

HB

101

HOUSE COMMITTEE REPORT

(5)

Date Referred: January 20, 1989

FURTHER REFERRALS: FINANCE

Date of Committee Action: 3/16/89

The COMMUNITY & REGIONAL AFFAIRS Committee recommends that:

HOUSE BILL NO. 101

"An Act relating to entitlements for municipalities and unincorporated communities; and providing for an effective date."

[] be replaced with _____ the same title
[] have attached amendment(s) a new title

- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(S):

- fiscal impact LTRA
- zero fiscal note
- zero with analysis

APPROVES PREVIOUS:

- fiscal note(s) published: _____
- zero fiscal notes(s) published: _____

SIGNING DO PASS:

Bette Cote

Cheri Davis

Richard Lopez

Eileen P. MacLean

SIGNING OTHER THAN DO PASS:
(Do Not Pass, No Recommendation, Amend)

no one [Signature]

Eileen P. MacLean

Chairman's signature



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JUNEAU, ALASKA 99801

Increase in Minimum Entitlements under the State Revenue Sharing Program

The Alaska Municipal League supports an increase in the minimum entitlement level under the State Revenue Sharing Program from \$25,000 to \$50,000 to benefit Alaska's smallest, and most needy, communities and an increase in the FY 90 appropriation for the State Revenue Sharing Program to fully fund this increase without penalizing other communities.

Background

The 1980 revision of the State Revenue Sharing Program included a provision that each incorporated community would receive a minimum entitlement of \$25,000, to be adjusted by an area differential for the cost of living. Each unincorporated community is also entitled to a minimum entitlement of \$25,000, to be used for a public purpose. The intent of this legislation was to ensure a sharing of the State's resource wealth by all its residents, no matter how small the area in which they lived. Over time the buying power of these dollars has declined, and many of the State's smallest communities are not able to operate with the minimum entitlement grants they receive. As a result, these communities have been forced to cut back on basic life, health, and safety services.

In FY 88, 83 municipalities received the minimum grant of \$25,000 (with adjustments for geographic differentials) under the minimum municipal entitlement program. It was estimated that an increase in the base level to \$50,000 would add an additional 25 municipalities to the group receiving the minimum grant.

The 74 unincorporated communities eligible for the minimum entitlement would benefit from an increase in the minimum entitlement level as well as full funding of the Miscellaneous Municipal Services Account. The payments to unincorporated communities come from that account, and they have been prorated because of continuing underfunding of the account. In FY 88, the entitlements to the unincorporated communities eligible for these payments were prorated at about 55.52 percent, so that they received only \$13,898 of the \$25,000 to which they were entitled.

Inflation is not the only factor affecting the communities' ability to survive financially: Alaska's smallest cities have been hurt the most by the decreases in federal and state funds, and the cities with small populations and tax bases have the most trouble raising local revenues. An increase in the minimum entitlement will benefit both small municipalities and unincorporated communities and enable the State to protect its investment in rural Alaska by helping the small communities maintain their infrastructure.

It is important to note that increasing the base amount will require an increase in the total appropriation for the State Revenue Sharing Program so that existing municipalities are not penalized. It is estimated that \$3.51 million will be necessary to hold communities harmless given current funding levels of other parts of the program.



Official Business

Alaska State Legislature

Al Adams
District L

February 16, 1989

WHILE IN SESSION
P.O. Box V
State Capitol
Juneau, Alaska 99811
(907) 465-3707

OUT OF SESSION
P.O. Box 333
Kotzebue, Alaska 99752
(907) 442-3245

3111 C Street
Anchorage, Alaska 99503
(907) 561-7622

TO: Senate Community and Regional Affairs Committee

FROM: Senator Al Adams
District L

RE: SB 31: An Act relating to entitlements for municipalities and unincorporated communities; and providing for an effective date.

This is a very simple bill that raises the minimum entitlements for both incorporated and unincorporated communities from \$25,000 to \$50,000 under the state revenue sharing program.

Because of a relative lack of resources, many small communities in our state are in serious financial trouble. The costs of managing a municipality have increased greatly over the years, but the amount of state assistance to these particular communities under the revenue sharing program has not increased since 1981. All communities in Alaska rely on state funding to provide basic services to their residents. However, it is increasingly difficult for our cash poorest communities to provide this basic, minimal level of service.

I have no intention of creating a hardship for any community as a result of this legislation. Therefore, the effective date clause specifies a level of funding which would effectively hold harmless any community receiving more than the minimum entitlement.



Alaska State Legislature

House of Representatives Community & Regional Affairs

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- ITEM 6: Impacts of Declining Revenues On Alaska's Smaller Communities
- ITEM 7: HB 101

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: "An Act relating to entitlements for municipalities..."
Sponsor: Reps MacLean, Foster & Jacko
Requestor: _____

Agency Affected: Community & Regional Affairs
BRU: Municipal Revenue Sharing
Components: State Revenue Sharing

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS	-0-	3,510	-0-	-0-	-0-	-0-
MISCELLANEOUS						
TOTAL OPERATING	-0-	3,510	-0-*	-0-*	-0-*	-0-*

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-	3,510	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	3,510	-0-*	-0-*	-0-*	-0-*

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

*It is assumed that the amount of funds identified in Section 3 of this bill would become the new base amount for the State Revenue Sharing Program for subsequent fiscal years.

SEE ATTACHMENT *Jim Plasman*

Prepared by: Jim Plasman, Deputy Director

Division: Municipal & Regional Assistance

Phone: 465-4750

Date: 3/5/89

Approved by Commissioner: *George H. Kellum*

Agency: Community & Regional Affairs

Date: 3-9-89

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

FISCAL NOTE ATTACHMENT
HB 101

This bill would increase the amount of funds issued to recipients under the State Revenue Sharing Program by increasing minimum entitlements for unincorporated communities and municipalities from \$25,000 to \$50,000. Since this would affect the allocation of funds under the revenue sharing formula, the reallocation of funds would result in a decrease in entitlements to other revenue sharing recipients in the absence of additional funds for the program. This bill would take effect only if additional funds are made available to "hold harmless" those other recipients.

This fiscal note is based upon the difference between the FY 89 State Revenue Sharing appropriation and the amount in Section 3 of the bill. Based upon our most recent data, it is estimated that it would cost approximately \$3,441,000 to "hold harmless" recipients. However, we anticipate changes to our FY 90 data which would increase the costs closer to the \$3,510,000 assumed by the bill.

STATE OF ALASKA

STEVE COWPER, GOVERNOR

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

March 9, 1989

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POSITION PAPER

RE: HB 101

SPONSORS: Representatives MacLean, Foster and Jacko

EFFECTS OF BILL

This bill would increase the State Revenue Sharing Program entitlement for unincorporated communities from \$25,000 to \$50,000 and the minimum municipal entitlement \$25,000 to \$50,000.

Based upon FY 90 data that has not yet been finalized, it is estimated that 61 unincorporated communities will receive State Aid to Unincorporated Communities under the State Revenue Sharing Program. Unincorporated community entitlements are paid out of the Miscellaneous Services Account, along with entitlements to municipalities for roads, health facilities and hospitals, and entitlements to volunteer fire departments in the unorganized borough. The revenue sharing entitlements from this account will be prorated at about 55 percent in FY 90, so that unincorporated communities will receive about \$14,171 rather than \$25,000. Assuming FY 90 funding variables, raising the unincorporated community entitlement to \$50,000 and including the prorata share of additional funds provided for in Section 3 of the proposed legislation, the entitlement would increase the actual payment to unincorporated communities to about \$28,297 through a reallocation of funds within the Miscellaneous Services Account. Without the additional funds, the payment to unincorporated communities would increase to about \$26,695. Other payments from this account would be reduced by about 5.7 percent.

In FY 90, we project that about 81 municipalities will receive funds under the minimum municipal entitlement provision. The amount of money used to fund the existing minimum municipal entitlement (\$25,000 plus a cost-of-living-allowance geographic differential) will be about \$1.4 million, which comes from the tax equalization account of the state revenue sharing program. Assuming FY 90 funding variables, this bill will include an additional 27 communities under the minimum municipal entitlement provision. Actual payments will vary, based upon differing COLA'S and the impact of the prorating of the tax equalization account.

RE: HB 101 POSITION PAPER
March 9, 1989
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Including the prorata share of additional funds provided for in Section 3, the proration factor for other payments from the tax equalization account would fall from about 94.8 percent to about 66.4 percent.

Without the additional funds, the proration factor for other payments from the tax equalization account would fall from about 94.8 percent to about 84.9 percent.

COMMENTS

The department supports the concept of this bill, which is designed to give a greater measure of financial support to those smallest municipalities and communities in the state. Recent events have shown that these small municipalities are suffering tremendous hardship. Those municipalities which will be affected by this provision will be those with relatively small local revenue raising capacities because of the lack of a local tax base. Consequently, the bill would focus assistance on those areas with the greatest need and the least resources to respond to the need. A continuing problem for these municipalities is to attract and retain qualified municipal personnel because of their inability to pay adequate, stable wages. Raising the minimum entitlement will enhance their ability to do this, leading to greater continuity of services at the local level, and a better ability to maintain proper fiscal controls over local finances.

This bill would take effect providing that additional funds in the amount of approximately \$3.5 million are made available to the State Revenue Sharing Program. Without additional funds, the reallocation of funds will result in a decrease in entitlements to other revenue sharing recipients. In light of the state's revenue situation at this point, the Administration is unable to support a request for additional funds to the program necessary to "hold harmless" other recipients.


David G. Hoffman, Commissioner



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February 27, 1989

Justifications for State Aid to Municipalities
and
for Fairness in Balancing the FY 90 and Future State Budgets

A Healthy State Depends on Healthy Municipalities - A healthy state depends on healthy municipalities where Alaskans live, work, and play.

Constitutional Mandate - Local government is protected by the Alaska Constitution. Article X provides for maximum local self-government.

Local Service Delivery - State services and programs are delivered to Alaskans at the local level. State aid to municipalities is not expendable because of tough financial times, especially in a state as large, remote, and diverse as Alaska.

Revenue Redistribution - Oil resources and the revenues derived from them belong to all the people of Alaska. The revenues are collected by the State and must be redistributed back to Alaskans where the services are provided, which is mainly in municipalities. In state spending-reduction and revenue-raising discussions, the implication seems to be that state revenues should somehow be reserved to run state government; that state government exists for some reason other than to provide services to the people of the State; that the State has no responsibility to municipalities, which serve the same people; and, that the municipalities should raise their own revenues from other sources.

Essential Services - State aid to municipalities provides services to Alaskans. State funds are used by local governments to provide essential services such as fire, police, roads, water, sewer, health, telephone, garbage collection, schools, airports, docks and harbors, transit, planning, libraries, recreation, laundry facilities, and administration. Which of these should be cut to compensate for the loss of state dollars?

Justification for Fairness

February 27, 1989

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State Cuts Increase Taxes - Cutting funds to local government to balance the state budget in lieu of raising revenues is politically convenient for state officials, but it merely shifts the burden to local officials to again raise taxes or reduce services. The citizen pays either way. Scott Goldsmith's study for the Office of Management and Budget on the impacts of state budget cuts (Working Paper 89.1) found that a 15 percent cut in state spending (an average of \$651 per capita) would reduce support to local governments an average of \$215 per capita, with per capita decreases in support to local governments in 10 election districts of over \$250. Any such decrease in state funding will have to be made up at the local level.

A logical guideline for cutting the budget to avoid raising taxes would be to not approve any cuts that would result in local tax increases to provide services.

Municipal Programs Already Cut Disproportionately - The State has cut municipal aid programs significantly, in some cases by over 30 percent, in the last four years. Cuts in municipal aid have been disproportionate to cuts in other portions of the budget. During the same period, the overall state operating budget has declined less than 7 percent (See Exhibit 1) and agency operating budgets have been cut only 9 percent (House Research Report 88-171). At this point, making equal cuts in state agency and formula program budgets from the Governor's proposed FY 90 budget, as is being suggested, will impact municipal programs and local taxpayers more severely because of the large cuts local governments have already suffered in the last four years.

Municipal Programs Small Portion of State Budget - Formula programs, which make up approximately 43 percent of the state operating budget, are incorrectly equated solely with aid to local governments. Municipal assistance and revenue sharing together represent only 4.5 percent of the total state budget. Funds for education, a constitutionally-mandated state responsibility, make up 21.3 percent of the total budget. See Exhibit #2. State general fund expenditures for formula funded and entitlement programs as a percentage of operating expenditures have remained relatively constant since statehood, varying between 42 and 48 percent (House Research Report 88.171).

Justification for Fairness

February 27, 1989

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Local Governments Paying More For Education - Even though education is a state responsibility according to the Alaska Constitution, the State has reduced state funding for education by 14 percent over the last four years. In addition, municipalities are now statutorily required to contribute an increasing amount of local funds to education: local contributions are currently 26 percent of the total federal, state, and local education operating funds. As an added burden, municipalities have been required to make up the shortfalls in state education funding (debt reimbursement, foundation, and pupil transportation) of over \$75 million in the last four years. See Exhibits 1, 3, and 4.

Municipalities Pay For Underfunded Entitlements - The State has not met its funding obligations to municipal entitlement programs. Underfunding of state entitlement programs for municipalities has cost local governments over \$121 million over four years. See Exhibit 4.

Double Burden from Certain Shortfalls - The underfunding of certain state-mandated programs (e.g., the senior citizens property tax exemption program) causes a double burden on municipalities. The State restricts the municipalities' ability to raise revenues to provide local-priority programs, while at the same time requiring local governments to raise taxes to meet state funding shortfalls. Municipalities currently pay for over 62 percent of the state-mandated senior citizens tax exemption program.

Municipalities Save State Money - Reductions in state assistance to local governments and the increasing disincentives of mandated but unfunded responsibilities may well force municipalities to disincorporate and discourage new incorporations, thus increasing the State's costs of providing services to citizens in those areas.

Shared Taxes Not State Funds - Shared taxes, which are included in the formula programs as pass-throughs, should not be viewed as state funds. The taxes on fish, utilities, liquor, aviation, and amusements are intended to compensate for the costs of regulation and the impacts of those activities on local communities. The taxes are collected by the State for efficiency, but are shared with the municipalities that regulate and are affected by the activities.

Municipal Cuts Politically Expedient - State aid to local governments in areas such as municipal assistance, revenue sharing, senior citizens property tax exemption reimbursement, school debt reimbursement, and pupil

transportation is vulnerable in the budget-balancing debate not because of the relative value of these programs to Alaska's citizens, but because constitutional amendments or statutory changes are not necessary to reduce funding for these programs. The vulnerability of these programs is increased when they are grouped with other formula programs for proportionate cuts. Good public policy and fairness should prevail over political expediency in considering these programs during the budget process.

State and Local Responsibilities Unclear - Oil wealth has resulted in irrational growth in the state budget to a level that is unsustainable with current revenues. During this period, the distinctions between needs and wants, and among state, local, and individual responsibilities, have become blurred. Cuts in the absence of a clarification of these relationships will be unfair, unproductive, and potentially damaging to the State.

State Mandates Have Increased Local Costs - The State has shifted additional responsibilities to municipalities without compensation, and, at the same time, it has reduced state aid to local governments. This was done in the absence of a clear division of state and local responsibilities. In addition, the Legislature has instituted new programs in the absence of legislation requiring fiscal notes on local impacts and in the absence of legislation preventing additional state mandates without reimbursements for costs to local governments of implementing them.

Municipal Assistance Not Overfunded - Legislators point to municipal assistance saying that FY 89 funding (\$56 million) was in excess of the funding floor (i.e. 30 percent or greater of the prior year's corporate income tax - or \$54 million at a minimum in FY 89). Although funding for the program did grow in wealthier times along with the overall state budget, the State did not fund the municipal assistance program at the 30 percent floor as recently as FY 84 and FY 85, when funding fell short of that minimum level by over \$9 million and \$10 million, respectively.

Equity - Taxpayers in municipalities pay for services locally that are provided by the State at no local cost to residents of the unincorporated areas. Also, taxpayers in municipalities bear responsibilities imposed by the State that are not required by the State of residents in the unincorporated areas. This raises serious questions of equity.

SAB2:budjus

Exhibit 1

Funding for State Aid to Municipalities In Relation to State Operating Budget¹

(prepared by Alaska Municipal League)
(numbers in thousands)

	Municipal Assistance	Revenue Sharing	Senior Citizen Property Tax	School Construction Debt Reimbursement	Education Foundation Funding	State Operating Budget
FY 86	\$ 81,306.8	\$ 59,632.2	\$ 4,008.6	\$106,315.6	\$491,159.2	\$2,287,590.1
FY 87	65,858.5	47,879.1	2,770.3	115,875.0	414,729.4	2,181,505.0
FY 88	56,084.4	40,773.4	2,663.0	109,472.7	[437,438.4] 412,438.4 ²	1,971,977.5
FY 89	56,084.4	40,773.4	2,782.3	109,472.7	[447,500.9] 422,500.9 ²	2,129,734.7
% Change FY 86 - FY 89	-31.0	-31.6	-30.6 ³	+3.0 ⁴	-14.0 ⁵	- 6.9

¹ All amounts except for Foundation Funding are General Fund appropriation levels. Foundation Funding is actual amount for FY 85 - FY 88 and includes approximately \$20 million in federal funds each year.

² Beginning in FY 88, the Foundation Formula required school districts to pick up the State's match of Teachers' Retirement System (TRS) contributions from the amount the district received for Foundation funding. This TRS match had formerly been a separate budget line item and grant to school districts. The new Foundation Formula was based on an estimate of an annual TRS match of \$25 million. Since this amount now has to be picked up by school districts, this table has included both the actual Foundation grants and these amounts minus \$25 million to show the impact of reduced funding on Alaska's school districts.

³ The 30.6 percent decrease in state funding for this state-mandated program has come at the same time as the value of property eligible for this tax exemption has increased nearly 50 percent (the entitlement was \$4,977,451 in FY 86 and \$7,430,000 in FY 88). During these four years alone, municipalities have been forced to pick up \$13,302,708 in property tax exemptions mandated but not paid for by the State.

⁴ Although funding for school construction debt reimbursement has increased slightly during this period, municipalities' entitlement to reimbursement has increased at a much higher rate, thus imposing an additional burden on local governments. Entitlement has exceeded appropriations to the program by \$29,360,746 from FY 86 through FY 88. Municipalities have had to make up this shortfall by cutting other municipal programs.

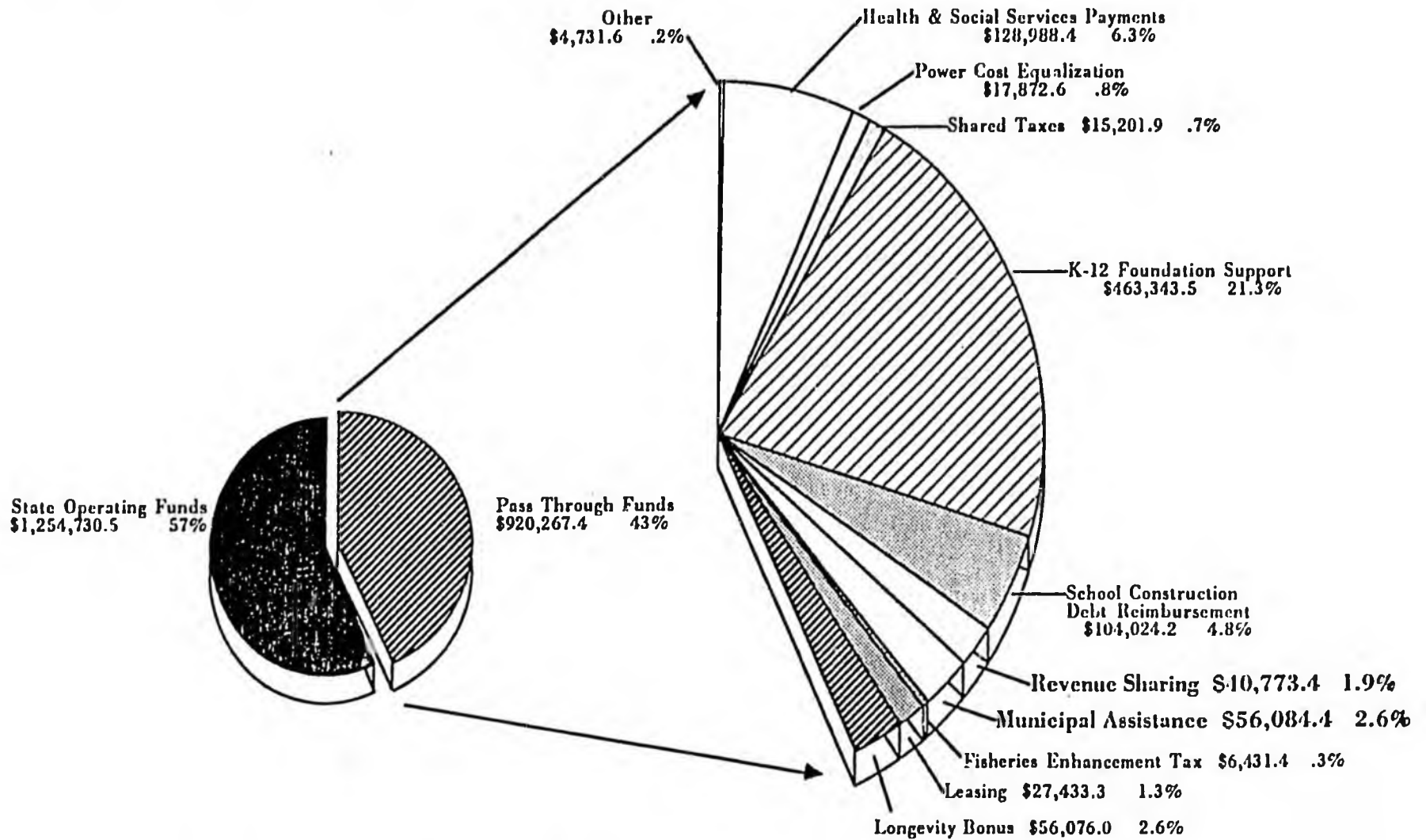
⁵ Decrease in assistance to municipalities, taking into the account the additional responsibility for TRS match they were required to absorb by the 1987 revision of the Foundation Formula (see Footnote 2). During this period the cost to municipalities because of underfunding of the Foundation Formula and the transfer of responsibility for TRS funding from the State to school districts was \$92,600,800.

Source: Columns 1-5: *Municipal Platform*, AML; statistics from Department of Community and Regional Affairs and Department of Education. Column 6: *Alaska State Appropriation Digest*, 1984-1987, OMB, with FY 89 figures calculated from Governor's FY 90 Budget document, prepared by OMB.

Exhibit 2

Pass Through Funds as a Percentage of Total FY 90 Governor's Budget

(All Figures in Thousands of Dollars)



Resolution of the Alaska Municipal League

Resolution No. 89-5

**A RESOLUTION URGING AN INCREASE IN
MINIMUM ENTITLEMENTS UNDER THE STATE
REVENUE SHARING PROGRAM**

WHEREAS, Alaska's smallest cities have been severely impacted by decreases in federal and state funds, forcing them to cut back on basic life, health, and safety services, and

WHEREAS, these small cities, due to small populations and tax bases, are limited in their ability to raise significant local revenues, and

WHEREAS, the 1980 revision of the State Revenue Sharing Program included a provision that each incorporated community and unincorporated community would receive a minimum entitlement of \$25,000 to ensure that Alaska's resource wealth was shared by all its citizens, no matter how sparsely populated the area in which they lived, and that this entitlement was to be adjusted for the cost of living, and

WHEREAS, due to underfunding, some municipalities do not receive even the \$25,000 minimum entitlement, and

WHEREAS, the cost of living since the inception of the program has increased and the Miscellaneous Municipal Services Account, from which the payments to unincorporated communities come, has been prorated by nearly 50 percent in recent years with the result that small communities have not received the minimum entitlements, and

WHEREAS, this inability to operate with the minimum entitlements they receive jeopardizes the State's investment in Alaskan municipalities, and

WHEREAS, in order to increase the minimum entitlement for some municipalities without penalizing other municipalities, the FY89 funding level would have to be increased by at least \$3.5 million;

NOW, THEREFORE, BE IT RESOLVED that the Alaska Municipal League urges the Governor and 16th Alaska State Legislature to:

1. Increase the minimum entitlement level under the State Revenue Sharing Program from \$25,000 to \$50,000, and
2. Provide an increase of \$3.51 million to hold harmless larger municipalities.

Adopted at Annual Business Meeting o November 18, 1988 o Fairbanks, Alaska

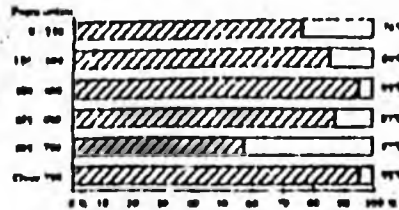
Rural Alaska Feels The Pinch

The downturn has left some rural areas struggling to provide basic services to a dwindling population less able to pay

Percent Of Municipalities That Buffered Cuts (By Community Size)

Budget Cuts

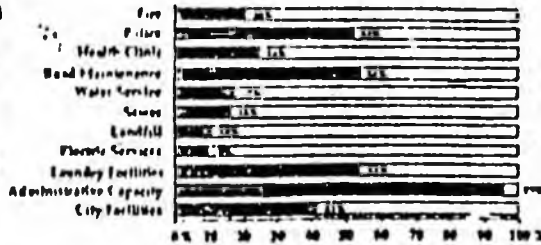
The worsening state economy has meant a cut in municipal revenues and trimmed down local budgets.



Less Money Means Fewer Services

Dwindling revenue-sharing and municipal-assistance money has led to a cut in services. Some 95% of the 128 cities surveyed have had to reduce at least one service.

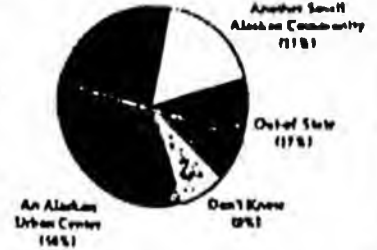
Percent of Municipalities That Reduced Services (By Type Of Service)



Exodus To Urban Centers

With fewer jobs available and diminished local services, residents of Alaska's smaller cities are migrating out of state or to Anchorage, Fairbanks or other urban centers.

Where Rural Residents Who Leave Are Headed



Source: Alaska Department of Community and Regional Affairs

Strapped Bush villages scratch for cash

By HAL SPENCER
Daily News reporter

At least one rural Alaska village is about to drain and shut off part of its water system for the winter because it lacks the money to keep it operating.

Some villages are so desperate for money that they have sought disaster relief from the state Department of Military and Veterans Affairs — the agency that delivers help only in life-threatening emergencies such as floods and fires.

Eight Bush villages and five Na-

tive village corporations apparently lost a total of \$1.5 million in uninsured deposits when Alaska Bank of the North failed a few weeks ago.

Forty-two percent of 128 Alaska towns and villages recently surveyed by the Alaska Department of Community and Regional Affairs said their residents are economically worse off this year than last year, and 95 percent said they have reduced at least one municipal service.

Fourteen percent of those surveyed said they are so strapped for cash that they're having trouble pay-

ing even federal withholding taxes.

These facts, and plenty more just as grim, fell like bricks Friday on a roomful of village and small-town officials who attended a presentation by Gov. Steve Cowper's Cabinet Committee on Economic Dislocation.

Many in the room at the Egan Convention Center came to hear what Cowper intended to do for them as they scratch for cash to heat buildings and meet payrolls in the aftermath of state budget cuts brought by the oil bust of 1986.

What they heard from Lt. Gov.

Steve McAlpine and other top officials was this: The state wants to help with financial and technical advice, but can offer no immediate financial relief. Cowper himself put it more succinctly earlier this week when he told an Alaska Municipal League luncheon crowd that unless legislators find new sources of revenue, he foresees no increases in state aide to cities and villages.

"I guess I'm a little bit disappointed," said Walton Smith, the city manager of Mountain Village, a community of 700 on the Yukon

River in western Alaska.

That had to be the understatement of the week.

Smith, who waited anxiously all week for McAlpine's committee to unveil a rumored relief package, is looking at a 1250,000 deficit in the village budget after cutting his staff from four people to two.

The committee's relief package, which was said to contain provisions for loans, and for advance payment of 1988 municipal assistance among

See Page C-3, VILLAGES



Familiar names dot Fink team

the 800 numbers, divides the regions. Alaska formerly belonged to region No. 5 which also includes Hawaii and Puerto Rico. It's quite expensive for companies to "buy" that region, that is, to buy the right to have residents in that region call for free. Smirnoff said Alascom convinced AT&T to include Alaska in region No. 5, the West Coast region.

VILLAGES: Feel economic pinch

Continued from Page C-1

other things, is parked in Copper's Office of Management and Budget for study, McAlpine said.

"You talk about bankruptcy. I don't know what that means. But I can tell you we're broke," Smith said.

He drew one of the few laughs of the session when he said: "There are some advantages to being broke. You don't get many bill collectors on the Yukon River."

Smith said those who think Mountain Village is in tough shape haven't looked closely at scores of other villages around the state.

"If you look, you're going to find that we're a long ways from being in the worst shape. There are a lot of villages in the (Yukon-Kuskokwim) Delta right now. ... Their books are so bad that they don't even know they're in trouble yet. They're going to start wondering when the checks start bouncing," he said.

David Hoffman, a committee member and the commissioner of Community and Regional Affairs, said there are four obvious reasons that so many Alaska villages are deeply in the red. At last count, 18 fit the description and 20 more will by year's end, his department has said.

The first reason, Hoffman said, was a 79-percent reduction in state public works outlays in the past two fiscal years. At the same time, he said, the state cut cash assistance to local communities by 32 percent.

Then, Hoffman said, several regions suffered extremely poor commercial fishing seasons this year.

"And to add insult to injury," he said, the Alaska Bank of the North failed a few weeks ago. Eight villages and five Native regional corporations stand to lose about \$1.5 million in uninsured deposits in the bank, a huge amount for entities of this size, one of Hoffman's department heads said.

If village officials at Friday's meeting needed more convincing that the state isn't about to bail them out anytime soon, it came from another committee member, Department of Environmental Conservation Commissioner Dennis Kelso.

"It's no secret that some towns are going broke, and with it, their water and sewer systems," he said.

Financially ailing villages that want to save their systems from freeze-up and ruin essentially have two choices at this point: Cut operating costs or temporarily shut them down. Whatever the choice, the state stands ready to help with advice and technical assistance, he said.

A team of DEC officials plans next week to travel to one north central village to give instructions on how to mothball part of an expensive water system, Kelso said. He and his staff declined to name the village until officials had met with the council there.

Other villages also are considering shutting down their systems, one of Kelso's aides said.

SNOW: Motorists slow down

Continued from Page C-1

a year to re-educate the summer drivers," said Sgt. Greg Stewart.

"I think the people had a little more control today than yesterday," said Art Repp, a driver for ABC Towing. Repp said his company probably pulled 25 or so cars from ditches during the snowfall.

"I think a lot of it is speed. Then they run across someone going slow," he said. "Then someone hits their brakes and everybody panics. I would probably panic, too."

Pool's said the weekend would bring only light flurries as the low pressure system which brought the snow weakened.

The Murkowski-Proxmire accord however, would require the Nuclear Regulatory Commission — the agency must approve a final task — to test surplus with casks and then crash aircraft to see if the containers maintain their integrity.

Because the Japanese are considering use of a new-generation Boeing 747 to carry the radioactive material, the assumption is that an aircraft of that type would be used in the crash test.

The Murkowski-Proxmire accord also would require that a cask dropped from the aircraft at cruise altitude.

The crash-test program would be governed by the National Environmental Policy Act involving full public hearing.

"This action puts the Senate on track early in the negotiations and gives us an opportunity to direct the agenda of plutonium issue," Murkowski said in a statement.

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Southbound along Turnagain Arm

An Alaska Railroad passenger shuttle rounds a bend near Potter en route to Whittier along Turnagain Arm. A special issue of *We Alaskans* focuses today on the beauty and history of the area.

Hard times put Alaska villages on the brink

Combination of oil bust, cuts in federal aid leave Native communities in bad financial shape

By HAL SPENCER
Daily News reporter

The bitter wind of hard times is battering village Alaska harder and more suddenly than many people expected. Eighteen western Alaska villages are in critical financial condition and another 20 are expected to be in similar straits by year's end, state officials say.

A sharp drop in state spending sparked by the 1986 oil bust has combined with shrunken federal aid to leave these Native communities with payrolls they can't meet, buildings they can't heat, and utilities they can't afford to operate.

"We've got buildings all over this damn village we can't afford to take care of,"

said Walton Smith, the city manager of Mountain Village, a Yupik Eskimo community of 665 people about 100 miles northwest of Bethel on the Yukon River.

"We've got a teen center, a community hall that needs thousands of dollars of foundation work, a clinic that we're losing because it really needs foundation work, a

brand new Head Start building."

"We've got these projects that were given to us. They brought us jobs, but now we can't afford to maintain them so we're letting them go," Smith said.

Recently, Gov. Steve Cowper hastily convened a task force headed by Lt. Gov. Steve McAlpine to look into

just what can be done for Mountain Village and other troubled hamlets dotting the tundra from the Arctic Circle to Kodiak Island.

"The problem is that many villages are on the financial brink. They're at the point where they have got very serious financial problems, in some instances irreversible problems," McAlpine said.

"We recognize that the legislature left no appropriation to deal with it. We're trying to figure out what we can do in this situation."

Direct financial relief is not likely this year, said Bethel Republican Sen. John Binkley, co-chairman of the Senate Finance Committee.

See Back Page VILLAGES

Business is brisk but risky on the Soviet black market

By LEW FREEDMAN
Daily News reporter

LENINGRAD, U.S.S.R. — The men materialized from the crowd filling the sidewalks on Nevsky Prospekt, the main street of this bustling and historic city of 5 million people.

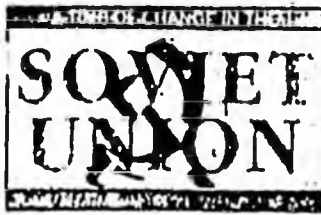
"Change money?" he whispered. "Change money?"

In the early days of the 19th century, when Leningrad was still St. Petersburg, citizens dressed in their Sunday finery and came to this long, straight boulevard to see and be seen.

In modern-day Leningrad, the crowds still flock to the heart of the city founded by Peter the Great in 1703 to shop, dine and admire the baroque buildings. But the aim of many is not to be seen. Nevsky Prospekt is where the illegal black market flourishes. These days, many of those who walk along the three-mile main section of the street talk out of the sides of their mouths and move their eyes furtively, on the lookout for police.

The dark-haired man was in his 20s. His offer of three rubles for a dollar was against the law. The official exchange rate is one

See Page A-9, BLACK MARKET



Daily News sports editor Lew Freedman visited the Soviet Union for 18 days in August as a delegate to the 15th conference of The Forum for U.S.-Soviet Dialogue.

More stories on Soviet life in Forum, Page F-1

Rare, nice store eases pain of Soviet shopping

By BILL KELLER
The New York Times

MINSK, U.S.S.R. — At the corner of Partisan Avenue and Zhdanov Street in this city, the Byelorussian capital is a place that would seem utterly mystifying to most Soviet consumers. It is a nice department store.

In this store, sales clerks do not sneer when a customer approaches, as they do in most Soviet stores during those infrequent periods when they are not on cigarette breaks.

The women's underwear section here does not look like the usual unisex truss department, and the shoes

See Page A-9, NICE STORE

VILLAGES: They're running out of money

Continued from Page A-1

"There's nothing in the law that permits the (Cooper) administration to just write a check to cover village deficits. I mean, you can't just sit down and write a check to the Mountain Village administration," he said.

Binkley said that for now state officials can continue to offer management advice and technical assistance, such as suggestions on where to cut budgets and help in rescheduling debt.

McAlpine said the crisis has been compounded in some villages by mismanagement and reluctance to accept that the days of easy money are over.

The state Department of Community and Regional Affairs, the agency that funnels legislative appropriations and technical advice to village Alaska, has been quietly wrestling with the problem for a year. "What had been a smattering of problems last year is now pervasive," said Marty Rutherford, the department's director of municipal and regional assistance.

"It's extremely serious. The difference between now and years past is that state money isn't flowing as easily: the capital projects, revenue sharing, and municipal assistance," she said.

Several far western villages suffered even more this summer due to poor salmon runs, McAlpine said.

Rutherford's department has prepared a list of 18 communities with immediate and significant financial problems. They include Mountain Village, Teeter, Kotlik, Stebbins, Unalakleet, Ambler, Buckland, Deering, Nostak, Noorvik, Scammon Bay, Hooper Bay, Tulukssak, Kasiglik, Akhiok, New Stuyabok, Ekwox, and Twin Hills.

Mountain Village is among the hardest hit. City manager Smith said the community has an annual budget of about \$450,000, with a deficit expected to be about \$250,000 this year.

Smith said one 20th Century comfort enjoyed by the village has become a particular albatross: its \$6 million water system.

The water is heated and circulated nine months of the year at a minimum operating cost of \$120,000. "You can't cut down on the heating cost. If you do, the water freezes and then you've got a million dollar repair job," Smith said.

The growing scarcity of personal income in village Alaska also partly the result of state cutbacks, is making the situation even worse, Smith said.

About half of the village sewer users are in arrears of \$100 bills, and collecting is a many loss, he said. The system was designed without staff valves so the only way to cut off delinquent users is by digging up the lines to their houses. "We've cut back on the staff valves to make the sewer water...



sewer rate of \$30 to \$75 and go after those who won't pay. "We've taken the backhoe out and dug up lines before. People tend to pay when they see the backhoe in front of their houses," he said.

Smith, who became city manager only four months ago, said he cut his own salary by \$4,000 to \$38,000. He has a fulltime and part-time police officer, a clerk and a bookkeeper. He's thinking about cutting employee hours and eliminating the part-time police officer.

McAlpine said village financial problems have been aggravated in some cases by poor management. It isn't that village leaders were derelict in their duties, said Margaret Hansen, a community and regional affairs official in Kotzebue. Instead, money was often dropped on village officials who had only vague notions about the need for bookkeeping and auditing.

Perhaps the most severe case of mismanagement occurred in Buckland, an Inupiat Eskimo village of 260 people about 70 miles southwest of Kotzebue.

In 1984, a previous village administrator, without telling anyone, stopped withholding federal taxes for village employees, Hansen said.

Hansen, who is helping Buckland and several other villages bring their budgets under control discovered the problem only recently. "The administrator was intercepting warning letters from the Internal Revenue Service," Hansen said. "The city official didn't even know the problem existed."

The village, with an annual budget of \$228,500, now has a deficit of \$200,000. Hansen said.

Have cut back the budget

a lot," she said. "The clerk and administrator both work part-time, we've sold some equipment" to raise cash.

Sull, said Mayor Jimmy Geary Sr., "without help from the state, there's no way we can survive."

Among services that are suffering is the village-owned laundry, which is open only half-time now, he said.

McAlpine said many villages made the same mistake committed by some urban communities: They failed to accept the fact that state funding was declining, and spent money they didn't have.

Now, many are taking drastic steps to reduce spending. "Noorvik cut their budget in half," Hansen said. "A new administration came in not too long ago, and the new administrator is getting \$23,000 a year." The predecessor got \$40,000, Hansen said. "The new administrator is getting half the pay and is doing twice the work."

The sudden severity of the problem in Bush Alaska seemed to take some top Cooper officials by surprise.

But it was no surprise to Lee Gorsuch, the head of the University of Alaska's Institute of Social and Economic Research. He said two events contributed to the development.

The first was the quiet shrinkage of federal assistance since 1980, a trend virtually unnoticed in the state because oil dollars poured in to fill the gap.

"It's clear that the whole period of the 1980s began to witness a withdrawal of the federal government (Bureau of Indian Affairs) schools pulled out. The BIA discontinued its General Relief Program to buy fuel and other things, and other programs lost federal assistance," he said.

Now the state is no longer able to pick up the slack, he said.

The biggest source of state money for municipalities, including village governments, is state municipal assistance and revenue sharing funds. But budget figures show that total funding from this source fell dramatically in the past two years. Three years ago, it was \$140.8 million. Last year, it fell to \$113.7 million, and this year, the total is \$96.8 million.

In addition, billion-dollar capital construction budgets in the mid-1980s have fallen to an \$80 million budget this year.

State municipal assistance chief Rutherford said there is hope on the horizon for some villages.

Her department and the Department of Commerce and Economic Development are searching for ways to put cash into villages from sources other than the government.

For example, they are exploring the creation of "cabin industries" that would put small numbers of people to work. "We're not saying we'll have rich villages or rich people, but a little bit of cash goes a long way in a village," she said.

Partly through a state grant of about \$70,000, Aniak, a Kuskokwim River village of 318 people, has created a small canning plant to produce "gourmet salmon pecks." State and Aniak officials are optimistic about the future.

Gorsuch said the 12 regional Native corporations will play a big part in weaning village Alaska from its "transfer economy," an economy relying primarily on government "transfer payments." A transfer payment occurs when the government takes money from one place, say the oil industry, and transfers it to another, in this case the villages.

In the NANA Region, the Red Dog zinc mine, a joint venture of NANA and Cominco Alaska Inc., is seen as a major source of permanent jobs once it begins production in 1988 or 1990, Gorsuch noted.

Some village populations, which grew in recent years with the oil money, will shrink as life gets harder, he predicted. But Gorsuch sees no large-scale flight to urban centers.

Villagers still have subsistence hunting and fishing to help them get by, as well as an extended family with whom to pool resources.

"Numerous people have been forecasting the demise of the Native villages for the last 20 years. The resilience of villages is quite high, and their abilities to adjust seem to be quite flexible," he said.

Furthermore, Gorsuch added, many villagers "simply don't have anywhere else to go."

MISSILES: D

Continued from Page A-1

alms and nuclear warheads contain materials that may be poisonous, explosive, radioactive, or all three. These are among the more dangerous materials.

Missile fuel. Different missiles carry different fuels but all are dangerous to varying degrees. Solid fuel, similar to the fuel used in space shuttle's booster rockets, contains an explosive blend of aluminum powder and ammonium perchlorate. Another type of propellant, called hypergolic fuel, consists of two ingredients: monomethyl hydrazine and nitrogen tetroxide — that react violently when combined even in the absence of external spark. These substances are also lethal to humans.

Plutonium. One of the essential ingredients in nuclear warheads, plutonium is dangerously radioactive. Small quantities enter the body through the air or via the substance concentrates in bones. Radiation causes cancer and other diseases; result.

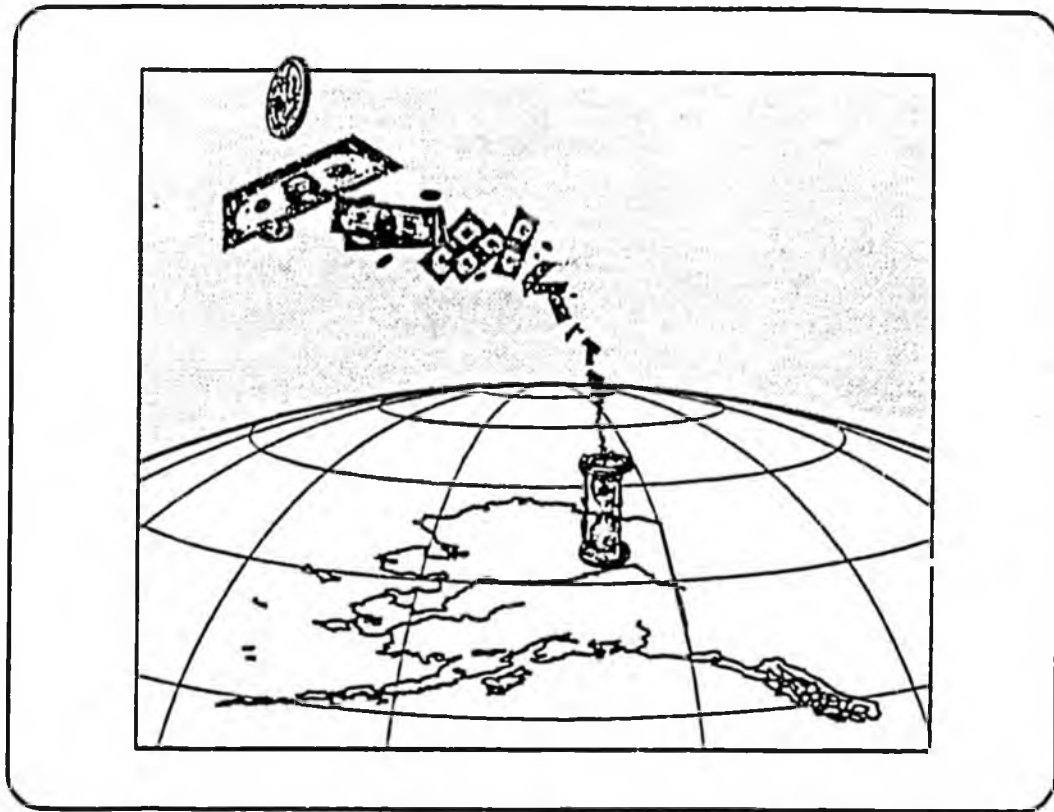
Uranium. Both uranium 235 and 238 are used in nuclear warheads. Several pounds of both forms called isotopes — of this element can cause kidney damage and arteriosclerosis. Radiation from particles of uranium lodged in the lungs poses long-term cancer hazard.

Beryllium. This metal used in nuclear warheads as a mirror to focus internal energy and increase the power nuclear detonations, is extremely poisonous. Even short exposure to beryllium and its compounds can cause dermatitis, corneal but pneumonitis and death.

Tritium. A radioactive isotope of hydrogen, tritium is one of the main components in a thermonuclear explosion. When combined with oxygen to form water and enter the body as a liquid, it can cause radiation damage. In a warhead tritium is usually combined with deuterium, and tritium tritium combined with water that can cause radiation damage.

Chemical explosives. Nuclear warheads can be conventional explosives. In explosives as triggers are designed to be insensitive to shock and to

Impacts of Declining Revenues On Alaska's Smaller Communities



February 1988

State of Alaska
Steve Cowper, Governor

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

Municipal and Regional Assistance Division
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Impacts of Declining Revenues On Alaska's Smaller Communities

Summary

The Department of Community and Regional Affairs surveyed 128 of the smaller cities and 44 unincorporated communities statewide to determine their financial condition. This survey indicated the downturn in the state's economy has resulted in reduced revenues and services in small cities and unincorporated communities. As the full impacts of the State's economic condition filter out to small cities there could be even more significant reductions in revenues and services in small communities.

Basic public health and safety services such as fire, police, health, water and sanitation have been reduced across the State in an effort to accommodate declining revenues. In addition 47 communities reported they did not provide water service and 82 communities did not provide sewer service. Every region of the state reports an increase in the number of cities and communities with residents who are having difficulty paying for municipal services. It appears that the gains made in public health and safety in rural Alaska may be in jeopardy if State funding to smaller communities continues to decline.

In FY86, almost 60% of the revenue for second class cities was derived from direct State funding of entitlement programs, capital project grants or contracts for services (see Chart 1.2, page 1.2). Entitlement programs such as Revenue Sharing and Municipal Assistance are of even greater importance as the small community's capital project grant revenues are reduced. If further reductions occur in entitlement programs it could result in even greater cuts to basic health and safety services since these funds often "subsidize" water, sewer and medical services.

Because of local economic conditions it is unlikely that most cities will be able to increase taxes or service charges to fully offset the decline in State funds. Unincorporated communities are even more dependent on State funds because they do not have the power of taxation. Many communities expect declines in health and public safety services if current levels and methods of State funding continue.

In order to cut costs, most communities have reduced positions, maintenance, operator training, and operating hours of facilities and equipment. Fifty seven of the cities surveyed reported they have no property loss insurance. These conditions indicate that the State investment in equipment and facilities may be in jeopardy, or at least that the useful life of facilities and equipment may be reduced if only local revenue is available to support these facilities and equipment.

Communities in the Yukon-Kuskokwim Delta, Bering Straits region, Northwest Arctic Borough and the Doyon region appear to be the most negatively impacted.

In the Appendix, eight community case studies are presented to illustrate the meaning of the survey results. Communities were selected as typical examples of small rural communities in their respective regions of the state.

Impacts of Declining Revenues On Alaska's Smaller Communities

Introduction

During October, 1987, the Department of Community and Regional Affairs, Division of Municipal and Regional Assistance, conducted a telephone survey of executive officials from 172 Alaskan municipalities and unincorporated communities. The survey was designed to gather information on the financial situation of communities outside of the major metropolitan areas. The survey concentrated on these communities because there was little information available on the economic impacts upon the smaller communities compared to information about urban areas.

The survey results are presented on a statewide basis, by regions of the state, and by community size. The intent of the survey was to focus upon the more profound and widespread financial issue confronting Alaska's smaller communities.

This Report is divided into five chapters:

Chapter One – Municipal Survey Results:

This chapter reviews the significant findings of the Economic Dislocation Survey as it relates to small rural cities. The survey data are examined in terms of regions, and city size. This chapter looks closely at the revenue situation and impacts upon service delivery.

Chapter Two – Unincorporated Community Survey Results

This chapter reviews the significant findings of the Economic Dislocation Survey as they related to the State's unincorporated communities

Chapter Three – Policy Issues

This chapter identifies and discusses some of the major policy implications for the State to be drawn from the survey results.

Appendix – City Case Studies

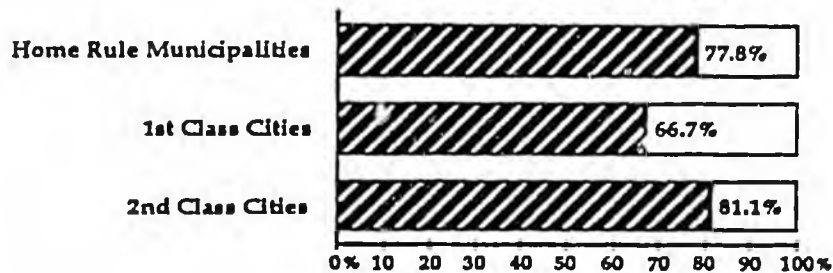
This chapter is an effort to bring the realities of the economic situation facing rural cities into a more focused perspective. Each case study presents a description of city revenues and expenditures as well as the level and type of services provided by the city. The purpose of the case studies is to review a "typical" city in each region and not look for worst case scenarios.

Chapter 1

Municipal Revenue Reductions

With the recent downturn in the state's economy there has been a reciprocal reduction in municipal revenues and expenditures. For the cities in the survey sample, it appears that an overwhelming majority have reduced budgets this fiscal year. The following chart identifies the percentage of cities statewide which experienced budget reductions this year:

Chart 1.1 Percentage of Surveyed Municipalities With Budgets Reduced From Last Year



The municipalities with budget reductions identified in the above chart are indicative of a trend that has been occurring for several years. The following Chart 1.2 reveals the trend in municipal budget reductions for second class cities occurring since FY84.

The entitlement programs identified in Chart 1.2 (Municipal Assistance and State Revenue Sharing) have slightly declined in their proportion of municipal budgets as the amount of funding for entitlement programs has declined from FY84 to FY87.

Each year the State Revenue Sharing (SRS) and Municipal Assistance (MA) programs provide municipalities with essential operating revenues. The reduction in funding for each of these two programs from FY '86 to FY '88 amount to a little less than 32%. These reductions have an especially large impact on the second class cities as a significant portion of their budgets come from these program sources.

The entitlement funds are crucial to the operations of many small municipalities because these funds are the only source of discretionary funds. Such funds frequently cover municipal administrative costs, cover losses in services revenue, and help pay for services that generate little or no revenue.

Chart 1.2 also reveals that the overall contribution from State sources (Municipal Assistance, Revenue Sharing and Government Revenues) has consistently made up over 50% of the operating revenues available to small municipalities until FY 87. As government revenues have been drastically reduced, the State contribution has dropped to 42.3% in FY 87.

The following chart demonstrates how municipal budget reductions have varied by regions of the state.

Chart 1.3 Percentage of Surveyed Municipalities (By Region) With Budgets Reduced From Previous Year

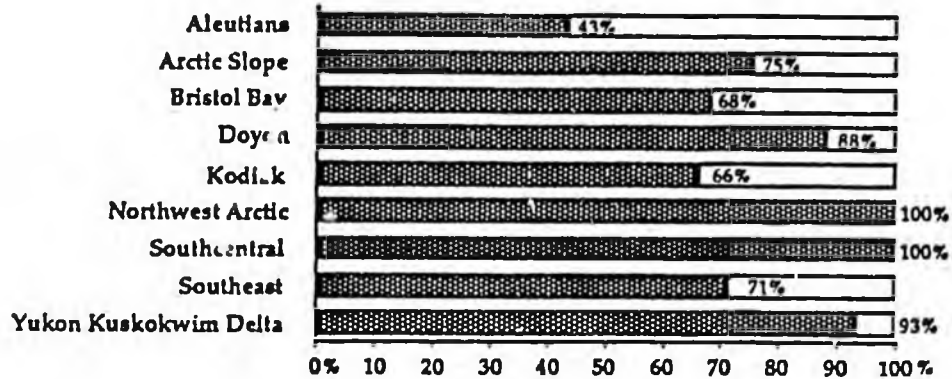
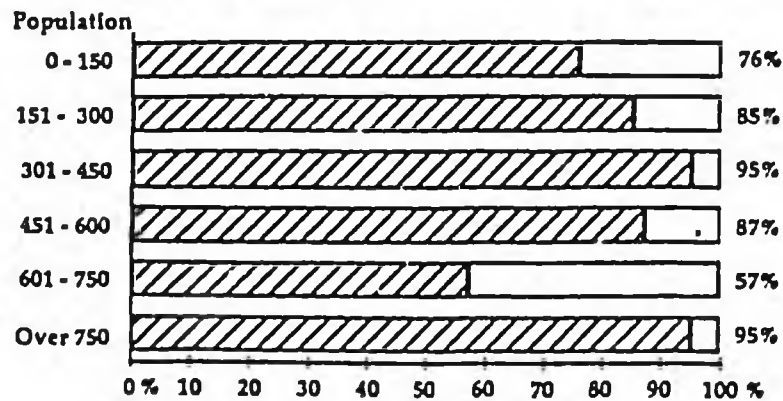


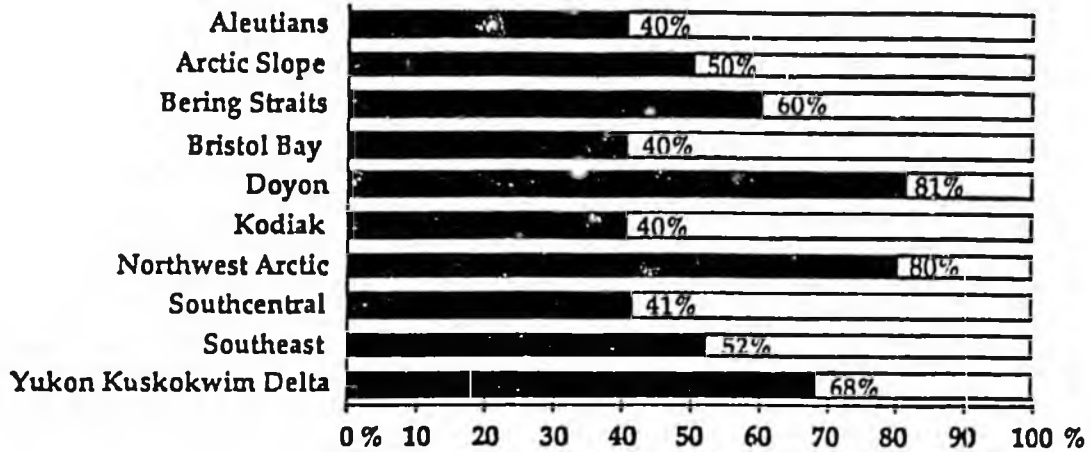
Chart 1.4 identifies by city size the effect of budget reductions. Note that over 90% of Alaska's second class cities have a population of 600 or less. It is clear from the chart that an overwhelming majority of the second class cities surveyed have experienced budget reductions.

Chart 1.4 Percentage of Surveyed Municipalities (By Community Size) With Budgets Reduced From Previous Year



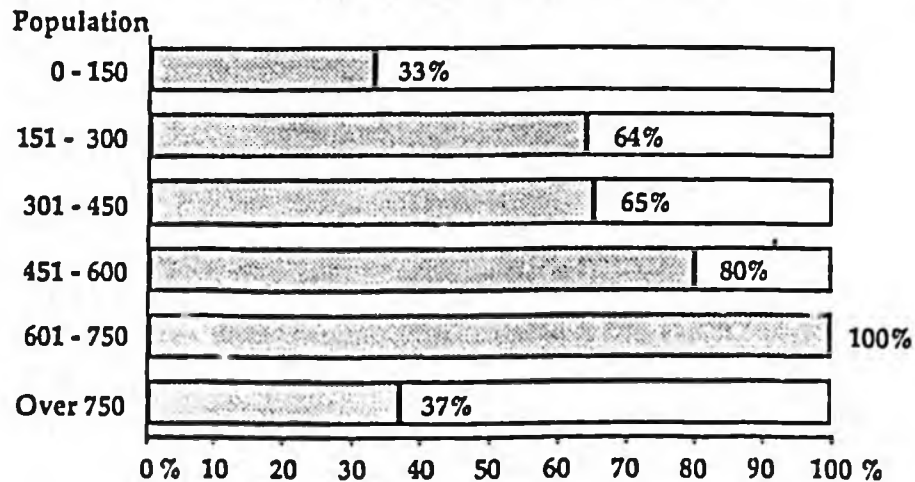
The reduced ability of families to pay municipal service charges compounds the problem of reduced city revenues. The following charts identify where the impacts of reduced ability to pay for municipal services are being experienced:

Chart 1.7 Percentage of Surveyed Municipalities (By Region) Reporting An Increased Number Of Families Experiencing Difficulty In Paying For Services



The following chart indicates that residents in many smaller cities are experiencing a reduced ability to pay for services.

Chart 1.8 Percentage of Surveyed Municipalities (By Community Size) Reporting An Increased Number Of Families Experiencing Difficulty In Paying For Services



According to the survey results, of the 128 cities questioned 55% (70 cities) provide police services. This fiscal year, thirty-eight (38) of the 70 cities providing this service have had to reduce police services. In addition, 17% (12 cities) of the cities providing police protection report that the service will be eliminated if local economic conditions continue next year.

The survey further indicates that the most common reductions are in the areas of staff positions; reduced hours; and, reduced salaries.

POLICY ISSUES: There are several factors that demand that rural cities have local public safety officials. As indicated in recent Anchorage Daily News articles, rural Alaska tends to have a high level of violent crime and death, much of which is alcohol related. The control of alcohol coming into communities is a difficult task but without the ability to enforce local alcohol control laws the task is impossible. In addition, most of these cities are remote and isolated from immediate assistance from the State Troopers. A forced reduction in rural public safety raises the questions of how important it is to the State to ensure the safety of rural residents and whether there is a basic level of protection all communities should enjoy.

HEALTH CLINICS

The majority of Alaska's small rural cities have a health clinic staffed by Village Health Aides. The Health Aides provide primary and health maintenance care. A majority of these clinics are funded, in part, by the U.S. Indian Health Service. In addition, there are 118 cities dedicating a portion of State Revenue Sharing funds to clinic operations. A city's contributions to the clinic normally covers building maintenance, operations costs, and the funding of alternative health aides.

According to the survey results, of the 128 cities questioned 72% (92 cities) provide funds for community health clinics. This fiscal year, 23 of the 92 cities providing this service have had to reduce the level of service. In addition, 12.5% (16 cities) of the cities funding health clinics report that the funding will be eliminated if current revenue conditions continue next year.

The survey further indicates that the most common reductions are in the areas of operations and maintenance costs; reduced hours; and, equipment not replaced.

The great distance many small rural cities are from fully staffed medical facilities necessitates the continuation of fully operational village health clinics. Since Statehood, Alaska has funded the construction and maintenance of health clinic facilities across the State. This effort, combined with annual allocations of federal dollars and the efforts of the regional Native health corporations, has resulted in greatly improved health services for rural residents.

prohibitive cost of drilling wells in rural Alaska and the presence of deep permafrost make the feasibility of individual wells unlikely in many communities. A more detailed description of the range of water services provided by rural cities can be found in the Appendix - Community Profiles.

Of the 128 cities questioned, 77% (99 cities) have a municipal managed water service. This fiscal year, 17 of the 99 cities providing this service have had to reduce the level of service. Service charges have been increased by 13 cities. In addition, 14% (14 cities) of the cities managing a water service report that the service will be eliminated if local economic conditions continue next year.

The survey further indicates that the most common reductions are in the areas of reduced hours of operation; reduced salaries; and, reduced operation and maintenance budgets.

POLICY ISSUES: Having an ample supply of safe drinking water is one of the most basic community needs. Does the State have a responsibility to ensure that each community has adequate water? What will happen to the State's investment in water systems if maintenance is neglected? Are there sufficient dollars available for the Village Safe Water Program? How much will the State save in future health care costs by assuring safe drinking water is, and continues to be, available?

SEWER SERVICE

Virtually every rural city has a means of sewage disposal though some are rudimentary by urban standards. Such systems can vary from individual septic tanks, to a honey bucket pickup system with an open sewage lagoon, to an outhouse, or a sophisticated secondary treatment plant. Many of the systems have been developed with a combination of Public Health Service and State funds but are managed by the municipalities.

According to the survey results, of the 128 cities questioned 55% (70 cities) have a municipal managed sewage disposal system. This fiscal year, 11 of the 70 cities providing this service have had to reduce the level of service this year. Service charges have been increased by 11 cities. In addition, 16% (11 cities) of the cities managing a sewage disposal system report that the service will be eliminated if local economic conditions continue next year.

The survey further indicates that the most common reductions are in the areas of reduced salaries; reduced positions; reduced hours; and, reduced operation and maintenance budgets.

POLICY ISSUES: The safe and sanitary disposal of sewage is essential for the maintenance of community health. If the existing rural systems are allowed to deteriorate there could a reciprocal decline in residents health. Again, is there a basic level of sanitation services that the State should guarantee each community in order to prevent higher health care costs in the future?

LAUNDRY FACILITIES

Many rural cities have city owned and operated laundry facilities. The city laundry frequently is the watering point for communities without distribution systems and also offers bathing facilities. The management of a laundry facility can also provide a city without a sewage system a means for disposing waste gray water. Many of these facilities have been constructed with funding from the State's Village Safe Water Program.

According to the survey results, of the 128 cities questioned 31% (40 cities) have a municipal managed laundry facility. twenty-two of the 40 cities providing this service have had to reduce the level of service this year. In addition, 20% (8 cities) of the cities managing a laundry facility report that the service will be eliminated if local economic conditions continue next year.

The survey further indicates that the most common reductions are in the areas of reduced staff positions; reduced hours of operation; and, reduced operation and maintenance budgets.

POLICY ISSUES: To urban residents, laundry facilities might seem like a strange service for a local government to provide. However, in rural Alaska when many homes do not have running water, the laundry facility provides two basic public health functions: a place for washing clothes and bathing. Often the laundry building houses the only water treatment plant. The potential loss of these public facilities and the question of maintaining a basic level of public health should be considered by the State.

CITY ADMINISTRATION

The administration of a city government is an essential function in the management of a municipality. Almost every city in the State has paid administrative staff. In the smaller cities, this frequently includes only the mayor and an administrator/city clerk. In addition, many of these cities have staff who are responsible for the direct delivery of municipal services (i.e., equipment operations for road and landfill maintenance, and electrical plant operators).

According to the survey results, of the 128 cities questioned 97% (124 cities) have city administrative staff. This fiscal year, 73 of the 124 cities providing this service have had to reduce administrative capacities. This reduction has resulted in the loss of 122 positions in city government employment which is often a major source of year-round jobs in small cities.

The survey further indicates that the most common reductions in administrative capacity are in the areas of reduced staff positions; reduced hours of operation; and, reduced salaries.

Municipal Services Reductions

The reductions in State Revenue Sharing (SRS) and Municipal Assistance (MA) combined with the downturn in capital construction funds have resulted in a reduction in the services provided by cities. Of the cities surveyed, 95% have had to reduce at least one service. The charts below indicate which services are provided by the surveyed cities and how these services have been reduced this year; statewide, and by region:

Chart 1.9 Number of Cities Surveyed Providing Municipal Services

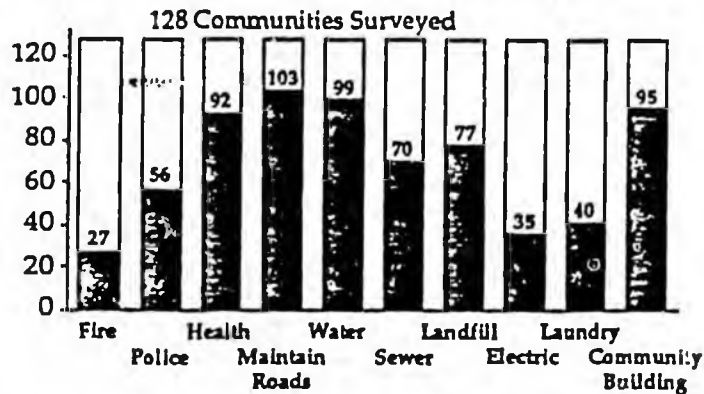


Chart 1.10 Percentage of Surveyed Municipalities Statewide Which Have Reduced Budgets This Year

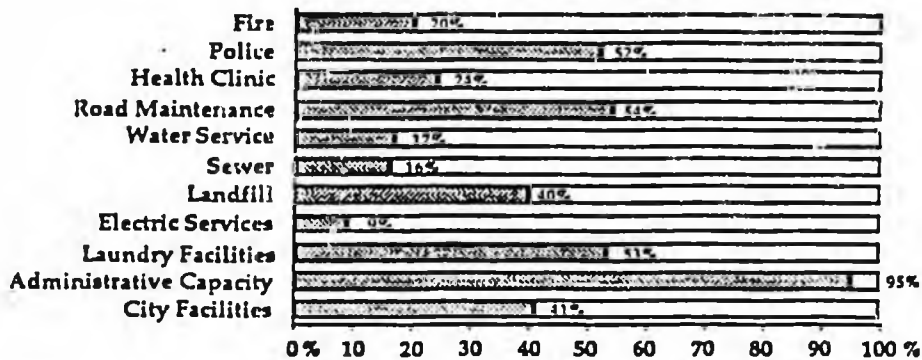


Chart 1.11 Percentage of Surveyed Municipalities (By Region) Which Have Reduced Essential Services

For each service, the three regions with the greatest percentages of reductions are highlighted

	Fire	Police	Health	Maintain Roads	Water	Sewer
Aleutians	-0-	40	17	40	17	-0-
Bering Straits	27	90	67	67	13	-0-
Bristol Bay	26	33	12	32	7	-0-
Doyon	21	20	23	37	24	11
Kodiak	33	-0-	25	67	17	20
Northwest Arctic	-0-	100	44	44	33	50
Southcentral	7	22	38	36	8	9
Southeast	16	58	28	47	17	29
Yukon Kuskokwim Delta	42	56	35	52	22	9

Note: The above percentages are based upon those cities providing services. Services for the Arctic Slope region are provided by the North Slope Borough and are not covered in this chart.

Insurance

Insurance is a large expense for many small cities. It is also a necessary expense to help ensure the continued delivery of municipal services. The survey results indicate that 45% of the surveyed communities do not have property insurance. This is significant because of the tremendous growth of public facilities in these communities during the past five years. The following charts depict the status of insurance coverage in rural Alaskan communities as identified by the survey.

Chart 1.14 Liability Insurance Coverage of Surveyed Communities

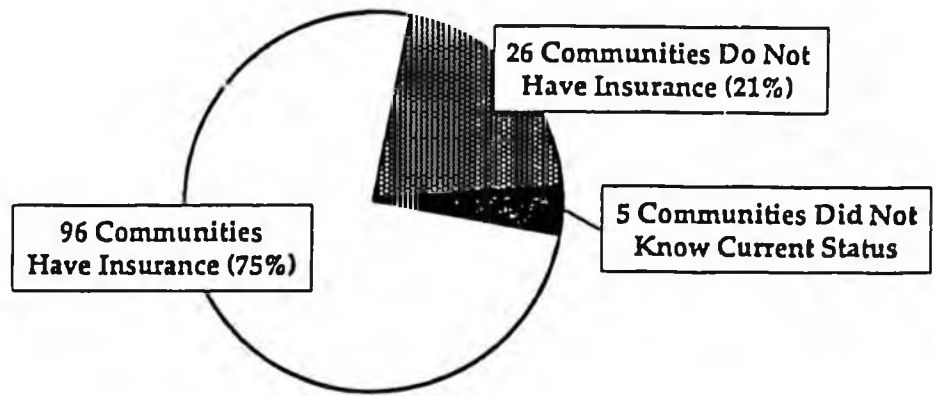
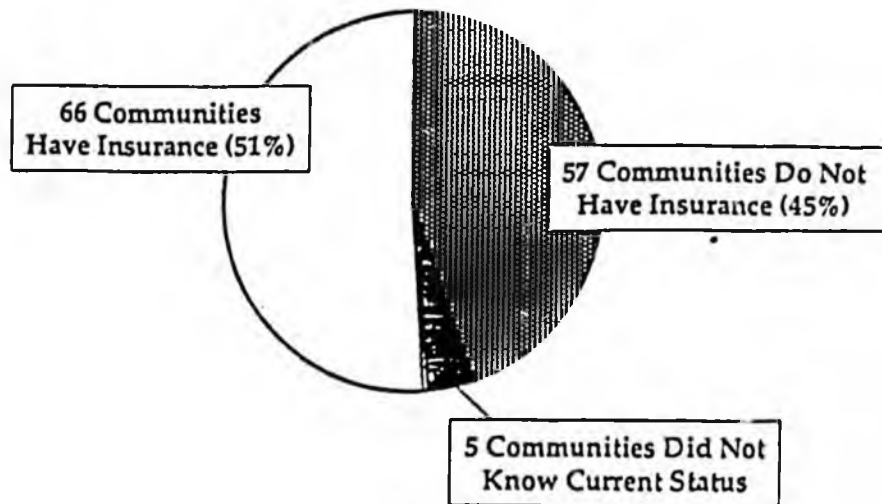
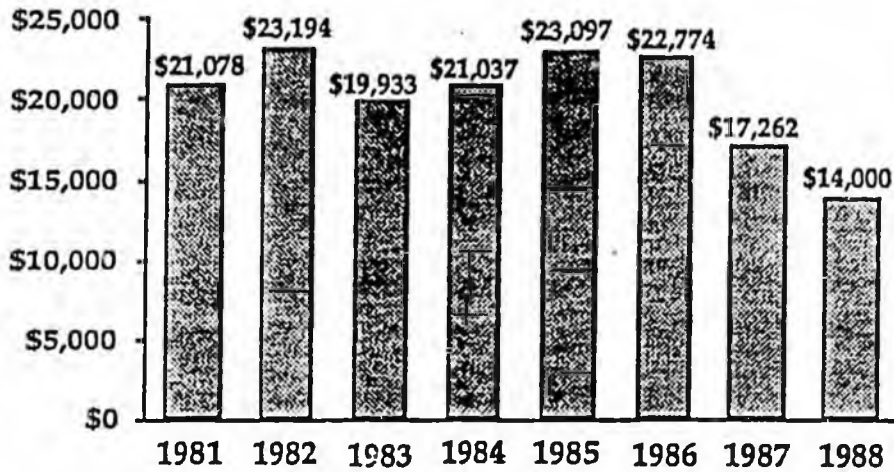


Chart 1.15 Property Loss Insurance Coverage of Surveyed Communities



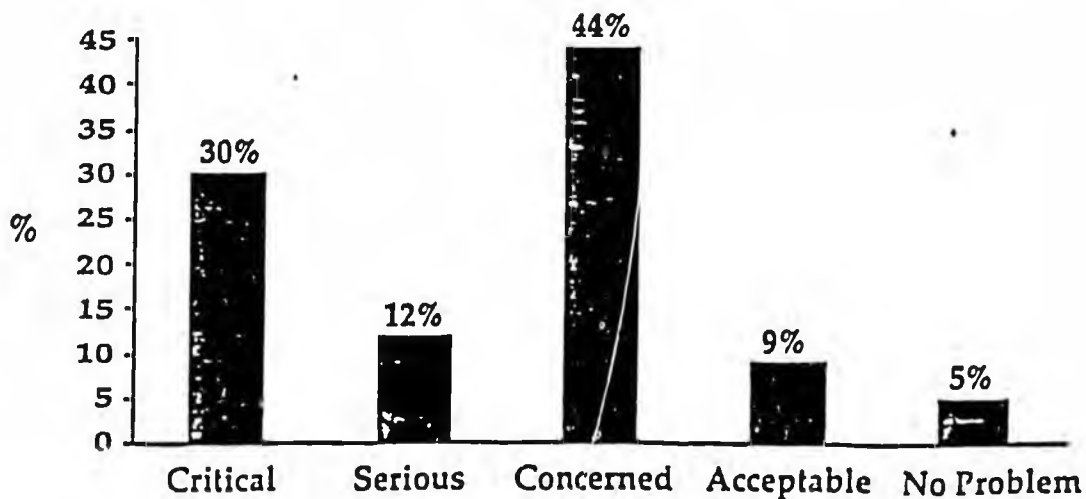
The reduction in State Revenue Sharing dollars has had a pronounced affect upon these communities. Since 1985 there has been almost a 40% reduction in these funds available to unincorporated communities. Table 4.6 profiles rise and fall of State Revenue Sharing funds distributed to these communities from 1981 to the present. The amount each unincorporated community receives is a flat amount and is not influenced by the type or level of services offered by a community.

Chart 4.2 Revenue Sharing For Unincorporated Communities Since 1981



The unincorporated communities are concerned with the current state of their local economies. All the communities surveyed were asked to think about the future of the community over the next couple of years and indicate how they saw their financial situation. The results show concern about the future. Table 4.2 indicates that 86% of the respondents view their situation from critical to concerned.

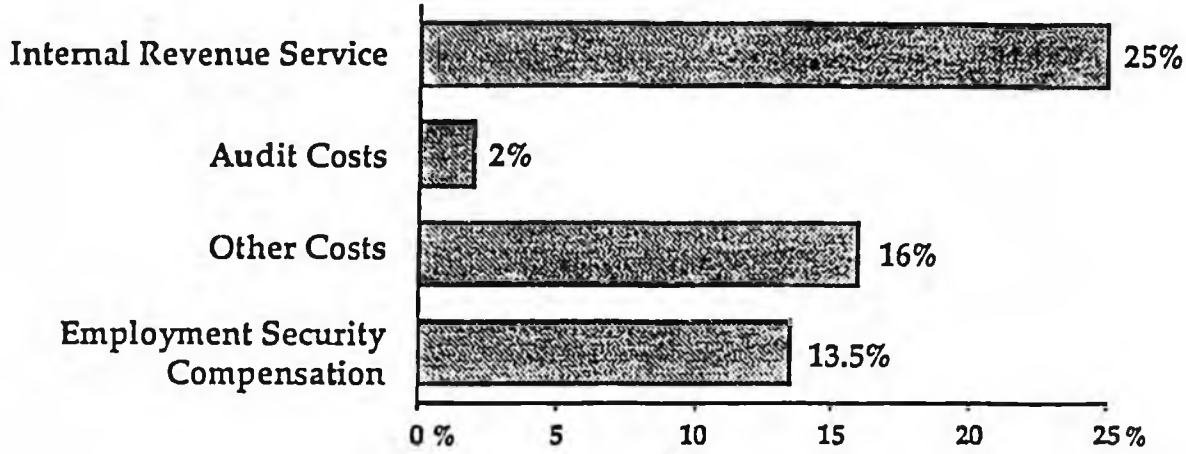
Chart 4.3
Unincorporated Communities Financial Situation
As Reported In Survey



UNINCORPORATED DEBTS

A significant number of the unincorporated communities have incurred additional debts this year, placing increased pressure on limited budgets. The following chart identifies what percentage of the unincorporated communities surveyed have encumbered what kinds of increased debts.

Chart 4.6 Percentages of Surveyed Unincorporated Communities With Significant Debts



Chapter 3

Policy Implications of the Economic Dislocation Survey Results

The results of the Economic Development Survey indicate that Alaska's economic downturn, and particularly the reduction in State funding of local government projects, has seriously affected the ability of rural communities to provide basic public services. The communities surveyed have reported increasing difficulty in meeting the costs of maintaining and operating the many public facilities constructed during Alaska's recent period of relative wealth. Indications are that the abilities of rural communities to provide services and maintain facilities will continue to deteriorate unless there is a significant turnaround in the state's general economic picture. At the same time, the ability of State government to assist local communities has been severely handicapped by the decline in State revenues.

This situation poses significant questions for decision makers. A number of such questions are listed below, followed by a discussion which expands upon these questions.

POLICY QUESTIONS

- **State Responsibility.** What is the State's responsibility or appropriate role in addressing the immediate problem of reduced services and reduced facilities maintenance?
- **Local Responsibility.** What is the "local" responsibility, and ability, to address this situation.
- **Definition of "Basic Needs."** Should standards and criteria for "basic needs" be established to serve as a framework for equitably determining the level of support for "essential" services? If so, should such standards include community size, or location, with respect to the relative efficiency of service provision and facilities maintenance? Should certain services and/or facilities be given priority status in State/local budget reduction considerations.
- **Local Government Problems.** Does the structure of local government formation in Alaska lead to the existence of local governments too small to meet the needed fiscal and service delivery requirements?
- **Mothballing Option.** Would the temporary mothballing of certain public facilities be a feasible measure?

A determination of local responsibility must be made in conjunction with a decision on the basic level of services to which all Alaskans are entitled. Once this decision is made, then costs of the basic level of services can be estimated. With this information in hand it is possible to address the question of local responsibility and ability to pay. (See discussion below on basic needs.)

There are a number of policy questions related to deciding local responsibility for providing services, and constructing and maintaining public facilities. Should an "appropriate" or "acceptable" level of local financial responsibility or "ability to pay" be determined? Would this be done on a statewide, regional, or community basis? Should standards and criteria be developed to serve as a framework for determining the allocation of financial responsibility between the State and local governments?

Regarding the "local ability to pay," there are two different kinds of measures that need to be considered. First, in considering the general feasibility of the public policy option of allocating certain costs between State and local governments (or other local entities), there is a need to estimate the level of financial burden which local governments (and residents) would potentially be able to bear. Secondly, if such an allocation policy was actually implemented, there would likely be a need to establish suitable criteria and standards for use in the formal determinations of an appropriate "local" share.

Determining "Basic" Needs

Many have argued for the establishment of a more rational capital project planning process and the establishment of standards which define in some way the level of services and facilities which would be considered as "basic" community needs. The few such standards that do exist are fragmented and often do not play any effective role in determining the actual course of community development.

The construction of particular public facilities in any given community is still largely the result of a fortunate encounter between available outside revenues, a "local" concept, and a specific political will at some level of government.

It is generally accepted in the U.S. that certain services are essential. Among these are education (mandated by law), public safety (police and fire protection) and health and sanitation (safe water, sewage disposal, solid waste disposal). However, given the relatively high cost of providing these services in many small Alaskan communities, and the fact that the State has limited resources, what can the State be reasonably expected to provide?

This question has several components:

- o To what services is every Alaskan entitled regardless of his/her or the local government's ability to pay?

Communities do receive substantial financial support from the State through programs such as Power Cost Equalization, State Revenue Sharing and Municipal Assistance. However, State funds have been on the decline and the fixed costs of operating and maintaining facilities are typically so high that they consume all of the State assistance monies, and then some. Communities who received financial assistance often do not have the human and additional financial resources necessary to provide the services they been encouraged to provide. It is difficult, with a small population base, to find the managers and technicians necessary to financially and administratively manage services and maintain facilities in a proper state of repair. Because of this lack of human and financial resources, many rural city governments are often far in debt; collections for services are behind, or not made at all; and equipment often must be replaced prematurely because of poor maintenance. Policy makers need to address this issue by examining structural alternatives to service provision. This could include some form of public service management and maintenance services on a regional or sub-regional basis. The maintenance and management of public facilities and services associated with the REAAs might serve as a beginning point.

Mothballing Alternative

A program of "mothballing" certain public facilities is one interim measure for policy makers to consider. Many existing community facilities were constructed during periods when State funding was relatively plentiful. Now there is a shortage of financial resources to adequately maintain these facilities.

One basic assumption in any serious discussion of mothballing is that the financial situation will improve in the future to the point that funds will be available to reopen and maintain a mothballed facility. Mothballing is premised on the chance that sometime in the future the facility can be restarted. If this does not appear to be the case, salvage of the facility may make the most economic sense. However, even if there is only a small chance that the facility can be restarted, it may make sense to mothball the facility, if the costs of doing so are relatively minor. Boarding windows, locking doors, draining fluids on equipment, covering exterior equipment, draining water pipes may be all that is required to keep equipment in order for several years.

Questions about mothballing need not only be answered at the local level, in terms of specific facilities, but also at the State level in terms of community facilities in general. For example: Is the economic situation going to change regarding the future ability to maintain facilities? What types of facilities should be mothballed? What are the appropriate measures to take for each facility? What are the costs and benefits of alternative measures? How much technical and financial assistance to communities should the state provide?