flats	Southwest Region	Dillingham	
	Yukon-Koyukuk	Tanana, Galena, Nenana	

.....
 NOTES:

1. House Bill 1 provides that the REAA in existence in 1982 will form the basis of the new third class boroughs. Therefore, the two REAA that were formed after 1982 were included in their surrounding REAA. The Yupiit REAA was included in the Lower Kuskokwim borough, and the Kashunamiut REAA was included in the Lower Yukon REAA.
2. Current borough incorporation standards require boroughs to have two communities and at least 1,000 residents. Therefore, the Adak, Annette Island and Pribilof REAA were included in adjoining REAA.

HOUSE BILL 1

communities within their boundaries, is presented in Table 2.2. The boroughs are listed in Table 2.2 in five geographic groups:

- 1) Western,
- 2) Southwestern,
- 3) Interior-Pipeline,
- 4) Interior-Highways (No Pipeline), and
- 5) Southeastern.

To facilitate the presentation of data about the proposed boroughs, the sequence and grouping of boroughs used in Table 2.2 is used throughout the report.

TABLE 2.2
COMMUNITIES LOCATED WITHIN EACH OF THE 17 THIRD CLASS BOROUGHs PROPOSED TO BE CREATED UNDER HOUSE BILL 1

WESTERN ALASKA BOROUGHs

BERING STRAIT			LOWER YUKON			LOWER KUSKOKWIM			IDITAROD			KUSPUK		
Type	Name	Population	Type	Name	Population	Type	Name	Population	Type	Name	Population	Type	Name	Population
FCC	Nome	3,191	FCC	St. Mary's	458	SCC	Akiachak	459	SCC	Anvik	83	SCC	Aniak	481
SCC	Brevig Mission	164	SCC	Chevak	532		Akiak	289		Grayling	225		Chuathbaluk	124
	Dionede	158		Enmonak	613		Atmautluak	234		Holy Cross	238		Lower Kalskag	281
	Elin	237		Fortuna Ledge	281		Bethel	4,006		McGrath	509		Upper Kalskag	154
	Gambell	494		Hooper Bay	686		Chefornak	277		Nikolai	122	UNIN	Crooked Creek	126
	Golovin	131		Kotlik	409		Goodnews Bay	241		Shageluk	144		Red Devil	42
	Koyuk	202		Mountain Village	682		Kasigluk	405	UNIN	Lime Village	48		Sleetmute	130
	Saint Michael	287		Pilot Station	425		Kwethluk	546		Takotna	54		Stoney River	92
	Savoonga	487		Russian Mission	231		Mekoryuk	152		Telida	38		Balance	64
	Shaktolik	163		Scammon Bay	304		Napakiak	299		Balance	102			
	Shishmaref	410		Sheldon Point	124		Napaskiak	303						
	Stebbins	372	UNIN	Pitkas Point	106		Newtok	207						
	Teller	247		Balance	184		Nightmute	153						
	Unalakleet	759					Nunapitchuk	356						
	Wales	143					Platinum	65						
	White Mountain	164					Quinhagak	453						
UNIN	Perkinsville	45					Tooksook Bay	362						
	Balance	122					Tuluksak	321						
							Tununak	318						
						UNIN	Kipnuk	408						
							Kongiginak	291						
							Kwiggillinock	244						
							Oscarville	63						
							Tuntutuliak	293						
							Balance	338						
TOTAL POPULATION		7,776			5,035			11,340			1,563			1,494

TABLE 2.2 (Continued)
 COMMUNITIES LOCATED WITHIN EACH OF THE 17 THIRD CLASS BOROUGHES PROPOSED TO BE CREATED UNDER HOUSE BILL 1

SOUTHWESTERN ALASKA BOROUGHES								
SOUTHWEST REGION			LAKE AND PENINSULA			ALEUTIANS WEST		
Type	Name	Population	Type	Name	Population	Type	Name	Population
FCC	Dillingham	2,141	SCC	Chignik	129	FCC	Unalaska	1,331
				Newhalen	165			
SCC	Alakanuk	556		Nordalton	234	SCC	Akutan	80
	Aleknagik	180		Port Heiden	108		Saint George	191
	Clarke's Point	79					Saint Paul	466
	Ekwok	107	UNIN	Chignik Lagoon	40			
	Manokotak	309		Chignik Lake	164	UNIN	Adak	4,665
	New Stuyahok	339		Egegik	112		Atka	93
	Togiak	556		Igiugig	38		Nikolsi	46
				Iliamna	126		Balance	25
UNIN	Koliganek	161		Ivanof Bay	49			
	Levelock	109		Kokhanok	68			
	Portage Creek	35		Pedro Bay	70			
	Twin Hills	44		Perryville	137			
				Pilot Point	79			
	Balance	87						
				Balance	41			
TOTAL POPULATION		4,703			1,560			6,897

TABLE 2.2 (Continued)

COMMUNITIES LOCATED WITHIN EACH OF THE 17 THIRD CLASS BOROUGHs PROPOSED TO BE CREATED UNDER HOUSE BILL 1

INTERIOR ALASKA-PIPELINE BOROUGHs

YUKON-KOYUKUK			YUKON FLATS			DELTA/GREELY			COPPER RIVER			CHUGACH		
Type	Name	Population	Type	Name	Population	Type	Name	Population	Type	Name	Population	Type	Name	Population
FCC	Galena	947	SCC	Fort Yukon	678	SCC	Delta Junction	1,299	UNIN	Chistochina	64	HRC	Cordova	1,901
	Nenana	544								Chitina	40		Valdez	3,271
	Tanana	425	UNIN	Arctic Village	132	UNIN	Big Delta	388		Copper Center	229	SCC	Whittier	344
SCC	Allakaket	188		Beaver	80		Fort Greely	1,672		Gakona	82			
	Bettles/Evansville	86		Birch Creek	29		Healy Lake	37		Glennallen	499	UNIN	Eyak	44
	Hughes	92		Central	42		Balance	1,353		Gulkana	98		Tatitlek	112
	Huslia	272		Chalkyitsik	94					Kenny Lake	37			
	Kaltag	278		Circle	94					Lower Tonsina	38		Balance	409
	Koyukuk	143		Rampart	59					Paxson	33			
	Nulato	368		Steven's Village	97					Slana	57			
	Ruby	241		Tatalina	13					Tazlina	38			
UNIN	Campion Station	12		Venetie	237					Tonsina	130			
	Indian Mountain	17		Balance	41					Balance	1,569			
	Manley Hot Springs	88												
	Minto	209												
	Balance	813												
TOTAL POPULATION		4,719			1,596			4,749			2,914			6,081

TABLE 2.2 (Continued)

COMMUNITIES LOCATED WITHIN EACH OF THE 17 THIRD CLASS BOROUGHES PROPOSED TO BE CREATED UNDER HOUSE BILL 1

INTERIOR ALASKA - HIGHWAYS (NO PIPELINE) BOROUGHES						SOUTHEASTERN ALASKA BOROUGHES					
RAILBELT			ALASKA GATEWAY			CHATHAM			SOUTHEAST ISLAND		
Type	Name	Population	Type	Name	Population	Type	Name	Population	Type	Name	Population
SCC	Anderson	566	SCC	Eagle	185	FCC	Hoonah	917	FCC	Craig	924
UNIN	Cantwell	91	UNIN	Chicken	48		Pelican	234		Hydaburg	463
	Healy	414		Dot Lake	77		Skagway	610		Kake	634
	McKinley Park	65		Mentasta	66		Yakutat	456		Klawock	613
	Usibelli	6		Northway	146	SCC	Angoon	588	HRC	Petersburg	3,145
	Balance	203		Tanacross	149		Tenakee Springs	142		Wrangell	2,387
				Tetlin	89	UNIN	Elfin Cove	47	SCC	Kasaan	83
				Tok	692		Gustavus	217		Kupreanof	41
				Balance	580		Balance	317		Port Alexander	131
										Thorne Bay	412
									UNIN	Annette	158
										Cape Pole	50
										Coffman Cove	272
										Hyder	73
										Metlakatla	1,270
										Meyers Chuck	53
										North Wale Pass	83
										Point Baker	108
										Balance	970
TOTAL POPULATION		1,345			2,032			3,528			11,870

NOTES:

1. Population figures are for 1986 from the Alaska Department of Labor.

FCC=First Class City

HRC=Home Rule City

SCC=Second Class City

UNIN=Unincorporated Community

Balance=Population residing outside any community

CHAPTER THREE

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

Borough and city governments have historically paid a portion of school operation and construction costs. Upon organization as a borough, the residents of the Rural Educational Attendance Areas will be required to contribute a portion of the costs of operating their public schools. In addition, they will have to pay at least some of the costs for school construction.

In this chapter, the local share of the costs of public education of the 17 proposed boroughs is discussed. First, the local contribution required under the Public School Foundation Program for each of the proposed boroughs is estimated, and changes in the amount of Foundation aid received by each borough are computed. Required local contributions are then compared to current local contributions to get an indication of how much additional revenue each borough would have to raise, presumably through taxation. Several city districts have bonded debt for school construction, and the impact of these debts on the affected boroughs is discussed. Finally, because nine of the 17 proposed boroughs will be formed through consolidation of districts, the potential magnitude of reduced administrative costs is estimated.

In summary:

- The total full value of the proposed boroughs is \$7.4 billion. Fifty-one percent of this value is derived from the TransAlaska Oil Pipeline, 36 percent from cities, and 13 percent from non-oil and gas property in REAAs.
- Required local contributions of the proposed boroughs would total \$18.7 million, of which \$12.3 million would be derived from the REAAs.
- The amount of Foundation aid received by the proposed boroughs would be \$13.5 million less than would be received by the districts forming the boroughs under the status quo. For most of the proposed boroughs, the reductions are on the order of one to four percent, but for the pipeline boroughs, the reductions are much greater--on the order of 40 percent.

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

- Ten of the 17 proposed boroughs have current contributions in excess of required contributions and could therefore organize without having to levy any additional taxes to meet the required local contribution.
- Seven boroughs would have to institute taxes to meet the required local contribution. The four pipeline boroughs which currently levy no property taxes would each have to raise on the order of \$1.5 to \$3 million and would therefore have to institute a property tax. Three other boroughs would have to tax to meet their required local contribution, but because the amounts needed to be raised are less than \$200,000, these boroughs could conceivably raise the money through sales taxation.
- Five of the city school districts that would be integrated into boroughs have outstanding bonded indebtedness totalling \$39.6 million for school construction. Upon incorporation, these debts will become borough debts to which the full faith and credit of the borough is pledged. Although funds for repayment would be derived from the city incurring the debt, the debts will affect the new boroughs because a major proportion of their property tax capacity will be committed to debt service, thereby reducing the amount of their tax capacity they can exploit for operating or other expenses.
- Savings from consolidation of districts are estimated to be roughly \$200,000 for each district subsumed. For the two boroughs in Southeast Alaska, which each consolidate several districts, the savings are potentially significant, representing from seven to nine percent of current expenditures.

REQUIRED LOCAL CONTRIBUTIONS UNDER THE PUBLIC SCHOOL FOUNDATION PROGRAM

The State of Alaska funds a major portion of the operating costs of public schools within the state through a Foundation program. Under the Foundation method of school funding, the State guarantees a certain level of support to all school districts.¹⁴

¹⁴See "Public School Financing in Alaska," by Jay Livey and Gretchen Keiser, House Research Agency Report 87-A, February 1987, for a history of the Public School Foundation Program.

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

A local contribution was required under Alaska's first Foundation law enacted in 1962, and local governments were then contributing about 33 percent of their school district's revenues. The local share of school operating revenues has steadily dropped--while the State share has steadily increased--during the last 25 years, and with the massive influx of revenues from Prudhoe Bay, the "required local contribution" was eliminated. Amendments to the Foundation law in 1987, however, reinstated the requirement for local contributions. Thus, boroughs must pay a portion of school operating costs or lose their Foundation funding.

In this section, the local contribution that each proposed borough would be required to make is estimated and compared to the amount that the REAAs and cities forming each borough currently make.

Current Foundation Program Formula

In 1987, the legislature enacted a new and relatively uncomplicated method to calculate the amount of Foundation aid that school districts will receive. This method will be gradually implemented during the next three fiscal years. For simplicity, I have used the formula that will be in effect after this transition period. Under this formula:

Foundation aid is equal to the basic need of the district minus required local contributions and minus 90 percent of the federal aid received by the district under Public Law 81-874.

The basic need of each district is determined by multiplying the area cost differential by the number of instructional units by the value of an instructional unit. Area cost differentials are numbers that account for differences in costs of education due to location. The differentials range from 1.0, the cost differential for Anchorage, to 1.46, the cost differential for the Yukon Flats REAA. An instructional unit represents the level of activity required to provide instruction to a group of students. Separate schedules for computing the number of instructional units are kept for four different types of instruction--regular, vocational, special, and bilingual-bicultural education--which reflect the differing levels of effort required to provide that type of education to a group of students. Different schedules also apply depending upon the size of the "funding community."¹⁵ The instructional unit value is set by the legislature. In 1987, the legislature set the value of an instructional unit at \$60,000.

¹⁵Each district may be divided into a number of "funding communities" which reflect different geographic and attendance factors.

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

Under Public Law 81-874, the federal government pays school districts for the potential loss of tax revenue created by the presence of federal land and personnel within the district.

Required local contributions are set forth in AS 14.17.025. Local contributions of a city or borough school district must include at least:

- the equivalent of a four mill tax levy on the full and true value of the taxable real and personal property in the district; or
- 35 percent of the district's basic need.

In meeting the local contribution requirement, school districts may include the following types of revenue: tax appropriations, investment earnings, the value of in-kind services, State tuition payments, and ten percent of their PL 81-874 funds.

The full and true value of taxable real and personal property is determined by the Department of Community and Regional Affairs in consultation with the assessor for each district. The Alaska Municipal Code (Title 29) gives municipalities wide latitude in determining both the rate at which property will be taxed and what forms of property will be taxed. The full value determination made by the Department of Community and Regional Affairs is based on the value of all real and personal property that could be taxed under State law, without regard to what property is actually taxed by the municipality. Full and true value is the estimated price that the property would bring in an open market and under the then prevailing market conditions in a sale between a willing buyer and a willing seller both conversant with the property and with prevailing general price levels.

Full Property Values in the Proposed Boroughs

Since most city districts already make local contributions to education through property taxation, full property values for these are known and reported annually in Alaska Taxable, a publication of the Department of Community and Regional Affairs. The property values of communities in the REAAs are not known. At the request of the legislature, the Department of Community and Regional Affairs prepared estimates of the property value of the REAAs last April. These estimates were based on the number of taxable parcels and an average full value per parcel. The value of irregularly distributed taxable improvements, such as cold storage facilities and canneries, and of State-assessed properties, primarily the TransAlaska Oil Pipeline, were then added to the appropriate REAAs to reach a total full taxable value for each REAA.

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

Table 3.1 presents the full taxable property values of the proposed boroughs based on the values of city districts as reported in Alaska Taxable and on the estimates for the REAAs prepared by DCRA. The total full value of these proposed boroughs is \$7.4 billion. The TransAlaska Oil Pipeline within the unorganized borough currently has a full value of \$3.8 billion and thereby accounts for 51 percent of the full taxable value of the proposed boroughs. First class and home rule cities are valued at \$2.7 billion, accounting for 36 percent of the total value. Only 13 percent of the value of the proposed boroughs is derived from non-petroleum property within the REAAs.

Table 3.1 also compares the property values of the proposed boroughs to the values of the existing boroughs. In total, property in existing boroughs is valued at \$48.4 billion--over six times the value in the proposed boroughs. Most existing boroughs have taxable values of a billion dollars or more. The five proposed boroughs through which the TransAlaska Oil Pipeline passes have taxable values in the billion dollar range, but the taxable values of the other proposed boroughs are much less, ranging from \$20 million (Kuspuk) to \$359 million (Southeast Island).

On a per student basis, the pipeline boroughs--which have high values and low population--have taxable values that exceed the values for all existing boroughs except the North Slope Borough. The other proposed boroughs have per student values less than those generally found in existing boroughs.

Table 3.2 compares the percentages of total value and student population contributed by the city portion and the REAA portion of each borough formed through consolidation of city districts and REAAs. (Table C.1 in Appendix C provides a detailed look at the taxable values of the boroughs formed through consolidation.) In general, the area outside of cities represents a smaller percentage of the borough value and a higher percentage of borough student population. The two exceptions are the Lower Yukon borough, where the percentages of borough value and of borough students are approximately equal, and the Yukon-Koyukuk borough, where the area outside of cities contributes 95 percent of the borough value--due to the presence of the pipeline--while the students in the area outside of the cities represent only 65 percent of borough students.

TABLE 3.1
FULL TAXABLE PROPERTY VALUES OF PROPOSED BOROUGHs COMPARED TO VALUES OF EXISTING BOROUGHs

PROPOSED BOROUGHs				EXISTING BOROUGHs			
BOROUGH	FULL TAXABLE VALUE	STUDENT POPULATION	FULL VALUE PER STUDENT	BOROUGH	FULL TAXABLE VALUE	STUDENT POPULATION	FULL VALUE PER STUDENT
WESTERN/NORTHWEST							
Bering Strait	\$240,477,297	2,006	\$119,879	North Slope	\$13,570,786,300	1,152	\$11,785,312
Lower Yukon	89,378,063	1,587	56,319	Northwest Arctic	235,045,200	1,547	151,897
Lower Kuskowkim	321,017,461	2,859	112,283				
Iditarod	23,481,360	384	61,149				
Kuspuk	19,839,960	350	56,686				
SOUTHWEST							
Southwest Region	157,571,260	933	168,887	Aleutians East	102,890,443	317	324,576
Lake and Peninsula	30,546,520	354	86,290	Bristol Bay	101,541,000	219	464,081
Aleutians West	117,748,037	951	123,815	Kodiak	552,447,400	2,253	245,216
INTERIOR PIPELINE							
Yukon-Koyukuk	934,498,200	984	949,693	Fairbanks	4,726,913,900	12,895	366,570
Yukon Flats	1,035,432,040	372	2,783,419				
Delta/Greely	813,113,635	1,019	797,953				
Copper River	1,198,725,880	561	2,136,766				
Chugach	1,843,290,222	1,257	1,466,420				
INTERIOR/SOUTHCENTRAL HIGHWAYS							
Railbelt	30,176,160	366	82,449	Anchorage	19,343,356,800	39,748	486,650
Alaska Gateway	45,527,741	511	89,095	Mat-Su	2,716,755,900	8,668	313,427
				Kerni	3,905,341,700	8,178	477,525
SOUTHEAST							
Chatham	131,333,718	934	140,614	Haines	97,621,600	352	277,492
Southeast Island	358,683,415	2,633	136,226	Juneau	1,638,992,300	4,609	366,447
				Ketchikan	904,384,100	2,474	365,585
				Sitka	441,175,000	1,590	277,469

TOTAL	\$7,390,840,969	18,061	\$409,215		\$48,387,251,643	84,002	\$576,028

NOTES:

1. Full taxable property value determinations for Rural Educational Attendance Areas were prepared by the State Assessor with the Department of Community and Regional Affairs, April 1987. Values for existing boroughs and cities within the unorganized borough are from Alaska Taxable 1986.
2. Student population data are from the Department of Education and are the number of students reported to be in attendance during the first count period in FY 87 (Average Daily Membership).

TABLE 3.2

FULL TAXABLE PROPERTY VALUES AND STUDENT POPULATIONS OF PROPOSED BOROUGHS FORMED BY COMBINING CITY DISTRICTS WITH THEIR SURROUNDING RURAL EDUCATIONAL ATTENDANCE AREA (REAA)

PROPOSED BOROUGH	FULL TAXABLE VALUE	STUDENT POPULATION	FULL TAXABLE VALUE PER STUDENT	PERCENT OF TOTAL BOROUGH	
				VALUE	STUDENTS
ALEUTIANS WEST					
CITY	\$95,564,500	159	\$601,035	81	17
REAA	22,143,537	792	28,010	19	83
BERING STRAIT					
CITY	151,635,000	782	193,907	63	39
REAA	88,842,297	1,224	72,584	37	61
CHATHAM					
CITY	121,398,200	582	208,588	92	62
REAA	9,935,518	352	28,226	8	38
CHUGACH					
CITY	1,817,309,000	1,127	1,612,519	99	90
REAA	25,981,222	130	199,856	1	10
LOWER YUKON					
CITY	4,451,200	101	44,071	5	6
REAA	84,926,863	1,486	57,151	95	94
SOUTHEAST ISLAND					
CITY	312,697,800	1,791	174,594	87	68
REAA	45,985,615	842	54,615	13	32
SOUTHWEST REGION					
CITY	107,515,700	461	233,223	68	49
REAA	50,055,560	472	106,050	32	51
YUKON-KOYUKUK					
CITY	49,961,600	371	134,667	5	38
REAA	84,536,600	613	1,442,963	95	62
SUBTOTAL--CITY DISTRICTS					
	\$2,660,533,000	5,374	\$495,075	69	59
SUBTOTAL--REAS					
	\$1,212,447,212	5,911	\$205,117	31	62
TOTAL--CITY/REAA BOROUGHS					
	\$3,872,980,212	11,285	\$343,197		

NOTES

1. Full taxable property value determinations for Rural Educational Attendance Areas were prepared by the State Assessor with the Department of Community and Regional Affairs, April 1987. Values of cities are from Alaska Taxable 1986.
2. Student population data are from the Department of Education and are the number of students reported to be in attendance during the first count period in FY 87 (Average Daily Membership).

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

Required Local Contributions of the Proposed Boroughs

Table 3.3 shows the amounts that each proposed borough would be required to contribute to education to receive Foundation aid. (Table C.2 in Appendix C provides a detailed look at the required local contributions of the boroughs formed through consolidation.) The required local contribution is estimated based on the property values discussed above and on the basic need values for FY 88.

Required local contributions for the proposed boroughs range from less than \$100,000 to over \$3.7 million. In total, the proposed boroughs would be required to contribute \$18.7 million. Under the status quo, the city districts will be required to contribute \$6.4 million. Thus, the additional amount raised locally due to formation of boroughs from the REAAs is \$12.3 million.

Revenues from a four mill property tax in the proposed boroughs would raise a total of \$29.6 million. The difference between the required contribution and full property tax capacity is accounted for by those boroughs whose potential tax revenues exceed 35 percent of their basic need. For most boroughs, the revenue from a four mill property tax is considerably less than 35 percent of their basic need. Only four boroughs--all pipeline boroughs--have potential tax revenues greater than 35 percent of their basic need. For these four boroughs, the required local contribution equals 35 percent of their basic need.

Comparison of Required Contributions to Current Local Contributions

To determine the actual amount that each new borough must raise locally through taxation to meet its obligation under the Foundation Program, the current local contributions that each district makes must be considered. Alaska Statute 14.17.250(7) defines the revenues that a district may use to meet its required local contribution. Local contributions include:

- (1) tax appropriations;
- (2) earnings on investments;
- (3) the value of in-kind services;
- (4) State tuition payments; and
- (5) ten percent of Public Law 81-874 payments.

TABLE 3.3

LOCAL CONTRIBUTIONS REQUIRED BY THE PUBLIC SCHOOL FOUNDATION PROGRAM OF THE PROPOSED BOROUGHS

PROPOSED BOROUGH	FOUR MILLS	35 PERCENT OF BASIC NEED	REQUIRED LOCAL CONTRIBUTION
WESTERN			
Bering Strait	\$961,909	\$7,162,680	\$961,909
Lower Yukon	357,512	6,148,590	357,512
Lower Kuskowkim	1,284,070	12,535,320	1,284,070
Iditarod	93,925	1,782,270	93,925
Kuspuk	79,360	1,696,590	79,360
SOUTHWESTERN			
Southwest Region	630,285	3,415,860	630,285
Lake and Peninsula	122,186	2,014,740	122,186
Aleutians West	470,992	2,678,042	470,992
INTERIOR PIPELINE			
Yukon-Koyukuk	3,737,993	3,939,180	3,737,993
Yukon Flats	4,141,728	2,041,200	2,041,200
Delta/Greely	3,252,455	2,059,470	2,059,470
Copper River	4,794,904	1,735,230	1,735,230
Chugach	7,373,161	2,873,850	2,873,850
INTERIOR HIGHWAYS (NO PIPELINE)			
Railbelt	120,705	1,130,850	120,705
Alaska Gateway	182,111	1,741,320	182,111
SOUTHEAST			
Chatham	525,335	2,617,440	525,335
Southeast Island	1,434,734	5,680,290	1,434,734
TOTAL - PROPOSED BOROUGHS	\$29,563,364	\$61,252,922	\$18,710,867

NOTES:

1. Calculation of revenue possible under a four mill property tax based on full taxable value determinations by the Department of Community and Regional Affairs, April 1987 (see Table 3.1).
2. Basic need values are from the Department of Education for FY 88.
3. Required local contribution for each borough is the lesser of the revenue from a four mill tax on the full value of property or 35 percent of basic need.

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

Because investment earnings, in-kind services, tuition payments, and ten percent of their federal aid are considered by the Foundation law as "local contributions," the amount that a district must raise through taxation to meet its required contribution is reduced. In Table 3.4, the required local contribution of each proposed borough is compared to the contributions made in FY 87. (Table C.3 in Appendix C provides a detailed comparison of current and required local contributions of the boroughs formed through consolidation.) The results are somewhat surprising: The total local contributions of the proposed boroughs in FY 87 were \$15 million, of which only \$6.3 million was tax revenue from city districts.¹⁶ For ten of the 17 proposed boroughs, current local contributions exceed the required local contributions. For the seven proposed boroughs whose current contributions are less than their required contribution, the total amount they would need to raise to meet their obligation is \$9 million.

In six of the ten proposed boroughs where current contributions exceed required contributions, no property taxes are currently levied. That current contributions exceed required contributions in these proposed boroughs is generally the result of low property values combined with high earnings on investments and high PL 81-874 payments. The Kuspuq Borough provides an example: Its required local contribution is \$79,360--the result of low property values. In FY 87, the Kuspuq REAA received \$135,149 in investment earnings, and ten percent of its PL 81-874 payment was \$144,011. Thus, its total "local contribution" was \$279,160, exceeding the contribution required under the Foundation Program by \$199,800. The other proposed boroughs that do not currently levy property taxes but have local contributions that exceed the required contribution are the Iditarod, Lower Kuskokwim, Lower Yukon, Lake and Peninsula, and Alaska Gateway boroughs.

In the Bering Strait, Aleutians West, Chugach, and Southeast Island proposed boroughs, current contributions also exceed required contributions. Some--but not all--of the first class and home rule cities within these proposed boroughs levy property taxes, and current revenues from these taxes represent from 20 percent to over 200 percent of the required local contribution for these boroughs.

¹⁶Valdez contributed the lion's share of all tax appropriations from city districts--\$4.7 million.

TABLE 3.4
COMPARISON OF REQUIRED LOCAL CONTRIBUTIONS UNDER THE PUBLIC SCHOOL FOUNDATION PROGRAM TO CURRENT LOCAL CONTRIBUTIONS OF THE PROPOSED BOROUGHES

PROPOSED BOROUGH	REQUIRED LOCAL CONTRIBUTION	CURRENT LOCAL CONTRIBUTIONS					10 PERCENT OF PL 81-874	TOTAL	REQUIRED CONTRIBUTIONS IN EXCESS OF CURRENT CONTRIBUTIONS
		TAX APPROPRIATIONS	EARNINGS ON INVESTMENTS	IN-KIND SERVICES	STATE TUITION PAYMENTS				
WESTERN									
Bering Strait	\$961,909	\$206,000	\$417,705	0	\$11,468	\$503,563	\$1,138,736	0	
Lower Yukon	357,512	0	707,031	0	0	644,578	1,351,609	0	
Lower Kuskowkim	1,284,070	0	747,801	0	0	840,939	1,588,740	0	
Iditarod	93,925	0	143,470	0	0	85,103	228,573	0	
Kuspuk	79,360	0	135,149	0	0	144,011	279,160	0	
SOUTHWESTERN									
Southwest Region	630,285	0	225,952	0	0	216,457	442,409	187,877	
Lake and Peninsula	122,186	0	141,162	0	0	114,708	255,870	0	
Aleutians West	470,992	122,000	329,382	0	0	329,309	780,691	0	
INTERIOR PIPELINE									
Yukon-Koyukuk	3,737,993	45,739	211,680	0	39,789	269,886	567,094	3,170,899	
Yukon Flats	2,041,200	0	72,297	0	0	64,583	136,880	1,904,320	
Delta/Greely	2,059,470	0	94,332	0	0	130,622	224,954	1,834,516	
Copper River	1,735,230	0	37,268	0	0	55,099	92,367	1,642,863	
Chugach	2,873,850	4,706,394	172,682	8,052	486,285	27,391	5,400,804	0	
INTERIOR HIGHWAYS (NO PIPELINE)									
Railbelt	120,705	0	47,421	0	0	12,941	60,362	60,343	
Alaska Gateway	182,111	0	141,837	0	0	77,589	219,426	0	
SOUTHEAST									
Chatham	525,335	101,114	139,124	11,339	83,564	42,615	377,756	147,579	
Southeast Island	1,434,734	1,144,513	365,099	17,774	70,917	316,367	1,914,670	0	
TOTAL--PROPOSED BOROUGHES	\$18,710,867	\$6,325,760	\$4,129,392	\$37,165	\$692,023	\$3,875,762	\$15,060,102	\$8,948,396	

NOTES:

1. Required local contributions are based on comparison of revenues from a four mill property tax to 35 percent of basic need (see Table 3.3).
2. Current local contributions are from the audited expenditures of each school district for FY 87 as reported by the Department of Education.

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

In the remaining seven proposed boroughs, required contributions exceed current contributions. Four of these boroughs--Copper River, Delta/Greely, Yukon Flats, and Yukon-Koyukuk--are pipeline boroughs whose property values are so high that required contributions are on the order of two to four million dollars. Within these four boroughs, property taxes are levied only within Galena and Nenana, and current local contributions range from \$100,000 to \$600,000. Thus, for these four pipeline boroughs, required contributions exceed current local contributions by \$1.5 to \$3 million.

In the remaining three boroughs--Chatham, Railbelt, and Southwest Region--required local contributions are not extreme but they do exceed current local contributions by \$50,000 to \$200,000.

CHANGES IN FOUNDATION AID TO THE PROPOSED BOROUGHES

Table 3.5 shows the change in total Foundation aid to the region represented by each new borough in both dollars and as a percentage of the amount that they would have received under the status quo. (Table C.2 in Appendix C provides a detailed look at changes in Foundation aid to boroughs formed through consolidation.)

Under HB 1, the amount of Foundation aid--given FY 88 basic need--to the proposed boroughs would be approximately \$13.5 million less than would be received by the districts forming the boroughs under the status quo. For most of the proposed boroughs, the reductions in Foundation aid are on the order of one to four percent, however, for the "pipeline" boroughs, the declines are much greater--on the order of 40 percent.¹⁷ For the pipeline boroughs, the relatively large reduction in Foundation aid stems from their high property values. For the other boroughs, their property tax capacity is low relative to their need and subtracting the amount they could raise under a four mill tax does not substantially alter their Foundation aid.

¹⁷The required local contribution for four of the five pipeline boroughs is 35 percent of basic need, thus their Foundation aid is 65 percent of their basic need minus 90 percent of their federal aid. Therefore, their Foundation aid is reduced over the status quo by 35 percent plus the percentage that federal aid represents of their basic need.

TABLE 3.5
ESTIMATED FOUNDATION AID TO THE PROPOSED BOROUGHES

PROPOSED BOROUGH	BASIC NEED IN FY 88	REQUIRED LOCAL CONTRIBUTION	90 PERCENT OF PL 81-874	AMOUNT RECEIVED UNDER STATUS QUO	AMOUNT RECEIVED UNDER HOUSE BILL 1	CHANGE IN FOUNDATION AID	
						IN DOLLARS	AS A PERCENTAGE OF AMOUNT RECEIVED BY THE REGION UNDER THE STATUS QUO
WESTERN							
Bering Strait	\$20,464,800	\$961,909	\$4,282,033	\$15,576,227	\$15,220,858	(\$355,369)	-2.3
Lower Yukon	17,567,400	357,512	5,195,221	12,354,374	12,014,667	(339,707)	-2.7
Lower Kuskowkim	35,815,200	1,284,070	6,976,279	28,838,921	27,554,851	(1,284,070)	-4.5
Iditarod	5,092,200	93,925	849,651	4,242,549	4,148,624	(93,925)	-2.2
Kuspuk	4,847,400	79,360	1,213,011	3,634,389	3,555,029	(79,360)	-2.2
SOUTHWESTERN							
Southwest Region	9,759,600	630,285	2,097,021	7,232,516	7,032,294	(200,222)	-2.8
Lake and Peninsula	5,756,400	122,186	1,036,848	4,719,552	4,597,366	(122,186)	-2.6
Aleutians West	7,651,548	470,992	2,582,268	4,687,022	4,598,288	(88,734)	-1.9
INTERIOR PIPELINE							
Yukon-Koyukuk	11,254,800	3,737,993	2,120,843	8,934,111	5,395,964	(3,538,147)	-39.6
Yukon Flats	5,832,000	2,041,200	703,866	5,128,134	3,086,934	(2,041,200)	-39.8
Delta/Greely	5,884,200	2,059,470	1,042,286	4,841,914	2,782,444	(2,059,470)	-42.5
Copper River	4,957,800	1,735,230	398,113	4,559,687	2,824,457	(1,735,230)	-38.1
Chugach	8,211,000	2,873,850	209,030	6,130,751	5,128,120	(1,002,631)	-16.4
INTERIOR HIGHWAYS (NO PIPELINE)							
Railbelt	3,231,000	120,705	116,468	3,114,532	2,993,827	(120,705)	-3.9
Alaska Gateway	4,975,200	182,111	626,551	4,348,649	4,166,538	(182,111)	-4.2
SOUTHEAST							
Chatham	7,478,400	525,335	1,030,166	5,962,641	5,922,899	(39,742)	-0.7
Southeast Island	16,229,400	1,434,734	1,227,515	14,924,858	14,740,915	(183,943)	-1.2
TOTAL - PROPOSED BOROUGHES	\$175,008,348	\$18,710,867	\$31,707,170	\$139,230,827	\$125,764,075	(\$13,466,752)	-9.7

NOTES:

1. Calculation of revenue possible under a four mill property tax based on full taxable value determinations by the Department of Community and Regional Affairs, April 1987 (see Table 3.1).
2. Basic need and Public Law 81-874 values are from the Department of Education for FY 88.
3. Required local contribution for each borough is the lesser of the revenue from a four mill tax on the full value of property or 35 percent of basic need (see Table 3.3).
4. Foundation Aid is basic need less the required local contribution less 90 percent of PL 81-874 funds.

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

In theory, the total revenue available to each of the proposed boroughs for schools is the same under HB 1 and the status quo; the local contributions merely replace Foundation aid.¹⁸ For the boroughs formed from single REAAs or by combining REAAs, required local contributions exactly match the reductions in Foundation aid. For all but one of the boroughs formed by combining city districts and REAAs, the reductions in Foundation aid match the required local contributions of the REAA.

The Chugach Borough is the only exception. This borough contains Valdez, whose property value is much greater than 35 percent of its basic need. However, the property value of Cordova and the other communities in the borough is less than 35 percent of their basic need. Because of the much greater value of Valdez, the required local contribution from the Chugach Borough is 35 percent of its basic need. Foundation aid for this borough is thus reduced by the required local contribution of the Chugach REAA plus the difference between 35 percent of basic need and four mills of their respective property values for the Chugach REAA and Cordova.

SCHOOL DEBT SERVICE REQUIREMENTS

Alaska Statute 29.05.130 requires that when a borough is formed, all special districts and service areas within the new borough must be integrated into the borough within two years of incorporation. On integration, the new borough succeeds to all the rights, powers, duties, assets and liabilities of the service area. A 1963 Attorney General's Opinion held that city school districts are a "service area" within the context of the integration provision.¹⁹

Five of the city school districts that would be integrated into boroughs under HB 1 have outstanding bonded indebtedness for school construction. The total outstanding debt as of January 1987 for these districts is \$39.6 million. According to current repayment schedules, these districts will be making payments for the next 9 to 18 years. Table 3.6 shows the outstanding debt, years to full repayment, and annual debt service payments for each of these districts.

¹⁸Total educational revenue will decline if the required local contribution is met by means other than taxation. See Chapter 5 for a discussion of the need for local taxes to maintain educational revenues at their current level.

¹⁹1963 Attorney General Opinion No. 29.

TABLE 3.6
SCHOOL CONSTRUCTION BONDED INDEBTEDNESS OF CITY SCHOOL DISTRICTS IN 1987

CITY DISTRICT	NOME	UNALASKA	VALDEZ	WRANGELL	PETERSBURG
PROPOSED BOROUGH	BERING STRAIT	ALEUTIANS WEST	CHUGACH	SOUTHEAST ISLAND	SOUTHEAST ISLAND
TOTAL OUTSTANDING DEBT	\$6,030,000	\$855,000	\$19,760,000	\$8,975,000	\$4,045,000
YEARS TO REPAYMENT	9	14	13	8	11
ANNUAL PAYMENTS					
FY 88	\$1,116,722	\$101,665	\$2,872,838	\$1,131,366	\$770,720
FY 89	1,038,835	103,290	2,861,062	1,125,610	748,695
FY 90	973,510	99,690	2,755,738	1,112,610	633,370
FY 91	933,980	101,248	2,753,599	1,107,403	615,208
FY 92	893,110	102,780	2,643,488	1,112,065	597,602
FY 93	850,230	99,093	2,631,400	1,111,832	578,520
FY 94	806,010	100,140	1,913,375	1,113,262	562,760
FY 95	761,120	100,725	1,835,025	1,110,900	540,230
FY 96	715,560	100,800	1,846,075	1,109,291	521,115
FY 97		100,400	1,853,050	1,112,771	222,000
FY 98		99,600	1,851,075	1,110,573	203,500
FY 99		103,200	1,835,000	1,107,870	
FY 00		101,200	1,718,625	963,721	
FY 01		98,800		957,353	
FY 02				954,543	
FY 03				949,535	
FY 04				941,816	
FY 05				821,730	
TOTAL PRINCIPAL AND INTEREST	\$8,089,077	\$1,412,631	\$29,370,350	\$18,954,251	\$5,993,720

Source: Alaska Department of Education

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

School construction bonded indebtedness is State-supported debt. State-supported debt is debt whose ultimate source of payment may include General Fund appropriations, but to which the full faith and credit of the State is not pledged. Under AS 14.11.100, school districts are eligible for reimbursement of a certain percentage of their debt service payments. The percentage of debt reimbursed ranges from 80 to 100 percent, depending upon when the debt was issued. The actual amount that a district is reimbursed in any year depends upon cigarette tax receipts two years previously and on the amount that the legislature appropriates for reimbursement.

Cigarettes are taxed at eight mills, and 2.5 mills of the receipts are deposited in a school fund and may be used only to pay for school construction. Department of Education regulation 4 AAC 36.010 specifies how the cigarette tax receipts are to be allocated among districts.²⁰ Districts with school construction debt or districts making cash payments for school construction receive a basic allotment of \$6,000 plus a pro rata share of the remaining receipts. By becoming boroughs, the new boroughs will receive a larger share of cigarette tax receipts, due to their increased enrollments. The increased cigarette tax receipts will be exactly offset by decreased State reimbursement, thus borough formation will neither increase or decrease the amount that the new borough must pay. Existing boroughs will receive a smaller share of the cigarette tax receipts, and these decreases will be exactly offset by increased State reimbursement.

Alaska Statute 14.11.100 specifies the maximum amount of the principal and interest for which a district may be reimbursed. The legislature is not required to fund the reimbursement program at 100 percent, however. If the program is not funded at 100 percent, each district's entitlement is reduced pro rata. In FY 86, the reimbursement program was funded at 97 percent; in FY 87, it was funded at 91 percent. The FY 88 budget appropriated enough funds for reimbursement at 92 percent of the maximum entitlement.

Alaska Statute 29.05.130 specifies that all property in the service area subject to taxation for the purpose of paying the principal and interest of the bonds at the time of integration remains subject to taxation for that purpose. Alaska Statute 29.47.440, which addresses the bonded indebtedness

²⁰All school construction within the REAAs is paid for by the State, and REAAs do not receive any cigarette tax receipts.

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

of boroughs, specifies that a borough may incur debts for functions within the areas outside of cities or within a service area, and that the payment of debt principal and interest shall be derived from the area incurring the debt, but that the full faith and credit of the entire borough shall be pledged to guarantee the debt.

Thus, for the four boroughs that will subsume city school districts with outstanding school construction debts, an assessment of the full amount of local funding required for schools must include debt service payments. Since debt service is already being paid by city residents and cannot, apparently, be spread out over the entire borough, the debt service payments will not add to the amount of local money that the new borough must raise. However, because the full faith and credit of the borough is pledged to the debt, the presence of the debt will affect the new borough in several ways:

- The debt represents a major portion of city residents' current tax burden and therefore will affect their willingness to approve new bonds or to accept tax increases for other purposes. The new borough will start with a major portion of its property tax capacity already committed to debt service, which reduces the amount of tax capacity it can exploit for operating or other expenses.
- The debts of some cities are substantial and are probably higher than would have been approved if the city alone had to repay the entire debt. Voter approval of bonds issued after 1980 was undoubtedly conditioned on knowledge that the State would reimburse the city for a substantial portion of the debt. If the percentage of State reimbursement of debt service continues to decline, the new boroughs may have to raise mill rates within the city and increase the portion of the tax burden devoted to debt service. If the State were to end the reimbursement program, the borough would be ultimately responsible for full repayment. Alaska Statutes are not clear whether residents of outlying areas could be taxed to pay debt service for bonds originally issued by cities. Because the full faith and credit of the borough would be pledged to the debt, it seems possible that all borough residents could be taxed for repayment if default were imminent.

POTENTIAL SAVINGS FROM CONSOLIDATING SCHOOL DISTRICTS

Nine of the 17 proposed boroughs will be formed through consolidation of existing city districts and REAAs or by combining REAAs. Combining districts should reduce costs to operate the new borough district through the consolidation of central office administrative functions. These administrative functions include: school boards; superintendent's offices; planning and research; fiscal services; central purchasing; and statistical and data processing services.

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

Alaska school districts currently spend, on average, 12 percent of their total budgets on administrative functions (including principals). On a per student basis, districts vary widely in their administrative costs, with larger districts generally spending much less per student than smaller districts due to their economies of scale (Table 3.7).

To get a rough idea of how much would be saved by consolidating the 19 city districts and 22 REAAs into 17 borough districts, I analyzed the General Support Expenditures of all districts for FY 87. In linear regressions of these administrative expenses against student population size for all districts and for all small districts, the Y intercepts were \$300,000 and \$150,000, respectively. Based on these data, I estimated that the basic administrative cost of running a school district is about \$200,000 and that for every district that is subsumed into another district, \$200,000 is saved.

Table 3.8 shows the estimated potential savings from reduced administrative costs for each of the boroughs that will be created through consolidation. (Table C.4 in Appendix C provides a detailed look at the potential savings for each borough formed through consolidation.) In FY 87, administrative costs for the districts constituting the nine boroughs formed through consolidation were \$17.5 million. With consolidation, their administrative costs are estimated to be \$12.9 million--a potential savings of \$4.6 million. Administrative costs would be reduced overall by 26 percent.

Table 3.8 also shows the potential savings as a percentage of FY 87 expenditures. For most of the proposed boroughs, the potential savings represent from one to two percent of their expenditures. However, for the two proposed boroughs in Southeast and for the Yukon-Koyukuk, Aleutians West, and Chugach boroughs, the potential savings are greater--representing from four to nine percent of current expenditures. These districts each combine two or more city districts with one or more REAAs.

TABLE 3.7
ALASKA SCHOOL DISTRICTS RANKED BY PERCENT OF TOTAL FY 87 EXPENDITURES FOR ADMINISTRATION

DISTRICT	TOTAL EXPENDITURES	GENERAL SUPPORT EXPENDITURES	GENERAL SUPPORT AS A PERCENTAGE OF TOTAL	NUMBER OF STUDENTS	GENERAL SUPPORT PER STUDENT
25 PERCENT OR MORE					
ALEUTIAN REGION	\$1,675,139	\$465,959	28	91	\$5,149
KAKE	1,995,284	504,593	25	196	2,574
20 TO 24 PERCENT					
KASHUNAMIUT	1,796,965	432,331	24	172	2,514
PELICAN	614,184	145,931	24	54	2,683
ANNETTE ISLAND	2,821,443	602,461	21	421	1,431
SKAGWAY	988,996	204,608	21	137	1,493
HYDABURG	838,402	167,389	20	107	1,564
15 TO 19 PERCENT					
SAND POINT	968,116	187,018	19	118	1,581
CHUGACH	1,416,317	262,081	19	130	2,016
NORTH SLOPE	28,242,710	5,188,646	18	1,151	4,507
DELTA GREELY	6,235,515	1,129,329	18	1,019	1,109
GALENA	2,166,330	385,217	18	167	2,314
CRAIG	1,472,954	253,793	17	231	1,099
YUPIIT	4,226,065	676,834	16	295	2,297
ST. MARY'S	2,493,819	395,190	16	101	3,905
KLAWOCK	1,478,815	219,045	15	162	1,352
CORDOVA	2,831,863	419,261	15	432	970
10 TO 14 PERCENT					
ADAK	4,670,815	666,228	14	602	1,107
KODIAK	14,811,203	2,073,353	14	2,222	933
UNALASKA	1,466,044	201,021	14	159	1,264
MAT-SU	49,008,855	6,545,707	13	8,681	754
ANCHORAGE	207,184,931	27,634,086	13	39,752	695
YAKUTAT	1,395,841	179,973	13	157	1,146
ALASKA GATEWAY	4,882,920	626,015	13	511	1,226
PETERSBURG	3,302,404	418,134	13	601	696
KING COVE	1,957,364	247,550	13	133	1,865
HOONAH	1,857,897	232,250	13	234	991
IDITAROD	5,788,384	716,818	12	384	1,868
NENANA	1,923,734	236,640	12	123	1,924
SITKA	9,257,385	1,128,854	12	1,610	701
HAINES	3,021,557	363,352	12	352	1,033
RAILBELT	3,614,397	428,227	12	366	1,171

TABLE 3.7 (Continued)

ALASKA SCHOOL DISTRICTS RANKED BY PERCENT OF TOTAL FY 87 EXPENDITURES FOR ADMINISTRATION

DISTRICT	TOTAL EXPENDITURES	GENERAL SUPPORT EXPENDITURES	GENERAL SUPPORT AS A PERCENTAGE OF TOTAL	NUMBER OF STUDENTS	GENERAL SUPPORT PER STUDENT
10 TO 14 PERCENT (Continued)					
PRIIBILOF	\$2,021,980	\$237,778	12	156	\$1,528
KENAI	54,969,386	6,376,434	12	8,144	783
JUNEAU	24,448,751	2,821,357	12	4,599	613
LOWER YUKON	15,442,898	1,737,055	11	1,314	1,322
COPPER RIVER	4,709,904	521,874	11	561	931
TANANA	2,183,817	241,045	11	81	2,976
KETCHIKAN	13,631,337	1,450,038	11	2,435	595
KUSPUK	5,428,170	569,919	10	351	1,624
LOWER KUSKOKWIM	30,134,277	3,129,911	10	2,564	1,221
NOME	6,255,560	644,964	10	782	825
SOUTHWEST REGION	6,608,486	681,284	10	472	1,443
YUKON FL	5,419,556	550,151	10	372	1,479
BRISTOL BAY	2,856,267	286,466	10	233	1,229
LAKE AND PENINSULA	5,726,746	573,516	10	354	1,618
FAIRBANKS	75,952,589	7,387,305	10	13,117	563
SOUTHEAST ISLAND	4,796,114	463,420	10	419	1,105
NORTHWEST ARCTIC	14,983,243	1,435,103	10	1,550	926
9 PERCENT OR LESS					
DILLINGHAM	4,503,868	425,046	9	462	921
BERING STRAIT	15,568,951	1,414,119	9	1,224	1,156
YUKON-KOYUKUK	7,671,235	682,101	9	613	1,113
VALDEZ	7,131,665	558,817	8	695	804
WRANGELL	2,968,790	211,612	7	494	428

NOTES:

1. General support expenditures include: school boards; superintendents' and principals' offices; planning and research; fiscal services; central purchasing; statistical and data processing services.

Source: Alaska Department of Education

TABLE 3.8

POTENTIAL SAVINGS FROM REDUCED ADMINISTRATIVE COSTS FROM CONSOLIDATION OF SCHOOL DISTRICTS UNDER HOUSE BILL 1

PROPOSED BOROUGH	ADMINISTRATIVE COSTS			POTENTIAL SAVINGS FROM CONSOLIDATION	SAVINGS AS A PERCENTAGE OF	
	STUDENT POPULATION	FY 87	WITH CONSOLIDATION		FY 87 EXPENDITURES	OF EXPENDITURES
WESTERN						
Bering Strait	2,006	\$2,059,083	\$1,859,083	\$200,000	\$16,224,511	1
Lower Yukon	1,587	2,564,576	2,164,576	400,000	19,733,682	2
Lower Kuskowim	2,859	3,806,745	3,606,745	200,000	34,360,342	1
Iditarod	384	N/A	N/A	N/A	N/A	N/A
Kuspuk	350	N/A	N/A	N/A	N/A	N/A
SOUTHWESTERN						
Southwest Region	933	1,106,330	906,330	200,000	11,112,354	2
Lake and Peninsula	354	N/A	N/A	N/A	N/A	N/A
Aleutians West	951	1,170,022	770,022	400,000	9,833,978	4
INTERIOR PIPELINE						
Yukon-Koyukuk	984	1,545,003	945,003	600,000	13,945,126	4
Yukon Flats	372	N/A	N/A	N/A	N/A	N/A
Delta/Greely	1,019	N/A	N/A	N/A	N/A	N/A
Copper River	561	N/A	N/A	N/A	N/A	N/A
Chugach	1,257	1,240,159	840,159	400,000	11,379,845	4
INTERIOR HIGHWAYS (NO PIPELINE)						
Railbelt	366	N/A	N/A	N/A	N/A	N/A
Alaska Gateway	511	N/A	N/A	N/A	N/A	N/A
SOUTHEAST						
Chatham	934	1,212,720	412,720	800,000	8,679,824	9
Southeast Island	2,633	2,840,447	1,440,447	1,400,000	19,674,206	7
TOTAL PROPOSED BOROUGHES	18,061	\$17,545,085	\$12,945,085	\$4,600,000	\$144,943,868	3

NOTES:

1. Student population data are from the Department of Education and are the number of students reported to be in attendance during the first count period of FY 87 (Average Daily Membership).
2. FY 87 administrative costs are those reported as "General Support Expenditures" by the Alaska Department of Education. These expenditures include: school boards; superintendents' and principals' offices; planning and research; fiscal services; central purchasing; statistical and data processing services; other general support activities.
3. Savings from consolidation were estimated to be \$200,000 for each district subsumed in the surrounding REAA.

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

DISCUSSION

The proposed boroughs fall into two groups with respect to local education costs under organized status: those which could probably organize without immediately instituting a property tax or levying any additional taxes and those which would be required to tax to meet their required local contribution.²¹ Table 3.9 lists the proposed boroughs falling in each category.

New Boroughs That May Not Need To Tax

Ten of the proposed boroughs could apparently organize as boroughs now and not be required to institute a property tax to meet their required local contribution. The proposed boroughs that fall within this category include six boroughs formed from REAAs only and four boroughs formed by combining city districts and REAAs.

The six boroughs formed from single REAAs or REAA combinations that could organize without a property tax are Lower Yukon, Lower Kuskokwim, Iditarod, Kuspuq, Lake and Peninsula, and Alaska Gateway. The feature of the Foundation law which allows ten percent of PL 81-874 funds, earnings on investments, State tuition payments and the value of in-kind services to be used to satisfy the required local contribution in combination with the relatively low property values in these regions produces the situation where current local contributions exceed required contributions. Thus, these REAAs, as boroughs, could likely meet their required local contribution without instituting a property tax. These boroughs would receive less Foundation aid, but the reductions are on the order of one to two percent. Because these proposed boroughs are formed from REAAs whose school construction costs have been paid in full by the State, these boroughs would begin operations without any bonded indebtedness.

²¹This discussion of the need to tax refers only to the need to tax to meet the required local contribution. The need for each borough to tax to maintain education funds at their current level is discussed in Chapter 5.

TABLE 3.9
 PROPOSED BOROUGHs CATEGORIZED BY THEIR NEED TO TAX TO MEET THEIR REQUIRED
 LOCAL CONTRIBUTION UNDER THE PUBLIC SCHOOL FOUNDATION PROGRAM

ADDITIONAL TAXATION IS:	
NOT REQUIRED	REQUIRED
Alaska Gateway	Chatham
Aleutians West	Copper River
Bering Straits	Delta/Greely
Chugach	Railbelt
Iditarod	Southwest Region
Kuspuk	Yukon Flats
Lake and Peninsula	Yukon-Koyukuk
Lower Kuskokwim	
Lower Yukon	
Southeast Island	

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

Four boroughs formed through consolidation of REAAs and city districts make current contributions to education in excess of required contributions. These boroughs would benefit from reduced costs by consolidating, and all have outstanding bonded indebtedness for school construction. The Bering Strait, Aleutians West, Chugach and Southeast Island proposed boroughs are included in this group. These boroughs each include at least one major city district where property taxes are currently levied, and each includes REAAs with relatively low property values. Thus, for these boroughs the reductions in Foundation aid are relatively small--being equivalent to revenues from a four mill property tax in the REAA portion of the new borough. For the Aleutians West and Southeast Island boroughs, the savings from consolidation are greater than the reductions in Foundation aid.

New Boroughs Where Taxation Will Be Required

Seven of the proposed boroughs would have to initiate local taxes of some sort to meet the required local contribution for education. These boroughs include four pipeline boroughs, which have high property values, and three boroughs with low property values. None of the boroughs in this category have any school construction debt.

Four pipeline boroughs--Yukon-Koyuk'ik, Yukon Flats, Delta/Greely, and Copper River--would have to institute a property tax to meet their required local contribution. The required local contribution of these boroughs is high precisely because their property tax capacity is high. These boroughs may be likened to the North Slope Borough, where most of the wealth in the borough is oil and gas property.

The proposed Railbelt, Southwest Region and Chatham boroughs have required contributions less than current contributions, thus taxation would most likely be required. The difference between their current and required local contributions is relatively small however, and it is possible that they could raise the necessary revenue through sales taxation. For the Southwest Region and Chatham boroughs, which are formed through consolidation of a REAA and at least one city district, the potential savings from consolidation exceed the reductions in Foundation aid. The Railbelt borough, which would be formed from a single REAA, would not enjoy any savings from consolidation.

CHAPTER FOUR

EFFECTS OF BOROUGH FORMATION ON STATE REVENUES AND EXPENDITURES

The previous chapter examined House Bill 1 from the perspective of the proposed boroughs. Now we change perspectives and examine the effect that formation of 17 new boroughs would have on State revenues and expenditures. As a starting point, we know that the requirement that REAAs make a local effort for education will reduce the amount that the State must spend on Foundation aid. However, borough formation would affect other entitlement programs which transfer State funds to localities. In addition, borough formation would affect the amount of revenue the State retains from those revenue sources that the State shares with localities. Thus, one may not assume that HB 1 is a revenue positive measure for the State simply because HB 1 would reduce Foundation aid by increasing local contributions. A broader examination is required.

In this chapter, the effect of 17 new boroughs on State revenues and expenditures is analyzed. In summary, the effects of borough formation on oil and gas property tax and shared taxes receipts will largely offset the reduction in Foundation aid. An additional \$8 million will be required annually for the Municipal Assistance and Revenue Sharing programs, if the entitlements of existing municipalities are to stay the same, and an estimated \$12 million will be required for initial borough formation expenses. These changes in revenues and expenditures are described in detail below and are summarized in Table 4.5 which appears at the end of this chapter.

EFFECTS ON STATE REVENUES

Local governments are created by State governments. Because local governments require revenue, and because the provision of services by a local government relieves the State government of providing those services, States often share revenue with the local governments in which the revenue was generated. Alaska shares revenue with boroughs by allowing boroughs to tax oil and gas pipeline property within the boroughs' boundaries and through its shared taxes programs. By creating 17 new boroughs, HB 1 will decrease State revenues by increasing the amounts of pipeline taxes and shared taxes going to localities. The potential magnitude of these decreases through each shared revenue program is discussed below.

EFFECTS OF BOROUGH FORMATION ON STATE REVENUES AND EXPENDITURES

Oil and Gas Pipeline Property Taxes

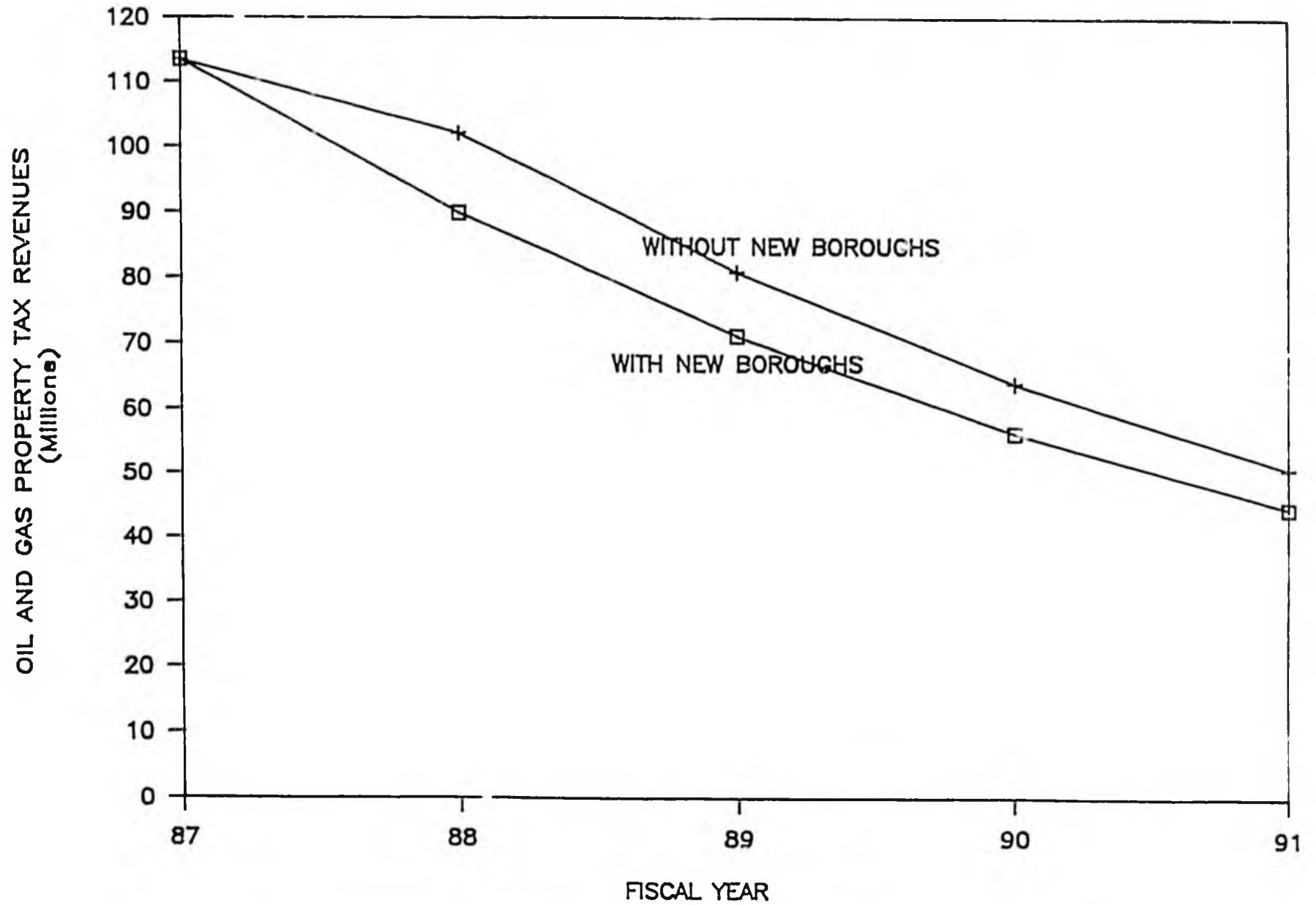
Under Alaska Statute 43.56, the State taxes oil and gas exploration, production and pipeline transportation property at the rate of 20 mills. Municipalities that contain petroleum property are required to levy and collect a tax on this property at the rate of taxation that applies to other property taxed within the municipality. Taxes on petroleum properties paid to a municipality are credited against the amount due to the State. Thus, for each dollar raised locally from the TransAlaska Pipeline, State General Fund revenues are reduced one dollar. The pipeline accounts for \$3.8 billion of the \$7.5 billion full taxable property value of the proposed boroughs. If the affected boroughs set their property tax rate at four mills for the support of education, revenues from taxation of the pipeline by the proposed boroughs will be about \$10 million, thus State General Fund revenues will be reduced about \$10 million. The boroughs could tax the pipeline at a higher rate which would further reduce General Fund revenues.²²

The oil and gas property tax is one of the more important sources of State unrestricted revenues. Revenues from this source in FY 87 were \$113.5 million. Taxation of the pipeline by the proposed boroughs (at four mills) would result in a 12 percent decrease in this source of revenue. The value of the pipeline is expected to decline about 10 percent per year during the next five years due to declining production and to settlement of a lawsuit over the method of valuing the pipeline for taxation purposes. In Figure 4.1, projected oil and gas property tax revenues for the next five years with and without borough formation are compared.

²²The temptation to tax property at a high rate due to the presence of the pipeline is tempered by the requirement that all property within the borough be taxed at the same rate.

FIGURE 4.1

Estimated State Revenues From the Oil and Gas Pipeline Property Tax
With and Without the Formation of the New Boroughs



EFFECTS OF BOROUGH FORMATION ON STATE REVENUES AND EXPENDITURES

Shared Taxes

Taxes or license fees from seven sources are refunded in total or in part to the local government in which the taxed activity occurs. These shared taxes are:

- coin-operated amusement and gaming devices tax;
- punchboard license tax;
- aviation fuel tax;
- telephone cooperative gross revenue tax;
- electric cooperative tax;
- liquor license fees; and the
- fisheries business tax.

In Table 4.1, each tax and its refund provision are described, and the amounts collected and refunded in FY 87 are presented. Table 4.1 also shows the additional amount that would be refunded due to the formation of the new boroughs.

In FY 87, nearly \$28 million was collected from these sources, of which \$10.3 million--37 percent--was refunded to local governments. The fisheries business tax, with revenues of \$16.5 million, and the aviation fuel tax, with revenues of \$8 million, represented the bulk of these tax revenues. Fisheries business tax refunds totalled \$8 million and thus represented the majority of total refunds. An insignificant portion of aviation fuel tax revenues are refunded to local governments.

Under House Bill 1, an additional \$3.2 million would be refunded. Refunds of fisheries business tax receipts, which would increase by \$2.9 million, account for the majority of the total increase.²³ Refunds of utility cooperatives taxes and liquor license fees would increase by about \$150,000 each.

²³While fisheries business tax revenues have generally increased over the last decade, these revenues are based on fish harvests which can vary from year to year. Thus, the actual amounts refunded to boroughs and the amount retained by the State could vary widely between years.

TABLE 4.1
TAXES OR LICENSE FEES SHARED WITH MUNICIPALITIES AND THE EFFECT OF BOROUGH
FORMATION ON DISTRIBUTION OF THESE TAX REVENUES

TAX	DESCRIPTION OF TAX	REFUND PROVISION	FY 87 GROSS RECEIPTS
Coin-operated Amusement and Gaming Devices (AS 43.35.010-090)	Levies an annual tax on devices such as pinball machines and video games. Tax ranges from \$48 to \$240 per year depending upon the type of device.	50 percent of the gross tax revenues are refunded to the borough or the city in the proportion that the revenue was earned in them. (AS 43.35.050)	\$102,157
Punchboard License Tax (AS 43.35.100-150)	Distributors of punchboards must pay a license tax ranging from \$2 to \$4 per board depending on the number of holes per board.	Seventy-five percent of the tax revenues from sales in a borough or city are refunded to the local government. (AS 43.35.130)	(included above)
Aviation Fuel Tax (AS 43.40)	Aviation fuel is taxed at four cents per gallon, and jet fuel is taxed at two and half cents per gallon.	Sixty percent of the revenues collected at an airport owned and operated or leased and operated by a municipality are refunded to the municipality. (AS 43.40.010(e))	8,071,496
Telephone Cooperative Gross Revenues Tax (AS 10.25.550)	Tax is one or two percent of gross revenues depending upon how long the cooperative has provided service.	Entire proceeds of both utilities cooperative taxes, less the State's collection costs, are refunded to the borough or city in proportion to the amount of revenue earned in the borough or city (AS 10.25.570).	1,960,297
Electric Cooperative Tax (AS 10.25.555)	Tax is one-fourth to one-half mill per kilowatt hour depending on how long the cooperative has provided service.		(included above)
Liquor License Fees (AS 04.11)	Annual license fees range from \$50 to over \$10,000 depending upon several factors, including the type of license and amount of business transacted. Fees are refunded only if the municipality provides police protection.	Entire proceeds of the license fees are refunded to the municipality in which the fees are collected. (AS 04.11.610)	1,367,788
Fisheries Business Tax (AS 43.75)	Tax is levied on the ex-vessel value of fisheries resources processed or exported for processing. Tax rate varies from one to five percent depending on the type of resource and the method and location of processing.	Boroughs receive 50 percent of the tax revenue collected outside of cities within the borough; cities in a borough receive 25 percent of the revenue collected within their bounds; cities outside a borough and unified municipalities receive 50 percent. (AS 43.75.130)	16,426,353
TOTALS			\$27,928,091

NOTES:

1. FY 87 gross receipts and refunds and the additional amounts expected to be refunded are from the Department of Revenue.
2. FY 87 gross receipts include penalties and interest, and liquor license fees which are not refunded. The gross receipts also include pre-pay and late payments and are therefore derived from more than one fiscal year.
2. The additional amount of fisheries business tax refunded under House Bill 1 was calculated as follows: 50 percent of the amount retained by the State in FY 87 less fifty percent of the amount refunded to cities in the unorganized borough.

FY 87 REFUNDS TO LOCAL GOVERNMENTS			ADDITIONAL AMOUNT REFUNDED UNDER HOUSE BILL 1	EFFECT OF NEW BOROUGHS ON DISTRIBUTION OF TAX
BOROUGHS	CITIES	TOTAL		
\$30,112	\$17,846	\$47,958	\$5,692	Cities within the new boroughs would still receive their refunds. Depending upon the tax, the borough would receive 50 or 75 percent of the revenues collected within the borough but outside of cities.
(included above)	(included above)	(included above)		
51,589	12,842	64,430	0	Formation of new boroughs will affect State revenues from the Aviation Fuel Tax only if the new boroughs operate airports. Because the boroughs will be third class boroughs, it is unlikely that any of the new boroughs would operate airports.
1,082,895	308,024	1,390,920	150,000 estimated	Cities within the new boroughs would still receive their refunds. The new borough would receive revenues collected within the borough but outside any cities. Since the state would be entirely divided into boroughs, the State would retain only the costs of collection.
(included above)	(included above)	(included above)		
390,916	354,222	745,138	155,975	Cities within the new boroughs would still receive their refunds. The new borough would receive revenues collected within the borough but outside any cities. Since the state would be entirely divided into boroughs, the State would not retain any of these revenues.
3,602,809	4,434,435	8,037,244	2,909,756	Cities within the new boroughs would only receive 25 percent of the revenue generated within their bounds, instead of the 50 percent received now. The new boroughs would receive 50 percent of the revenue generated outside of cities.
\$5,158,321	\$5,127,369	\$10,285,690	\$3,221,423	

EFFECTS OF BOROUGH FORMATION ON STATE REVENUES AND EXPENDITURES

EFFECTS ON STATE EXPENDITURES

In addition to sharing its revenues with boroughs, the State transfers funds to boroughs through several entitlement programs. These programs include the Public School Foundation, Municipal Assistance and Revenue Sharing programs, which provide entitlements on an annual basis, and the Transitional Assistance and Municipal Land Grants programs, which are nonrecurring entitlements provided at the time of borough formation. The effect of HB 1 on the costs of the annual entitlement programs and the costs to provide the nonrecurring entitlements are examined below. In all cases, estimates are based on the assumption that the entitlements of existing boroughs will not be reduced by the formation of new boroughs.

Annual Entitlement Programs

Public School Foundation Program

Required local contributions of the new boroughs, will result in a \$13.4 million decrease in the amount the State would otherwise spend on Foundation aid under the status quo. The legislature could respond to this decrease in two ways: The amount appropriated to the Foundation Program could be reduced by \$13 million or the Program could be funded at the same level. The latter option would have the effect of increasing the value of an instructional unit. The \$13 million "savings" would then be distributed among all districts.

Revenue Sharing

The Revenue Sharing program established under AS 29.60 was created to provide for an equitable allocation of resources among municipalities and to assure that no municipality suffers impoverishment of necessary services because of the chance distribution of taxable wealth in the state.²⁴

Revenue sharing funds are distributed to municipalities from two accounts: the Tax Resources Equalization Account and the Miscellaneous Municipal Services Account. A municipality's entitlement from the equalization account is based upon how much tax effort it makes relative to the value of its property tax base and its population. Municipalities with a high tax effort are rewarded with a greater per capita entitlement. To receive funds from the miscellaneous account, a municipality must provide certain

²⁴See House Research Memorandum 87.073 for a history of the Revenue Sharing program.

EFFECTS OF BOROUGH FORMATION ON STATE REVENUES AND EXPENDITURES

services, and the municipality is awarded a set amount per "service" performed. Unincorporated communities with at least 25 permanent residents are also eligible to receive a lump sum of \$25,000 from the miscellaneous account.

The legislature is not obligated to fund the revenue sharing accounts at the level that provides each municipality with 100 percent of its entitlement. If the legislature does not fully fund the program, each municipality's entitlement is reduced pro rata. In recent years, the Revenue Sharing program has been funded at less than full entitlement.

Each new borough that levies taxes of some sort will be eligible for funds from the Tax Resource Equalization Account. We do not know how much tax effort each new borough will make, so we cannot make a precise estimate of their entitlements. We do know that formation of 17 new boroughs will increase the total entitlement granted by statute, and the legislature will need to appropriate an increased amount to the account to give each municipality its full entitlement. If the legislature continues to appropriate the same amount--about \$31 million--to the Equalization Account, the inclusion of 17 new boroughs will reduce the amount received by existing boroughs.

In Table 4.2, the Tax Resource Equalization entitlements of the proposed boroughs based on two different millage rate equivalents, are estimated using the FY 87 formula. If the new boroughs each had millage rate equivalents of 10.6--the weighted average millage rate equivalent of existing boroughs and unified municipalities--a total of \$4.1 million would have been required to fund their entitlements in FY 87. If the new boroughs each had millage rate equivalents of 3.5, typical of smaller boroughs, an additional \$1.4 million would have been required for the Tax Resource Equalization Account.

In addition to Tax Resource Equalization funds, a borough's revenue sharing entitlement includes funds from the Miscellaneous Municipal Services Account. The Miscellaneous Account provides funds for road maintenance, hospitals, health facilities and fire protection when a borough provides those services. The amount of funding a borough receives is dependent upon the level of service provided, e.g., the number of miles of road maintained. Because HB 1 mandates the formation of third class boroughs, the new boroughs will probably not make any immediate demands on the Miscellaneous funds Account. Third class boroughs cannot provide the services that are funded by the Miscellaneous Account on an areawide basis--these services could only be provided within a service area. As service areas are formed within the new boroughs, the boroughs will become eligible for funds from the Miscellaneous Account. We cannot predict whether or how long it may take for such service areas to form or the ultimate demand that the new boroughs will place on the Miscellaneous Account. We can only note that as service districts are formed within the new boroughs, additional funds will be required to fully fund the Miscellaneous Municipal Services Account.

TABLE 4.2
ESTIMATED TAX RESOURCE EQUALIZATION ENTITLEMENTS OF THE PROPOSED BOROUGHES

PROPOSED BOROUGH	POPULATION	ESTIMATED FY 87 TAX RESOURCE EQUALIZATION ENTITLEMENT IF:	
		MILL RATE EQUIVALENT EQUALS 10.6	MILL RATE EQUIVALENT EQUALS 3.5
WESTERN			
Bering Strait	7,776	\$402,422	\$132,877
Lower Yukon	5,035	260,570	86,039
Lower Kuskowkim	11,340	586,865	193,779
Iditarod	1,563	80,888	26,709
Kuspuk	1,494	77,317	25,530
SOUTHWESTERN			
Southwest Region	4,703	243,388	80,366
Lake and Peninsula	1,560	80,733	26,657
Aleutians West	6,897	356,932	117,857
INTERIOR PIPELINE			
Yukon-Koyukuk	4,719	244,216	80,639
Yukon Flats	1,596	82,596	27,273
Delta/Greely	4,749	245,769	81,152
Copper River	2,914	150,805	49,795
Chugach	6,081	314,702	103,913
INTERIOR HIGHWAYS (NO PIPELINE)			
Railbelt	1,345	69,606	22,984
Alaska Gateway	2,032	105,160	34,723
SOUTHEAST			
Chatham	3,528	182,580	60,287
Southeast Island	11,870	614,293	202,836
TOTAL	79,202	\$4,098,842	\$1,353,415

NOTES:

1. The formula for Tax Resource Equalization entitlements is provided in AS 29.60.010-080. In FY 87, entitlements were equal to: population X millage rate equivalent X 5.1392 X 0.95.
2. Because the tax effort of each proposed borough could not be predicted, estimation of each borough's entitlement was based on the average millage rate equivalent of existing boroughs in 1986, 10.6 (see Note 3), and on a relatively low millage rate equivalent value (3.5) typical of some of the smaller boroughs.
3. Millage rate equivalents of existing boroughs in FY 87 were: Anchorage, 4.82; Bristol Bay, 11.79; Fairbanks, 5.27; Haines, 3.65; Juneau, 20.8; Kenai, 3.53; Ketchikan, 6.26; Kodiak, 3.82; Mat-Su, 4.84; North Slope, 10.78; Northwest Arctic, 0.0; Sitka, 11.53. The weighted average millage rate equivalent for existing boroughs (10.6) was calculated by dividing the total 1986 tax collections of existing boroughs by the total full value of existing boroughs as reported in Alaska Taxable.

Municipal Assistance

Under the Municipal Assistance program, the State distributes funds to municipalities based on corporate income tax revenues generated within the municipality. The current program was established in 1980 to replace the Gross Business Receipts Tax program under which municipalities were refunded 20 percent of gross business receipts tax revenues collected within their bounds.²⁵ Each municipality's entitlement is equal to a base amount plus a prorated share of any additional amount appropriated to the Municipal Assistance program. For municipalities formed prior to 1977, the base amount is the amount received under the Gross Business Receipts Tax program in FY 78. For boroughs formed after 1977, the base amount is equal to the base amount received by the existing borough whose population outside of cities most closely approximates the population outside of cities of the new borough.

Under current statute, the legislature may appropriate an amount equal to or greater than 30 percent of corporate income tax revenues from the prior fiscal year to the Municipal Assistance program. With the recent declines in oil revenues, the amounts appropriated to the Municipal Assistance fund have declined from their peak in FY 82 of \$87.9 million to \$65.8 million in FY 87. In FY 87, \$10.6 million went to fund the base entitlements, and \$55.2 million went to fund the excess entitlements.

Table 4.3 presents estimated Municipal Assistance entitlements for the proposed boroughs. I have assumed that the new boroughs are formed simultaneously, and the base entitlement of each new borough was determined by comparison with the base entitlements of the existing boroughs. If the new boroughs are formed at different times, the base entitlements could be different because for the boroughs incorporating later, the new boroughs which had incorporated earlier would be "existing boroughs."

The formation of the 17 new boroughs will add \$3.8 million to the total base entitlement, raising it from \$10.6 to \$14.4 million. The base entitlements of most of the boroughs are relatively small amounts, i.e., less than \$35,000. Three of the boroughs, however, have populations that most closely correspond to the population of the North Slope Borough, which had FY 78 business tax refunds totalling \$1.2 million, and for these boroughs, the base entitlement is \$1.2 million. Thus, of the \$3.8 million base entitlement of the proposed boroughs, 95 percent is derived from these three boroughs.

²⁵See House Research Memorandum 87.073 for a history of the Municipal Assistance program.

TABLE 4.3
ESTIMATED MUNICIPAL ASSISTANCE ENTITLEMENTS OF THE PROPOSED BOROUGHS

PROPOSED BOROUGH	TOTAL POPULATION	POPULATION OUTSIDE CITIES	EXISTING BOROUGH WITH SIMILAR POPN OUTSIDE CITIES	EXCESS ENTITLEMENT IF APPROPRIATION:			TOTAL ENTITLEMENT IF APPROPRIATION:		
				BASE AMOUNT	REMAINS AT FY 87 LEVEL	INCREASES TO MAINTAIN STATUS QUO FOR EXISTING BOROUGHS	REMAINS AT FY 87 LEVEL	INCREASES TO MAINTAIN STATUS QUO FOR EXISTING BOROUGHS	
WESTERN									
Bering Strait	7,776	167	Northwest Arctic	\$7,275	\$14,696	\$16,533	\$21,971	\$23,808	
Lower Yukon	5,035	290	Northwest Arctic	7,275	25,520	28,710	32,795	35,985	
Lower Kuskowkim	11,340	1,637	Bristol Bay	13,986	144,056	162,063	158,042	176,049	
Iditarod	1,563	242	Northwest Arctic	7,275	21,296	23,958	28,571	31,233	
Kuspuk	1,494	454	Northwest Arctic	7,275	39,952	44,946	47,227	52,221	
SOUTHWESTERN									
Southwest Region	4,703	436	Northwest Arctic	7,275	38,368	43,164	45,543	50,439	
Lake and Peninsula	1,560	924	Haines	7,275	81,312	91,476	88,567	98,751	
Aleutians West	6,897	4,829	Ketchikan	32,610	424,952	478,071	457,562	510,681	
INTERIOR PIPELINE									
Yukon-Koyukuk	4,719	1,135	Bristol Bay	13,986	99,880	112,365	113,866	126,351	
Yukon Flats	1,596	918	Haines	7,275	80,784	90,882	88,059	98,157	
Delta/Greely	4,749	3,450	North Slope	1,203,621	303,600	341,550	1,507,221	1,545,171	
Copper River	2,914	2,914	North Slope	1,203,621	256,432	288,486	1,460,053	1,492,107	
Chugach	6,081	565	Haines	7,275	49,720	55,935	56,995	63,210	
INTERIOR HIGHWAYS (NO PIPELINE)									
Railbelt	1,345	779	Haines	7,275	68,552	77,121	75,827	84,396	
Alaska Gateway	2,032	1,847	Bristol Bay	13,986	162,536	182,853	176,522	196,839	
SOUTHEAST									
Chatham	3,528	581	Haines	7,275	51,128	57,519	58,403	54,794	
Southeast Island	11,870	3,037	North Slope	1,203,621	267,256	300,663	1,470,877	1,504,284	
TOTAL	79,202	24,205		\$3,758,181	\$2,130,040	\$2,396,295	\$5,888,221	\$6,154,476	

NOTES:

1. The formula for calculating a new borough's Municipal Assistance entitlement is provided in AS 29.60.
2. Population data for the proposed boroughs are for 1986 from the Department of Labor.
3. Determination of the existing borough with similar population residing outside cities was based on the FY 87 Final Report on State Revenue Sharing and Municipal Assistance, Department of Community and Regional Affairs.
4. Excess entitlement in FY 87 was \$99 per resident living outside a city.
5. Excess entitlement would have been reduced to \$88 per resident living outside cities if the 17 proposed boroughs had been included in FY 87.

EFFECTS OF BOROUGH FORMATION ON STATE REVENUES AND EXPENDITURES

The formation of 17 new boroughs will increase the portion of the Municipal Assistance fund devoted to "base" entitlements and thereby decrease the portion that is "excess" and divided on a per capita basis. If the total appropriation to Municipal Assistance were to remain the same--\$65 million--and the 17 new boroughs were formed, the excess entitlement would drop from \$99 per capita to \$88 per capita. If the legislature decided to increase the appropriation to Municipal Assistance to ensure that existing cities and boroughs maintained their current entitlement of base plus \$99 per capita, an additional \$6.1 million would be required.

Nonrecurring Entitlement Programs

Transitional Assistance

Under AS 29.05.190, the State provides grants to new boroughs to help defray the costs of transition to borough government and to provide for interim governmental operations. These grants are \$300,000 for the first full or partial fiscal year, \$200,000 for the second fiscal year, and \$100,000 for the third fiscal year. Thus, during a period of three years, each new borough would receive \$600,000 in Transitional grants. Under House Bill 1, at least 17 new boroughs would be formed by June 30, 1989. The total amount that would be needed for organization grants for these new boroughs would be \$10.2 million. Assuming that all the new boroughs formed during FY 89, these grant funds would be disbursed as follows: \$5.1 million in FY 89, \$3.4 million in FY 90, and \$1.7 million in FY 91.

Alaska Statute 29.05.210 directs the Department of Community and Regional Affairs to provide assistance to each new borough in:

- establishing the initial sales and use tax assessment and collection department, if the borough adopts a sales or use tax; and
- determining the initial property tax assessment roll if the borough has adopted a property tax, including contracting for appraisals of property needed to complete the initial assessment.

We do not know how much would be required for DCRA to fulfill each of these obligations, but a considerable sum could be required, particularly if the new boroughs choose to institute a property tax. The fiscal note attached to the bill implementing HB 1 will have to include an accounting of the amounts needed by DC&RA to fulfill these obligations.

EFFECTS OF BOROUGH FORMATION ON STATE REVENUES AND EXPENDITURES

Municipal Land Grants

Under AS 29.65.030, new boroughs are entitled to a general land grant equal to ten percent of the maximum total acreage of vacant, unappropriated, unreserved (VUU) State land within their bounds. However, a new borough may not receive more than 20 acres per person. In Table 4.4, maximum entitlements, based on population, are compared to ten percent of the number of acres that the Department of Natural Resources estimates is vacant, unappropriated and unreserved within each proposed borough.

The actual entitlement that a borough receives will be limited either by the population of the borough or by the amount of VUU land available for selection. One proposed borough, Lower Yukon, has no VUU land and would receive no land entitlement. Eleven of the proposed boroughs have maximum entitlements based on population that are less than the estimated amount of VUU land available for selection; for these boroughs, their entitlement will be limited by their population. Because the amount of land available for selection exceeds their entitlement, these boroughs will have some choice in the lands they receive. Five of the proposed boroughs have less VUU land than they would be entitled to on the basis of population, and these boroughs will have no choice in the selection process.

The estimated total entitlement for the proposed boroughs is 787,231 acres. We have not attempted to precisely estimate how much it would cost the State to transfer these lands. However, the total entitlement of existing boroughs and unified municipalities is similar, 861,421 acres, and the State has spent roughly \$150,000 per year during the last six years--a total of \$900,000--on transfer of these lands. Frank Mielke, Special Projects Coordinator with the Division of Land and Water Management, Department of Natural Resources, estimates that land transfer costs are a minimum of \$1 per acre. Thus, the State could expect to spend on the order of \$1 million over several years to transfer lands to the new boroughs.

DISCUSSION

The costs to the State of HB 1, summarized in Table 4.5, can be broken into two categories: 1) the nonrecurring costs associated with borough formation; and 2) the annual costs associated with foregone revenues and increased expenditures for entitlement programs. The nonrecurring costs to implement the bill are estimated to be on the order of \$12 million spread over a three to five-year period. The net annual cost of HB 1 is estimated to be on the order of \$6 million.

TABLE 4.4
ESTIMATED LAND ENTITLEMENTS OF THE PROPOSED BOROUGHs

PROPOSED BOROUGH	POPULATION	MAXIMUM LAND ENTITLEMENT (ACRES)	MAXIMUM AMOUNT OF VACANT, UNAPPROPRIATED AND UNRESERVED STATE LAND (ACRES)	ESTIMATED ENTITLEMENT (ACRES)
WESTERN				
Bering Strait	7,776	155,520	247,408	155,520
Lower Yukon	5,035	100,700	0	0
Lower Kuskowkim	11,340	226,800	56,660	56,660
Iditarod	1,563	31,260	1,121,923	31,260
Kuspuk	1,494	29,880	317,968	29,880
SOUTHWESTERN				
Southwest Region	4,703	94,060	691,299	94,060
Lake and Peninsula	1,560	31,200	432,970	31,200
Aleutians West	6,897	137,940	92,816	92,816
INTERIOR PIPELINE				
Yukon-Koyukuk	4,719	94,380	859,777	94,380
Yukon Flats	1,596	31,920	182,355	31,920
Delta/Greely	4,749	94,980	255,983	94,980
Copper River	2,914	58,280	262,044	58,280
Chugach	6,081	121,620	95,758	95,758
INTERIOR HIGHWAYS (NO PIPELINE)				
Railbelt	1,345	26,900	255,515	26,900
Alaska Gateway	2,032	40,640	467,016	40,640
SOUTHEAST				
Chatham	3,528	70,560	2,155	2,155
Southeast Island	11,870	237,400	6,343	6,343
TOTAL	79,202	1,428,520	5,100,564	787,231

NOTES:

1. Boroughs are entitled to 10 percent of the vacant, unappropriated and unreserved State land within their bounds, except that no borough may receive more than 20 acres per capita.
2. The maximum amount of vacant, unappropriated and unreserved (VUU) land within each proposed borough is ten percent of the total amount of VUU land within each borough. Estimates of total VUU land in each proposed borough were prepared by the Department of Natural Resources. The values presented do not account for land that may have been recently classified subject to a land use plan; these lands would not be available for selection by a borough. Thus, the values presented represent the maximum number of acres from which a new borough could select its entitlement.

TABLE 4.5
SUMMARY OF EFFECTS OF NEW BOROUGHS ON STATE REVENUES
AND EXPENDITURES

PROGRAM	ESTIMATED CHANGE IN CURRENT REVENUES OR EXPENDITURES DUE TO NEW BOROUGHS
.....	
SUMMARY	
Net Annual Revenues	-\$8 million
Nonrecurring Expenditures	\$12 million
.....	
REVENUES	
Oil and Gas Pipeline	-\$10 million
Property Taxes	
Shared Taxes	-\$3 million
Subtotal-----	-\$13 million
.....	
EXPENDITURES	
Annual Entitlement Programs	
Public School Foundation	-\$13 million
Municipal Assistance	+\$6 million
Revenue Sharing	+\$2 million
Subtotal-----	-\$5 million
Nonrecurring Entitlement Programs	
Transitional Assistance	
Grants	+\$10 million
DCRA Assistance	+\$1 million ?
Municipal Land Grants	+\$1 million
Subtotal-----	+\$12 million
.....	

EFFECTS OF BOROUGH FORMATION ON STATE REVENUES AND EXPENDITURES

In the long term, the State will have decreased revenues. It is difficult to predict precisely how much State revenues will decrease over the long term, but if the new boroughs along the pipeline levy a four mill property tax and fish harvests remain about the same, revenues will be initially reduced \$13 million. If the pipeline boroughs levy taxes at a higher rate, revenues will be further reduced. The value of the pipeline is expected to decline during the next several years, and the formation of new boroughs along the pipeline will further reduce State revenues from this source, particularly if these boroughs raise tax rates to stabilize revenues.

Other than the costs of implementation, HB 1 does not require either increased or reduced expenditures for any of the programs by which the State assists local governments. Rather, HB 1 would create a new set of political conditions under which the legislature must make decisions about allocation of funds to local governments. The requirement that the new boroughs make a local contribution to education would "free up" about \$13 million of the \$430 million currently appropriated to Foundation aid. If the Foundation aid appropriation remains at \$430 million, existing boroughs will receive more Foundation aid. If the Foundation Aid appropriation is reduced by \$13 million, the existing boroughs simply receive the same amount; only the new boroughs receive less funds. In either case, existing boroughs receive a greater portion of the Foundation appropriation than under the status quo.

To provide the new boroughs with their entitlements while each existing municipality receives its current (FY 87) amount under the Municipal Assistance and Revenue Sharing programs will require the appropriation of an additional \$7 to \$9 million. If the appropriations are not increased, the entitlements of all municipalities will be reduced. The FY 87 appropriations were already 20 percent less than in FY 86, and many communities have had to reduce basic services as a result of the decrease in revenue. All municipalities have felt the effects of the current economic downturn, and there is considerable pressure on the legislature to increase the amount of revenue transferred to local governments. The addition of 17 new boroughs will undoubtedly increase pressure on the legislature to appropriate more money for these local government assistance programs.

CHAPTER FIVE

POTENTIAL REVENUES OF THE PROPOSED BOROUGHS AND THE NECESSITY OF LOCAL TAXES FOR EDUCATION

In this chapter, we return to the perspective of the proposed boroughs and assess the necessity of each borough to levy taxes to maintain the current level of funding for education. It is an often expressed concern that some areas within the unorganized borough do not have the fiscal capacity to support education and other borough duties. To evaluate whether the new boroughs have sufficient fiscal capacity, one must first have an idea of how much money needs to be generated locally, and that is what we attempt to do here.

Under House Bill 1, the Foundation aid entitlement of each proposed borough will be reduced by an amount equivalent to the required local contribution. However, each borough will be eligible for funds from other entitlement programs, specifically the shared taxes, Revenue Sharing, and Municipal Assistance programs. To a third class borough, whose only areawide powers are education and taxation, these additional entitlements are, in fact, education funds. To varying degrees, these revenues will offset the reductions in Foundation aid. In addition, savings from the consolidation of districts may partially offset reductions in Foundation aid.

In order to determine whether local taxes must be imposed to maintain the current level of funding for education, the net change in revenue from all entitlement programs must be estimated. If the reduction in Foundation aid is not offset by consolidation savings and entitlements, a borough must levy local taxes to maintain education funding at the current level. If the reduction is offset, a borough could conceivably organize, at least initially, without having to levy local taxes.

Here, the need for local taxes for education is assessed by:

- estimating the potential revenues from entitlements other than education (Tables 4.2, 4.3, and 5.1); and
- estimating the net change in education revenues (Table 5.2).

POTENTIAL REVENUES OF THE PROPOSED BOROUGHES

In summary, of the 17 boroughs:

- Six boroughs must tax to meet their required local contribution, but do not need to raise additional funds.
- Three boroughs need not tax to meet their required local contribution, but they would have to tax to cover the portion of the reduction in Foundation aid not offset by additional entitlements and consolidation savings to maintain education expenditures at the current level.
- One borough must tax to meet the required local contribution and would also have to tax to cover the reduction in Foundation aid not offset by other revenue to maintain education expenditures at the current level.
- Seven boroughs need not tax--either to meet their required local contribution or to maintain education expenditures at the current level.

Unexpectedly, 13 of the 17 proposed boroughs would enjoy increased revenues for education, after consideration of any tax revenues needed to meet the required local contribution, other entitlements and any consolidation savings. Table 5.3, located at the end of the chapter, categorizes the proposed boroughs by their need to tax for education and shows which boroughs will have increased revenues.

POTENTIAL REVENUES FROM ENTITLEMENT PROGRAMS OTHER THAN EDUCATION

Revenues of the proposed boroughs from entitlement programs other than education will come from three sources: shared taxes, Revenue Sharing and Municipal Assistance. The estimated entitlements of each borough from Revenue Sharing and Municipal Assistance were presented previously in Chapter 4 (See Tables 4.2 and 4.3). Also in Chapter 4, shared taxes were described (See Table 4.1). Here, these shared tax revenues are allocated among the proposed boroughs to the extent possible.

Table 5.1 presents the FY 87 shared tax revenues of cities within each borough and the estimated revenues of each borough. No attempt was made to allocate gaming taxes because the currently undistributed receipts of this tax are only \$5,000. Similarly, allocation of the utility cooperative taxes and liquor license fees refunds was not attempted because the additional refunds from these sources would probably total less than \$300,000. In Table 5.1, the boroughs likely to receive revenues from these two sources are identified.

TABLE 5.1

FY 87 SHARED TAX REVENUES OF CITIES WITHIN THE PROPOSED BOROUGHS AND ESTIMATED SHARED TAX REVENUES OF THE PROPOSED BOROUGHS

PROPOSED BOROUGH	FISHERIES BUSINESS TAX		UTILITY COOPERATIVE TAXES		LIQUOR LICENSE FEES	
	FY 87 REVENUES OF CITIES WITHIN THE BOROUGH	ESTIMATED REVENUES OF THE BOROUGH	FY 87 REVENUES OF CITIES WITHIN THE BOROUGH	ESTIMATED REVENUES OF THE BOROUGH	FY 87 REVENUES OF CITIES WITHIN THE BOROUGH	ESTIMATED REVENUES OF THE BOROUGH
WESTERN						
Bering Strait	\$0	\$0	\$3,093	\$0	\$13,586	\$0
Lower Yukon	40,832	42,481	3,199	+	0	0
Lower Kuskowkim	59,554	61,959	1,499	+	0	0
Iditarod	1,557	1,620	472	+	3,900	0
Kuspuk	189	197	189	+	0	0
SOUTHWESTERN						
Southwest Region	52,046	54,148	29,276	+	5,314	0
Lake and Peninsula	179,267	186,508	0	0	0	0
Aleutians West	1,062,335	1,105,243	0	0	9,598	0
INTERIOR PIPELINE						
Yukon-Koyukuk	12,296	12,793	1,725	+	6,554	0
Yukon Flats	0	0	0	0	0	0
Delta/Greely	0	0	2,503	+	0	+
Copper River	0	0	0	0	0	+
Chugach	465,270	484,062	67,176	+	29,072	0
INTERIOR HIGHWAYS (NO PIPELINE)						
Railbelt	0	0	3,251	+	0	+
Alaska Gateway	0	0	0	0	0	+
SOUTHEAST						
Chatham	178,530	185,741	0	0	17,202	+
Southeast Island	744,918	775,005	0	0	26,902	+
TOTAL - PROPOSED BOROUGHS	\$2,796,794	\$2,909,756	\$112,383	\$150,000	\$112,928	\$155,975

NOTES:

1. Only those boroughs with cities that currently receive fisheries business tax revenues were allocated fisheries business tax revenues. Borough allocations were based on the percentage of the total amount refunded received by cities in each borough.
2. Only those boroughs with cities that currently receive utility cooperative tax refunds were estimated to receive these revenues. Borough allocations were not made because the revenues attributed to unincorporated communities were not precisely known.
3. Only those boroughs with unincorporated communities likely to allow the sale of liquor were estimated to receive these revenues. Although the receipts from unincorporated communities and incorporated communities without police protection were known, borough allocations were not attempted.

POTENTIAL REVENUES OF THE PROPOSED BOROUGHES

Of the shared taxes, the fisheries business tax is the only tax that will provide a significant source of revenue to any of the proposed boroughs. I assumed that only those boroughs containing cities that received fisheries business tax refunds would receive these revenues, and the additional \$2.9 million that would be refunded to the new boroughs was allocated in proportion to the FY 87 receipts of the cities within each borough. Of the 17 proposed boroughs, 11 are expected to receive fisheries business tax refunds. For most of the coastal boroughs, the potential refunds are sizable, ranging from \$185,000 to over \$1 million. For the coastal boroughs in the western region and for interior region boroughs, the potential refunds are under \$100,000.

THE NECESSITY OF LOCAL TAXES FOR EDUCATION IN THE NEW BOROUGHES

Local taxes will be required in the new boroughs if current local contributions are less than required local contributions. In addition, boroughs must tax to maintain education expenditures if the combination of any tax revenues necessary to fulfill the required local contribution, additional entitlements and consolidation savings do not offset the reductions in Foundation aid.

The boroughs in which current local contributions are less than the required local contribution were identified in the analysis of local education costs in Chapter 3 (see page 46). Four pipeline boroughs and three other boroughs were in this situation. At minimum, these boroughs must raise the difference between their current contributions and the required contribution, or they will lose their Foundation aid. If these boroughs raise only the difference, they will have less money for education--by the amount of the their current contributions--unless the additional entitlements and consolidation savings are equal to or greater than their current contributions.

To determine which boroughs will need to tax to maintain education funding, net education revenues must first be determined. The net change in education revenues was estimated by taking into consideration the following:

- the reduction in Foundation aid;
- any required local contributions in excess of current local contribution;

POTENTIAL REVENUES OF THE PROPOSED BOROUGHES

- potential revenues from shared taxes, Revenue Sharing and Municipal Assistance entitlements; and
- any consolidation savings.

In Table 5.2, the net change in funds available for education in each proposed borough is presented. Overall, the additional entitlements offset nearly \$10 million of the \$13.4 million shortfall in Foundation aid to the proposed boroughs, and the savings from consolidation offset another \$4.6 million. The distribution of the additional entitlement dollars and of consolidation savings among the proposed boroughs is uneven, however, and some boroughs have a net increase in revenues while other boroughs have a net decrease. For those boroughs with a net decrease, local taxes must be levied--in addition to any taxes already levied by cities for education and to any taxes needed to fulfill the local contribution requirement--to maintain education funding at the current level.

Table 5.3 categorizes the proposed boroughs by their need to tax for education. Six of the proposed boroughs include cities that currently levy property taxes for education, and these tax revenues were included in the assessment of current local contributions. The following assessment of the new boroughs' need to tax for education refers to the need to raise taxes in addition to any currently raised by the cities within the boroughs.

Ten boroughs must tax; seven borough do not need to tax. In the following discussion, the circumstances that affect whether each borough needs to tax are highlighted.

Boroughs Where Additional Taxation is Required

Of the ten boroughs that need to levy additional taxes for education:

- Six boroughs must tax to meet their required local contribution, but do not need to raise additional funds.
- Three boroughs need not tax to meet their required local contribution, but they would have to tax to cover the portion of the reduction in Foundation aid not offset by additional entitlements and consolidation savings to maintain education expenditures at the current level.
- One borough must do both. Taxation is required to meet the local contribution, and these tax revenues are insufficient to cover the reduction in Foundation aid not offset by other revenue.

The boroughs that need to tax to meet the required local contribution include four pipeline boroughs, which have high property values, and three boroughs which have much lower property values. The pipeline boroughs each need to raise from \$1.5 to \$3 million to fulfill their local

TABLE 5.2
ESTIMATED NET CHANGE IN EDUCATION REVENUES OF THE PROPOSED BOROUGHES

PROPOSED BOROUGH	CHANGE IN FOUNDATION AID	REQUIRED CONTRIBUTIONS IN EXCESS OF CURRENT CONTRIBUTIONS	ESTIMATED ENTITLEMENTS FROM:				POTENTIAL SAVINGS FROM CONSOLIDATION	NET CHANGE IN EDUCATION REVENUES
			FISHERIES BUSINESS TAXES	OTHER SHARED TAXES	REVENUE SHARING	MUNICIPAL ASSISTANCE		
WESTERN								
Bering Strait	(\$355,369)	\$0	\$0	\$0	\$132,877	\$23,808	\$200,000	\$1,316
Lower Yukon	(339,707)	0	42,461	+	86,039	35,985	400,000	274,798
Lower Kuskowim	(1,284,070)	0	61,959	+	193,779	176,049	200,000	(652,283)
Iditarod	(93,925)	0	1,620	+	26,709	31,233	N/A	(34,364)
Kuspuk	(79,360)	0	197	+	25,530	52,221	N/A	(1,412)
SOUTHWESTERN								
Southwest Region	(200,222)	187,877	54,148	+	80,366	50,439	200,000	372,608
Lake and Peninsula	(122,186)	0	186,508	0	26,657	98,751	N/A	189,729
Aleutians West	(88,734)	0	1,105,243	0	117,857	510,681	400,000	2,045,047
ERIOR PIPELINE								
Yukon-Koyukuk	(3,538,147)	3,170,899	12,793	+	80,639	126,351	600,000	452,535
Yukon Flats	(2,041,200)	1,904,320	0	0	27,273	98,157	N/A	(11,450)
Delta/Greely	(2,059,470)	1,834,516	0	+	81,152	1,545,171	N/A	1,401,369
Copper River	(1,735,230)	1,642,863	0	+	49,795	1,492,107	N/A	1,449,535
Chugach	(1,002,631)	0	484,062	+	103,913	63,210	400,000	48,554
INTERIOR HIGHWAYS (NO PIPELINE)								
Railbelt	(120,705)	50,343	0	+	22,984	84,396	N/A	37,018
Alaska Gateway	(182,111)	0	0	+	34,723	196,839	N/A	49,451
SOUTHEAST								
Chatham	(39,742)	147,579	185,741	+	60,287	64,794	800,000	1,218,459
Southeast Island	(183,943)	0	775,005	+	202,836	1,504,284	1,400,000	3,698,182
TOTAL PROPOSED BOROUGHES	(\$13,466,752)	\$8,938,397	\$2,909,756	\$311,667	\$1,353,416	\$6,154,476	\$4,600,000	

NOTES:

1. Other shared taxes include gaming and amusement taxes, utility cooperative taxes and liquor license fees.
2. The Revenue Sharing entitlements of each borough are based on a millage rate equivalent of 3.5. See Table 4.2 for further information.
3. The Municipal Assistance entitlements of each borough are based on the FY 87 formula and a total appropriation sufficient to maintain the entitlements of all existing boroughs at their current level. See Table 4.3 for further information.
4. Estimated savings from consolidation of school districts were estimated to be \$200,000 for each district subsumed. See Table 3.8 for further information.

TABLE 5.3
PROPOSED BOROUGHs CATEGORIZED BY THEIR NEED TO LEVY ADDITIONAL TAXES FOR EDUCATION

..... ADDITIONAL TAXATION REQUIRED ADDITIONAL TAXATION NOT REQUIRED		
BOROUGH	AMOUNT NEEDED TO MEET REQUIRED LOCAL CONTRIBUTION	NET CHANGE IN FUNDS FOR EDUCATION	BOROUGH	AMOUNT NEEDED TO MEET REQUIRED LOCAL CONTRIBUTION	NET CHANGE IN FUNDS FOR EDUCATION
WESTERN					
Lower Kuskokwim	\$0	(\$652,283)	Bering Strait	\$0	\$1,316
Iditarod	0	(34,364)	Lower Yukon	0	224,798
Kuspuk	0	(1,412)			
SOUTHWESTERN					
Southwest Region	187,877	372,608	Lake and Peninsula Aleutians West	0	189,729 2,045,047
INTERIOR PIPELINE					
Yukon-Koyukuk	3,170,899	452,535	Chugach	0	48,554
Yukon Flats	1,904,320	(11,450)			
Delta/Greely	1,834,516	1,401,369			
Copper River	1,642,863	1,449,535			
INTERIOR HIGHWAYS (NO PIPELINE)					
Railbelt	50,343	37,018	Alaska Gateway	0	49,451
SOUTHEAST					
Chatham	147,579	1,218,659	Southeast Island	0	3,698,182

NOTES:

1. Amount required to meet the required local contribution is the difference between current local local contributions and the required local contribution. See Table 3.4.
2. Net change in education funds is the additional amount of revenue available for expenditure on education once the reduction in foundation aid, required local taxes, additional entitlements, and consolidation savings are taken into account. Negative values indicate that taxation would be required to maintain education expenditures at the current level. See Table 5.2.

POTENTIAL REVENUES OF THE PROPOSED BOROUGHS

obligation, and these boroughs would need to institute a property tax. The other three boroughs, Southwest Region, Railbelt and Chatham, each need to raise less than \$200,000; conceivably, they could raise this money through sales taxation.

The three boroughs that do not need to tax to meet the required local contribution but do need to tax to offset the reductions in Foundation aid are the Lower Kuskokwim, Iditarod and Kuspuk boroughs. For the Iditarod and Kuspuk boroughs, the net decreases in education funds are estimated to be under \$35,000. The FY 87 expenditures of the districts forming these boroughs were several million dollars each, thus these reductions in education funding are insignificant. For the Lower Kuskokwim borough, the additional entitlements and consolidation savings offset only a portion of the reduction in foundation aid, and net education revenues decrease \$650,000 unless taxes are levied.

The Yukon Flats borough, a pipeline borough, needs to tax to meet its local contribution requirement, but must tax at a rate slightly higher than needed to meet the requirement in order to maintain education funding. After the taxes required to fulfill the local contribution and the additional entitlements are considered, this borough is only \$11,000 short of its current level of funding. This amount is insignificant relative to the current level of education expenditures in this proposed borough.

Boroughs Where Additional Taxation is Not Required

Seven boroughs will not need to tax because their current local contributions exceed their required local contributions and because additional entitlements and consolidation savings offset the reductions in Foundation aid. These boroughs are: Bering Strait, Lower Yukon, Lake and Peninsula, Aleutians West, Chugach, Alaska Gateway, and Southeast Island.

Strictly speaking, the boroughs with city districts that currently levy property taxes for education--the Bering Strait, Aleutians West, Chugach, and Southeast Island boroughs--will have to tax, because these tax revenues comprise part of the current local contribution. However, no additional tax revenue would be needed, and to the extent that the additional entitlements and consolidation savings exceed the reduction in Foundation aid to the borough, these boroughs could reduce their tax appropriations for education. For the Aleutians West and Southeast Island boroughs, the net change in education revenues exceeds the current local tax contributions of the cities with city districts boroughs. These boroughs could reduce or even eliminate tax appropriations for school operations and still have more revenues for education than under the status quo.

The Lower Yukon, Lake and Peninsula, and Alaska Gateway boroughs are formed from REAAs, and their current local contributions therefore do not include any tax appropriations. These REAAs could organize as boroughs without levying local taxes and still maintain, and in fact, increase, revenues available for schools.

POTENTIAL REVENUES OF THE PROPOSED BOROUGHES

An Unexpected Result: Boroughs with More Education Revenue Than Under the Status Quo

The purpose of examining the net education revenues of the proposed boroughs was to determine how much revenue the boroughs would have to raise through local taxes; we anticipated that all boroughs would have to raise substantial sums simply to maintain education funding at current levels. That 13 of the 17 proposed boroughs would have more education revenue than under the status quo was an unexpected result.

When the additional entitlements, tax revenues required to fulfill the local contribution, and consolidation savings are considered, 13 of the proposed boroughs have more revenue for education than under the status quo (See Table 3.3). These boroughs are the Bering Strait, Lower Yukon, Southwest Region, Lake and Peninsula, Aleutians West, Yukon-Koyukuk, Delta/Greely, Copper River, Chugach, Railbelt, Alaska Gateway, Chatham and Southeast Island boroughs.¹ As discussed above, some of these boroughs need to tax to meet their required local contribution, but the additional entitlements and consolidation savings exceed the reductions in Foundation aid, thus they have a net increase in education revenue.

For the Bering Strait, Chugach, Alaska Gateway, and Railbelt boroughs, the increases are less than \$50,000 and are therefore insignificant. For the Southwest Region, Yukon-Koyukuk, Lower Yukon, and Lake and Peninsula boroughs, the increases in education revenue are moderate, ranging from \$200,000 to \$500,000. For the five remaining boroughs--Aleutians West, Southeast Island, Delta/Greely, Copper River, and Chatham--the increases are \$1 million or more and are therefore significant. The circumstances creating the large increases for each of these boroughs are explained below:

For the Aleutians West borough, the increase is due primarily to the estimated \$1 million in fisheries business tax revenues. However, this borough would also receive \$0.5 million in Municipal Assistance, which alone would offset the \$88,734 reduction in Foundation aid.

¹The four boroughs that would not have increased education revenues are the Lower Kuskokwim, Iditarod, Kuspuk, and Yukon Flats boroughs. Without local taxes, these boroughs would have decreased revenues.

POTENTIAL REVENUES OF THE PROPOSED BOROUGHS

- The Southeast Island borough comes out \$3.7 million ahead due to fisheries business tax receipts of \$0.75 million and a Municipal Assistance entitlement of \$1.5 million. This sizable Municipal Assistance entitlement is due to the fortuitous parallel between the number of people residing outside of cities within the borough and the number residing outside cities in the North Slope Borough. Under the current formula for determining the base Municipal Assistance entitlement of newly created boroughs, a new borough receives the base entitlement of the existing borough that has a similar population residing outside cities. The base entitlement of the North Slope Borough is \$1.2 million, thus the base entitlement of the new Southeast Island borough is \$1.2 million.
- The Delta/Greely and Copper River boroughs would also receive sizable Municipal Assistance entitlements because the number of people residing outside of cities coincides with number residing outside of cities in the North Slope Borough. While these boroughs must raise significant sums through taxation to meet the local contribution requirement, they will also have an increase in education revenues due to receipt of large Municipal Assistance entitlements.
- For the Chatham borough, its \$1 million increase is due in part to fisheries business tax refunds and to consolidation savings that could total \$0.8 million.

Conclusions

This chapter has focused on the necessity of local taxes for the operational support of schools. Upon organization, the boroughs must also take responsibility for school construction costs, which will increase the amount that each borough must raise locally for schools. In the long run, all of the proposed boroughs will surely have to levy local taxes to support education and other borough duties, and careful study of fiscal capacity should therefore be a prerequisite of borough formation.

Nonetheless, this analysis of the finances of the proposed boroughs dispels the commonly held notion that borough formation requires substantial sums to be raised locally and that there is a financial disincentive to borough formation. In fact, the converse is true: Under the current laws governing the transfer of State funds to local governments, most areas of the unorganized borough would benefit financially from organization. That some of these areas have not yet organized--despite the financial incentive to do so--suggests either that people are not aware of the financial benefits of organization or that people do not want to organize. Based on this analysis, the generally slow development of boroughs from the unorganized borough should probably be attributed more to sociological than to financial factors.

POTENTIAL REVENUES OF THE PROPOSED BOROUGHES

This analysis also suggests that the legislature should re-evaluate the methods by which State funds are distributed among local governments. The method for determining the base Municipal Assistance entitlement of new boroughs produces inequitable results: Based solely on the number of people residing outside cities, some boroughs would receive a base entitlement of \$7,275; others would receive a base entitlement of \$1.2 million. Such large differences in entitlements help create the situation where some new boroughs could organize without levying additional taxes and other new boroughs could not.

APPENDIX A
SPONSOR SUBSTITUTE FOR HOUSE BILL 1

1 IN THE HOUSE

BY LARSON AND MENARD

2 SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 1
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 FIFTEENTH LEGISLATURE - FIRST SESSION
5 A BILL

6 For an Act entitled: "An Act converting regional educational attendance
7 areas into third class boroughs; and providing for an
8 effective date."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. THIRD CLASS BOROUGHS CREATED. (a) The areas within the
11 boundaries of the regional educational attendance areas formed under
12 AS 14.08.031 as of July 1, 1982, become third class boroughs effective
13 July 1, 1989. A city school district located within the boundary of a
14 borough formed under this section is part of that borough's school dis-
15 trict.

16 (b) Two or more regional educational attendance areas may combine to
17 form a third class borough under this section. The school boards of
18 regional educational attendance areas that decide to combine to form a
19 single borough under this subsection shall notify the lieutenant governor
20 of that decision as soon as possible.

21 (c) The lieutenant governor shall hold elections for initial assembly
22 members of boroughs formed under this section no later than June 1, 1989.
23 The initial assembly of a borough formed under this section shall consist
24 of seven members elected at large from the borough. The initial assembly
25 shall provide for the form of representation, composition, and apportion-
26 ment of the assembly under AS 29.20.060 - 29.20.110.

27 (d) This section does not apply to a regional educational attendance
28 area that organizes as a borough before the effective date of this Act.

29 * Sec. 2. TRANSITION. (a) The Department of Education shall oversee

1 and assist the transition from a regional educational attendance area to a
2 borough under this Act. On July 1, 1989,

3 (1) all property of the regional educational attendance area
4 becomes the property of the borough;

5 (2) the borough becomes the successor to all contracts and other
6 obligations, litigation, hearings, and other proceedings involving the
7 regional educational attendance area that are pending or in effect;

8 (3) faculty, staff, officers, and employees of the regional
9 educational attendance area are transferred to the borough.

10 (b) The term of office of a school board member from a regional
11 educational attendance area or a city school district described in sec. 1
12 of this Act ends on the date the election of the assembly members of the
13 third class borough formed from the regional educational attendance area is
14 certified.

15 * Sec. 3. The division of legal services of the Alaska Legislative
16 Affairs Agency shall prepare a bill conforming the Alaska Statutes to the
17 changes made by secs. 1 and 2 of this Act. The title of the bill shall be
18 "An Act relating to the unorganized borough, school districts, and third
19 class boroughs." The bill shall be presented to the House and Senate Rules
20 Committees for introduction on the first day of the Second Session of the
21 Fifteenth Alaska State Legislature.

22 * Sec. 4. Sections 1 and 2 of this Act take effect on the effective
23 date of a version of an Act passed by the legislature during the Second
24 Session of the Fifteenth Alaska State Legislature entitled "An Act relating
25 to the unorganized borough, school districts, and third class boroughs."

26 * Sec. 5. Section 3 of this Act takes effect immediately under AS 01.-
27 10.070(c).

APPENDIX B

SECOND SPONSOR SUBSTITUTE
FOR HOUSE BILL 1

1 IN THE HOUSE

BY LARSON, MENARD
AND DONLEY

2 2d SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 1

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act providing for the incorporation or annexation
7 of all areas in the unorganized borough; and provid-
8 ing for an effective date.

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. BOUNDARY PROPOSAL. (a) The local boundary commission
11 shall study the unorganized borough to determine how the entire area should
12 be organized into new home rule boroughs or annexed to existing boroughs
13 and unified municipalities. Based upon the standards set out in
14 AS 29.05.031, by December 31, 1989, the commission shall deliver to the
15 governor and the legislature a preliminary boundary proposal for the unor-
16 ganized borough. The proposal must include

17 (1) a designation of areas proposed for annexation to existing
18 boroughs or unified municipalities; and

19 (2) proposed boundaries for new boroughs to be formed in the
20 unorganized borough.

21 (b) In preparing the preliminary boundary proposal the commission
22 shall consult with existing municipalities within or bordering the unor-
23 ganized borough, regional educational attendance areas, and coastal re-
24 source service areas. The commission shall conduct at least one public
25 hearing in the area of each proposed new borough.

26 (c) The commission may submit any proposed annexation compatible with
27 the preliminary boundary proposal to the legislature under
28 AS 44.47.567 - 44.47.583.

29 (d) The commission shall, by March 31, 1990, submit to the governor

1 and the legislature its final boundary proposal. The proposal must provide
2 for the entire area of the unorganized borough, excluding areas annexed
3 under (c) of this section, to be included within new home rule boroughs.

4 * Sec. 2. PROVISIONAL HOME RULE CHARTERS. (a) By March 31, 1990, the
5 Department of Community and Regional Affairs shall deliver to the governor
6 and the legislature a provisional home rule charter for the new boroughs
7 designated in the final boundary proposal. In preparing the charter the
8 department shall conduct at least one public hearing in the area of each
9 new borough. The charter shall provide that each new borough exercise
10 only those powers a home rule borough must exercise by law.

11 (b) The voters of an area designated as a new borough in the final
12 boundary proposal may petition the department for an amendment to the
13 provisional charter for that new borough. If the department determines
14 that at least 15 percent of the number of voters who voted in the last
15 general election in the area have signed the petition, the department shall
16 submit the proposed amendment to the director of elections.

17 * Sec. 3. ELECTIONS. The director of elections shall schedule an
18 election of initial borough officials to be held under AS 29.05.120 in each
19 new borough designated in the final boundary proposal during or before the
20 general election held in 1990. Any proposed amendments to the provisional
21 charter of a new borough received by the director under sec. 2(b) of this
22 Act shall be submitted to the voters at the election of initial borough
23 officials.

24 * Sec. 4. INCORPORATION OF NEW BOROUGHES. (a) A new borough designated
25 in the final boundary proposal is incorporated as a home rule borough on
26 the first Monday following certification of the election held under sec. 3
27 of this Act. The provisional home rule charter prepared by the Department
28 of Community and Regional Affairs under sec. 2 of this Act, together with
29 any charter amendments approved by the voters, operates as the charter for

1 the new borough.

2 (b) AS 29.05.140 and 29.05.190 - 29.05.210 apply to boroughs incor-
3 porated under this section.

4 * Sec. 5. The division of legal services of the Legislative Affairs
5 Agency shall prepare a bill conforming the Alaska Statutes to the changes
6 made by this Act. The bill shall be presented to the House and Senate
7 Rules Committees for introduction on the first day of Second Session of the
8 Sixteenth Legislature.

9 * Sec. 6. This Act takes effect immediately under AS 01.10.070(c).

APPENDIX C
EDUCATION COSTS OF BOROUGHES FORMED
THROUGH CONSOLIDATION

TABLE C.1
 FULL TAXABLE PROPERTY VALUES AND STUDENT POPULATION OF PROPOSED BOROUGHs FORMED BY COMBINING CITY DISTRICTS WITH THEIR SURROUNDING RURAL EDUCATIONAL ATTENDANCE AREA (REAA) OR BY COMBINING REAAs

PROPOSED BOROUGH	FULL TAXABLE VALUE	STUDENT POPULATION	FULL TAXABLE VALUE PER STUDENT	PERCENT OF TOTAL BOROUGH	
				VALUE	STUDENTS
Aleutians West					
Adak REAA	\$0	602	\$0	0	63
Pribilof REAA	14,153,160	155	91,311	12	16
Unalaska	95,564,500	159	601,035	81	17
Area outside cities	8,030,377	35	229,439	7	4
Total	\$117,748,037	951	\$123,815		
Bering Strait					
Nome	151,635,000	782	193,907	63	39
Area outside cities	88,842,297	1,224	72,584	37	61
Total	\$240,477,297	2,006	\$119,879		
Chatham					
Yakutat	18,136,700	157	115,520	14	17
Pelican	14,987,400	54	277,544	11	6
Hoonah	29,237,500	234	124,947	22	25
Skagway	59,036,600	137	430,924	45	15
Area Outside Cities	9,935,518	352	28,226	8	38
Total	\$131,333,718	934	\$140,614		
Chugach					
Valdez	1,693,326,700	695	2,436,441	92	55
Cordova	123,982,300	432	286,996	7	34
Area Outside Cities	25,981,222	130	199,856	1	10
Total	\$1,843,290,222	1,257	\$1,466,420		
Lower Kuskokwim					
Yupit REAA	18,357,736	294	62,441	6	10
Lower Kuskokwim REAA	302,659,726	2564	118,042	94	90
Total	321,017,462	2,858	112,322		
Lower Yukon					
St. Mary's	4,451,200	101	44,071	5	6
Kashunamiut REAA	9,445,343	172	54,915	11	11
Area Outside Cities	75,481,520	1,314	57,444	84	83
Total	\$89,378,063	1,587	\$56,319		

TABLE C.1 (Continued)
 FULL TAXABLE PROPERTY VALUES AND STUDENT POPULATION OF PROPOSED BOROUGHS FORMED BY COMBINING CITY DISTRICTS WITH THEIR SURROUNDING RURAL EDUCATIONAL ATTENDANCE AREA (REAA) OR BY COMBINING REAAS

PROPOSED BOROUGH	FULL TAXABLE VALUE	STUDENT POPULATION	FULL TAXABLE VALUE PER STUDENT	PERCENT OF TOTAL BOROUGH	
				VALUE	STUDENTS
Southeast Island					
Kake	\$12,108,400	196	\$61,778	3	7
Petersburg	135,355,400	601	225,217	38	23
Wrangell	108,670,500	494	219,981	30	19
Klawock	5,841,100	162	36,056	2	6
Craig	37,304,700	231	161,492	10	9
Hydaburg	13,417,700	107	125,399	4	4
Annette Island REAA	0	421	0	0	16
Area Outside Cities	45,985,615	421	109,229	13	16
Total	\$358,683,415	2,633	\$136,226		
Southwest Region					
Dillingham	107,515,700	461	233,223	68	49
Area Outside Cities	50,055,560	472	106,050	32	51
Total	\$157,571,260	933	\$168,887		
Yukon-Koyukuk					
Tanana	11,755,200	81	145,126	1	8
Galena	20,106,900	167	120,401	2	17
Nenana	18,099,500	123	147,150	2	13
Area Outside Cities	884,536,600	613	1,442,963	95	62
Total	\$934,498,200	984	\$949,693		
TOTAL--CITY DISTRICTS	\$2,660,533,000	5,374	\$495,075	63	38
TOTAL--AREA OUTSIDE CITIES (REAAs)	1,533,464,674	8,769	\$174,873	37	62
TOTAL--CITY/REAA BOROUGHs	\$4,193,997,674	14,143	\$296,542		

NOTES:

1. Full taxable property value determinations for Rural Educational Attendance Areas were prepared by the State Assessor with the Department of Community and Regional Affairs, April 1987. Values of cities are from Alaska Taxable 1986.
2. Student populations are from the Department of Education and are the number of students reported to be in attendance during the first count in FY 87 (Average Daily Membership).

TABLE C.2
ESTIMATED REQUIRED LOCAL CONTRIBUTIONS AND FOUNDATION AID TO PROPOSED BOROUGHES FORMED BY COMBINING CITY DISTRICTS
WITH THE SURROUNDING RURAL EDUCATIONAL ATTENDANCE AREA (REAAS) OR BY COMBINING REAAS

PROPOSED BOROUGH	REQUIRED LOCAL CONTRIBUTIONS			FOUNDATION AID				CHANGE IN FOUNDATION AID	
	FOUR MILLS	35 PERCENT OF BASIC NEED	REQUIRED CONTRIBUTIONS	BASIC NEED IN FY 88	90 PERCENT OF PL 81-874	AMOUNT RECEIVED UNDER STATUS QUO	AMOUNT RECEIVED UNDER HOUSE BILL 1	IN DOLLARS	AS A PERCENTAGE OF AMOUNT RECEIVED BY THE REGION UNDER STATUS QUO
ALEUTIANS WEST									
Adak REAA	\$0	\$1,395,870	\$0	\$3,988,200	\$1,792,632	\$2,195,568			
Pribilof REAA	56,613	668,640	56,613	1,910,400	602,751	1,307,649			
Unalaska	382,258	544,740	382,258	1,556,400	154,473	1,019,669			
Area outside cities	32,122	68,792	32,122	196,548	32,412	164,136			
Total	470,992	2,678,042	470,992	7,651,548	2,582,268	4,687,022	\$4,598,288	(\$88,734)	-1.9
BERING STRAIT									
Nome	606,540	1,808,520	606,540	5,167,200	82,724	4,477,936			
Area outside cities	355,369	5,354,160	355,369	15,297,600	4,199,309	11,098,291			
Total	\$961,909	\$7,162,680	\$961,909	\$20,464,800	\$4,282,033	\$15,576,227	\$15,220,858	(\$355,369)	-2.3
CHATHAM									
Hoonah	116,950	577,290	116,950	1,649,400	190,808	1,341,642			
Pelican	59,950	232,470	59,950	664,200	0	604,250			
Skagway	236,146	376,320	236,146	1,075,200	0	839,054			
Yakutat	72,547	420,000	72,547	1,200,000	56,386	1,071,067			
Area Outside Cities	39,742	1,011,360	39,742	2,889,600	782,972	2,106,628			
Total	\$525,335	\$2,617,440	\$525,335	\$7,478,400	\$1,030,166	\$5,962,641	\$5,922,899	(\$39,742)	-0.7
CHUGACH									
Cordova	495,929	922,950	495,929	2,637,000	15,603	2,125,468			
Valdez	6,773,307	1,375,290	1,375,290	3,929,400	9,495	2,544,615			
Area Outside Cities	103,925	575,610	103,925	1,644,600	183,932	1,460,668			
Total	\$7,373,161	\$2,873,850	\$2,873,850	\$8,211,000	\$209,030	\$6,130,751	\$5,128,120	(\$1,002,631)	-16.4

C-4

TABLE C.2 (Continued)

ESTIMATED REQUIRED LOCAL CONTRIBUTIONS AND FOUNDATION AID TO PROPOSED BOROUGHS FORMED BY COMBINING CITY DISTRICTS WITH THE SURROUNDING RURAL EDUCATIONAL ATTENDANCE AREA (REAAS) OR BY COMBINING REAAS

PROPOSED BOROUGH	REQUIRED LOCAL CONTRIBUTIONS			FOUNDATION AID			CHANGE IN FOUNDATION AID		
	FOUR MILLS	35 PERCENT OF BASIC NEED	REQUIRED CONTRIBUTIONS	BASIC NEED IN FY 88	90 PERCENT OF PL 81-874	AMOUNT RECEIVED UNDER STATUS QUO	AMOUNT RECEIVED UNDER HOUSE BILL 1	IN DOLLARS	AS A PERCENTAGE OF AMOUNT RECEIVED BY THE REGION UNDER STATUS QUO
LOWER KUSKOKWIM									
Lower Kuskokwim REAA	1,210,639	11,187,960	1,210,639	31,965,600	5,933,153	26,032,447			
Yupit REAA	73,431	1,347,360	73,431	3,849,600	1,043,126	2,806,474			
Total	\$1,284,070	\$12,535,320	\$1,284,070	\$35,815,200	\$6,976,279	\$28,838,921	\$27,554,851	(\$1,284,070)	-4.5
LOWER YUKON									
Kashunamiut REAA	\$37,781	\$681,450	\$37,781	\$1,947,000	\$498,907	\$1,448,093			
St. Mary's	17,805	476,280	17,805	1,360,800	62,613	1,280,382			
Area Outside Cities	301,926	4,990,860	301,926	14,259,600	4,633,701	9,625,899			
Total	\$357,512	\$6,148,590	\$357,512	\$17,567,400	\$5,195,221	\$12,354,374	\$12,014,667	(\$339,707)	-2.7
SOUTHEAST ISLAND									
Annette Island REAA	0	903,210	0	2,580,600	1,406,836	1,173,764			
Craig	149,219	506,940	149,219	1,448,400	32,973	1,266,208			
Hydaburg	53,671	360,150	53,671	1,029,000	0	975,329			
Kake	48,434	480,900	48,434	1,374,000	209,395	1,116,171			
Klawock	23,364	460,110	23,364	1,314,600	210,198	1,081,038			
Petersburg	541,422	1,133,370	541,422	3,238,200	8,155	2,688,623			
Wrangell	434,682	974,610	434,682	2,784,600	2,037	2,347,881			
Area Outside Cities	183,942	1,764,210	183,942	5,040,600	764,757	4,275,843			
Total	\$1,434,734	\$6,583,500	\$1,434,734	\$18,810,000	\$2,634,351	\$14,924,858	\$14,740,915	(\$183,942)	-1.2

TABLE C.2 (Continued)

ESTIMATED REQUIRED LOCAL CONTRIBUTIONS AND FOUNDATION AID TO PROPOSED BOROUGHS FORMED BY COMBINING CITY DISTRICTS WITH THE SURROUNDING RURAL EDUCATIONAL ATTENDANCE AREA (REAAS) OR BY COMBINING REAAS

PROPOSED BOROUGH	REQUIRED LOCAL CONTRIBUTIONS			FOUNDATION AID			CHANGE IN FOUNDATION AID		
	FOUR MILLS	35 PERCENT OF BASIC NEED	REQUIRED CONTRIBUTIONS	BASIC NEED IN FY 88	90 PERCENT OF PL 81-874	AMOUNT RECEIVED UNDER STATUS QUO	AMOUNT RECEIVED UNDER HOUSE BILL 1	IN DOLLARS	AS A PERCENTAGE OF AMOUNT RECEIVED BY THE REGION UNDER STATUS QUO
SOUTHWEST REGION									
Dillingham	430,063	1,143,240	430,063	3,266,400	354,651	2,481,686			
Area Outside Cities	200,222	2,272,620	200,222	6,493,200	1,742,370	4,750,830			
Total	\$630,285	\$3,415,860	\$630,285	\$9,759,600	\$2,097,021	\$7,232,516	\$7,032,294	(\$200,222)	-2.8
YUKON-KOYUKUK									
Galena	80,428	535,290	80,428	1,529,400	443,016	1,005,956			
Nenana	72,398	606,270	72,398	1,732,200	6,566	1,653,236			
Tanana	47,021	386,820	47,021	1,105,200	186,793	871,386			
Area Outside Cities	3,538,146	2,410,800	2,410,800	6,888,000	1,484,468	5,403,532			
Total	\$3,737,993	\$3,939,180	\$3,737,993	\$11,254,800	\$2,120,843	\$8,934,111	\$5,395,964	(\$3,538,146)	-39.6
TOTAL--CITY DISTRICTS	\$10,642,132	\$13,321,560	\$5,244,117	\$38,061,600	\$2,025,886	\$30,791,599			
TOTAL--REAAS	\$6,133,859	\$34,632,902	\$5,236,353	\$98,951,148	\$25,101,326	\$73,849,822			
TOTAL--CITY/REAA BOROUGHS	\$16,775,991	\$47,954,462	\$12,276,680	\$137,012,748	\$27,127,212	\$104,641,421	\$97,608,857	(\$7,032,565)	-6.7

NOTES:

1. Calculation of revenue possible under a four mill property tax based on full taxable value determinations by the Department of Community and Regional Affairs, April 1987.
2. Basic need and Public Law 81-874 values are from the Department of Education for FY 88.

TABLE C.3

COMPARISON OF REQUIRED LOCAL CONTRIBUTIONS UNDER THE PUBLIC SCHOOL FOUNDATION PROGRAM TO CURRENT LOCAL CONTRIBUTIONS OF THE PROPOSED BOROUGHS FORMED THROUGH CONSOLIDATION

PROPOSED BOROUGH	CURRENT LOCAL CONTRIBUTIONS							REQUIRED CONTRIBUTIONS IN EXCESS OF CURRENT CONTRIBUTIONS
	REQUIRED LOCAL CONTRIBUTION	TAX APPROPRIATIONS	EARNINGS ON INVESTMENTS	IN-KIND SERVICES	STATE TUITION PAYMENTS	10 PERCENT PL 81-874	TOTAL	
ALEUTIANS WEST								
Adak REAA	\$0	\$0	\$248,133	\$0	\$0	\$206,072	\$454,205	
Pribilof REAA	56,613	0	45,798	0	0	73,710	119,508	
Unalaska	382,258	122,000	6,464	0	0	14,838	143,302	
Area outside cities	32,122	0	28,987	0	0	34,689	63,676	
Total	\$470,992	\$122,000	\$329,382	\$0	\$0	\$329,309	\$780,691	0
BERING STRAIT								
Nome	606,540	206,000	92,403	0	11,468	1,867	311,738	
Area outside cities	355,369	0	325,302	0	0	501,696	826,998	
Total	\$961,909	\$206,000	\$417,705	\$0	\$11,468	\$503,563	\$1,138,736	0
CHATHAM								
Hoonah	116,950	0	11,549	11,339	59,775	16,859	99,522	
Pelican	59,950	14,000	5,862	0	5,126	0	24,988	
Skagway	236,146	58,500	7,879	0	0	0	66,379	
Yakutat	72,547	28,614	3,706	0	18,663	6,420	57,403	
Area Outside Cities	39,742	0	110,128	0	0	19,336	129,464	
Total	\$525,335	\$101,114	\$139,124	\$11,339	\$83,564	\$42,615	\$377,756	0
CHUGACH								
Cordova	495,929	618,005	30,853	8,052	176,638	3,065	836,613	
Valdez	1,375,290	4,088,389	127,794	0	309,647	2,301	4,528,131	
Area Outside Cities	103,925	0	14,035	0	0	22,026	36,061	
Total	\$2,873,850	\$4,706,394	\$172,682	\$8,052	\$486,285	\$27,391	\$5,400,804	0

TABLE C.3 (Continued)

COMPARISON OF REQUIRED LOCAL CONTRIBUTIONS UNDER THE PUBLIC SCHOOL FOUNDATION PROGRAM TO CURRENT LOCAL CONTRIBUTIONS OF THE PROPOSED BOROUGHES FORMED THROUGH CONSOLIDATION

PROPOSED BOROUGH	REQUIRED LOCAL CONTRIBUTION	CURRENT LOCAL CONTRIBUTIONS						TOTAL	REQUIRED CONTRIBUTIONS IN EXCESS OF CURRENT CONTRIBUTIONS
		TAX APPROPRIATIONS	EARNINGS ON INVESTMENTS	IN-KIND SERVICES	STATE TUITION PAYMENTS	10 PERCENT PL 81-874			
LOWER KUSKOKWIM									
Lower Kuskokwim REAA	1,210,639	0	660,769	0	0	715,691	1,376,460		
Yupit REAA	73,431	0	87,032	0	0	125,249	212,281		
Total	\$1,284,070	\$0	\$747,801	\$0	\$0	\$840,939	\$1,588,740	0	
LOWER YUKON									
Kashunamiut REAA	\$37,781	\$0	\$24,029	\$0	\$0	\$59,498	\$83,527		
St. Mary's	17,805	0	128,137	0	0	43,948	172,085		
Area Outside Cities	301,926	0	554,865	0	0	541,132	1,095,997		
Total	\$357,512	\$0	\$707,031	\$0	\$0	\$644,578	\$1,351,609	0	
SOUTHEAST ISLAND									
Annette Island REAA	0	0	113,233	0	0	163,911	277,144		
Craig	149,219	0	22,577	15,074	0	4,603	42,254		
Hydaburg	53,671	0	5,250	0	0	0	5,250		
Kake	48,434	0	0	0	65,703	43,538	107,241		
Klawock	23,364	0	15,505	2,700	7,214	0	25,419		
Petersburg	541,422	606,460	36,238	0	0	1,431	644,129		
Wrangell	434,682	538,053	41,136	0	0	804	579,993		
Area Outside Cities	183,942	0	131,160	0	0	102,082	233,242		
Total	\$1,434,734	\$1,144,513	\$365,099	\$17,774	\$70,917	\$316,367	\$1,914,670	0	

C-8

TABLE C.3 (Continued)
 COMPARISON OF REQUIRED LOCAL CONTRIBUTIONS UNDER THE PUBLIC SCHOOL FOUNDATION PROGRAM TO CURRENT LOCAL CONTRIBUTIONS OF THE
 PROPOSED BOROUGHs FORMED THROUGH CONSOLIDATION

PROPOSED BOROUGH	CURRENT LOCAL CONTRIBUTIONS						TOTAL	REQUIRED CONTRIBUTIONS IN EXCESS OF CURRENT CONTRIBUTIONS
	REQUIRED LOCAL CONTRIBUTION	TAX APPROPRIATIONS	EARNINGS ON INVESTMENTS	IN-KIND SERVICES	STATE TUITION PAYMENTS	10 PERCENT PL 81-874		
SOUTHWEST REGION								
Dillingham	430,063	100,000	88,667	0	0	40,090	228,757	
Area Outside Cities	200,222	0	225,952	0	0	216,457	442,409	
Total	\$630,285	\$100,000	\$314,619	\$0	\$0	\$256,546	\$671,165	0
YUKON-KOYUKUK								
Galena	80,428	15,739	31,876	0	3,586	70,622	121,823	
Nenana	72,398	30,000	31,938	0	24,003	320	86,261	
Tanana	47,021	0	45,055	0	12,200	23,446	80,701	
Area Outside Cities	2,410,800	0	102,811	0	0	175,497	278,308	
Total	\$3,737,993	\$45,739	\$211,680	\$0	\$39,789	\$269,886	\$567,094	3,170,899

NOTES:

1. Required local contributions are based on comparison of revenues from a 4 mill property tax to 35 percent of basic need (see Table 3.3).
2. Current local contributions are from audited expenditures of each school district for FY 87 as reported by the Department of Education.

TABLE C.4
 POTENTIAL SAVINGS FROM REDUCED ADMINISTRATIVE COSTS FROM CONSOLIDATION OF SCHOOL DISTRICTS

PROPOSED BOROUGH	STUDENT POPULATION	ADMINISTRATIVE COSTS			FY 87 EXPENDITURES	SAVINGS AS A PERCENTAGE OF EXPENDITURES
		FY 87	WITH CONSOLIDATION	SAVINGS FROM CONSOLIDATION		
ALEUTIANS WEST						
Adak REAA	602	\$666,228			\$4,670,815	
Pribilof REAA	155	237,778			2,021,980	
Unalaska	159	201,021			1,466,044	
Area outside cities	35	64,995			1,675,139	
Total	951	\$1,170,022	\$770,022	\$400,000	\$9,833,978	4
BERING STRAIT						
Nome	782	644,964			655,560	
Area outside cities	1,224	1,414,119			15,568,951	
Total	2,006	\$2,059,083	\$1,859,083	\$200,000	\$16,224,511	1
CHATHAM						
Hoonah	234	232,250			1,857,897	
Pelican	54	145,931			614,184	
Skagway	137	204,608			988,996	
Yakutat	157	179,973			1,395,841	
Area Outside Cities	352	449,958			3,822,906	
Total	934	\$1,212,720	\$412,720	\$800,000	\$8,679,824	9
CHUGACH						
Cordova	432	419,261			2,831,863	
Valdez	695	558,817			7,131,665	
Area Outside Cities	130	262,081			1,416,317	
Total	1,257	\$1,240,159	\$840,159	\$400,000	\$11,379,845	4

TABLE C.4 (Continued)
 POTENTIAL SAVINGS FROM REDUCED ADMINISTRATIVE COSTS FROM CONSOLIDATION OF SCHOOL DISTRICTS

PROPOSED BOROUGH	STUDENT POPULATION	ADMINISTRATIVE COSTS			SAVINGS FROM CONSOLIDATION	FY 87 EXPENDITURES	SAVINGS AS A PERCENTAGE OF EXPENDITURES
		FY 87	WITH CONSOLIDATION				
LOWER KUSKOKWIM							
Lower Kuskokwim REAA	2,564	3,129,911				30,134,277	
Yupit REAA	294	676,834				4,226,065	
Total	2,858	\$3,806,745	\$3,606,745	\$200,000		\$34,360,342	1
LOWER YUKON							
Kashunamiut REAA	172	\$432,331				\$1,796,965	
St. Mary's	101	395,190				2,493,819	
Area Outside Cities	1,314	1,737,055				15,442,898	
Total	1,587	\$2,564,576	\$2,164,576	\$400,000		\$19,733,682	2
SOUTHEAST ISLAND							
Annette Island REAA	421	602,461				2,821,443	
Craig	231	253,793				1,472,954	
Hydaburg	107	167,389				838,402	
Kake	196	504,593				1,995,284	
Klawock	162	219,045				1,478,815	
Petersburg	601	418,134				3,302,404	
Wrangell	494	211,612				2,968,790	
Area Outside Cities	421	463,420				4,796,114	
Total	2,633	\$2,840,447	\$1,440,447	\$1,400,000		\$19,674,206	7
SOUTHWEST REGION							
Dillingham	461	425,046				4,503,868	
Area Outside Cities	472	681,284				6,608,486	
Total	933	\$1,106,330	\$906,330	\$200,000		\$11,112,354	2

TABLE C.4 (Continued)
 POTENTIAL SAVINGS FROM REDUCED ADMINISTRATIVE COSTS FROM CONSOLIDATION OF SCHOOL DISTRICTS

PROPOSED BOROUGH	STUDENT POPULATION	ADMINISTRATIVE COSTS			FY 87 EXPENDITURES	SAVINGS AS A PERCENTAGE OF EXPENDITURES
		FY 87	WITH CONSOLIDATION	SAVINGS FROM CONSOLIDATION		
YUKON-KOYUKUK						
Galena	167	385,217			2,166,330	
Nenana	123	236,640			1,923,734	
Tanana	81	241,045			2,183,827	
Area Outside Cities	613	682,101			7,671,235	
Total	984	\$1,545,003	\$ 45,003	\$600,000	\$13,945,126	4
TOTAL	14,143	\$17,545,085	\$12,945,085	\$4,600,000	\$144,943,968	3

NOTES:

1. Student populations are from the Department of Education and are the number of students reported to be in attendance during the first count in FY 87 (Average Daily Membership).
2. FY 87 administrative costs are those reported as "General Support Expenditures" by the Alaska Department of Education. These expenditures include: school boards; superintendent's and principals' offices; planning and research; fiscal services; central purchasing; statistical and data processing services; other general support activities.
3. Savings from consolidation were estimated to be \$200,000 for each district subsumed into the surrounding REAA.