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REGIONAL SELF-GOVERNMENT FOR RURAL ALASKA:

PENDING ISSUES AND STUDY NEEDS

prepared for

Senate Committee on Community and Regional Affairs
Senator Arliss Sturgulewski, Chairman
House Committee on Community and Regional Affairs
Representative Bill Parker, Chairman
Alaska State Legislature

by

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PREFACE

The Community and Regional Affairs Committees of the Senate and House joined together between legislative sessions to carry out the "Local Government Study - 1979." The Joint Committee sponsored a series of research papers, conducted a Local Government Symposium that brought participants from all parts of the state, and held meetings and discussions in many rural areas. These activities and their findings and conclusions are summarized in the Interim Report of 9/20/79 and the Final Report of 1/80; both are available from the CRA Committees and from Legislative Information Offices in Juneau.

The results of the joint interim local government study are incorporated in these bills before the Second Session of the Eleventh Legislature:

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| CSSB 348, CSHB 580 | Establishing unorganized boroughs |
| CSSB 350, CSHB 581 | Coordination of state government services, planning, data, etc. |
| CSSB 351, CSHB 583 | State aid to local governments |
| CSSB 352, CSHB 586 | Fiscal notes for bills affecting a municipality |
| CSSB 353, CSHB 585 | Incorporation of second class as home rule boroughs |
| SB 354, HB 584 | Eliminating the third class borough |
| CSSB 492, HB 482 | Appropriation to DCRA for unorganized borough regional planning |
| SB 546, HB 1010 | State aid for local capital projects |

This paper has been prepared to outline topics that need further legislative consideration in order to pursue the committees' goal of bringing greater self-determination and better service delivery to all the people and to all parts of Alaska.

INTRODUCTION AND SUMMARY

The purpose of this paper is to review the issues that still need to be addressed if effective self-governing governmental structures are to develop in rural Alaska. Principal considerations relate to creation and financing of organized government in rural Alaska. The points of departure are the Community and Regional Affairs Committees' 1979 Interim Studies, the legislative package listed in the Preface and, to some extent, the pending revisions to the revenue sharing and school foundation programs.

Enactment of these legislative proposals would help provide people in rural regions with an increased opportunity for self-determination and greater possibility of achieving more coordinated provision of state services. However, more problem-solving and legislative action will be required to move toward organized forms of self-governance.

A number of conclusions pertinent to developing a local government package for the 1981 legislative session emerge from the subsequent sections of this paper:

- Pursuit of the principle of maximum self-government as espoused in the state constitution requires elimination of statutory disincentives to moving from unorganized to organized status, provision of inducements for regional governmental organization, and basic financial support for performance of governmental functions.
- Absence of an adequate tax base in most rural areas is the biggest obstacle to creation of organized boroughs.

- Disparities in assessed property values of different regions are tremendous; they range from per capita values of over \$600,000 in the North Slope Borough to less than \$3,000 in southwest Alaska.
- Among unincorporated regions, those along the oil pipeline have the largest and most flexible tax base to support government in the foreseeable future; other regions do not.
- Achievement of some measure of equity among regions or areas of the state is justified by the accidental location of taxable resources-related properties and is made possible by the state's petroleum revenues.

--- With large revenues from Prudhoe Bay oil production, and more to be expected from gas production, the state has the ability to provide assistance to all regions of the state. The principal policy question before state government and the public is how to allocate these revenues to provide direct and indirect benefits to the people. A major premise of this paper is that some of the money should be used to redistribute part of the state's wealth among all regions of the state for borough government purposes.

- Pertinent to consideration of interregional equity are these questions:

Should the level of services available to people in different areas depend on availability of taxable property?

Should areas with low per capita valuations have to tax themselves at higher rates than wealthy areas to raise the same revenues?

Should state wealth be shared only with organized local governments or should people in all regions receive a share of the state's resources wealth?

What restrictions should the state place on local governments' abilities to tax resource-related properties that happen to lie within their jurisdictions?

- Attention also needs to be given to assuring that fundamental services to the people are not so dependent on taxable wealth of local jurisdictions as to raise questions of constitutional legality.
- Decentralization and transfer of state services to regional and local governments may benefit both the state and local areas and should be explored.
- Title 29 of Alaska Statutes, containing laws pertaining to municipalities needs revision. Policy considerations in such a revision should address prospective boroughs in rural Alaska.
- Native lands need to be protected and potential opposition of Native corporations to borough organization needs to be dealt with; possible approaches include authorizing land banking and/or providing property tax exemption for undeveloped lands.

Principal study and analysis requirements to provide a foundation for future legislative action to deal with the above issues include these projects:

1. Base study of financial and institutional alternatives for financing services in rural areas, evaluation of such alternatives, and approaches toward improved allocations and sharing arrangements to achieve greater equity.
2. Analysis of means for eliminating existing statutory and program disincentives to establishment of self-governing boroughs

providing inducements and assistance for organizing boroughs in rural areas.

3. Exploration of alternative financing mechanisms, including a foundation approach to fund basic services in addition to education, including public safety, public assistance, and health and sanitation.
4. Exploration of alternative service delivery systems.

IMPLEMENTING THE GOAL OF MAXIMUM SELF-GOVERNMENT

Alaska's constitution establishes a goal of maximum self-government for the people of the state. To help achieve that end, the constitution requires that the entire state be divided into boroughs, both organized and unorganized. The single unorganized borough that now covers virtually all of rural Alaska is clearly counter to constitutional intent. Bills sponsored by the Community and Regional Affairs Committees of both houses, CS SB 348 and CS HB 580, would carry out constitutional objectives and lead to division of the state into regional unorganized boroughs.

There is no constitutional intent, and there certainly is no requirement, that all boroughs in Alaska be organized as municipal corporations. Rather, the unorganized borough concept was included in the constitution to provide people in all areas of the state with: (1) a voice in the provision of state services in their region; and (2) the opportunity to advance to self-governing status by establishing an organized borough. Both objectives would be furthered by the CRA Committees' legislative package.

Dividing the state into regions and allowing unorganized boroughs to move directly into home rule status provides a vehicle for moving toward organized status. Yet, the principal obstacles to creating organized governments remain: the lack of adequate tax or other financial base, and the existence of state program disincentives to incorporation. These problems are further discussed in the next part of this paper, but it needs to be pointed out,

here that, without their resolution, establishment of organized governments, and thereby achievement of maximal self-determination, is most unlikely throughout most of rural Alaska.

A basic step would be to remove penalties and disincentives to establishment of organized governments in rural Alaska, by identifying all existing disincentives and following up with legislative action. The next step is creating positive incentives to incorporate. Existing organizing grants have been made inadequate by inflation. Land grants to boroughs provide little benefit to rural areas with small amounts of state land or with land that has no near-term economic value. Incentives could be in the form of significantly larger transitional grants and initial state assessment of property in a new borough, as set out in SB 488.

Most important, as discussed below, is establishing a system under which allows all regions of the state to provide local government services, perhaps by sharing Alaska's natural resource wealth. Only then will all areas of the state have a true option of achieving maximum self-government, since an adequate financial base is critical to a region's ability to provide needed services and to carry on the functions of government.

FISCAL ISSUES AND EQUITY CONSIDERATIONS

Revenue Base for Rural Boroughs

If legislation is passed to establish regional unorganized boroughs throughout the state (CSSB 348, CSHB 580), and if coordinated delivery of services within regions is studied and baseline cost and financing information is gathered (CSSB 350, CSHB 581), the major obstacle to effective self-government will remain--absence of an adequate tax base in most rural areas. Alaska boroughs largely rely on real property taxes to sustain performance of municipal functions other than education. Current state distributions to boroughs, through revenue-sharing or otherwise, would not be adequate to support even the most basic general government functions in the absence of economic development or major oil and gas properties in most rural regions.

It is only in unorganized areas where oil and gas properties are located that the foundation exists for support of governmental functions. The North Slope Borough (NSB) provides an excellent example of what a rural region can do when it contains significant taxable property that can generate local revenues. To a lesser degree, a similar situation could apply in other regions located along the trans-Alaska pipeline. Whether a tax base sufficient to support organized boroughs exists in other parts of rural Alaska is problematical.

North Slope Borough

Incorporated as a borough in 1972 with the clear intent of taxing petroleum-related properties for the benefit of the local people, the North Slope Borough has a population of around 8,000. About 5,000 live in Barrow and other traditional communities, while some 3,000 are located in camps tied to oil and gas exploration, development, production and transportation. All are counted for purposes of revenue-sharing.

According to NSB's FY 79-80 budget, expenditures amount to \$74 million, of which \$40.9 million is for operating expenses and \$33.1 million is for capital construction and debt service (all figures are rounded). The total amounts to around \$9,250 per capita in the total population, or \$14,800 per person if only those in traditional communities are counted.*

Revenues are derived principally from oil and gas property taxes -- \$52 million from this source alone. NSB's assessed value is around \$5 billion. The borough raises \$26.2 million for operating purposes, the maximum allowed under AS 29.53.045,** which is equivalent to 5.21 mills on full

*Comparable figures for Anchorage, Fairbanks and Juneau boroughs are roughly \$610, \$340, and \$1,730. It is important to keep in mind when looking at these figures: (1) that operating and construction costs on the North Slope are extremely high; and (2) that the NSB is providing facilities over a short period of time that in other communities have been developed over many decades.

**AS 29.53.045 limits borough taxation on oil and gas production and pipeline property to a maximum of: (1) the product of 225% of the average state per capita assessed value times the number of borough residents times .030 (30 mills), or (2) \$1,500 per capita, whichever is greater. NSB uses the former 30 mill calculation to arrive at its tax limit. The calculated rate is equivalent to 5.21 mills on full assessed value.

assessed value. Under AS 29.53.055, NSB collects another \$25.8 million for debt service, which is not subject to a property tax revenue limit.*

Another \$1.5 million is raised by NSB through sales and use taxes that are applicable mainly to the oil industry and related transactions. The borough also obtains \$13.7 million through intergovernmental transfers, mostly for educational purposes.

Excluding intergovernmental revenues, nearly nine of every ten dollars raised by the borough are derived directly from petroleum industry-related sources. If one took into account indirect income from these sources, the ratio would be even higher.

The statutory limit on property taxation for operations purposes is reportedly beginning to hamper the NSB. As authorized capital improvements are brought on-line, revenues derived under the property tax limit may not be sufficient to operate the facilities and still meet continuing expenditure needs. If and when that point is reached, NSB may have to find other revenue sources or look to legislative revision of tax limitations. The latter action could possibly affect benefits accruing to other regions in the state. By taking a greater share of the state's property tax revenue.

*This amounts to 29.6 mills according to the above calculated formula, or 5.14 mills on full assessed value.

Pipeline Boroughs

Other jurisdictions also benefit from location of pipeline and related properties within their boundaries. Within the Fairbanks North Star Borough, 68.4 percent of all real property assessed value (\$1,158 million) was in oil and gas properties (\$792 million) as of January 1, 1979, bringing in \$5.7 million in property tax revenues. Even more extreme is the 95 percent of the City of Valdez' property tax revenues derived from oil and gas property: \$9,211,293 of the \$9,728,050 total.

A number of rural areas are in a position to emulate the North Slope Borough and incorporate a borough to similarly tax oil and gas properties for the benefit of their residents. These are the areas located along the existing oil pipeline between Prudhoe Bay and Valdez.

The January 1, 1979 assessed value of Alyeska Pipeline Service Company's property within the unorganized borough was \$4.325 million -- or an average of \$8.5 million per mile over a distance of 508.3 miles. Five REAA regions lie in the unorganized borough along the pipeline route. In one of these, the Upper Yukon REAA, steps have been taken to initiate establishment of an organized borough, to be called "Yukon Flats Borough".

The 1979 study of Yukon Flats Borough feasibility concludes that minimum standards for borough incorporation could be met.¹ The key to that conclusion lies in the \$900 million in estimated pipeline-assessed valuation

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Darbyshire and Associates, "Yukon Flats Regional Government Study", prepared for Department of Community and Regional Affairs, 1979.

that would be convertible into property tax revenue for government operations of around \$6 million in FY 81, or approximately \$3,750 per capita. Since there is no limit on revenues raised for bonded debt retirement, tax income derived from pipeline property could go much higher. With projected construction of a gasline through the prospective borough, taxable values would increase further. Similar situations apply in other regions straddling the pipeline corridor.

Rest of Unorganized Borough

The estimated 1978 assessed value of property in the unorganized borough, exclusive of oil and gas property, averaged near \$6,000 per capita,² and many rural areas fall below this average. The comparable figures for organized boroughs, not including those with major oil and gas properties, range between \$20,000 and \$30,000 per capita.

It is clear that, even at the maximum tax rate of 30 mills, regional boroughs in rural Alaska, which do not have oil and gas properties, would not be able to raise sufficient funds from property taxation for general government operations. The problems of local revenue-raising are exacerbated by the generally low income level and lack of commercial development and, therefore, lack of sufficient base for a productive sales tax. Difficulties are further compounded by extremely high cost of living and doing business in rural Alaska.

² 11/15/79 memorandum on "Fiscal Disincentives to Borough Formation" by Milt Barker, Fiscal Analyst, Legislative Finance Division.

Thus, the rural borough dilemma: oil and gas riches to a few, poverty to the rest. Existing state laws and policies are inadequate to provide local government assistance to those who are in need. Other than in the area of education, we do not even know the level of funding for statewide services provided to regions of rural Alaska. While information will be gathered if CSSB 350/CSHB 581 passes, alternative solutions need to be studied.

Financial Disparities vs. Equity among Parts of State

Although the principle of state concern for the local government system is embedded in Alaska's constitution, there is no requirement for a guarantee of equity among governmental units or areas throughout the state. Such a concept has, however, been evolving over the years, principally through state-municipal revenue-sharing and through the school foundation program.

There are two factors that both necessitate extending public (i.e., state) concern with interregional equity and provide a basis for dealing with the issue. First is the accidental location of and the tremendous disparity in the distribution of taxable property among different parts of Alaska. The location of valuable taxable property accords with the location of important natural resources and the facilities used in their exploitation. Because such locations bear no relationship to patterns of local government or to local fiscal needs, the result is a great difference in wealth and services among regions. The extremes this disparity can reach are illustrated by an estimated property value of less than \$3,000 per capita in southwest Alaska and a per capita value of over \$600,000 in the North Slope Borough. The North Slope Borough

raises about \$6,500 per capita from taxes on oil and gas properties; although authoritative property value data is lacking, it is estimated that a 30 mill tax rate in the southwest would probably raise less than \$100 per capita--certainly not enough to even carry out a tax assessment and collection program. The effect of such disparity on the level of services that can be supported by local tax resources is obvious.

The state has stepped in to limit the amount of tax that can be levied by local governments in position to tax oil and gas properties. In effect, the tax ceiling mainly provides protection for owners of such properties against what some would consider unreasonably high or exorbitant tax payments. But, the tax limitation results in no real redistribution or sharing of wealth or revenues, except insofar as the state's share of revenues is distributed by the budget process.

This situation leads to the second factor that makes concern for equity both appropriate and timely: the state's fiscal situation. Revenues from oil and gas put Alaska in a situation where no part of the state needs be left out of sharing the resource wealth belonging to all the people. While the principle of wealth sharing among individuals is embodied in tax and permanent fund legislation passed by the Second Session of the Eleventh Legislature, this principle has yet to be adopted in terms of regional government needs.

It is generally accepted that Alaska's natural resources wealth belongs to all of the people, regardless of the location of resources or of the state's citizens. With few exceptions, state resources revenues--from royalties, severance taxes, and other levies--accrue to the general fund or the permanent fund for the benefit of all Alaskans.

With large revenues from Prudhoe Bay oil production, the state has the ability to provide assistance to all regions of the state. Equitable sharing of state resources revenues with the regions would bring two important benefits. First, it would permit the state and rural regions to pursue the constitutional goal of achieving maximum local self-government. Second, it would establish a means of channeling a greater share of state wealth into the poorer areas of the state. Given appropriate formulas, such distribution could benefit the more needy areas to a greater extent than such vehicles as income tax elimination or per capita distribution of state wealth.

Several issues related to capital construction are also of concern for their equity implications. The state funds a variety of construction projects in organized and unorganized areas of the state. Equitable distribution of construction dollars has been largely at the discretion of legislative appropriations. Many rural communities do not have the ability to operate and maintain buildings in their communities, due to a lack of tax resources. Scheduling of projects and use of shared facilities are economies that have often been ignored in rural Alaska.

For these reasons, as well as other concerns, the House and Senate CRA Committees also introduced SB 546 and HB 1010. These bills provide for a Capital Foundation Fund which will, by appropriation, provide funds to all areas of the state for certain capital improvements. To expend funds, each area will need to develop an areawide capital improvement plan, approved by the local assembly when there is one, and by advisory groups assisted by the Department of Community and Regional Affairs when there is no local government.

Organized boroughs, unified home rule municipalities, and unorganized boroughs are encouraged to conduct regionwide planning to avoid costly duplications of capital projects and to prioritize, on the local level, needs among communities, rather than leaving this process to state level government.

Each area, so long as appropriations are made, is certain of a source of funding for local projects. Each area will receive a formula share of the appropriation. This stability will be advantageous to local governments for planning purposes. Additionally, unlike the current situation, areas may have greater ability to use capital projects for anti-cyclic economic benefits by being in control of fund expenditures. Annual funds do not lapse and may be accumulated for locally determined purposes. Home rule municipalities and organized boroughs expend funds themselves. In unorganized areas, the Department of Transportation and Public Facilities is responsible for fund expenditures. Local governments, under the Capital Foundation Fund program, will be assured of a steady supply of state funds for capital improvements that will be directed toward locally determined project needs and can be expended at a locally determined pace.

Capital Foundation Funds may be used as the local match required for certain state and federal projects. This will be particularly significant in rural areas which do not now have a source of local match.

Issues in Equity

Underlying any approach to state efforts to share wealth and equalize revenues are several basic questions of public policy and philosophy:

- Should the level of services available to people in different regions and local governments depend on taxable property in their jurisdiction?

In education the foundation program provides a basic support level to all, though it does discriminate against organized boroughs.

The Local Government Symposium of August 1979 conducted by Joint CRA Committees recommended establishment of a new additional state-supported foundation program for a number of "basic services": health and sanitation, and public safety.

While tax reduction was a stated goal of the existing local government revenue-sharing program, tax equalization is one of the stated purposes of CSHB 192(Finance) am.

- Should local governments with low per capita property valuations have to tax themselves at higher rates than wealthy areas in order to raise the same revenues--either for needed services or for state matching?

It is generally agreed that the poor should not be burdened with yet greater poverty to supply themselves with services. This philosophy is reflected in the proposed revenue-sharing provisions of CSHB 192 (Finance) am.

- Should people in all regions of the state receive a share of the state's wealth, or should sharing apply only to organized local government?

Revenue-sharing now applies only to organized municipal governments--cities and boroughs. However, legislation introduced as far back as 1970 and 1972 proposed programs

for state wealth-sharing with both organized and unorganized boroughs, with the funds for the latter managed through the Department of Community and Regional Affairs.

- Should local jurisdictions that do include taxable wealth be precluded from, or limited in, taxing resource-related properties in favor of state collection and distribution of such taxes?

To date local governments tax properties in accordance with established limits, save for the exception covering bond repayment requirements. Previous legislative proposals for revenue equalization have preserved existing local taxing prerogatives.

It must be pointed out the legal, as well as equity, considerations are pertinent to policies and decisions on revenue equalization. In 1972, the California Supreme Court held that the state could not maintain a system of education under which the quality of schooling depended upon taxable wealth of school districts; similar decisions have since been handed down in other states. Alaska's educational financing fully meets the California test. However, it is possible that the legal concept could be extended to funding of other fundamental services. For example, it is possible that the courts could hold that Alaska's constitution requires state support of quality public health, safety, and other services for all people in the state regardless of local taxable wealth.

These considerations, together with the basic issue of providing adequate support to permit effective regional governments to function, need to be

addressed if viable borough governments are to evolve in rural Alaska.

FINANCIAL AND INSTITUTIONAL ANALYSIS REQUIREMENTS

Decisions about state policy toward local governments, achievement of equity in state fund distribution, and design of appropriate service delivery systems require a base of knowledge of existing situations and dynamics that is largely absent today. CSSB 350 and CSHB 581 seek fundamental data.

A series of study projects is set out here to fill the void that now exists and to provide a foundation for policy making, program development, and evaluation of alternative institutional and financial schemes.

In view of the limited time available prior to the 1981 session, study tasks that would ideally be sequential will have to be carried out concurrently. Thus, a direct approach will need to be made to a number of practical issues while some of the underlying questions are also being examined. By the end of the study, the pieces should come together into an effective whole--a justifiable legislative program. This strategy can work, principally because the work accomplished during the 1979 study provides sufficient framework and direction for these concurrent activities.

The following is a brief description of the principal study components recommended for pursuit during the balance of 1980. Each project will, of course, require additional development. This, however, should be done once decisions have been made as to the overall study program and allocation of responsibilities for individual projects.

Base Study

A comprehensive approach to local government issues, service delivery, and state-local relations is proposed in this project. It is designed both to provide basic information for developing legislative policy and to establish a base for other studies that need to be undertaken. The aim is to provide necessary answers at an early date and thus speed implementation of ideas and programs that otherwise get hung up due to uncertainty and lack of data.

The study project will be directed toward the following objectives:

- identifying effective institutional alternatives for wealth distribution, services delivery, meeting individual needs
- evaluating costs, advantages, and disadvantages of alternative systems
- defining optimum approaches to establishing/authorizing institutional and financial vehicles to meet public policy objectives (these will need to be defined)
- suggesting additions to and changes in allocations and sharing arrangements that are necessary to achieve equity, i.e., how can existing gaps be closed

- establishing policies and criteria for evaluating institutional systems and wealth sharing arrangements
- testing alternative policies, institutional arrangements, and wealth distribution schemes to estimate effects on different regions or categories of regions'.

The study will synthesize information that has been previously collected and which will be provided for this project, examine institutional patterns of service delivery and wealth sharing, and analyze alternatives in terms of their equity and institutional implications.

Two components make up this study project:

Definition and analysis of the financial/economic situation has as its basic purpose determining existing resources and needs, and providing a basis for planning appropriate action to deal with equity and financial issues. Questions and topics include:

- how much does each region now receive from the state in money and in-kind for services, capital improvements, and other purposes? i.e., where is state money going and for what purposes, who is getting what share of state wealth?
- federal funding of regional/local services and facilities such as health, education, welfare, economic development, transportation, etc.
- aggregate and per capita distribution of money, facilities, and services
- specific services costs for different regions

- availability of local resources and economies to support local services and to cover local effort requirements
- special situations created by high value properties, e.g., oil development and related facilities, pipelines, fisheries installations
- operation of the oil and gas property tax.

Review and analysis of institutional arrangements to help define availability and effectiveness of institutional alternatives. Topics under this element include:

- basic patterns of institutional arrangements: state, local, non-profit, regional corporations, federal, boroughs, educational and coastal management service areas
- allocation of roles, functions, and relationship under different arrangements
- attributes of the different arrangements in terms of problems and inadequacies, strengths and effectiveness, relative costs, limitations and potentials
- changing patterns and trends in regional arrangements, including legislative and political history of previous proposals to deal with rural regional organization, wealth sharing, service delivery desires and needs.

Incentives and Disincentives to Borough Formation

In theory, state law should at least be neutral with respect to whether an area incorporates as a borough. This means that state legislation and

programs should, on balance, not discriminate against an area becoming incorporated. Beyond that, the legislature may want to actually provide inducement for establishment of organized boroughs, at least in areas deemed capable of significant levels of self-government.

Today, however, most rural areas would be penalized if they incorporated as a self-governing borough. The loss in state revenues that accrues to areas now unorganized is not compensated by increases that may come from municipal incorporation. Areas that cannot anticipate large tax revenues thus have a definite disincentive to advancement to organized status.

A major problem has existed in the area of educational funding. A regional educational attendance area receives 100 percent funding under the basic aid foundation formula as well as an "in lieu" contribution from the state equivalent to average local tax contributions in city and borough school districts and is guaranteed a minimum amount per pupil in average daily membership (ADM) for fiscal year 1981. Under the existing law, and until July 1981, an REAA, upon incorporation, would lose its "in lieu" payment and would be required to contribute a maximum local share of 3 percent of the basic need formula to achieve 100 percent funding. It has been estimated that total loss to all REAAs from status change would have cost rural areas \$8 million in FY '77: ³

A further cost to an area that changes from an REAA to an organized borough would come about from loss of partial state support for school construction. Under AS 43.18.100, the state pays 80 percent of borough school construction cost, whereas the state funds 100 percent of school facilities costs in unincorporated areas.

³ "Financial Disincentives to Borough Formation," Milt Barker, Fiscal Analyst, Legislative Finance Division, November 1978. The analysis was made as part of the Local Government Study 1979.

more than doubled costs since that time.⁵

A positive approach toward creating incentives is taken in SB 488 which includes the following provisions pertinent to this discussion: the state establishes the initial tax assessment roll for a new borough and funds the borough assessor and staff for three years after completion of the initial roll. It has been suggested that the organizational grant amounts authorized under AS 29.18.180(a) be increased to \$130 per capita for a minimum of \$125,000 for the first two years and \$75,000 for the third fiscal year.

Other provisions of existing law also affect potential incorporation decisions. For example, a borough is entitled to select 10 percent of the state lands within its boundaries, certainly an incentive. However, this selection right applies only to lands under state jurisdiction as of the time of borough incorporation. This puts a premium on delaying incorporation until the state has received ownership or tentative approval for lands within the contemplated borough.

In all, existing state laws and programs appear to work against borough incorporation except in areas that cover major taxable wealth, such as a pipeline extension or fish processing facilities. Accordingly, (1) existing disincentives should be eliminated to at least establish neutrality with respect to borough organization, and (2) incentives should be provided, assuming state government is interested in encouraging achievement of the constitutional goal of maximum local self-government.

⁵ Memorandum to Rep. Parker and Sen. Sturgulewski on "Incentives for Regional Government Formation and Local Service Delivery" from Jack Kreinheder, Issues Analyst, House Research Agency, April 9, 1980.

Although the school construction funding has not been altered, it appears that changes in the school foundation program passed this session (effective date July 1, 1981) will prove to have reduced the disincentive to borough formation which has existed in the funding of education. Starting FY '82, 100 percent funding of basic need will be accomplished for both incorporated and unincorporated areas and no minimum local contribution will be required of the organized areas. REAAs will be considered "districts" along with school districts in a city or borough and all districts will be eligible for supplemental equalization aid which will take into account the average local tax contributions in the city and borough school districts. A slight advantage for REAA districts will be a reduction from 100 percent to 80 percent of the amount of P.L. 81-874 federal financial assistance monies deducted from the amount of basic aid distributed to the REAAs. However, since the federal government has been reducing funding for categories within this program, the amount of financial gain actually experienced by the REAAs might prove to be small. Additional equalization will be effected by the inclusion of area differentials in the supplemental equalization aid.

Under AS 29.18.180, a newly-incorporated borough is eligible for an organizational grant of at least \$25,000, or \$10 for every voter participating in the borough incorporation election. It is widely recognized that a grant of this size would cover only a small part of the organizational costs of any new borough. The State Assessor's Office has estimated that it would cost at least \$200,000 just to prepare the initial tax assessment roll in any one of the current REAAs. New boroughs would also be faced with the cost of hiring municipal personnel, establishing new services, and other major expenses. In addition, the organizational grant amount has not been changed since 1968, although inflation has

Foundation Plan for Basic Services

Over the last several years, increasing attention has been paid to alternative ways to funding basic services throughout the state. One concept which has been discussed is a state foundation plan, similar to that used for education, to fund such "basic services" as public safety (including search and rescue, fire, police, and justice), public assistance and health and sanitation.

The "foundation" approach or any other approach would need to be concerned with the following aspects:

- any formula developed for state support should reflect local population, wealth, and need
- any approach should provide for a more equitable allocation of state financial resources
- a revenue redistribution system should create incentives for the transfer of service delivery responsibility from the state to municipalities and should recognize the need for local effort in the provision of such services (see next section)
- while the foundation approach would be available to organized municipalities, equitable formulas for the provision of services in unorganized areas should also be explored.

ALTERNATIVE SERVICE DELIVERY SYSTEMS

A structure and process for coordinating state functions on a region-by-region basis would be established under legislation sponsored by the CRA Committees. CSSB 350/CSHB 581 require that state agencies use unorganized boroughs as regional units to develop and implement plans for providing services. Agencies are to coordinate program planning and administration with other agencies, municipalities, and the federal government. Provision is also made for region-based collection, analysis, and reporting of program information. Further, the Division of Policy Development and Planning is to develop alternatives and recommendations for improving coordination of programs that provide direct services to the people. Regional planning funds are provided for unorganized boroughs by CSSB 348/CSHB 580; funding for such planning is authorized by CSSB 492/CSHB 886.

Study work developed for the 1979 CRA Committees suggested exploration of a system of contracting for delivery of state services and transfer of some service functions to regional and local governments as a means of facilitating unification of service efforts, providing local choices the types and levels of service to be provided, and generally strengthening regional and community self-determination.

Intergovernmental contracting was seen as one means of furthering decentralization of service delivery throughout Alaska. Such contracting could be not only with boroughs and cities, but also with nonprofit regional associations that presently contract with the federal government for performance of many social, health, and economic functions in rural areas.

Currently, the state government contracts with municipalities to perform some state functions such as road maintenance. The State Department of Health and Social Services is in process of contracting with a nonprofit regional corporation for delivery of a broad array of services within its region.

This whole approach of the state providing the funding, and regional or local entities performing the public functions, needs further study and evaluation as a state policy. Standards and procedures would need to be established by the state to assure that standards for levels of performance, short and long-term benefits and disadvantages to the people at the local level and to state government, need to be detailed for this approach and for all other alternatives.

Study Needs

To explore the policy implications of service delivery systems, some specific questions need to be addressed:

- What state agencies are currently contracting with whom for performance of what functions?
- What other services would be appropriate for an intergovernmental contracting program?
- What lessons can be learned from federal contracting for service delivery?
- What entities, other than municipal governments, are appropriate deliverers of local services?
- What alternatives exist?
- What costs would be incurred for each alternative?

Depending on what emerges during the study, recommendations may emerge as to what arrangements are appropriate for broad scale implementation, or whether selected demonstration projects would be appropriate to explore and develop an effective alternative service delivery program.

REVISION OF TITLE 29

The Final Report of the Local Government Study - 1979 includes the following among a series of action proposals:

Title 29 of the Alaska Statutes contains state laws pertaining to municipalities. Though the structure of local government organization under Title 29 is basically sound, many of its procedural and administrative provisions are not helpful or relevant to rural and urban municipalities. Steps will, therefore, be proposed to undertake a thorough review and initiate necessary revision of Title 29 to make it more useful to the municipalities of the state.

Review and revision of Title 29 is covered in a memorandum from Senate CRA Committee Chairman Arliss Sturgulewski to Senate President Clem Tillion. The March 31, 1980 memo emphasizes agreement on the need for revision:

It is generally recognized, especially by those who work most closely with it, that AS 29 is in need of revision. Since the time of original enactment, changes in the title, problems in its application, and policy questions of importance have been noted by municipal attorneys, city managers and clerks, and such other municipal officials as assessors. The Legislative Revisor has indicated that AS 29 should be next approached in terms of needed revision.

SCR 66 proposes just such a study and revision take place prior to the start of the Twelfth Legislative Session.

Revision Study Emphases

From the standpoint of this paper and the need to deal with rural area issues, Title 29 revision should consider the following topics for special consideration:

- generally, assuring that prospective rural boroughs as well as small rural communities are adequately provided for
- examination of alternative, simplified forms of municipal governments to meet some of the needs and objectives brought out during the 1979 local government study.

ALASKA NATIVE CLAIMS SETTLEMENT CORPORATIONS

Congress enacted the Alaska Native Claims Settlement Act (ANCSA) in 1971 in recognition that Alaska Natives had valid claims to most land in Alaska. ANCSA provided that Native corporations established under the act would select and retain 44 million acres of land. They would further receive \$962.5 million in compensation for lands taken from them.

Two considerations are pertinent to this paper. First, the function of the money settlement must be clearly understood. Second, the possible effects of regional government organization on Native corporations' abilities to preserve the Native land estate must be recognized and be properly dealt with.

Money provided under ANCSA is to compensate Alaska Natives for property that was taken away from them. It is not a welfare payment; it is not a grant in pursuit of social or economic objectives. The compensation is similar to payments any other property owner receives if, for example, his land is taken to build a highway. These owners are not expected to use the payments to pay for the schooling of their children or otherwise as a substitute for costs that government would otherwise bear. Thus, proceeds under ANCSA should not be viewed as a substitute for government support of public services to predominantly Native communities and regions.

or forced sales to pay taxes. In either case, the Native people could be left without the land that they supposedly received in perpetuity under ANCSA.

Two ways have been suggested to deal with the potential problem of taxing non-productive lands owned by Native corporations in rural Alaska:

1. Land banking can be authorized by the U. S. Congress or by the Alaska legislature to shelter land from taxation while in unused, reserved status.
2. The state can exempt from local property taxes certain classes of land -- e.g., agricultural, forest, subsistence. Such tax exemption might be applied to all property owners.

The issue of taxing Native lands is important in considering establishment of organized boroughs in rural Alaska. The very regional governmental units that would be designed to bring benefits and local self-government to the people could conceivably deprive them of their land, undermine their life-style, and leave them disinherited. It is thus critical that this situation be carefully addressed and resolved before steps toward extensive rural borough organization are undertaken.

Of related practical consideration is the likely opposition of Native corporations to borough incorporation, so long as the taxation issue remains unresolved. In many parts of Alaska, such opposition could thwart efforts to create organized boroughs.

At the same time, income generated by Native corporations and distributed to shareholders constitutes income to individuals. As corporations attain a stage of economic viability that permits them to pay significant dividends (and that may be quite far in the future), ability of individuals and, as a result, of communities, to pay for local services will increase.

ANCSA provides that land owned by Native corporations is exempt from taxation until December 18, 1991, unless the land is used to produce revenues. This time limit may be extended by the U. S. Congress in view of the slow rate of transfer of land from federal to Native jurisdiction.

Most Native village lands were selected on the basis of aboriginal use and subsistence values; a few villages made selections with the hope of generating income. Those regional corporations that had an opportunity to select land themselves, and not all did, generally chose land that had resources or other economic development potential. While some of these lands will be producing revenues over the next ten years, it is unlikely that many of the 44 million acres acquired under ANCSA will be providing cash income to corporations by the end of 1991.

Due to large amounts of economically nonproductive land they will own, even minimal assessed valuations and low tax rates would result in tax levies too large for most village corporations to pay. The consequence of tax levies could, in effect, be unintended expropriation by government

Thus, even though the property taxation issues may not appear significant for another ten years, state policy and implementing action on the matter needs to be taken without delay, so as not to unnecessarily impede action toward self-government in rural Alaska.

PLEASE NOTE: THE PRECEDING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT.

VICTOR FISCHER ASSOCIATES CONSULTING
221 EAST 7TH AVENUE #204 • ANCHORAGE, ALASKA 99501 • (907) 272-2381

August 23, 1979

Sen. Arliss Sturgulewski and Rep. Bill Parker
Co-Chairmen Joint Community and Regional Affairs
Local Government Study Committee
Legislative Affairs Agency
Pouch Y - State Capitol
Juneau, Alaska 99811

Dear Co-Chairpersons:

The following is a statement of compensation due for specialized research and consulting services relating to the Local Government Study for the period July 1 to August 15:

Professional services..... 45 hours net..... \$2,250.

The net is based on the rate of \$50 per hour or \$250 per day, whichever is less. A copy of my time log is enclosed for your information.

I certify that this statement is true and correct.



*OK for payment
Local Government Study
Senator Arliss Sturgulewski*

LEG. - 79 CZA Comm LOCAL GOV'T STUDY

1979

| | | | | | |
|--------|-------|-------|--------|--------|--|
| June | 7 | 4 | HOURS | Travel | Program design - w/ w/ staff |
| | 8 | 3 | " | | " |
| | 29 | 2 | " | | " w/ps w/ Sanders-Letter, Park |
| July | 2 | 8.5 | | | Program planning workshop |
| | 6 | 2 | " | | Symposium arrangements |
| | 9 | 2 | | | Program/symposium planning - Arlin et al |
| | 16-19 | 2 | | | " " - MSC |
| | 20 | 3 | | | " " - Arlin, Bill, et al |
| | 23 | 1 | 15 | \$750 | " |
| August | 1 | 2 | | | Symposium preparation - Arlin et al |
| | 3 | 4 | | | " |
| | 4 | 8.5 | 45 | | Symposium |
| | 5 | 4 | | | " |
| | 6 | 7.5 | | T | Analysis + work plan (incl. travel) |
| | 7 | 6.5 | | T | " |
| | 8 | 5 | \$1500 | T | " |
| | 16 | 1 1/2 | | | mtg w/ Arlin + staff |
| | 18/19 | 3 | | | Resp. to Jack Clough's memo |

VICTOR FISCHER ASSOCIATES

CONSULTING

221 EAST 7TH AVENUE #204 • ANCHORAGE, ALASKA 99501 • (907) 272-2381

September 15, 1979

Sen. Arliss Sturgulewski & Rep. Bill Parker
Co-Chairmen, Joint Community and Regional
Affairs Local Government Study Committee
Legislative Affairs Agency
Pouch Y - State Capitol
Juneau, Alaska 99811

Dear Arliss and Bill:

The following is a statement of compensation due for specialized research and consulting services relating to the Local Government Study for the period August 16 to September 14:

Professional services 29½ hours net \$1,475.00

The net is based on the rate of \$50 per hour or \$250 per day, whichever is less. A copy of my time log is attached for your information.

Total billings under our contract now amount to \$3,725.

I certify that this billing is true and correct.



*OK to pay
Senator Arliss Sturgulewski
9/20/79*

LEGISLATURE - JOINT COMMUNITY & REGIONAL AFFAIRS COMMITTEE
LOCAL GOVERNMENT STUDY (LG)

COLUMN - WRITE

| DATE | HOURS* | ACTIVITY |
|-----------|--------|--|
| 1979 JUNE | | |
| 7 | 4 | Program design - mtg w/ staff, Jensen |
| 8 | 3 | " " " " " " |
| 29 | 2 | " " - mtg w/ Sanders, Loken, Porter |
| JULY | | |
| 1 | - | contract effective; above not billed |
| 2 | 8.5 | program planning workshop |
| 6 | 2 | symposium abstract |
| 9 | 2 | program/symposium prep. Adliss et al |
| 16-19 | 2 | " " " " - mix |
| 20 | 3 | " " " " - Adliss, Pitt et al |
| 23 | 1 | " " " " |
| AUGUST | | |
| 1 | 2 | symposium preparation - Adliss et al |
| 3 | 4 | " " " " |
| 4 | 8.5 | " " " " |
| 5 | 4 | " " " " |
| 6 | 7.5 | analysis & work planning - Adliss, Pitt, staff - JWW |
| 7 | 6.5 | " " " " |
| 8 | 5 | " " " " |
| ST | 45 | BILLED 8/23/79 |
| 16 | 1 | mtg w/ Adliss & staff |
| 18-19 | 3 | response to Chouinard's memo |
| 20 | - | Jim & Luman |
| 21 | 1 | review & revision symposium report |
| 27 | 1 | program product design - Adliss et al |
| 28 | - | Jim Sanders discussion |
| 29 | 2 | symposium report review & planning / Jim Luman |
| 31 | 1 1/2 | " " " " , comments, writing |
| September | | |
| 5 | 3 1/2 | Symposium report, proposals - Jim Luman / VT |
| 6 | 5 1/2 | Program report w/ Jim Luman |
| 7 | 1 1/2 | - same - |
| 11 | 1 | symp. report |
| 12 | 4 | " " " " |
| 13 | 4 | " " " " |
| 14 | 1 | " " " " |
| ST | 29 1/2 | Billed 9/15/79 |

* CONTRACT PROVIDES FOR \$50/HR OR \$250, WHICHEVER LESS. BILL MAX. OF 5 HRS.

PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT.

TO ARLISS
FROM MARGO
RE VIC F's PROPOSAL/ CRA PROJECT

After my return, I believe that I see this project in a slightly different light. Perspective, I guess.

First, I read over his proposal re the financial/institutional analysis. I also spoke briefly with Marge about this. She confirmed my impression that it is unclear what Vic had in mind. If I had to set up a work program for it, I don't think I'd know what to put down. Marge agrees with this assessment.

Secondly, as I thought about it, it seemed to me that the more global project of looking at the financing of services in rural Alaska, while it is needed and important, has no particular support. Witness the problems with SB 348 and with the Capital Foundation. Most of the rural folks are scared to have anyone look at the question as it might involve looking at possible taxes. On the other side there are significant numbers of folks who see this (taxation) as the only way--taxes or no government--as represented by Parr and Kelly.

Third, some of the background work that needs to be done would be done if 348/350 passes; i.e., how much is spent and by whom and for what in rural Alaska, and the economic analysis that will be done for each of the regional strategy studies. It would be after this info is in that alternatives could be looked at most fruitfully, especially if the conclusion is that the Legislature has a different set of responsibilities for the unorganized boros, as the assembly--or whatever other alternatives seem feasible.

Fourth, there is still a whole set of work that needs to be done, but a set that has some constituency and a little bit of visibility. I also think that this set of tasks is more manageable than the ones suggested at in Vic's proposal.

Project

What will be the effect of the gasline on local government?

Tasks:

Assuming that the oil and gas properties tax remains unchanged, what is the expectable range of possible tax along the pipeline corridor?

What levels of taxation are likely? Based on past experience in NSB, Kenai, etc.

What disparities are created between pipeline boros (or potential boros) and other areas of the state?

What conclusions can be drawn regarding disparities in tax base and level of taxation required for the provision of minimal services?

What alternatives are possible?

Most of this work could be conducted by House Research and by Legislative Finance. There also would be a focus for efforts, a focus on something people anticipate happening (vs. everyone's apparent sense that sleeping dogs should be let lie in rural Alaska).

\$ 4 mil

Task force / Proposal Margo > \$ for w. depth studies & for pilot.

1. preparation of document / delivery of services
2. staff
- 3.

1. key person
2. task force

background paper

DRAFT 4/7/80

SEN. STURGEON-EWISKI

**PLS CALL & ADVISE MARGO
WARING UPON RECEIPT
465-3759**

memo

to: Arlieb. Bill Parker

re: Local Government Study - 1980

A number of important issues need priority attention to achieve fiscal equity among regions in Alaska and to further self-government and adequate services in Alaska, particularly in rural areas.

This memorandum addresses the principal study needs and how they can be met to provide a basis for legislative action in 1981. Topics covered here are derived from the interim and final reports of the Local Government Study conducted jointly by your committees in 1979 and from my recent paper "Self-Government for Rural Alaska: Pending Issues in Borough Formation."

Suggested Study Components

In view of the limited time available for interim work prior to the 1981 session, study tasks that would ideally be sequential will have to be carried out concurrently. Thus, a direct approach will need to be made to a number of practical issues while some of the underlying questions are also being examined. ~~This strategy~~ By the end of the interim study, the pieces should come together into an effective whole -- a justifiable legislative program. This strategy can work principally because the work accomplished ~~during the 1979 study~~ during the 1979 study provides a sufficient framework and directions for these concurrent activities.

The following is a brief description of the principal study components recommended for pursuit during the balance of 1980. Each project will, of course, require additional development. This, however, should be done once decisions have been made as to the overall study program and allocation of responsibilities for individual projects.

DRAFT

Incentives and disincentives to Borough formation

Unless legislative policy were opposed to formation of organized boroughs (which it is not), state laws should at the least be neutral with respect to whether an area is or is not incorporated as a borough. ~~By and through the state~~ This means that state legislation and programs should, on balance, not discriminate against an area becoming incorporated. Beyond that, the legislature may want to actually provide inducement for establishment of organized boroughs, at least in areas deemed capable of significant levels of self-government.

Milt Barker's "Financial Disincentives to Borough Formation", prepared as part of the 1979 interim study program, showed clearly that then existing laws provided strong financial penalties against areas that might want to incorporate as organized boroughs. It is now necessary to address the following questions:

- o to what extent has 1980 legislation, particularly changes in school foundation and revenue sharing programs, redressed ~~the~~ the bias against formation of boroughs? now/
- o what non-financial incentives and disincentives exist, ~~including~~ including provision of direct state services in rural areas (e.g., state troopers)?
- o what is the overall balance of financial and non-financial disincentives?

~~the~~

If it is found that the existing situation still discriminates against borough formation, then the next step would be to delineate the exact changes in statutes, ~~and~~ funding formulas, and other pertinent provisions so as to meet governmental neutrality.

A supplement to this effort will be an analysis of alternative incentives ~~that~~ provided for organizing boroughs that could be enacted if the legislature decided to do so. In this connection, SB 488 by Sen. George Hohman should be examined for pertinent guidance.

Foundation plan for basic services

Rep. Bill Parker's memorandum of December 14, 1979 to Mr. Duncan Reed, Director of House Research Division, requested a research project dealing with financing and delivery of services in Alaska. The request research would help implement conclusions reached during the 1979 interim study.

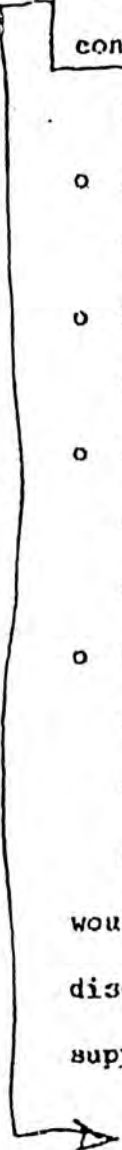
The basic concept under study is a state foundation plan, similar to that used for education, to fund these "basic services": public safety (including search and rescue, fire, police, justice), public assistance, and health and sanitation.

In view of the emphasis placed upon this approach by the Local Government Symposium and the joint committee reports, development of the foundation concept needs to be pursued during the 1980 study program.

The Parker memorandum addressed the following aspects of the project:

- o Any formula developed for state support would reflect local population, wealth, and need.
- o The foundation approach should provide for a more equitable allocation of state financial resources.
- o A revenue redistribution system should create incentives for the transfer of service delivery responsibility from the state to municipalities and should recognize the need for local effort in the provision of such services.
- o While the foundation approach would be available to organized municipalities, equitable formulas for the provision of services in unorganized areas should also be explored.

As conceived in the 1979 interim report, the foundation program itself would be available only to organized areas, and there would be no discrimination against organized boroughs in the provision of state financial support.



Decentralization and transfer of state services

By March 31 "Pending Issues" paper discusses decentralized performance of state ~~services~~ functions, contracting for delivery of state services, and transfer of some service functions to regional and local governments. The CRA committee's legislative package ~~provides~~ would provide the basis for moving toward these objectives. HB 580 / SB 348 provide for the data base necessary to deal more effectively with state program decentralization. HB 581/SB 350 provides for a ~~SPD~~ Division of Policy Development and Planning report to the legislature by January 31, 1980, on coordination of state services delivery by organized and unorganized borough districts.

At this time, ~~further~~ additional study should be given to state contracting with municipal governments, and possibly other entities, to perform functions within their jurisdictions. The study should address the following ~~main~~ questions:

- o what state agencies are currently contracting with whom for performance of what functions?
- o what other services would be appropriate for an intergovernmental contracting program?
- o what lessons can be learned from federal contracting for service delivery?
- o what entities, other than municipal governments, are appropriate for state contracting of local service delivery?

Further, the study would need to develop an approach to establishing standards and procedures to assure that adequate contractual performance is provided. Depending on what emerges during the study, conclusions may also emerge as to whether contracting arrangements should be implemented on a broad scale or whether some demonstration projects would be appropriate ~~during~~ to explore and develop an effective contracting program.

Review and revision of Title 29

The Final Report of the 1979 study includes the following action proposal:

Title 29 of the Alaska Statutes contains state laws pertaining to municipalities. Though the structure of local government organization under Title 29 is basically sound, many of its procedural and administrative provisions are not helpful or relevant to rural and urban municipalities. Steps will, therefore, be proposed to undertake a thorough review and initiate necessary revision of Title 29 to make it more useful to the municipalities of the state.

This review needs to be initiated now. The principal emphases should

(1) accommodating/
be on ~~accommodating~~ small rural communities and prospective rural boroughs,

(2) establishing a general law ~~base~~ base for boroughs in rural Alaska, and (3)

establishment of alternative, simplified forms of municipal governments ~~to~~ to

meet some of the needs and objectives brought out during the 1979 study.

This project should not in any way be construed as a general overhaul of

Title 29, the municipal code. |

Financial and institutional analysis
state

achievement of equity in/fund distributions, design of appropriate service delivery systems, and decisions about state policy toward local governments require a base of knowledge of existing ~~condi~~ situations and dynamics that is largely lacking today. This project is designed to fill the void and provide a foundation for policy making, program development, and evaluation of alternative~~s~~ institutional and financial schemes.

~~xxxxxxx~~

The study will synthesize information that has been previously collected and which will be provided for this project, ~~xxxxxxx~~ institutional/ examine/patterns of service delivery and wealth sharing, and ~~xxxx~~ analyze alternatives in terms of their equity and institutional implications. More specifically, the study will cover the following elements:

o financial/economic situation/

from the state/

- how much does each region now receive/in money and in-kind for services, capital improvements, and other purposes -- where is state money
- now going and for what purposes -- who is getting what share of state

o wealth

- federal funding of regional/local services and facilities such as health, education, welfare, economic development, transportation, etc. facilities./
- aggregate and per capita distribution of money/and services
- specific services costs for different regions
- availability of local resources to support local services and to ~~xxxxxx~~ cover local effort requirements
- special situations created by high value proeptries, e.g., oil development and related facilities, pipelines, fisheries installations
- operation of the oil and gas property tax

o institutional arrangements !

- basic patterns of institutional arrangements: state, local, non-profit, regional corporations, federal, boroughs

-]- allocation of roles and functions under different arrangements
- review of changing patterns of regional arrangements, including legislative and political history of previous proposals to deal with rural regional wealth sharing, organization/and service delivery desires and needs

> financial/institutional analysis

- difference between organized and unorganized areas with respect to share of state funding, services, and capital facilities existing/
- relative costs of ~~different~~/wealth distribution and delivery systems: state, borough government/non-profit or other institutions, per capita distribution

> evaluative and normative analysis

- identification of institutional alternatives for wealth distribution, services delivery, meeting individual needs
- costs, ~~and benefits~~ advantages and disadvantages of alternative systems
- are there optimum approaches to establishing/authorizing institutional and financial vehicles to meet public policy objectives (these will need to be defined)
- what additions and changes ~~are necessary~~ in allocations and sharing arrangements are necessary to achieve equity (define) -- how can existing gaps be closed
- policies and criteria for evaluating institutional ~~and wealth sharing~~ systems and wealth sharing arrangements

> testing of alternatives

- testing of alternative policies, institutional arrangements, and wealth distribution schemes to estimate effects on different regions or categories of regions.

Allocation of Study Responsibilities

Legislative staffs and the Department of Community and Regional Affairs (DCRA) provided major assistance to the CRA committees in developing the legislative package submitted to the 1980 legislature. They should again be requested to assist with carrying out research preparatory to the 1981 session. In addition, the Institute of Social and Economic Research (ISER) can have a constructive role in furthering the study program. Others might be brought in if deemed necessary.

~~It is suggested~~

The following allocation of study responsibilities is suggested:

Incentive and disincentives -- Legislative Finance, Legislative Counsel, DCRA
Foundation plan for basic services -- House Research, Legislative Counsel, DCRA
Decentralization/ contracting -- Legislative Counsel, Legislative Finance
Review of Title 29 -- Legislative Counsel, DCRA
Financial/institutional analysis -- ISER, with support by Legislative Finance, DCRA.

These allocations are, of course, only suggestive. Specific assignments will need to be worked out by your committees based on availability of people and funds to carry out the recommended 1980 interim study program.

The key to making this whole study strategy work is effective study direction, supervision, and coordination by committee staff. Continuing monitoring of all study projects and concentration on the final synthesis is crucial to a successful study effort.

To achieve this, a professional study director should be designated by the CRA committee chairmen to oversee the whole effort in their behalf. The study director would have responsibility for outlining and negotiating study tasks, supervising work progress and outputs, and synthesizing results of individual study projects (as well as other studies, such as the DCRA study funded by Coastal Management). Only with such central and responsible direction will there be any assurance that all the study components will fit together and provide the committees with the information and options they need.


MEMORANDUM

State of Alaska

TO: Veronica Clark
CRA

DATE: January 22, 1980

FILE NO:

FROM: Kurt Fredriksson 
OCM

TELEPHONE NO:

SUBJECT: RSA on UOB
Suggestions on refocusing the study

Relevant to OCM's near term needs is the fact that there will be or needs to be the formation of Coastal Resource Service Areas. OCM's needs are distinct; it needs to get on with CRSA formation and planning activities. The schedule of events affecting many of those potential CRSAs is such that early organizational and planning work should be underway right now or very soon in virtually every one of those areas. OCM would propose that the proposed study be modified to look at the organized, developing, and potential Coastal Resource Service Areas and that the following tasks be performed:

- 1) Summarize the organizational status of each CRSA, identifying constraints to organization as well as possible inducements, discuss problems with and alternatives to local match requirement. Problems of districts lying in the CRSAs could be assessed, also.
- 2) Provide summary of existing governmental structures, regional entities, other service delivery organizations and how they may be of use to the CRSA. (Such questions as "How are local decisions made?" could be asked in this framework.)
- 3) Brief socio-economic overview, with pertinent information drawn from community profiles on major population centers in each CRSA. Discussion of how coastal resources are tied to socio-economic life of the area. (Will answer the question of "Who lives in the unorganized borough and why?" and "How are coastal resources now managed and by whom?" As well as "What difficulties or inefficiencies are encountered?")
- 4) Discussion of likely developmental impacts (OCS, bottom fisheries, herring fisheries, ports, etc.) expected for each CRSA over next 10 years or so. Some examination of expected problems for each impact type.
- 5) Develop scenario for CRSA development and completion of coastal management plans with specific recommendations for accomplishment within general time frame.
- 6) Identification of costs for organization and plan development in each CRSA and sources of assistance.
- 7) Discussion of possible effectiveness/ineffectiveness of existing implementation mechanism for each of these areas.
- 8) Overview of problems common to all areas, recommendations on policy, legislative, and administrative changes which would facilitate CRSA formation, CZM planning and implementation, plus discussion of how coastal management would blend with regional government creation should that

Development of case histories and selective interviews, as CRA has proposed, would be helpful. Parts of the above suggested tasks can be tailored or deleted, depending on CRA or ANF resources and time/funding constraints. Further, a related contract might contemplate pre-organizational work conducted in those potential CRSAs found to be especially needy. There may be some logical stopping point in the suggested study approach at which time (June 30, 1980) one could make the assessment on additions or modifications.

PLEASE NOTE: THE PRECEDING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT.

DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS

Veronica Clark
Planning Supervisor
Division of Community Planning

December 18, 1979

Mary Jo Waits
Planner IV
Division of Community Planning

UOB Study

In an effort to get started on the unorganized borough study, this past week, I read some collected literature and studies concerning local and regional government and service delivery in Alaska (see attached bibliography). My immediate objective was to begin outlining issues and problem areas in planning and service delivery in the unorganized borough and to get a sense of current literature and people dealing with the subject.

While I have looked over only a select few studies and reports, I have concluded that others have identified, to a large extent, the issues and problem areas related to local and regional government and service delivery in the unorganized borough. The Local Government Study sponsored by the Joint Senate and House Community and Regional Affairs Committee recently identified 18 issues and problem areas. Many of the same problems and issues can be culled from Lee Gorsuch's article in "Commission Study 44" for the Joint Federal-State Land Use Planning Commission. A few of the general problems identified are:

- o the proliferation of organizations throughout Alaska without regard for the financial and human resources required to make such entities functional and effective;
- o the existence of public institutional structures, such as large villages or rural school districts, which are either single-purpose or limited in the territories and numbers of people they encompass;
- o the absence of governmental institutions place private institutions (e.g., native corporations) in the position of assuming powers more appropriately placed within public institutions;
- o where the dominate service structure is exclusively Native, there are problems with effective political expression for the non-Natives.

Given the recent attention to problems in rural Alaska, there is no need for us in the UOB study to dwell on general problem and issue identification. Instead, we can move onto what I think are two more important and less realized tasks: 1) pinpointing and illustrating identified problems in the context of coastal resource service areas, and 2) proposing and examining solutions to key problems. A feasibility study of sorts is one way of accomplishing the first task, while a symposium with key Alaska and non-Alaska participants is a way of accomplishing the second task.

Coastal
1. Unincorporated
2. Case Studies
3. Agencies

Feasibility Study: The feasibility studies would focus on a few representative coastal resource service areas (perhaps one in Southeast and one in Northwest Alaska) and assess the political and economic feasibility of planning and resource management within and by each resource service area. Among other things, the studies would look at:

- o the physical, social and economic setting of various areas;
- o current providers and patterns of planning and other public services;
- o effectiveness of these mechanisms for planning and service delivery;
- o estimated costs of various levels of planning;
- o potential sources and amounts of funds and revenues that can be expected for planning and other services;
- o implications of institutionalized local planning on self-determination and government.

The feasibility studies should reveal or confirm, in very graphic and concrete terms, key and basic problems needing resolution if planning and resource management is to be feasible and viable in the unorganized borough (i.e., coastal resource service areas).

Symposium: The symposium would be to work on solutions to key problems related to local and regional government and planning in the unorganized borough. The advantage of a symposium (compared to a contract with a single consultant, for example) is that a number of different people can address identified problems; a group of 5-15 specialists in law, finance, and public administration for instance, can be assembled one or more times to propose and evaluate alternative solutions.

Outlined below are steps and a time frame for the preparation and completion of the feasibility studies and symposium.

Step 1: summarize problem areas and issues currently identified; circulate summary to key people for review and comments (completed by February 29).

Step 2: commence planning and management feasibility studies for specific coastal resource service areas (completed by March 31).

Step 3: commence contacting people in and outside Alaska for information about pertinent literature and studies and recommendations for people to participate in the symposium (completed by mid-March).

Step 4: select and contact people to participate in the symposium; prepare for symposium participants an information packet containing a general issue paper, the results of the feasibility studies, and an outline of key problems to be addressed at the symposium. (completed by March 31).

Veronica Clark
December 18, 1979
Page 3

Step 5: convene first session of the symposium to familiarize participants with Alaska and key problem areas and to assign participants specific problems and tasks to be addressed and completed by the next session. (completed mid-April).

Step 6: convene second session to review, evaluate and if need be refine solutions proposed by the participants. (completed May 30).

SF: Unorganized Borough Study

PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT.

VICTOR FISCHER ASSOCIATES CONSULTING

221 EAST 7TH AVENUE #204 • ANCHORAGE, ALASKA 99501 • (907) 272-2381
3-29-80 et seq

To Margo Waring -- some side comments as I review the various comments and rework the draft.

General: I don't have knowledge and info to carry many of the ideas into specific fiscal analysis. I would suggest strong reliance on Milt Barker and Jack Kreinheder for elucidation, explanations, examples, etc., as well as general review and revision of what I have done.

Please check my comments in red on copy of your collective comments and your 3/12 memo to me.

Am having a very hard time with the idea of history of the oil and gas property tax. As I started getting into that, it became very clear that the only reason the state adopted it was to prevent the North Slope Borough from going its own way in taxing petroleum properties. In fact, initial proposal by Egan & co in 1972 would have been a totally punitive-type tax and would ~~work~~ have worked to discourage borough formation altogether...

My feeling is that we should let that sleeping dog lie. The tax exists, and there is not distribution element to it. Rehashing would not likely be very constructive. Instead, emphasis should be on wealth sharing -- and that goes back to 1970. If you disagree, I'll pull something together, but it may take a bit of time and may need to be done in Juneau... If you are serious about raising this subject, though, it is something that should, as you suggest in your cover memo, be put in context of philosophy, other oil tax legislation, and alternatives. That would require much time and effort, and it should probably be done for the committee by Av Gross or Chancy Croft. That could be built into the interim work program, if you consider it worthwhile.

Done. I hope sufficiently... I found it rather hard getting into this little project. Should have done it last fall when all was lively and pertinent.

If more needs to be done, I should work on it in Juno, both for sake of interaction and sources. Preferably there won't be anything, as I've gone well beyond initially conceived scope and projected ^{costs...} *Land budgeted*

But there is yet one more thing I need to do, from here -- give you some ideas about followup study implementation. Can't do it tonight (3/31), but will get to you by end of week.

So it goes
regards all



PS there are some notes in the text regarding checking on some items.

I VIEW THIS STILL AS A DRAFT

Just realized that I forgot to put something in that needs doing -- developing appropriate policies and criteria for equity/wealth sharing -- that's one that should be worked in somewhere... but I'm on way to send this now...

SEE MY COMMENTS

FISCAL ISSUES AND EQUITY CONSIDERATIONS

Vic

Introduction

Division of rural Alaska into regional unorganized boroughs, as proposed by the CRA Committee and enactment of a new revenue sharing law, HB 192, *would* be significant steps toward providing a better basis for coordinated provision of state services and a fairer distribution of state funds. However, though in themselves ^{necessary} commendable, these measures ^{alone} will not yet establish a basis for self-government and for equitable sharing of state wealth among all parts of Alaska.

If legislation passed which established
Even after regional unorganized boroughs are established throughout the state and ^{if} ~~they give~~ ^{are given} local people a role in achieving planned and ^{planning through regional strategy} coordinated delivery of services within ^(SB) their regions, the major obstacle to effective self-government remains: absence of an adequate tax base in most rural areas. ~~The fiscal situation of Alaska boroughs is still such that they~~ must rely on real property taxes to sustain performance of municipal functions. Current state distributions to boroughs, through revenue sharing or otherwise, are not adequate to support even the most basic general government functions on a regional basis.

It is only in areas where oil and gas properties are located that the foundation exists for support of governmental functions. One needs but to look at the North Slope Borough experience to see what such properties can do for an organized borough. In a smaller measure, the same situation applies in other regions located along the trans-Alaska pipeline. Whether a tax base sufficient to support organized boroughs in other parts of rural Alaska is problematical.

The North Slope Borough (NSB) provides an excellent example of what a rural region can do when it contains ^{significant} large amounts of taxable property that can generate local revenues.

use this sent in previous #?

Incorporated as a borough in 1972, with the clear intent of taxing petroleum related properties for the benefit of the local people, NSB has a population of around 8,000. About 5,000 live in Barrow and other traditional communities, while about 3,000 are located in camps tied to oil and gas exploration, development, production and transportation.

note - accounted for

MARGO - I DON'T HAVE THIS INFO HANDY FOR

- I COULD GET, BUT YOU CAN PROBABLY GET PRINT FROM CRA OR MILT BARNER.

According to NSB's FY 1979-80 budget, ^{TOTAL *} expenditures amount to \$74 million, of which \$40.9 million is for operating expenses and \$33.1 million is for capital construction and debt service (all figures are rounded). The total amounts to around \$9,250 percapita in the total population or \$14,800 per person if only those in traditional communities are counted.

(Compare to Anchorage, Fairbanks, Juneau?)

I don't want to go into intricacies of computerized oil property tax options, and therefore use mill rate on "full assessed value" - which makes it comparable to what people are used to.

mill rate
since they appear in 5% formula should use base 30 mil debt operator 29.6 mil debt service

Revenues are derived principally from property taxes, \$52 million from this source alone. NSB assessed value is around \$5 billion. Under AS 29.53.045, the borough is limited to property tax collections for operating purposes of \$26.2 million, amounting to 5.21 mills on full assessed value. Under 29.53.055, NSB collects another \$25.8 million, equivalent to 5.14 mills, for debt service, which is not subject to the property tax revenue limit.

In the NSB, Another \$1.5 million is raised by sales and use taxes, [of that derived from the use tax levied on storage, use or consumption of tangible property] - applicable mainly to the oil industry and related transactions. The borough also obtains \$13.7 million through intergovernmental transfers, mostly for education purposes.

Excluding intergovernmental revenues, nearly nine of every ten dollars raised by the ^{NSB} borough are derived directly from petroleum industry related

sources. If one took into account indirect income from these sources, the ratio would be even higher.

The statutory limit on property taxation for operations purposes has not so far hampered the NSB. However, it has been reported that when all authorized capital improvements are on line, revenues derived under the property tax limit may not be sufficient to operate the facilities and still meet continuing expenditure needs. If and when that point is reached, NSB will have to find other revenue sources or obtain legislation revision of tax limitations. The latter action could well affect benefits accruing to other regions in the state.

Pipeline boroughs

Other jurisdictions also benefit from location of pipeline and related properties within their boundaries. Within the Fairbanks North Star Borough, 68.4 percent of all real property assessed value (\$1,158 million) was in oil and gas properties (\$792 million) as of January 1, 1979, bringing in \$5.7 million in property tax revenues. Even more extreme is the 95 percent of the City of Valdez' property tax revenues derived from oil and gas property: \$9,211,293 of the \$9,728,050 total.

A number of rural areas are in a position to emulate the North Slope and incorporate a borough to similarly tax oil and gas properties for the benefit of their residents. These are the areas located along the existing oil pipeline between Prudhoe Bay and Valdez.

The January 1, 1979 assessed value of Alyeska Pipeline Service Company property within the unorganized borough was \$4.325 million, or an average of \$8.5 million per mile over a distance of 508.3 miles. Five REAA regions lie in the unorganized borough along the pipeline route. In one

I don't have enough info

of these, the Upper Yukon REAA, steps have been taken to initiate establishment of an organized borough, to be called "Yukon Flats Borough."

for what GRA might have

The 1979 Darbyshire study of Yukon Flats Borough feasibility concludes that minimum standards for borough incorporation would be met. The key to that conclusion lies in the \$900,000,000 in estimated pipeline assessed valuation that would be convertible into property tax revenue of around \$6 million in FY 1981. Per capita revenues would be approximately \$3,750.

reword

Revenues raised for bond retirement would permit tax revenues derived from pipeline property to go yet higher. With projected construction of a gas line through the prospective borough, taxable values would increase further. Similar situations apply in other regions straddling the pipeline corridor.

Maybe the gasline & its implications should

Note: this would be proper place to include Table 1 from Milt Barker, Legislative Finance, memo of Nov. 15, 1979, but it's probably too complex and there are some problems with figures.)

Appendix

YES, THAT WOULD BE GREAT

be se sep section

Milt and redraft

Rest of Unorganized Borough

include - but as summary info?

The estimated 1978 assessed value of property in the unorganized borough averaged near \$6,000, exclusive of oil and gas property (Milt Barker 11/15/79 memo on financial disincentives). The comparable figures for organized boroughs, not including those with major oil and gas properties in the range between \$20,000 and \$30,000 per capita.

reword per Milt's 2) more what

As one takes into account the tax problems in urban boroughs and the fact that many rural areas would fall below the above average, it is clear that even at the maximum tax rate of 30 mills, regional boroughs in rural Alaska would not be able to raise sufficient funds from property taxation for general government operations. The problems of local revenue raising are exacerbated by the generally low income level, extremely high cost of living and doing business, and lack of sufficient base for a productive sales tax.

Aside from lack of a local revenue base, rural regions have to beware of potential additional costs that would come to them with incorporation as an organized borough. Under existing law, and REAA loses its "in-lieu" contribution from the state if it becomes part of an organized borough. Barker has estimated that the total loss to all REAAs would have amounted to \$7.6 million in FY 77; the amount would be greater today. Organized boroughs would also face a decrease in foundation support for schools and would be required to provide a local match of state funds. Together with loss of in-lieu monies, these factors would cost rural areas \$8 million upon incorporation.

also different level of property capital cost substantial inequity not addressed by school foundation report

These costs are in no way offset by additional state support. Under revenue sharing provisions of HB 192, total revenues to all new rural boroughs would be around \$65,000, assuming that these boroughs raised

only sufficient local revenues to meet matching requirements under the school foundation program. Even at the common borough millage of 5 or 10 mills on local properties, total support under revenue sharing would come to only about \$1.3 million. This amount hardly offsets school support losses and would mean only insignificant sums to individual boroughs. Barker also shows that even under the most favorable assumptions, shared corporate income taxes (AS 43.20.016) would not materially assist most rural boroughs.

check w/ new bill
Organized YES
I DON'T HATE
mango - we have copies of school foundation report + SB 199(?) as must amended will address this

has this been seriously suggested?
MILIT MENTIONED - BUT NOT IMPORTANT

Thus, the rural borough dilemma: oil and gas riches to a few, poverty to the rest. Existing state laws and policies are inadequate to help those who are in need, and do not provide any equitable funds distribution to rural regions, other than in the area of education.

How about footnotes he backs for figures, etc.?

WHY, WHAT?

I'd prefer not to, keep simple

Financial Disparities

Alaska's constitution requires that the entire state be divided into boroughs, both organized and unorganized. The single unorganized borough that now covers virtually all of rural Alaska is clearly counter to the constitution's intent. Bills now before the legislature would carry out constitutional objectives and lead to division of the state into logical socioeconomic units to be constituted as regional unorganized boroughs.

There is no constitutional intent, however, and there certainly is no requirement that all boroughs in Alaska be organized as municipal corporations. ~~Rather, a prime purpose of the unorganized borough concept~~ is to provide people in all areas of the state with a voice in the provision of state services in their region and with the opportunity to advance to self-governing status by establishing an organized borough. Again, pending legislation would make possible both these aims.

not so

WHIT?
IS IT!

Although the principle of state concern for Alaska's local government system is embedded in the constitution, there is no requirement for a guarantee of equity among governmental units or areas throughout the state. This concept has, however, been evolving over the years, principally through state-municipal revenue sharing and through the school foundation program.

There are two factors that both necessitate further public (i.e., state) concern with interregional equity and provide a basis for dealing with the issue. ~~First is the tremendous disparity in the distribution of taxable property among the unorganized borough regions.~~ ^{organized & unorganized - as the question of} The location of valuable taxable property accords with the location of important natural resources and the facilities used in their exploitation. Because such locations bear no relationship to patterns of local government or to local fiscal needs, the result is a tremendous disparity in wealth and services

of accidental location

among regions. The extremes this disparity can reach are illustrated by an estimated property value of less than \$3,000 per capita in southwest Alaska and a per capita value of over \$600,000 in the North Slope Borough. The ^{NSB} latter raises about \$6,500 per capita from taxes on oil and gas properties, while a 30 mill tax rate in the southwest would raise less than \$100 per capita, certainly not enough to even carry out a tax assessment and collection program. The effect of such disparity on the level of services that can be supported by local tax resources is obvious.

Do we need to justify using midpoints through the literature data

The state has stepped in to limit the amount of tax that can be levied by local governments in position to tax oil and gas properties. In effect, the tax ceiling mainly provides protection for owners of such properties against what some would consider unreasonably high or exorbitant tax payments. But the tax limitation results in no real redistribution or sharing of wealth or revenues. It provides no help for the poor regions of the state, directly or indirectly.

This situation leads to the second factor that makes concern for equity both appropriate and timely: the state's fiscal situation, ^{because} ~~For~~ revenues from oil and gas put Alaska in a situation where no parts of the state need be or should be left out of sharing the resource wealth belonging to all the people.

There is no need to here delve into the state's ability to provide assistance to all regions of the state. The revenues are available, and it is principally a matter of deciding where the money will go. The purpose in this paper is to consider the case for using some of it to redistribute part of the state's wealth among all regions of the state.

Issues in equity

Underlying any approach to state efforts to share wealth and equalize revenues are several basic questions of policy and philosophy: Should the level of services available to people in different regions and local government depend on taxable property in the jurisdiction? The answer is "no" in education, where the foundation program provides a basic support level. "No" is the partial answer under existing revenue sharing and *- expand*

HB 192 ?
pending revisions "No" was the answer given by the Local Government Symposium of August 1979 conducted by Joint CRA Committee; Symposium participants opted for establishment of a new additional state-supported foundation program for a number of "basic services": health and sanitation, *assistance* public ~~welfare~~, fire protection, public safety, and regional planning.

public safety, inc. fire protection, not according to the fiscal report -
Should local governments with low percapita property valuations have to tax themselves at higher rates than wealthy areas in order to raise the same revenues, either for needed services or for state matching? It is generally agreed that the answer must be "no," that the poor should not be burdened with yet greater poverty. This philosophy is reflected in the new revenue sharing provisions *prepared in HB 192.*

Should people in all regions of the state receive a share of the state's wealth, or should sharing apply only to organized local government? The answer on this issue is not *as yet undetermined*. Revenue sharing applies only to organized municipal governments--cities and boroughs. Existing disparities and

explain here or as a sep. section

statutory disincentives to organized borough formation now preclude unorganized rural areas from participating in wealth sharing or revenue equalization. However, legislation introduced as far back as 1970 and 1972 proposed programs for state wealth sharing with both organized and unorganized boroughs, with the funds for the latter managed through the Department of Community and Regional Affairs. *True? YES* The same concept was supported at the 1979 Local Government Symposium.

*history - ci
+ and here ->*

Should local jurisdictions that do include taxable wealth be precluded from taxing resource-related properties in favor of state collection and distribution of such taxes? The answer so far has been to let local governments tax properties in accordance with established limits, save for the exception covering bond repayment requirements. Previous legislative proposals for revenue equalization have preserved existing local taxing prerogatives.

It should be pointed out that legal, as well as equity, considerations are pertinent to policies and decisions on revenue equalization. In 1972, the California Supreme Court held that the state could not maintain a system of education under which the quality of schooling depended upon taxable wealth of school districts. Similar decisions have since been handed down in other states. [The rulings do not apply to current educational financing in Alaska, but may be extended to funding of other fundamental services such as public protection and basic sanitation.]

alp. he knew the argument would run

Integration of Service Areas

Alaska's constitution makes service areas part of organized boroughs. Therefore, as new boroughs are established in rural areas, REAA's and coastal management service areas will have to be integrated into the new units.

Such integration of service areas should present no major structural obstacles, especially if the matter is given some advance attention. In the case of REAA's, they could, if desired, retain their present mode of operations and organization. The main difference would be that instead of the state Department of Education performing certain oversight functions, budgetary oversight would shift to the borough. [Alternatively, especially under home rule, an area might decide to make different arrangements for operating borough schools. *What does this mean?*]

explain such as benefits/deficits

Coastal service areas are principally established to carry on planning. Since that function is a basic responsibility of organized boroughs, it can be assumed that appropriate interrelationship of planning will be effected. This could be in the form of the existing coastal planning operation being absorbed by the borough, or it could be accomplished by constituting the coastal planning effort as the borough's planning department.

Wadsworth's implementation benefit.

More serious than structural integration is the financial penalty attached to absorbing an REAA into an organized borough. Under existing law, "in-lieu" support would be lost and other benefits decreased. For any new borough not benefiting from high value properties, present and proposed revenue sharing falls far short of making up these losses in state support.

Two approaches to dealing with this problem can be considered. First, an overall revenue equalization or wealth sharing program could be so structured as to assure new organized boroughs that penalties would not be imposed as a result of establishment of a municipal government. Second, the same school funding formula applicable in REAAs, i.e., unorganized areas, can be adopted for organized boroughs, thus achieving full equity between them.

PLEASE DO

check
important
concepts
operational
check

Alaska Native Claims Settlement Corporations

Congress enacted the Alaska Native Claims Settlement Act (ANCSA) in 1971 in recognition that Alaska Natives had valid claims to the most land in Alaska. ANCSA provided that Native corporations established under the act would select and retain 44 million acres of land. They would further receive \$962.5 million in compensation for lands taken from them.

In the context of this paper, several important issues emerge. First, the function of the money settlement must be clearly understood. Second, the possible effects of regional government organization on Native corporation's ability to preserve the Native land estate must be recognized and be properly

dealt with.

Money provided under ANCSA is to compensate Alaska Natives for property that was taken away from them. It is not a welfare payment; it is not a grant in pursuit of social or economic objectives. The compensation is similar to payments any other property owner receives if their land is, for example, taken to build a highway. These owners are not expected to use these payments to pay for the schooling of their children or otherwise as a substitute for costs the government would otherwise bear. It should be clear, therefore, that proceeds under ANCSA should not be viewed as a substitute for government support of public services to predominantly Native communities and regions.

At the same time, income generated by Native corporations and distributed to shareholders constitutes income to individuals. As corporations attain a stage of economic viability that permits them to pay significant dividends, ability of individuals and, as a result, of communities to pay for local services, will increase.

ANCSA provides that land owned by Native corporations is exempt from taxation until December 18, 1991, unless the land is used to produce revenues.

*Only if these dividends are on projects in the region that generate
NO - could be for utility services, prop. tax, sales taxes*

Most land was selected by Native village corporations on the basis of aboriginal use and subsistence values; a few made selections with the hope of generating income. Those regional corporations that had an opportunity to select land themselves, and not all did, generally chose land that

had resources or other economic development potential. Under the most optimistic assumptions, it is unlikely that many of the 44 million acres *while some of these lands will be producing revenues by 1991, most will not.* will be producing revenues by the end of 1991.

Even minimal assessed valuations and low tax rates would result in tax levies too large for most village corporations to pay due to large amounts

speculative

of economically nonproductive land they will own. The consequence will
be expropriation by government or forced sale to pay taxes. In either case,
the people would be left without the land that they supposedly received
in perpetuity under ANCSA.

?

This problem is critical in considering establishment of organized
boroughs in rural Alaska. The very regional governmental units that
would be designed to bring benefits and local self-government to the
people could conceivably deprive them of their land, undermine their life-
style, and leave them disinherited. It is thus critical that this
situation be carefully addressed and resolved before steps toward extensive
rural borough organization are undertaken.

There are several ways of dealing with the potential problem of taxing
non-productive lands owned by Native corporations in rural Alaska:
Land banking can be authorized by the U.S. Congress or by the Alaska
legislature to shelter land from taxation while in unused, reserved status.

The state can exempt from local property taxes undeveloped land over a
certain acreage. (10,100 or 200 acres?) so long as it produces no revenue
to the private owner. Such a tax exemption might be applied to all property
owners.

*Summary to assist members - YES + NO - opens
another major field that I'd rather not get into*

State policy and implementing action on this matter needs to be taken without
delay. *There are 10 years - the issues need to*

It's land policy & history & etc

*be looked at
without delay -
but the answer
is 9/1 in time.*

Alaska State Legislature



Senate

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Commerce

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*A/c Vic Fischer
for pickup
272-2381*

~~ERIC FISHER~~

FROM: MARGO WARING

I've reviewed your draft material and have a few comments to make in addition to or in enlargement of marginalia.

First, regarding the marginalia, question marks generally mean that the intention is unclear or could be misunderstood.

I think that prior to those sections that deal with the oil properties tax--and perhaps picked up again in the equity sections--it would be helpful to give a run down of the history of that tax, the arguments pro and con, etc. This might give some historical perspective to the issue and give people a feel for the length of time under which this question has been discussed.

Page 4--I think it would be helpful, again for perspective purposes to discuss the issue of the gas line. How would you or shake out the different properties if the gas line goes thru on the currently selected route? Questions of scale and quantity can sometimes clarify an issue for some folks who can ignore a one shot deal.

Regarding the "tax problems in urban boros", what had you in mind here? Same paragraph--did you have some basic figure in mind that is the most general government operations. The disparity between the nominal tax and the highest mill levy and the actual cost may be helpful.

Page 6 and other pages. I mentioned in the past that you have checked out the proposed changes in the School Foundation Program and whether or not the points on that would be a good idea.

Page 7--middle of the page and to the end--In this section, do you think it would be worthwhile to point out that wealth is redistributed by, for example, tax rebates, such wealth redistribution does not help local governments and their situation as local governments can tax property but not income.

Further, you haven't addressed the whole issue of whose wealth is it (tho this issue could come out in a section dealing with the history), unless there is some reason otherwise, except for the reference to the accidents of location. I think that this question could be profitably explored, especially in terms of the basic philosophically different approaches in different tax programs, some of which regard natural resources as state wealth and a few which do not. The implicit assumptions in other oil tax legislation vs. the oil properties tax might be a useful starting point. Alternative ways of handling local impact from oil properties (one of the justifications for the current oil properties tax split) could also be mentioned.

Page 8--I think that it would be good, either in this paragraph or elsewhere to discuss how revenue sharing has a "partial no".

Do you think it would be going too far afield to discuss (perhaps with the financial disincentives section) other "statutory disincentives"?

Page 9--Expand the "Issues in equity" section, perhaps at the end of the last paragraph on this page, to identify how the argument would run, not in any particular detail, but the main statements of the argument: Basic services are equivalent to educational services in that . . . If educational services cannot be dependent on . . . Then . . . That type of thing.

DON'T HAVE A BASIS FOR THAT
NO JUST COMMENT
HAVE NO BASIS - SUGGEST YOU GET SOMEONE ELSE TO DO
NOTHING

7

Vic Fisher
page 2

Page 10--end of first paragraph. We may as well put in the plug that says that upon boro formation, not only would planning go to the new boro's planning department, but they would also certain implementation responsibilities and authorities that now rest with the state.

Page 11--~~Admin.~~ individual wealth is different than local government's potential revenue sources. This ~~is not~~ ^{NOT NECESSARILY} the dividends were on projects in the region and were property taxable.

X- ~~THIS WOULD BE TOO MUCH, COMPLICATE THE PAPER~~

Page 12-- You might point out land banking in the state or tax deferral scheme for instance the Agriculture ones, and the similarity of what is suggested here Native lands.

Sorry that I sort of rushed through this, but I hope it will be a little bit useful to you.

I think, too as you suggested, that the "critical paragraphs" will be very useful for focussing, because the paper, as Arliss put it, "needs a statement of direction". After the problems are identified, then what? Arliss also felt that there were other public policy issues that should be identified and discussed how to or to what extent maximum self government can be encouraged--what does concept mean in the context of what is happening? Also about the ability to decentralize and transfer services. She also asked me to point out (as in her marginal comment) that there is the point of school construction, which is different than school operation. Organized boroughs may float revenue bonds for 80%, etc very different than the situation in unorganized boroughs.

My own general comments are in agreement with Arliss', that a more focussed approach on statewide equity (fiscal) questions and their relationship to new boroughs be better. I also think that you assume too much knowledge on the part of your readers--about tax structures and history, about legislation and the interim. Do you think that a reorganization of the sections would help to focus on the about fiscal equity and wealth redistribution and its relationship to organized government?

I hope that there will be a summary page, since I've noticed that few legislators spend much time reading.

~~Rather than~~ While I may try to telex up the copy of your paper that has Arliss' and Marge's marginal notes (yellow for Arliss=review), I will bring a copy up with me to Anchorage on March 18 (arriving airport at 5:40) and you can pick up the copy then. Please confirm that this is what you would like to do.

PLEASE NOTE: THE PRECEDING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT.

*Morgan - and as
Vic F. Contract?
This should go w/it.
S*

February 5, 1980

Mr. Victor Fischer
Institute of Social and Economic Research
221 E. 7th Avenue #204
Anchorage, Alaska 99501

Dear Vic:

I was pleased that we had the opportunity to meet on January 31 and February 1, 1980 to discuss your further work for the Joint Interim Committee. I would like to state my understanding of this last task under your existing contract. As I understand it, you will prepare a non-technical paper in which you explore the remaining study needs that are necessary for sound decision-making regarding organization of the unorganized borough. Not only will there be a discussion of data needed, but you will also address such areas as public finance policy, including revenue sources, matters of equity, and shared revenues. Other issues which will be raised will include the effects of borough organization on and interrelations with Regional Corporations.

This identification and discussion of further study needs and issues to be considered in that study will be available in final form by the end of February 1980.

As much as possible, we will attempt to keep you coordinated with the work on revenue sharing being conducted by the House Research Agency. The first report we expect from them will be ready February 8, 1980. This will be an analysis of HB 192.

We will see you on your next trip to Juneau.

Regards,

Arliss Sturgulewski
Senator District 10-H

CC: Bill Parker

VICTOR FISCHER ASSOCIATES CONSULTING

221 EAST 7TH AVENUE #204 • ANCHORAGE, ALASKA 99501 • (907) 272-2381

January 30, 1980

MEMO TO ARLISS STURGULEWSKI & BILL PARKER, CRACOMMITTEES, ALASKA LEGISLATURE

RE: "pipeline boroughs" and beyond

At your request, I have looked at possible preparation of a "primer" and issue papers on several interrelated matters: potential of the trans-Alaska pipeline and related properties providing an economic base for boroughs, new and existing, along the pipeline corridor; possible problems resulting from lack of property taxation ceiling for payment of debt service, thus effectively resulting in lack of a tax limit; and equity and other considerations entailed in local vs. state use of pipeline property tax revenues, particularly from standpoint of rural areas not located along the pipeline.

I have concluded that such an effort is not 'doable' at this time, and certainly not within the scope of present resources available for my participation. The materials that have been assembled as part of the local government study are totally inadequate for this task. Although good information is available on the North Slope Borough, much additional data will be required for Fairbanks and Valdez, as well as for most of the unorganized areas along the pipeline. Thus the fiscal and economic base data is insufficient to even properly examine the issues posed about 'pipeline boroughs.'

Elke Kallab's May 24, 1979 memo and other Alaska-wide fiscal information I have at hand are also inadequate. They provide no basis whatsoever for comparing the different areas. Kallab comments, by the way: "It would appear from the efforts made that it might be possible to obtain the necessary information regarding the flow of funds and delivery system of services in the unorganized borough. However, it would take a great deal of time, effort, cooperation and coordination on the part of federal and state agencies to achieve it..."

I believe that the information and analyses you seek can be dealt with properly and in any way definitively only in the context of a much broader and thorough study than we can undertake at this time.

It appears to me that until the more basic as well as more complex questions of statewide policy and equity considerations are considered, a review of pipeline boroughs alone would be to little avail. Its only possible purpose would be to provide incentives to more rapid borough formation along the pipeline corridor. That, however, may only exacerbate possible future desires to change borough taxation and financing policies and rules.

Accordingly, I suggest the following:

1. I prepare a study design to carry out the overall study;
2. part of the study design will be an analysis of the issues and questions that need to be included (this will then provide a rationale not to monkey around with local tax and fiscal policy during this session beyond the major revenue sharing bill);
3. the study will be funded through the senate or the house or both, with the products to be available in time for consideration and action at the 1981 legislative session.

*Affect 2/1
RAS*

I believe that this project needs to involve more than my personal efforts. Your present committee staffs might participate during the interim between sessions. The most appropriate party for a contract to carry out the major research and analysis tasks is ISER. I have discussed the matter with Tom Morehouse and Scott Goldsmith, and they are both willing to participate. (Scott, in case you don't know him, is ISER's specialist in public finance and has done many studies of state and local finances, including work on establishing equitable formulas for statewide distribution of school funds, taking into account cost of living, needs, and other pertinent factors.) Under this arrangement, my participation would be through ISER.

I have not here addressed the specific issues that such a product would be concerned with. Their basic directions were fairly well discussed at the August local government symposium. Margo's 1/16/80 memo covers many of the pertinent points. My assumption is that we are all concerned about the same issues, and it will be easiest to outline them in the context of the complete study design. This, of course, would be done in consultation with you two, Margo & Margie, et al

1/16/80

TO: ARLISS

FROM: MARGO

RE: YOUR REQUEST FOR LANGUAGE FOR A STUDY CONTRACT WITH V. FISHER

PROJECT SCOPE:

The legislative session of 1980 will bring together a set of issues which call for a reappraisal of the existing state system of revenue distribution.

Bills will be introduced which ~~will~~ address an initial phase of subdivision of the unorganized boro, indicating eventual fruition of Art. X of the Alaska Constitution. Studies have ~~been~~ ~~or~~ been or are being conducted which explore the economic base and feasibility of boro organization (Yukon Flats), explore existing incentives and disincentives to boro organization, revenue sharing and the assumption of additional local government responsibilities are being examined, the potential construction of the gasline and, therefore, its availability as a revenue source are open for discussion. In addition, budget "excesses" generated by increased oil revenues have reopened public policy discussion of the distribution of Alaska's wealth to its owners, the present and future residents of the state.

In the context of this background and based on available data (see attached listing), the contractor will explore, in a fashion suitable to presentation to the legislature, several interrelated public policy questions.

1. New boros and wealth (revenue) distribution. Should revenue distribution be dependent on organizational status? Should incorporation decisions be dependent on fiscal abilities? Is revenue equalization a desirable incentive to the promotion of rural boros?
2. Existing and contemplated local governments. Should the availability of an ~~and~~ ~~unusually~~ unusually valuable property determine the level of services to residents in different political subdivisions?
3. Related. ~~Are~~ Are there public policy inconsistencies between such ~~sets~~ sets of revenue sharing approaches as the Fish Tax (Chap. 79, SLA 1979 and the Corporate Petroleum Revenue Tax and AS 43.56? ~~Is~~ Is it in the state's interest, and the public interest, to promote this dual approach? Should ~~local~~ local governments with low valuation per capita need to tax themselves at a higher rate than more wealth areas in order to raise the same revenue? Should pipeline and production properties be regarded as state property and ~~the~~ the revenues from an ad valorem tax on property be distributed by some other formula (alternatives to be suggested)?

→ Who should be the taxing authority for natural resources?

4. More specifically related to AS 43.56. A comparative analysis of the uses by the NSB and the KPB of AS 43.56 and its implications for new boros, reasons for differences, effects on local government, level and quality of services, economic diversity and private businesses. Discuss implications of gasline. Should the ceiling on the local share be ~~not-lifted-together~~ eliminated? What are the implications in terms of local autonomy? Economic development? ~~equity?~~ Long term debt-service? Inter-governmental equity?

PRODUCT

A ~~xxxxxxx~~paper will be prepared by the contractor which discusses the questions stated above. Legislative recommendations will be made, their pros and cons discussed.

Draft version will be available to Senator S. by . Upon review and recommendation of additions, changes, etc. final copy will be prepared and presented by

opportunities for formation of borough
 —
 Relationship will have limit to long term
 financial health? other pipeline borough

need to find out where muni's are left.
 Relationship to Gov. Highway Bond Fund - state buys
last resort
non-profit

Vic Fisher
page 2

Page 10--end of first paragraph. We may as well put in the plug that says that upon boro formation, not only would planning go to the new boro's planning department, but they would also certain implementation responsibilities and authorities that now rest with the state.

Page 11--Again, individual wealth is different than local government's potential revenue sources. This would be significant only if the dividends were on projects in the region and were property taxable.

Again, it might be good, if early on you were to state what it is that local governments can tax --boros of which class and cities too.

Page 12-- You might point out land banking in the state or tax deferral schemes, for instance the Agriculture ones, and the similarity of what is suggested here for Native lands.

Sorry that I sort of rushed through this, but I hope it will be a little bit useful to you.

I think, too as you suggested, that the "critical paragraphs" will be very useful for focussing, because the paper, as Arliss put it, "needs a statement of direction". After the problems are identified, then what? Arliss also felt that there were other public policy issues that should be identified and discussed: how to or to what extent maximum self government can be encouraged--what does this concept mean in the context of what is happening? Also about the ability to decentralize and transfer services. She also asked me to point out (as in her marginal comment) that there is the point of school construction, which is different than school operation. Organized boroughs ~~may~~ float revenue bonds for 80%, etc... very different than the situation in unorganized boroughs.

My own general comments are in agreement with Arliss', that a more focussed approach on statewide equity (fiscal) questions and their relationship to new boroughs would be better. I also think that you assume too much knowledge on the part of your readers--about tax structures and history, about legislation and the interim study. Do you think that a reorganization of the sections would help to focus on the concern about fiscal equity and wealth redistribution and its relationship to organized government?

I hope that there will be a summary page, since I've noticed that few legislators spend much time reading.

~~XXXXXXXXXXXX~~ While I may try to telex up the copy of your paper that has my, Arliss' and Marge's marginal notes (yellow for Arliss=review), I will bring that copy up with me to Anchorage on March 18 (arriving airport at 5:40) and you could pick up the copy then. Please confirm that this is what you would like to do.

Alaska State Legislature

SENATOR
ARLISS STURGULEWSKI
COMMITTEES
CHAIRMAN
Community & Regional Affairs
VICE-CHAIRMAN
Commerce
Health & Social Services



Senate

2957 SHELDON JACKSON
ANCHORAGE, ALASKA 99504
DISTRICT 10-H

While in Juneau
POUCH V
JUNEAU, ALASKA 99811
(907) 465-3712

*A/c Vic Fisher
for pickup
272-2381*

3/12/80
TO: VIC FISHER
FROM: MARGO WARING

I've reviewed your draft material and have a few comments to make in addition to or in enlargement of marginalia.

First, regarding the marginalia, question marks generally mean that the intention is unclear or could be misunderstood.

I think that prior to those sections that deal with the oil properties tax--and perhaps picked up again in the equity sections--it would be helpful to give a run down of the history of that tax, the arguments pro and con, etc. This might give some historical perspective to the issue and give people a feel for the length of time under which this question has been discussed.

Page 4--I think it would be helpful, again for prespective purposes to discuss the issue of the gasline. How would things shake out regarding taxable properties if the gasline goes thru on the currently predicted route? Questions of scale and quantity can sometimes clarify an issue for some folks who can ignore a one shot deal.

Regarding the "tax problems in urban boros", what had you in mind here? Same paragraph--did you have some basic figure in mind that is the basic cost of general government operations? The disparity between the potential tax at the highest mill levy and the actual cost may be helpful.

Page 5 and other places, as I mentioned when I was in Anchorage, I think that you hould check out the proposed changes in the School Foundation Program and whether or not the points you make here are (would be) right.

Page 7-- middle of the page and to the end--In this section, do you think it would be worthwhile to restate the point that even if state wealth is redistributed by, for example, tax rebates, such wealth redistribution does not help local governments and their situation as local governments can tax property but not income. Further, you haven't addressed the whole issue of whose wealth is it (tho this issue could come out in a section dealing with the history), unless there is some reason otherwise, except for the reference to the accidents of location. I think that this question could be profitably explored, especially in terms of the basic philosophically different approaches in different tax programs, some of which regard natural resources as state wealth and a few which do not. The implicit assumptions in other oil tax legislation vs. the oil properties tax might be a useful starting point. Alternative ways of handling local impact from oil properties (one of the justifications for the current oil properties tax split) could also be mentioned.

Page 8--I think that it would be good, either in this paragraph or elsewhere to discuss how revenue sharing has a "partial no". Do you think it would be going too far afield to discuss (perhaps with the financial disincentives section) other "statutory disincentives"?

Page 9--Expand the "issues in equity" section, perhaps at the end of the last paragraph on this page, to identify how the argument would run, not in any particular detail, but the main statements of the argument: Basic services are equivilent to educational services in that . . . If educational services cannot be dependent on . . . Then . . . That type of thing.

1/16/80

TO: ARLISS

FROM: MARGO

RE: YOUR REQUEST FOR LANGUAGE FOR A STUDY CONTRACT WITH V. FISHER

PROJECT SCOPE:

The legislative session of 1980 will bring together a set of issues which call for a reappraisal of the existing state system of revenue distribution. Bills will be introduced which will address an initial phase of subdivision of the unorganized boro, indicating eventual fruition of Art. X of the Alaska Constitution. Studies have ~~been~~ ~~or~~ been or are being conducted which explore the economic base and feasibility of boro organization (Yukon Flats), explore existing incentives and disincentives to boro organization, revenue sharing and the assumption of additional local government responsibilities are being examined, the potential construction of the gasline and, therefore, its availability as a revenue source are open for discussion. In addition, budget "excesses" generated by increased oil revenues have reopened public policy discussion of the distribution of Alaska's wealth to its owners, the present and future residents of the state.

In the context of this background and based on available data (see attached listing), the contractor will explore, in a fashion suitable to presentation to the legislature, several interrelated public policy questions.

1. New boros and wealth (revenue) distribution. Should revenue distribution be dependent on organizational status? Should incorporation decisions be dependent on fiscal abilities? Is revenue equalization a desirable incentive to the promotion of rural boros?
2. Existing and contemplated local governments. Should the availability of a ~~tax~~ ~~taxable~~ unusually valuable property determine the level of services to residents in different political subdivisions?
3. Related. ~~Are~~ Are there public policy inconsistencies between such ~~sets~~ sets of revenue sharing approaches as the Fish Tax (Chap. 79, SLA 1979 and the Corporate Petroleum Revenue Tax and AS 43.56? ~~Is~~ Is it in the state's interest, and the public interest, to promote this dual approach? Should ~~local~~ local governments with low valuation per capita need to tax themselves at a higher rate than more wealthy areas in order to raise the same revenue? Should pipeline and production properties be regarded as state property and ~~the~~ the revenues from an ad valorem tax on property be distributed by some other formula (alternatives to be suggested)?

→ Who should be the taxing authority for natural resources?

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*Equity? Long term debt-service? local-governmental
deficiency?*

PRODUCT

A ~~xxxxxxxx~~ paper will be prepared by the contractor which discusses the questions stated above. Legislative recommendations will be made, their pros and cons discussed.

Draft version will be available to Senator S. by . Upon review and recommendation of additions, changes, etc. final copy will be prepared and presented by

To Jesse White a "Range Borough" 8/21/79

VICTOR FISCHER ASSOCIATES CONSULTING

221 EAST 7TH AVENUE #204 • ANCHORAGE, ALASKA 99501 • (907) 272-2381

MEMORANDUM

August 18, 1979

TO: Sen. Arliss Sturgulewski, Rep. Bill Parker, et al, Senate-House CRA Committees Local Government Study

SUBJECT: Suggested responses to Jack Chenoweth memo and questions of August 16, 1979.

(Not having dictating machine available and because this is all a series of my own suggestions, am submitting this in rough form. And I hope you will bear with my inimitable typing.)

Jack's item (1), pp. 1 and 2.

Boundaries of REAAs should serve as basis for unorganized boroughs boundaries. But REAA's should serve only as building blocks for unorganized boroughs (UBs). UB's could consist of two or more REAAs.

Determinations as to boundaries and combining REAAs should be made by CRA commissioner, in consultation with .. everybody. Process provisions could be akin to establishment of REAAs and coastal management service areas.

Standards should be those now applicable to borough and REAA's. Insofar as possible, UB boundaries should conform to those of Native regional corporations established under ANCSA.

Assuming REAA boundaries are general used as point of departure, communities should not be split between different areas, i.e., between an REAA and a different UB. In fact, we would be asking for real trouble if UB's did not encompass entire REAAs, as the latter have to be considered service areas of the UB within which they are located.

Line drawing should be handled expeditiously. So long as REAA lines are generally conformed to, only real issues will pertain to combining REAAs, and that process will pretty well be guided by its own logic.

Follow-up adjustment by Local Boundary Commission (LBC) is conceived as procturing the means for assuring that eventual boundaries make sense. It seemed to be pretty well agreed that the initial drawing of UB boundaries should not involve changing boundaries of existing boroughs so as not to antagonize vested interests and beget unnecessary opposition to delineation of UBs. That will, however, result in various boundary and related issues being left unresolved. For example, it's pretty well agreed that the part of MatSu east of the Talkeetnas logically belongs to the Copper River region. The issue of Cantwell may need to be resolved. Bristol Bay Borough? Existing one probably ought to be made part of regional borough by present municipality being converted to city status. It's this type of cleanup that LBC should undertake after UBs are delineated and established.

Item (2), pp. 2-3

We agreed that CRA should provide guidance on this item -- UB councils. Just a few thoughts of my own on this subject:

My initial response is that UBs should be established and have some formal existence without delay. To keep the voluntary spirit, a la coastal management service areas (CMS), there might be provision for local initiative (w/ help from CRA) and for CRA establishment of a council of locals do not initiate.

I think unorganized boroughs are initiated as a result of the legislature's passage of an UB act. When the CRA commissioner certifies the boundaries, or whatever similar appropriate step is taken, that UB exists. However done, it should be automatic and not depend on local action or inaction... This is not a "mandatory borough act" because it doesn't automatically saddle anyone with anything; it is simply a regionalization of Alaska, a breaking down of the existing unorganized borgo.

Under no circumstances should REGA boards serve as UB councils; they were elected for specific purposes only. The CM service area board where it exists would be a better candidate, as it serves a broader purpose; but I still would not think that's the best way to go to start with.

State should pay costs of establishing UB, electing a council, its operations. In effect, the council serves the legislature's purpose in implementing Sec. 6, Article X, of the constitution: "The legislature shall provide for the performance of services it deems necessary or advisable in unorganized boroughs, allowing for maximum local participation and responsibility..."

These "heasts" should not be advisory to the legislature. The legislature is not the assembly for the unorganized borough. The legislature is authorized, as per preceding quote, "to provide for" whatever, and that could be via CRA, UB councils, or any other means, without the legislature being actively involved. (The second sentence of the quoted section in no way obviates this conclusion.) I do not believe that there should be a direct UB - legislature relationship; it would be destructive of legislative ability to deal with other issues and would lead, potentially, to excessive interference in local affairs. Relationship should be UBs-CRA. (The constitution provide for a local affairs agency as the only required agency in the executive branch; this was to assure that such state-local relations were adequately dealt with.) (I'm not sure how any of this would isolate budget and program factors from general law.)

Jack's item (3), p. 3.

Education, health, public safety (all inclusive), and social welfare were identified at the symposium as basic borough services. (And I agree with Jack that natural resources and land use planning belong in this basic category.) However, these services were talked about in terms of a foundation plan in the context of borough services -- organized borough services. They do not pertain to establishment of unorganized boroughs.

Planning as seen in the context of the UB deals with the establishment of goals, assessment of needs, analysis of alternative ways of meeting the needs, etc. It does not include or imply zoning or other land use or development regulations. Nor does it necessarily relate directly to implementation. Since an UB would, and should, not assume responsibility for health functions, such functional planning as health planning would not come under its purview. Rather, the UB might deal with health needs and health delivery as part of its overall efforts to meet the needs of the region, but it would not get into day-to-day aspects of health services delivery. At this stage, UB planning would principally be advisory in nature, unless the legislature decides to devolve upon it some special implementation authority, which I see neither as desirable

Coordination and review would pertain principally to performance of state functions within the borough region. They would address themselves to coordination of state with federal services, state with state services, etc. Assurance that projects and service delivery are not only related to each other but also relate to regional plans, needs analyses, and the like. An A-95 review process by the region might be appropriate.

Relationship between "these beasts" and RCAs and EM areas is difficult to define. My thought would be that, at least initially, there would be no direct lines of authority. The legislature provides for the performance of services in unorganized boros. One means is to have service areas that deliver education and coastal management services/ Another are UB councils. At the same time, there should be provision for all of them talking to each other, for RCAs and EM plans meshing with plans developed by UBs... Beyond that, I would leave the relationship loose, flexible.

Home rule, p. 4.

The purpose of extending home rule to unorganized boroughs that may want to move on to organized status is to permit them to draft a charter without having to first become a first class borough, thereby having to assume planning and zoning, significant support of education, and the full regalia of tax assessment and collection. By going first class, these boroughs would also be bound by all the general law stipulations for organizational structure and provision of services, etc.

Why make someone go first class borough simply as a step to writing their own home rule charter and probably significantly departing from conventional, urban borough first class status? It seems to gain nothing, while putting major obstacles in the path of a region that wishes to organize.

Going directly to home rule would permit a region that has no familiarity with borough government to proceed at its own pace and to create a structure and processes that fit that particular region's needs. The charter-writing process can be a highly important educational experience, one that should have much more meaning than just voting on whether or not to become a first or second class borough. Charter writing can be akin to constitution writing. Delegates could come from all over the region, examine their special needs and problems, and how they might be dealt with. Forms can be adapted to the region so the governmental structure fits the area and the people. Authorities granted by the charter, as well as its restrictions, will provide the basis for voter decisions about whether an appropriate government has been designed for them.

Thus, the Calista region with its dozens of villages might come up with a totally different governing structure than NANA, which is an essentially close-knit region. Also Calista might as well start out with its special creature, rather than first having to go through strange forms that might be appropriate to Sitka and Sitka... A charter might make special provision to protect the integrity of village and city governments against a potentially powerful borough. It might allocate functions and responsibilities between these two levels. It might specify that sales taxes, fish taxes, bingo or whatever are to be the sources of financing the borough; or the charter might provide for the property tax but only with a belly homestead (residence) exemption and a provision that undeveloped land will not be taxed (to protect lands received by villages and regional corporations under ANCSA).

Jack asks some pertinent questions about home rule: what the Upper Yukon people see in it, what North Slope expected and accomplished, etc. I don't want to take the time to attempt a response, and am sure others are in any case more capable of doing so. More important, however, is the question of why the conventional home rule process (via first class status) must be imposed on rural regions. The constitution specifically authorizes the legislature to extend home rule to other classes of boroughs and cities, and it should do so if the machinery of local governance could thereby be improved.

Further, I don't see extension of home rule as an attack on Title 29. Though there were some extreme statements made at the symposium about the inapplicability of this title to rural areas, that does not mean that Title 29 has to be abandoned. In fact, I assume that all the things we are talking about will be done via amendments to Title 29, thereby helping adapt the laws to rural Alaska regional boroughs.

I will leave to CRA initial suggestions for processes that should lead to home rule. However, I do have a few comments. I assume the legislature will set a few standards and requirements. Citizens' voting rights will need to be provided for. I have a hunch the one-man one-vote principle cannot be violated... Local initiative should lead to charter drafting. Again, I would keep the legislature out: it can provide that CRA Commissioner acts on the petition, sets machinery in process, later reviews and approves/disapproves charter... I certainly think the region's voters should approve a charter... State pays-for election; doesn't it when an area votes on organizing as first or second class borough? Given any kind of revenue/wealth sharing scheme that includes all of Alaska, funds should be available in "account" for each region to cover charter drafting and election expenses... CRA should probably provide technical assistance.

Jack raises questions about "general law unorganized borough" and "home rule unorganized borough." Very interesting, probably deserves further thought. I have a hunch that some elements of home rule might be appropriate even for an UB. Possibly this could be left to negotiation between local people (initial council?) and CRA. (I would give CRA a lot of responsibility for making the process work. We are moving into an unknown, unexplored area, and too many a priori rigid decisions can give lots of problems later. The more flexibility and judgment can be allowed, the better do I think the process and resultant system will evolve. This comment applies to the entire topic of legislative for unorganized boroughs.)

Jack is right about need to keep in mind relationship between existing home rule municipalities and the new rural regional home rule boroughs (or the home rule unorganized boroughs.) The constitution contemplates that when problems emerge, the state steps in to resolve them, allocate authorities and sanctions. I would again in the first instance put much authority in CRA commissioner, including assurance that borough charter and municipal charters are not (unduly) in conflict or likely to create future mischief and difficulties... But giving the new beasts broader home rule authority does not in and of itself bother me. In any case, I would like to see us take a broader, home-rule-emphasizing approach to existing governments. (Throughout here, I am speaking not only of the legal concept of home rule, but also of the whole philosophy of self-determination. The state's role should be that of facilitator, conflict resolver, and protector of the higher public interest; and minimal interference in internal local government affairs.)

(7) Financing and services, p. 5

Jack asks critical questions. These should in the first instance be dealt with by CRA as part of their looking at revenue sharing, wealth redistribution, foundation plans for services beyond education, etc.

It will be important, however, to deal with financing establishment of unorganized boroughs and support of their initial activities (council, planning, review and coordination) as part of the initial legislative package. The state is the only conceivable source of funds for the UBs. The UBs exist as creatures of the state, so their support by the state is appropriate and will be in pursuit of state purposes... Unless adequate monies are provided, we may end up with a worse mess than if regionalization had never been tackled. CRA and the local people will have to have the means to make the concepts and systems work.

(8) Recognition of villages, third class cities, p. 5

Local questions. CRA.....

RECOMMENDATIONS FOR ACTION PROGRAM

1. ESTABLISHMENT OF UNORGANIZED BOROUGHS
 - A. BOUNDARIES
 1. DELINEATION
 2. FORMALIZATION (ESTABLISHMENT)
 3. FOLLOW-UP ADJUSTMENT BY LOCAL BOUNDARY COMMISSION
 - B. COUNCILS (ADVISORY)
 1. APPORTIONMENT
 2. ELECTION
 - C. FUNCTIONS AND AUTHORITY
 1. PLANNING
 2. COORDINATION AND REVIEW
 3. RELATIONSHIP TO REAA'S & COASTAL RESOURCE SERVICE AREAS
 - D. STEPS TOWARDS ORGANIZED STATUS
2. HOME RULE/ORGANIZED BOROUGH
 - A. EXTENDED HOME RULE
(provision to move directly from unorganized status)
 1. PROVISION FOR CHARTER PROCESS
 - B. ELIMINATION OF DISINCENTIVES TO ORGANIZATION
 1. PROPERTY TAX, ZONING LAND SELECTION, ETC.
 - C. EXTENSION OF HOME RULE CONCEPT TO EXISTING GOVERNMENTS
3. LOCAL GOVERNMENT FINANCING AND SERVICE
 - A. REVENUE SHARING
 - B. FOUNDATION PLAN FOR HEALTH, PUBLIC ASSISTANCE, PUBLIC SAFETY, EDUCATION
 - C. INTERGOVERNMENTAL CONTRACTING
 - D. FINANCIAL NEEDS (CETA)
 - E. TRAINING AND TECHNICAL ASSISTANCE
 - F. FINANCING OF EDUCATION
4. OTHER
 - A. MUNICIPAL TRUST LANDS 14(C) 3
 - B. RECOGNITION OF VILLAGES
 1. THIRD CLASS CITIES

ARLISS

A PROPOSAL TO PREPARE A CURRENT AND EXPANDED
EDITION OF BOROUGH GOVERNMENT IN ALASKA, A STUDY OF
REGIONAL GOVERNMENT AND STATE-LOCAL RELATIONS

by

Thomas A. Morehouse

and

Victor Fischer

In 1971, the Institute of Social and Economic Research published Borough Government in Alaska by these same authors. That study traced the evolution of boroughs during the first ten years after statehood: the constitutional base, the slow beginnings characterized by great uncertainties, mandatory borough creation in urban regions, reactions to the emergence of boroughs, their early struggles with cities and school district organizations, and the beginnings of a movement to unify boroughs and cities.

The publication was widely used by state and local groups and individuals. Its information and analysis was found useful in legislative deliberations, policy development, public education, and in technical assistance and training programs. Some 2,500 copies were distributed in response to requests primarily from within the state, but from outside as well.

The 1971 report is now out of print. It is also out of date. Major developments have occurred since the earlier study was completed in 1970. Boroughs have become an accepted part of Alaska's governmental structure.

Borough-city unification has taken place in three of Alaska's major urban areas. The first rural regional government was established on the North Slope. Provision for service areas in rural Alaska has been enacted: REAA's, coastal management, and fisheries enhancement areas. And the basis is being laid for attacking some of the serious governance issues in the existing unorganized borough.

At the same time, continuing new issues relating to borough government need to be resolved: relationships between federal, state, and local tax and regulatory powers; prospective establishment of boroughs as taxing jurisdictions in the pipeline corridor; the extent and limits of borough home rule powers under the state constitution; the relative governmental roles of boroughs, cities, service areas, and the state; and, service need, delivery, and cost problems, especially in rural Alaska.

We propose preparation and publication of a new volume on borough government in Alaska that would address such issues while accounting for new organizational developments. The new book would be about twice the ^{length}~~size~~ of the previous report. Building upon the background and base established in the latter, the book would cover developments in organized boroughs over the last ten years, including unification; establishment of the North Slope Borough; developments in the rest of rural Alaska (based in part upon our 1974 study of regional government issues); role of the state; and analysis of trends and future prospects.

The publication project would require about 1 year. Total cost is projected at approximately \$80,000: 6-man months professional and 3-man months of research assistant time, plus necessary support services.

Mailing List for Vic Fischer LGS paper - sent 5/15/80

| | |
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Pouch V
State Capitol
Juneau, Alaska 99811

May 14, 1980

Dear Friend:

By this letter we are transmitting to you a copy of one of the pieces of work prepared for the Joint House and Senate Community and Regional Affairs Committees for their Local Government Study.

The positions stated are those of the consultant, Vic Fischer, and are thought-provoking. We feel that the report raises issues that may need to be addressed in the future. We would be interested in learning your response to this report and any suggestions you might have for future legislative action.

Distribution of this report is rather limited, but if you know of other people who might be interested in receiving a copy, please let us know and we will be glad to send one to them.

Sincerely,

Handwritten signature of Representative Bill Parker.

Representative Bill Parker
Co-chairman, C/RA Committee

Handwritten signature of Senator Arliss Sturgulewski.

Senator Arliss Sturgulewski
Co-chairman, C/RA Committee