

HB

28

**Representative Carl E. Moses, House District 37
(907) 465-4451 – Adam Berg, Staff**

SPONSOR STATEMENT / SECTIONAL ANALYSIS

HB28 – Municipal Dividend Program

The establishment of a Municipal Dividend program would aid municipalities with state appropriations allocated for unrestricted use by local governments in their greatest time of need. The sponsor intends to empower local officials by allowing them to decide how to best spend that money. Uncertain state funding has affected local governments ability to plan and budget properly, and more recently, to absorb the brunt of many state budget cuts.

This plan would provide approximately \$160 million annually to municipalities by accessing surplus earnings of the Permanent Fund. The distribution to municipalities would be made only after Permanent Fund Dividends and inflation proofing are provided for. Based on annual Permanent Fund earnings, if the amount appropriated were not sufficient to fully fund municipal dividends, the amount to each municipality would be reduced on a pro-rata basis.

Alaska's municipalities and local decision makers deliver the most direct and knowledgeable service, much of which is of a critical nature. Under HB28, the amount going to each municipality would be determined by population and a per head allocation. Population criteria would be the number of local PFD recipients and the allocations would be \$250 per head, with a minimum to any municipality of \$40,000 annually.

BILL SECTION 1: Establishes the Municipal Dividend Fund. The amount of a Municipal Dividend is set at \$250 per eligible PFD recipient in each municipality. Borough populations are determined by subtracting the population of all cities within a borough from the borough's total population, thereby allowing boroughs to apply funding to their unincorporated communities. It sets a minimum dividend payment of \$40,000 to a municipality. There is a formula specified in the event the amount appropriated to the fund is insufficient to fully fund Municipal Dividends.

BILL SECTION 2: Assures that the transfer of money from the earnings reserve account to the Municipal Dividend Fund happens only after Permanent Fund Dividends have been accounted for and inflation proofing has taken place. It also assures that the lesser amount of either the dollars needed to fully fund the program or the balance of the earnings reserve account be transferred.

BILL SECTION 3: Sets the effective date at June 30, 2005.

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB 28
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Commerce
 Title Municipal Dividend Program RDU Comm Assist & Ec Dev (405)
 Component Community Advocacy
 Sponsor Moses
 Requester House Community & Regional Affairs Component No. 2703

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2005) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation establishes in the department a municipal dividend fund consisting of money transferred to the fund under AS 37.13.145(e) to be used to pay a municipal dividend that equals \$250 for each resident of the municipality. It would not create a fiscal impact on the operations of the department.

Prepared by: Michael Black, Director Phone 907 269 4578
 Division: Community Advocacy Date/Time 3/25/05 1:25 PM
 Approved by: Edgar Blatchford, Commissioner Date 3/25/2005
 Agency: Commerce, Community, and Economic Development



Alaska Permanent Fund Corporation
Bill Analysis - HB 28

Financial projection comparison of the Alaska Permanent Fund under current statutes versus HB 28, Municipal Dividend Program.

All \$ values in millions except the per person dividend

Current Statutes	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY05-FY15 Totals
Total market value end of year (after payouts)	29,316	31,169	32,923	34,541	36,180	37,942	39,777	41,682	43,659	45,710	47,836	47,836
Total lump sum dividend appropriation	607	691	886	1,082	1,170	1,168	1,229	1,290	1,352	1,417	1,484	12,376
Per person dividend under current statute	\$ 950	\$ 1,030	\$ 1,380	\$ 1,680	\$ 1,800	\$ 1,780	\$ 1,860	\$ 1,930	\$ 2,000	\$ 2,070	\$ 2,150	\$ 18,680

Current Statutes & Municipal Dividend	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY05-FY15 Totals
Total market value end of year (after payouts)	29,105	30,855	32,433	33,864	35,302	36,853	38,465	40,134	41,863	43,653	45,505	45,505
Total lump sum dividend appropriation	607	691	884	1,077	1,161	1,154	1,209	1,263	1,318	1,375	1,434	12,172
Per person dividend under current statute	\$ 950	\$ 1,080	\$ 1,380	\$ 1,680	\$ 1,790	\$ 1,760	\$ 1,820	\$ 1,890	\$ 1,950	\$ 2,010	\$ 2,080	\$ 18,390
Additional lump sum payout - Municipal Dividend*	151	152	154	156	158	159	161	163	165	166	168	1,753

Assumptions:

Callan Associates 2004 Capital Market Assumptions, APFC 2004 asset allocation, Fall 2004 revenue forecast, financial statements through 06/30/04. All payouts are assumed to happen at fiscal year end, all dollar values in millions except the per person dividend.

*Municipal dividend calculated in lump sum, using projected number of permanent fund dividend applicants.

HB 28 Municipal Dividend Estimates

Distribution Formula: Municipal Population X \$250 With a Minimum Entitlement of \$40,000

Borough Populations: Borough Areawide Population Less City Populations in Borough

Municipalities	2004 Population	Population X \$250	Minimum Entitlement Add-On	Municipal Dividend Payment
Adak	69	\$17,250	\$22,750	\$40,000
Akhiok	56	\$14,000	\$26,000	\$40,000
Akiak	367	\$91,750	\$0	\$91,750
Akutan	771	\$192,750	\$0	\$192,750
Alakanuk	667	\$166,750	\$0	\$166,750
Aleknagik	219	\$54,750	\$0	\$54,750
Aleutians East Borough	76	\$19,000	\$21,000	\$40,000
Allakaket	90	\$22,500	\$17,500	\$40,000
Ambler	274	\$68,500	\$0	\$68,500
Anaktuvuk Pass	300	\$75,000	\$0	\$75,000
Anchorage	277,498	\$69,374,500	\$0	\$69,374,500
Anderson	344	\$86,000	\$0	\$86,000
Angoon	481	\$120,250	\$0	\$120,250
Aniak	532	\$133,000	\$0	\$133,000
Anvik	101	\$25,250	\$14,750	\$40,000
Atka	92	\$23,000	\$17,000	\$40,000
Atkasuk	247	\$61,750	\$0	\$61,750
Barrow	4,351	\$1,087,750	\$0	\$1,087,750
Bethel	5,888	\$1,472,000	\$0	\$1,472,000
Bettles	31	\$7,750	\$32,250	\$40,000
Brevig Mission	319	\$79,750	\$0	\$79,750
Bristol Bay Borough	1,096	\$274,000	\$0	\$274,000
Buckland	437	\$109,250	\$0	\$109,250
Cheformak	439	\$109,750	\$0	\$109,750
Chevak	899	\$224,750	\$0	\$224,750
Chignik	92	\$23,000	\$17,000	\$40,000
Chuathbaluk	105	\$26,250	\$13,750	\$40,000
Clark's Point	62	\$15,500	\$24,500	\$40,000
Coffman Cove	177	\$44,250	\$0	\$44,250
Cold Bay	89	\$22,250	\$17,750	\$40,000
Cordova	2,298	\$574,500	\$0	\$574,500
Craig	1,127	\$281,750	\$0	\$281,750
Deering	145	\$36,250	\$3,750	\$40,000
Delta Junction	984	\$246,000	\$0	\$246,000
Denali Borough	1,498	\$374,500	\$0	\$374,500
Dillingham	2,422	\$605,500	\$0	\$605,500
Diomedes	141	\$35,250	\$4,750	\$40,000
Eagle	115	\$28,750	\$11,250	\$40,000
Eek	292	\$73,000	\$0	\$73,000
Egegik	76	\$19,000	\$21,000	\$40,000

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Municipalities	2004 Population	Population X \$250	Minimum Entitlement Add-On	Municipal Dividend Payment
Ekwok	127	\$31,750	\$8,250	\$40,000
Elim	318	\$79,500	\$0	\$79,500
Emmonak	762	\$190,500	\$0	\$190,500
Fairbanks	29,954	\$7,488,500	\$0	\$7,488,500
Fairbanks North Star Borough	53,493	\$13,373,250	\$0	\$13,373,250
False Pass	62	\$15,500	\$24,500	\$40,000
Fort Yukon	594	\$148,500	\$0	\$148,500
Galena	717	\$179,250	\$0	\$179,250
Gambell	648	\$162,000	\$0	\$162,000
Golovin	160	\$40,000	\$0	\$40,000
Goodnews Bay	236	\$59,000	\$0	\$59,000
Grayling	182	\$45,500	\$0	\$45,500
Gustavus	473	\$118,250	\$0	\$118,250
Haines Borough	2,245	\$561,250	\$0	\$561,250
Holy Cross	206	\$51,500	\$0	\$51,500
Homer	5,332	\$1,333,000	\$0	\$1,333,000
Hoonah	841	\$210,250	\$0	\$210,250
Hooper Bay	1,124	\$281,000	\$0	\$281,000
Houston	1,368	\$342,000	\$0	\$342,000
Hughes	72	\$18,000	\$22,000	\$40,000
Huslia	269	\$67,250	\$0	\$67,250
Hydaburg	349	\$87,250	\$0	\$87,250
Juneau	30,966	\$7,741,500	\$0	\$7,741,500
Kachemak	475	\$118,750	\$0	\$118,750
Kake	663	\$165,750	\$0	\$165,750
Kaktovik	284	\$71,000	\$0	\$71,000
Katag	211	\$52,750	\$0	\$52,750
Kasaan	60	\$15,000	\$25,000	\$40,000
Kenai	6,809	\$1,702,250	\$0	\$1,702,250
Kenai Peninsula Borough	31,794	\$7,948,500	\$0	\$7,948,500
Ketchikan	7,691	\$1,922,750	\$0	\$1,922,750
Ketchikan Gateway Borough	4,948	\$1,237,000	\$0	\$1,237,000
Kiana	394	\$98,500	\$0	\$98,500
King Cove	723	\$180,750	\$0	\$180,750
Kivalina	388	\$97,000	\$0	\$97,000
Klawock	848	\$212,000	\$0	\$212,000
Kobuk	128	\$32,000	\$8,000	\$40,000
Kodiak	6,199	\$1,549,750	\$0	\$1,549,750
Kodiak Island Borough	6,494	\$1,623,500	\$0	\$1,623,500
Kotlik	588	\$147,000	\$0	\$147,000

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Municipalities	2004 Population	Population X \$250	Minimum Entitlement Add-On	Municipal Dividend Payment
Kotzebue	3,130	\$782,500	\$0	\$782,500
Koyuk	348	\$87,000	\$0	\$87,000
Koyukuk	109	\$27,250	\$12,750	\$40,000
Kupreanof	38	\$9,500	\$30,500	\$40,000
Kwethluk	695	\$173,750	\$0	\$173,750
Lake & Peninsula Borough	882	\$220,500	\$0	\$220,500
Larsen Bay	96	\$24,000	\$16,000	\$40,000
Lower Kalskag	262	\$65,500	\$0	\$65,500
Manokotak	405	\$101,250	\$0	\$101,250
Marshall	358	\$89,500	\$0	\$89,500
Matanuska-Susitna Borough	57,474	\$14,368,500	\$0	\$14,368,500
McGrath	367	\$91,750	\$0	\$91,750
Mekoryuk	198	\$49,500	\$0	\$49,500
Metlakatla	1,370	\$342,500	\$0	\$342,500
Mountain Village	769	\$192,250	\$0	\$192,250
Napakiak	360	\$90,000	\$0	\$90,000
Napaskiak	436	\$109,000	\$0	\$109,000
Nenana	394	\$98,500	\$0	\$98,500
New Stuyahok	477	\$119,250	\$0	\$119,250
Newhalen	183	\$45,750	\$0	\$45,750
Nightmute	232	\$58,000	\$0	\$58,000
Nikolai	121	\$30,250	\$9,750	\$40,000
Nome	3,473	\$868,250	\$0	\$868,250
Nondalton	205	\$51,250	\$0	\$51,250
Noorvik	609	\$152,250	\$0	\$152,250
North Pole	1,532	\$383,000	\$0	\$383,000
North Slope Borough	235	\$58,750	\$0	\$58,750
Northwest Arctic Borough	708	\$177,000	\$0	\$177,000
Nuiqsut	430	\$107,500	\$0	\$107,500
Nulato	320	\$80,000	\$0	\$80,000
Nunam Iqua	172	\$43,000	\$0	\$43,000
Nunapitchuk	527	\$131,750	\$0	\$131,750
Old Harbor	196	\$49,000	\$0	\$49,000
Ouzinkie	187	\$46,750	\$0	\$46,750
Palmer	5,197	\$1,299,250	\$0	\$1,299,250
Pelican	118	\$29,500	\$10,500	\$40,000
Petersburg	3,123	\$780,750	\$0	\$780,750
Pilot Point	75	\$18,750	\$21,250	\$40,000
Pilot Station	559	\$139,750	\$0	\$139,750
Platinum	39	\$9,750	\$30,250	\$40,000

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Municipalities	2004 Population	Population X \$250	Minimum Entitlement Add-On	Municipal Dividend Payment
Point Hope	726	\$181,500	\$0	\$181,500
Port Alexander	69	\$17,250	\$22,750	\$40,000
Port Heiden	90	\$22,500	\$17,500	\$40,000
Port Lions	238	\$59,500	\$0	\$59,500
Quinhagak	612	\$153,000	\$0	\$153,000
Ruby	190	\$47,500	\$0	\$47,500
Russian Mission	331	\$82,750	\$0	\$82,750
Saint George	137	\$34,250	\$5,750	\$40,000
Saint Mary's	539	\$134,750	\$0	\$134,750
Saint Michael	409	\$102,250	\$0	\$102,250
Saint Paul	494	\$123,500	\$0	\$123,500
Sand Point	908	\$227,000	\$0	\$227,000
Savoonga	710	\$177,500	\$0	\$177,500
Saxman	391	\$97,750	\$0	\$97,750
Scammon Bay	486	\$121,500	\$0	\$121,500
Selawik	829	\$207,250	\$0	\$207,250
Seldovia	263	\$65,750	\$0	\$65,750
Seward	2,540	\$635,000	\$0	\$635,000
Shageiuk	132	\$33,000	\$7,000	\$40,000
Shaktoolik	209	\$52,250	\$0	\$52,250
Shishmaref	591	\$147,750	\$0	\$147,750
Shungnak	264	\$66,000	\$0	\$66,000
Sitka	8,805	\$2,201,250	\$0	\$2,201,250
Skagway	870	\$217,500	\$0	\$217,500
Soldotna	3,767	\$941,750	\$0	\$941,750
Stebbins	586	\$146,500	\$0	\$146,500
Tanana	304	\$76,000	\$0	\$76,000
Teller	241	\$60,250	\$0	\$60,250
Tenakee Springs	105	\$26,250	\$13,750	\$40,000
Thorne Bay	497	\$124,250	\$0	\$124,250
Togiak	805	\$201,250	\$0	\$201,250
Toksook Bay	561	\$140,250	\$0	\$140,250
Unalakleet	728	\$182,000	\$0	\$182,000
Unalaska	4,366	\$1,091,500	\$0	\$1,091,500
Upper Kalskag	263	\$65,750	\$0	\$65,750
Valdez	3,749	\$937,250	\$0	\$937,250
Wainwright	531	\$132,750	\$0	\$132,750
Wales	152	\$38,000	\$2,000	\$40,000
Wasilla	6,109	\$1,527,250	\$0	\$1,527,250
White Mountain	213	\$53,250	\$0	\$53,250

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Municipalities	2004 Population	Population X \$250	Minimum Entitlement Add-On	Municipal Dividend Payment
Whittier	172	\$43,000	\$0	\$43,000
Wrangell	2,023	\$505,750	\$0	\$505,750
Yakutat	680	\$170,000	\$0	\$170,000
Totals	637,556	\$159,389,000	\$552,500	\$159,941,500

CITY AND BOROUGH OF SITKA

RESOLUTION NO. 2004-11

A RESOLUTION OF THE CITY AND BOROUGH OF SITKA SUPPORTING HOUSE BILL 431 WHICH WOULD CREATE A MUNICIPAL DIVIDEND THAT WOULD BE PAID MUNICIPALITIES FROM THE EARNINGS OF THE PERMANENT FUND AFTER INFLATION PROOFING

WHEREAS, the City and Borough of Sitka similar to other municipalities has been significantly impacted by the loss of funding provided for under Revenue Sharing and Safe Communities; and

WHEREAS, the City and Borough of Sitka is being forced to decrease services, programs, charitable contributions, and eliminate positions due this shortfall; and

WHEREAS, Representative Carl E. Moses has sponsored legislation that would create a Municipal Dividend Program; and

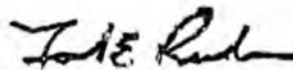
WHEREAS, the Municipal Dividend Program will assist municipalities in filling the gaps left in their budgets as a result of the elimination of funding for Revenue Sharing and Safe Communities; and

WHEREAS, the proposed Municipal Dividend Program would pay out \$250 for each person residing in Sitka. The population shall be determined annually by using the numbers of permanent fund dividend recipients or other reliable population data; and

WHEREAS, the Act would take effect June 20, 2004.

THEREFORE, BE IT RESOLVED, that the Assembly of the City and Borough of Sitka, Alaska by this resolution supports House Bill 431 providing for a municipal dividend program to assist municipalities with their budget shortfalls generated by the elimination of Revenue Sharing and Safe Communities funding.

PASSED, APPROVED AND ADOPTED by the Assembly of the City and Borough of Sitka, Alaska on this 24th day of February 2004.

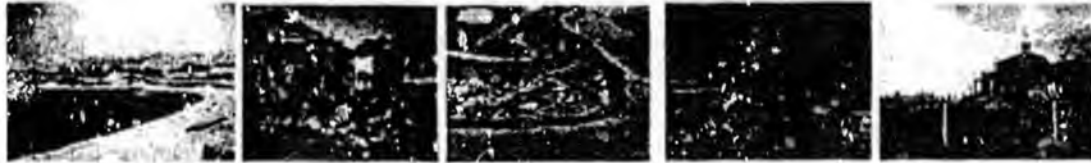


Fred Reeder, Mayor

ATTEST:


Colleen Pellett, CMC
Municipal Clerk

January, 2005
Local Government Issue Paper
Alaska's Small Cities in Crisis



In 2003, there were 94 cities with annual local government operating budgets under \$300,000 per year, and averaging \$164,000, to provide public services for an entire community (according to State figures, DCED). From 2003 to 2005, those 94 cities (out of a total of 146 cities in Alaska) lost an average of approximately 42% of the revenue required to provide basic public services. The crises are due to massive State cuts to cities at a time of skyrocketing local costs and economic downturns. In 2004, Alaska became one of two states that eliminated its local government revenue sharing programs. Most small rural cities operate in a cost effective manner with many part-time or volunteer positions. However, most of Alaska's small rural communities have very little local tax base due to cash poor subsistence economies.

2003 Average Operating Budget for two thirds of AK Cities	\$164,000
<u>Examples of Approximate 2003-04 Cuts/cost increases:</u>	-\$69,000)
2003 State Cuts to Revenue Sharing/Match Grants	-(\$10,000)
2004 State Eliminates Revenue Sharing	-(\$40,000)
Fuel/electricity/goods rise due to oil prices	-(\$7,000)
Community insurance increases	-(\$6,000)
State mandated increases (PERS)	-(\$4,000)
New state inspection fees, service transfers, etc.	-(\$2,000)

Growing Impacts of Loss of Revenue Sharing, etc.

It is difficult to know the status of small rural communities. Few that fail have the administrative capacity to take steps to formally dissolve. They simply layoff their employees, cease being able to hold elections, cancel insurance for community facilities, stop providing services, etc. In some cases tribes or other organizations take over key government services.

As of last month, the following cities have either been unresponsive to contacts by the State, have not held local elections, entered into an agreement with a tribe to assume city responsibilities, or contacted the State regarding formal dissolution: **Akiok, Ambler, Chevak, Holy Cross, Hughes, Klana, Kivalina, Koyukuk, Lower Kalskag, Napaskiak, Nikolai, Platinum, Russian Mission, Scammon Bay.** Additionally, **10 cities or more** have had their insurance canceled for lack of payment to date, and approximately 33 more cities are on month-to-month payment plans because they can't afford the premiums currently.

While it is too early to say how many cities have ceased operations, a great number are unquestionably in peril. The loss of public safety, transportation, and other key local services is having a huge negative impact on the people of Alaska.

NORTHWEST ARCTIC BOROUGH**P.O. BOX 1110****KOTZEBUE, ALASKA 99752****(907) 442-2500 / FAX (907) 442-2930**

March 18, 2004

Representative Carl E. Moses
716 W. 4th Avenue
Anchorage, Alaska 99501-2133

Dear Representative Moses:

I would like to take this opportunity to express support for House Bill 431. This letter is a follow-up to a supportive e-mail I sent several weeks ago on this subject.

The elimination of Revenue Sharing and State Communities funding is going to make operation of our smaller local municipal governments nearly impossible after the end of this fiscal year. There is neither a sufficient population base in our villages nor an economic foundation in place that can generate sufficient revenue to fund even a city administrator in some cases.

The economy of rural Alaska is such that elimination of the longevity bonus has a very broad and drastic impact on our people. Elders in our region do not, for the most part, have any form of retirement income because they have never had the benefit of regular employment during their lives. That \$250 per month was largely utilized to pay bills such as monthly electricity and water and sewer. Loss of that income will mean that even fewer people in the villages will be able to pay their bills and the cities will have even more difficulty in making ends meet.

It is important for the legislature to realize that we already have many villages in the region with severe financial difficulties. Kivalina is in debt to the tune of \$150,000. Ambler is looking at having to raise water and sewer fees at a time when people are having difficulty paying the existing rates. Deering has cut a number of important service positions from its payroll and reduced the remaining staff to six hours per day. They are considering a 50% increase to residential water and sewer rates and a 67% increase for commercial rates. They are also looking at raising city sales tax from 3% to 4%. Selawik has reduced staff working hours by a full 50% and increased utility rates by 20% to cover a major budget shortfall in that community. Buckland has been operating with all personnel working just half time for the last year. Kiana has voted to merge the city and traditional Native governments so that both can operate with a common administrator and support and from a common facility. And Kotzebue, the borough's

largest city and hub, had to close the regional jail in the past year due to insufficient local resources and inadequate state funding support. The city is now looking at eliminating the local police department and placing that burden on the state troopers.

It is clear that city governments are not going to continue to operate to anyone's satisfaction in the year ahead without support. A community dividend is an excellent option to solving this funding crisis.

It appears that the only way to gain approval of a community dividend is by raising revenue. The use of some Permanent Fund earnings utilizing the POMV strategy is a good start, but that would have to be supplemented by other sources of revenue including a small state income tax, a school tax and other methods of taxation other than a statewide sales tax. Additional motor fuel tax would be a hardship to rural areas where the price of fuel is already extremely high. A higher fuel tax would drain rural utilities that already have difficulty meeting financial obligations.

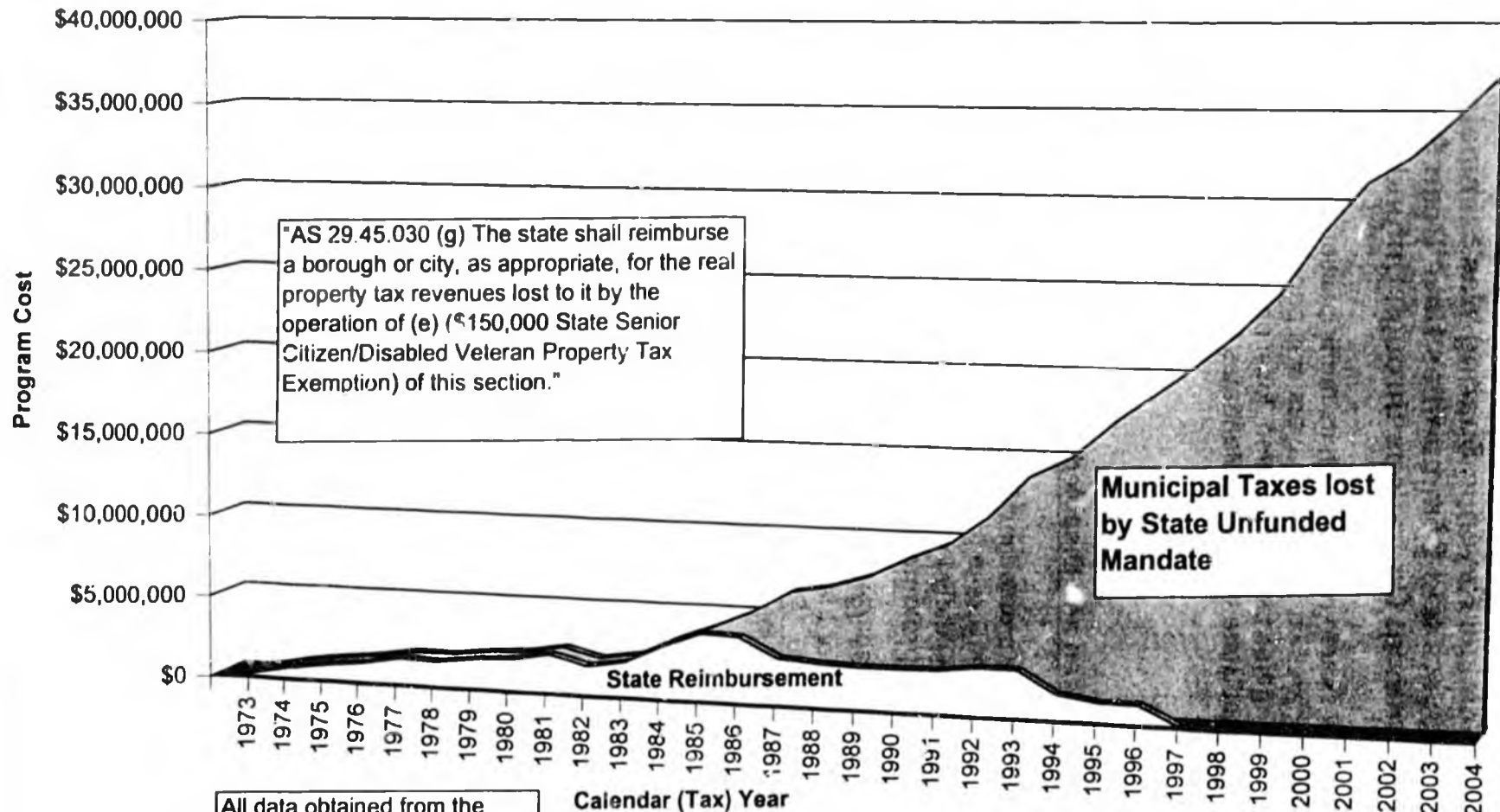
Thank you for your continuing support of municipal governments. We support HB 431 because without state assistance our governments will not be able to provide the most basic services to our residents. Again, the community dividend should be only a small part of an overall plan by the state to generate revenues necessary to assist with these local costs. We cannot have more cuts unless we are ready to help pay for services.

Sincerely,

*There have been
wash stories in the
'open budget for
years.*

cc. Representati

Senior Citizen/Disabled Veteran Property Tax Exemption Program History - 1973-2004



All data obtained from the
Alaska State Assessor, 1/05

Since Municipal Revenue Sharing Was Eliminated Last Year, Local Taxpayers and Communities Have Been Subsidizing State Government Operations through Unfunded Mandates

While the State shared revenue with its municipalities, the cost of State Unfunded Mandates on Local Taxpayers was partially offset. Now that Municipal Revenue Sharing has been eliminated, local property taxpayers absorb the cost of the two largest State Unfunded Mandates on communities:

State Senior Citizen and Disabled Veteran Property Tax Exemption

This exemption was created in 1973 with a statutory promise (see below) to reimburse local taxpayers in the state budget. The State stopped reimbursing local taxpayers completely in 1997. In 2005 this unfunded mandate will **cost local taxpayers approximately \$40 million.**

"AS 29.45.030 (g) The state shall reimburse a borough or city, as appropriate, for the real property tax revenues lost to it by the operation of (e) (\$150,000 State Senior Citizen/Disabled Veteran Property Tax Exemption) of this section."

State Constitutional Exemption from Local Taxes for Local Public Services

Through this mandated state tax exemption, local taxpayers must pay for fire protection, police protection, etc. for State lands and facilities in their community.

The Constitutionally mandated property tax exemption for State property is the largest local property tax exemption. The State, like any business, consumes local public services but exempts itself from local taxes. Local Public Services consumed by the State are now subsidized by additional taxes from all local taxpayers. This exemption roughly costs local taxpayers an **estimated \$67.4 million per year.**

The Federal Government and some states, like Connecticut, have implemented a "Payment-in Lieu of Taxes" or "PILT" program to avoid having local taxpayers subsidize local public services for state or federal facilities. The State of Alaska strongly endorses and supports the PILT program on the Federal level to offset the cost of providing services to federal lands and facilities.

State Budget Cuts Have Helped Push Local Taxes Most Alaskans Pay Higher Than in 35 Other States

The Administration and Legislature can no longer afford to balance the State budget by cutting traditional support and programs for municipal governments. Municipal taxes (property and sales) are now higher than those paid by families in two thirds of the other states. **High sales and property taxes have negative impacts on local businesses and families.**

There has been a misconception in Legislature that municipalities have excess "tax authority" that State government can use to balance its own budget. This has been a major component of the state budget balancing strategy for many years.

This state budget balancing strategy has been implemented by reducing municipal revenue sharing programs while asking municipalities to assume additional costly state government responsibilities. The most recent example is the elimination of municipal revenue sharing which has been a key local tax stabilization program since 1969.

History of Municipal Revenue Sharing: One of the major issues of the Alaska statehood debate was whether Alaskans could afford government services given our high cost of living and small population. The answer was to give Alaska access to natural resource revenues to offset the high cost of providing government services in Alaska. Of course, the problem of the high cost of government applies to local government as well as state government.

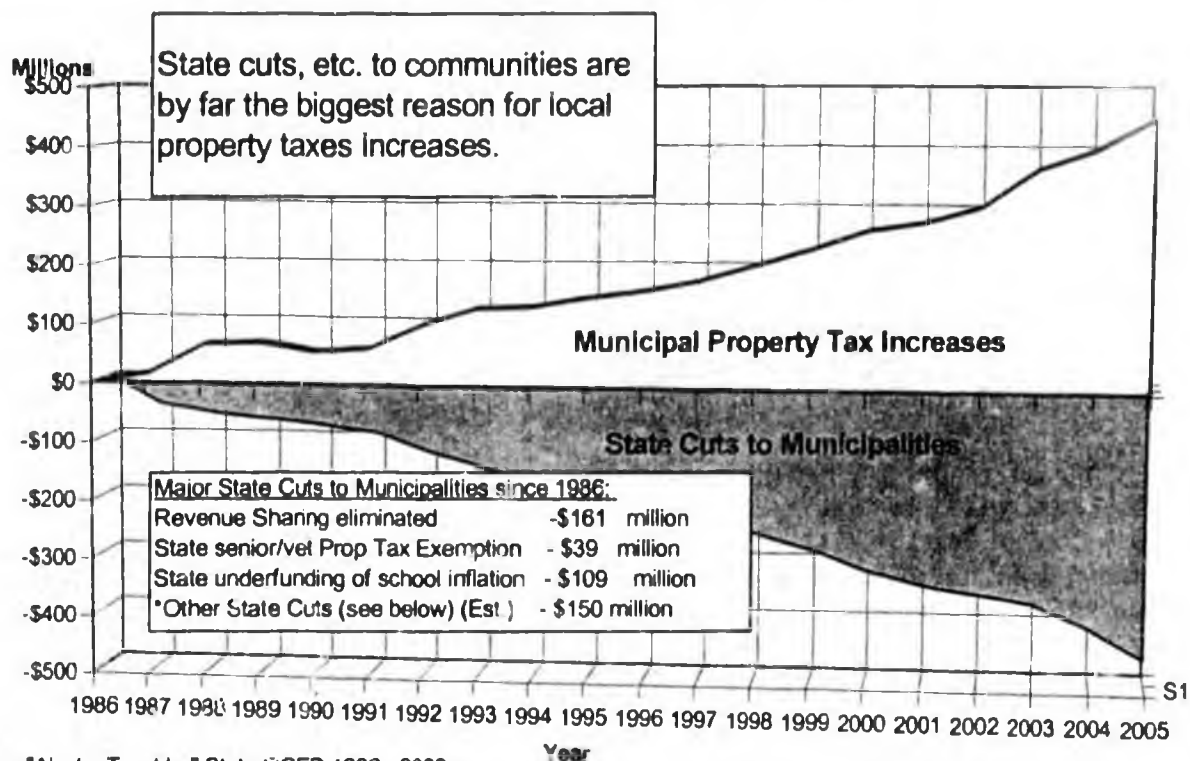
Since 1969 there has been a state and local government partnership, through the municipal revenue sharing program, to share natural resource revenues owned by all Alaskans. The thirty five year old municipal revenue sharing was eliminated this year while, for example, state mandated retirement program costs were increased by \$20 million for municipalities.

Analysis: The best comparison of family tax burdens is done annually by the District of Columbia - "*Tax Rates and Tax Burdens - A Nationwide Comparison*," 2002. This study is valuable because it is based on what a family actually pays at various family income levels, rather than including oil taxes, PFD's, etc. that incorrectly inflate per capita tax and spending comparisons for Alaska. The Study makes comparisons for families in the largest city in each of the 50 states and Washington, DC. Anchorage is the comparison city for Alaska. It is possible to extrapolate the comparison to other Alaskan municipalities using per capita tax comparisons from the "*Alaska Taxable, 2003*" - Alaska Department of Community and Economic Development. (The DC study is online at: <http://cfo.dc.gov/cfo> under "Tax Rates and Revenues")

Using comparisons from the DC study, **most Alaskan families and businesses now pay more in property tax than residents in 35 other states.** In Anchorage, the comparison city for the study, families pay more property tax than families in 35 other states. However, Anchorage families pay less total local tax than 31 other Alaskan cities. (Note: In Alaska, the primary local taxes are property and sales tax, while the primary municipal tax in most other states is the property tax.) According to the study, Anchorage residents pay more property tax alone than residents of 12 other states pay in local property tax plus state sales tax.)

Local Government Issue Paper

Why Your Property Taxes Go Up State Cuts to Municipalities vs Local Property Tax Increases 1986-2005



Issue: As the State continues to struggle to balance the State budget, it is critical to recognize that State and Local governments are literally two sides of the same coin. Any State budget cut or other action that impacts Local Government has a negative impact on local taxpayers who are also constituents of the State.

Background: States and local governments are partners. State Constitutions and State law define how municipalities (cities and boroughs) are created, what they can do, and what taxes they can use. One of the key responsibilities for any State government is to ensure that communities have adequate resources to provide basic public services to their citizens. Last year the State became one of a handful of states that eliminated their local government revenue sharing programs.

Recommendation: To most cost effectively ensure that all Alaskans have basic public services and affordable local taxes, the State must restore a local government revenue sharing program, or implement a "Community Dividend" (initiated by former Governor Hickel and supported by Governor Murkowski and the House of Representatives.)

COMPARISON OF LOCAL TAXES NATIONWIDE and in AK

Chapter II: Overall Tax Burdens For The Largest City In Each State

TABLE 1									
ESTIMATED BURDEN OF MAJOR TAXES FOR A FAMILY OF FOUR, 2003									
\$75,000									
RANK	CITY	ST	* TAXES *				BURDEN		
			INCOME	PROPERTY	SALES	AUTO	AMOUNT	PERCENT	
1	Bridgeport	CT	2,665	8,605	1	1,112	890	13,272	17.7%
2	Newark	NJ	1,041	8,581	2	971	296	10,989	14.5%
3	New York City	NY	5,020	3,928	3	1,265	277	10,490	14.0%
4	Philadelphia	PA	5,242	3,197	4	977	341	9,757	13.0%
5	Providence	RI	1,813	6,144	5	1,052	918	9,727	13.0%
6	Portland	OR	4,842	4,145	6	0	287	9,273	12.4%
7	Baltimore	MD	3,870	3,598	7	1,144	311	8,923	11.9%
8	Milwaukee	WI	2,993	3,948	8	1,096	403	8,439	11.3%
9	Atlanta	GA	2,521	4,029	9	1,328	383	8,261	11.0%
10	Detroit	MI	4,292	2,570		1,006	389	8,257	11.0%
11	Louisville	KY	4,826	1,713		1,047	367	7,954	10.6%
12	Boston	MA	3,318	3,448	10	597	516	7,878	10.5%
13	Chicago	IL	2,010	3,574	11	1,584	622	7,790	10.1%
14	Portland	ME	3,083	3,258		888	560	7,789	10.4%
15	WASHINGTON	DC	3,913	2,157		1,131	392	7,594	10.1%
16	Los Angeles	CA	1,345	4,426	12	1,180	536	7,488	10.0%
17	Columbus	OH	3,936	2,038		1,128	333	7,434	9.9%
18	Des Moines	IA	2,978	2,617		1,197	470	7,262	9.7%
19	Salt Lake City	UT	3,348	1,904		1,341	561	7,153	9.5%
20	Omaha	NE	2,517	2,823		1,309	489	7,138	9.5%
21	Charlotte	NC	3,314	2,021		1,207	519	7,061	9.4%
22	Boise	ID	3,298	2,176		1,170	399	7,043	9.4%
23	Minneapolis	MN	2,936	2,582		997	447	6,962	9.3%
24	Indianapolis	IN	2,788	2,856		1,073	209	6,925	9.2%
25	Burlington	VT	1,640	3,971	13	890	305	6,807	9.1%
26	Kansas City	MO	3,368	1,595		1,325	517	6,805	9.1%
27	New Orleans	LA	2,518	2,231		1,668	382	6,798	9.1%
28	Columbia	SC	2,986	2,214		968	601	9,768	9.0%
29	Little Rock	AR	2,953	1,648		1,529	464	6,594	8.8%
30	Oklahoma City	OK	3,178	1,538		1,533	345	6,593	8.8%
31	Virginia Beach	VA	2,901	1,918		1,136	456	6,411	8.5%
32	Honolulu	HI	3,399	1,781		824	388	6,393	8.5%
33	Albuquerque	NM	2,172	2,517		1,415	265	6,369	8.5%
34	Charleston	WV	3,232	1,395		1,141	577	6,344	8.5%
35	Jackson	MS	2,060	1,971		1,421	745	6,197	8.3%
36	Birmingham	AL	3,453	988		1,344	396	6,181	8.2%
37	Wilmington	DE	3,153	2,416		0	276	5,845	7.8%
38	Wichita	KS	2,556	1,309		1,221	597	5,683	7.6%
39	Billings	MT	3,118	1,864		0	628	5,610	7.5%
40	Denver	CO	2,354	1,362		1,215	604	5,535	7.4%
41	Fargo	ND	995	3,111	14	996	314	5,416	7.2%
42	Manchester	NH	0	4,399	15	461	398	5,259	7.0%
43	Seattle	WA	0	3,114	16	1,415	348	4,876	6.5%
44	Phoenix	AZ	1,454	1,248		1,652	429	4,782	6.4%
45	Memphis	TN	0	2,501		1,830	376	4,708	6.3%
46	Houston	TX	0	2,861		1,426	325	4,612	6.1%
47	Sioux Falls	SD	0	2,228		1,406	296	3,930	5.2%
48	Las Vegas	NV	0	2,225		1,026	551	3,802	5.1%
49	Jacksonville	FL	0	1,744		1,158	333	3,235	4.3%
50	Anchorage	AK	0	3,058	17	0	150	3,209	4.3%
51	Cheyenne	WY	0	1,108		1,340	451	2,899	3.9%
AVERAGE ^{1/}			\$2,845	\$2,836		\$1,194	\$440	\$6,832	9.1%
MEDIAN			\$2,901	\$2,501		\$1,144	\$398	\$6,805	9.1%

^{1/} Based on cities actually levying tax.

* Sales & Income tax are primarily a state tax in most states

Tax Rates and Tax Burdens in the District of Columbia: A Nationwide Comparison

ONLINE at: [HTTP://KFO.DC.GOV](http://kfo.dc.gov)

Office of the Chief Financial Officer

Revenue Sharing Fact Sheet

Is Municipal Revenue Sharing Unique to Alaska?

No. All fifty states have general revenue sharing programs, even though they may have different names. For example, in some states, troopers are called state police, and their uniforms are different, but every state has some kind of "state troopers".

Are Alaska's revenue sharing programs "unique" among other state's revenue sharing programs?

No, there are three major designs for revenue sharing programs in other states:

Reimbursement for taxes lost due to state property tax or other exemptions (used by 30 states excluding Alaska). Alaska example: State Mandated Senior Citizen Property Tax exemption (all funding recently eliminated by the State).

Per capita distribution (used by 30 states including Alaska)

Local Need Formula (used by 14 states including Alaska) Alaska example: This is the basis for allocation of our State Revenue Sharing program.

Why do all states share revenue with their municipalities?

First, to ensure that poorer areas of a state receive basic services is a critical function of all state governments. This is especially true in Alaska.

Second, providing local tax relief.

Was "Revenue Sharing" created as a giveaway to local taxpayers because of oil?

No, the State Revenue Sharing was established in 1969 when money was hard to come by because it was considered an important state function.

Municipalities have been given the power to raise sales and property taxes, so why do they need revenue sharing programs?

Alaskan statehood was based upon natural resource revenues because it was judged that adequate public services (state and local) could not be supported by local taxes alone.

What do urban and rural areas have in common?

A healthy economy in all parts of the state is necessary for the entire state to prosper. Alaska's economy is largely based upon services and, therefore, highly interdependent. Rural economies are based on a complex mix of natural resources, tourism, federal aid to military bases, tribes, etc., and other government support. Urban areas are the regional transportation, supply, communication, construction, education, and service hubs that service rural areas.

3 out of 4 Alaskans want to "reinstate revenue sharing"

Municipal Survey Results – Revenue Sharing Support April, 2004

Summary:

3 out of 4 Alaskans feel that the state should "reinstate revenue sharing", think "it's important for state government to help rural communities that lack a tax base to generate sufficient tax revenue to provide basic local public services", and think "it's important for state government to help local communities that already have high sales or property taxes in place." 2 out of 3 Alaskans feel that State government has been passing the buck to local communities for too long and that has to stop."

Revenue Sharing Survey Questions:

Since 1969, cities and boroughs in Alaska have received funding from the state in the form of municipal revenue sharing, primarily to ease fiscal problems facing local governments. These funds have since been cut by the state legislature and are proposed for elimination in this year's state budget. Do you think the state should share its resources in this way with local communities, or do you think local communities should pay their own way?

	SHOULD STATE SHARE ITS RESOURCES:	
	Count	%
State should share	285	74.3%
Cities should pay own way	72	18.6%
Don't know	27	7.0%

State revenue sharing should be reinstated:

	STATE REVENUE SHARING SHOULD BE REINSTATED:	
	Count	%
Strongly agree	182	47.5%
Mildly agree	111	28.9%
Neutral	31	8.0%
Mildly disagree	30	7.8%
Strongly disagree	30	7.8%

Mean = 3.01

I think it's important for state government to help rural communities that lack a tax base to generate sufficient tax revenue to provide basic local public services:

	I THINK IT'S IMPORTANT FOR STATE GOVERNMENT TO HELP RURAL COMMUNITIES....:	
	Count	%
Strongly agree	167	43.6%
Mildly agree	126	32.9%
Neutral	23	6.1%
Mildly disagree	29	7.5%
Strongly disagree	38	9.9%

Mean = 2.93

I think it's important for state government to help local communities that already have high sales or property taxes in place:

I THINK IT'S IMPORTANT FOR STATE GOVERNMENT TO HELP LOCAL COMMUNITIES....:		
	Count	%
Strongly agree	134	34.9%
Mildly agree	123	32.1%
Neutral	31	8.1%
Mildly disagree	58	15.0%
Strongly disagree	38	9.8%

Mean = 2.67

State government has been passing the buck to local communities for too long and that has to stop:

STATE GOVERNMENT HAS BEEN PASSING THE BUCK TO LOCAL COMMUNITIES....:		
	Count	%
Strongly agree	146	38.0%
Mildly agree	88	23.0%
Neutral	40	10.5%
Mildly disagree	71	18.6%
Strongly disagree	38	9.9%

Mean = 2.61

Methodology: A statistically valid statewide survey of 384 voters was completed 4/13/04 by Ivan Moore Research for the Alaska Municipal League. Respondents described themselves as:

- Republican 31.8%; Democrat 16.4%; No party/other party 51.9%
- Conservative 43.1%; moderate 39.4%; progressive 17.5%
- Married 72.1%; single 27.9%
- Vote in statewide elections: every time 77.2%; most times 19%; sometimes 3.8%

Revenue Sharing from FY 1985 to FY 2005

Fiscal	Total ALL	% Cut ALL	
<u>Year</u>	<u>Rev Sharing</u>	<u>Rev Sharing</u>	
1985	\$141,656,800	0.0%	
1986	\$140,939,000	-0.5%	
1987	\$113,737,000	-19.7%	
1988	\$96,857,300	-31.6%	
1989	\$96,857,300	-31.6%	
1990	\$91,094,000	-35.7%	
1991	\$87,450,200	-38.3%	
1992	\$84,995,000	-40.0%	
1993	\$78,195,400	-44.8%	
1994	\$72,721,800	-48.7%	
1995	\$61,613,500	-55.8%	
1996	\$58,230,700	-58.9%	
1997	\$53,572,300	-62.2%	
1998	\$50,358,000	-64.5%	
1999	\$47,840,100	-66.6%	
2000	\$31,893,400	-77.7%	
2001	\$28,493,400	-79.9%	
2002	\$29,630,700	-79.1%	
2003	\$29,630,700	-79.1%	
2004	\$17,900,000	-87.4%	Federal Funds
2005	0	-100%	

Note: In addition, traditionally, Municipal Capital Matching Grants were funded at \$15 to \$20 million with a \$25,000 community minimum. Governor proposed 0 for FY 05.

History of Municipal Revenue Sharing in Alaska

Excerpted from House Research Agency Request 87.073
"History of Municipal Assistance and Revenue Sharing"

Overview:

- Revenue Sharing started in 1969, long before oil revenue.
- Revenue Sharing was a bigger percent of the State budget in 1969 than it was last year.
- In 1979 the Legislature ended sharing the Gross Business Receipts Tax with municipalities in exchange for a promise to replace the revenue with equivalent "Municipal Assistance".

1969 to 1980 - State Revenue Sharing Program: SRS came into being on July 1, 1969 with the passage of HB 350 (Chapter 95, SLA 1969). Its five purposes were:

1. Help ease fiscal problems facing local governments.
2. Stabilize or reduce local property taxes.
3. Encourage local governments to provide adequate levels of public services.
4. Inject a measure of budget planning and stability into local governments.
5. Improve allocation of State funds by sharing them with local governments.

Approximately 75% of the funds were distributed on a per capita basis for services provided, and 25% based on other criteria (e.g. miles of road maintained). The categories and evolution of the program are shown in the table below:

Comparison of State Revenue Sharing in FY 70 to FY 80

<u>Category of Service Provided</u>	<u>1970</u>	<u>1980</u>
Police	\$5.00 per capita	\$12.00 per capita
Fire Protection	\$2.50 per capita	\$7.50 per capita
Road Maintenance	\$1,000 per mile	\$1,500 per mile
Air/water Pollution	\$1.00 per capita	\$2.00 per capita
Land Use Planning	\$1.00 per capita	\$2.00 per capita
Ice Roads	NA	\$900 per mile
Parks and Recreation	NA	\$5.00 per capita
Transportation Facilities	NA	\$5.00 per capita
Health Services	NA	\$2.00 per capita
Hospital (per facility)	NA	\$25,000 to \$75,000
Health Facilities	NA	\$1,000/bed, \$4,000/facility
Hospital Construction	<u>NA</u>	<u>\$2,500 per bed</u>
TOTAL Revenue Sharing	\$2.0 million	\$26.9 million
TOTAL Per Capita Sharing	\$9.50 per capita	\$35.50 per capita

1979 - "Municipal Assistance" Program created to replace municipal share of the Gross Business Receipts tax: Until 1979, the State shared 20% of the Gross Business Tax Receipts generated in each municipality. When the State repealed its tax on January 1, 1979, **the State promised to replace the lost revenues to municipalities.** Revenues were distributed with a "hold harmless" amount (based on what each municipality received in 1978), plus a per capita distribution.

v **1980 - Revised State Revenue Sharing Programs:** HB 192 (Chapter 155, SLA 1980) repealed and replaced the "per capita" revenue sharing program primarily with an "equalization" revenue sharing program. Key elements of the new State Revenue Sharing Program are:

1. All "per capita" type categories were abolished except Roads, Fire Protection and Health Facilities. Road revenue sharing was increased to \$2500 per mile
2. A "minimum entitlement" was created to protect the smallest municipalities.
3. A cost of living differential was established.
4. The majority of funds were distributed under an "equalization" formula that takes into account: population; local tax base; and actual local tax effort.

1997 - "Municipal Assistance" changed to "Safe Communities": The Municipal Assistance Program did not direct how the money was to be used by municipal governments. The Safe Communities Program directs that revenues be allocated to various public safety and health services in priority order. However, a municipality may allocate the funding to other public services.

2004 - All Revenue Sharing Programs proposed for elimination after years of reductions

- Local property taxes have gone up 29% in the last six years largely due to revenue sharing cuts, underfunding education inflation, and state/federal mandates.
- Many small communities have ended or severely cut key municipal services including police, fire, road maintenance, etc.
- Many small communities are predicted to become dysfunctional as governments. Indications include:
 - According to the Division of Elections 11 communities did not hold elections last year.
 - According to the AML Joint Insurance Association approximately 30 municipalities were unable to pay for general insurance in 2003 until temporary state assistance was provided.
- The State of Alaska exempts itself from local taxes even though it uses local services the same as all other local business taxpayers. By avoiding local taxes paid by everyone else, approximately \$67.4 million estimated annual property tax is paid by local taxpayers to subsidize state operations in their communities .