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H CRA

HB 843

(RUDD)

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HB

843

(RUDD)

Page 14, line 17 --

After "25,000", delete the period and add

"if:

(1) the municipality has conducted a regular election under AS 29.-28.010 - 29.28.050 during the fiscal year preceding the year for which payment of an entitlement is authorized and has reported the results of the election to the commissioner of the department of community and regional affairs;

(2) regular council meetings are held in the municipality in accordance with the requirements of AS 29.23.210 during the fiscal year preceding the year for which payment of an entitlement is authorized and a record of the proceedings is maintained;

(3) a municipal budget has been adopted for the fiscal year during which payment of an entitlement is authorized and an audit or financial statement, as applicable, for the preceding fiscal year has been prepared and furnished to the department in accordance with AS 29.23.560(a);

(4) local ordinances adopted by the governing body of the municipality have been codified in accordance with AS 29.48.180; and

(5) the council or assembly, to the extent required to maintain efficient and responsible government for the municipality and permitted by its financial resources, provides for the services of a manager, clerk, or comparable administrative officer to attend to the affairs of the local government."



Terry -

Thought you
would like to see
the attached recent
position paper by the
Municipality of
Anchorage. Many of
the points they make
have merit, I think -

LJR

LISA RUDD

Municipality of Anchorage 5/28

HB 843: AN ACT PROVIDING FOR EQUALIZATION OF THE TAX RESOURCES OF MUNICIPALITIES, CONTINUING A PORTION OF THE PROGRAM OF STATE AID FOR MUNICIPAL PURPOSES; AND PROVIDING FOR AN EFFECTIVE DATE.

Under HB 843, Sections 43.18.010-43.18.050 of the present statutes are repealed. These sections provide the authority for current state-shared revenues. In lieu of this, new Chapters 88 and 89 have been added to Section 29 of the statutes. Chapter 88 deals with a new source of revenue called an "Equalization Entitlement". Chapter 89 provides for the continuation of a portion of the state-shared revenues formerly authorized in Section 43.

A review of HB 843 reveals it to be ambiguous in certain cases as well as presenting a redistribution of income approach to state revenue sharing. On the basis of the information made available to us, it appears to be detrimental to the Municipality of Anchorage. The Municipality of Anchorage has severe reservations concerning HB 843.

HB 843 presents a redistribution of income approach to the concept of state-shared revenues. The title of the new item of revenue "Equalization Entitlement" provides an insight in itself. The stated purpose of the bill is "to assure that no municipality suffers impoverishment of necessary public services, relative to other municipalities, because of the chance location of taxable wealth in the state." (Sec. 29.88.005). One of the criticisms of the present law is that it does not include "ability to pay" considerations. A community with a larger than the state average per capita property valuation receives revenues at the same rate as communities which are relatively poor. It is further stated that the same criticisms can be raised with respect to per capita income differentials from which taxes are paid. The net effect of the formula is to favor economically disadvantaged communities.

I. A municipality will be better off if it is high or low in the various components of the equalization entitlement formula as follows:

Population	High
General Govt. Property	
Tax Mill Rate	High
Sales Tax % Rate	High
Local Per Capita Income*	Low
Local Per Capita Property	
Value*	Low

* Compared to state averages

2. Anchorage has both a higher than average per capita income and per capita property value. This is confirmed by the Printout which shows Anchorage to have unfavorable income and property value factors in the computation formula compared with most other jurisdictions within the state.

3. HB 843 would greatly reduce the degree of local autonomy. Communities would be faced with a new restriction as to use of the state revenues. Under current state statutes, state-shared revenues may be expended for any public purpose for which the local government has power to expend public funds, except for a few limitations regarding health facilities revenues. Sec. 29.88.030 of HB 843 contains additional requirements regarding the use of funds for specific service areas and tax zones. Although the new provisions are fairly consistent with the way Anchorage has been allocating past state-shared revenues, we would no longer have the flexibility to do otherwise if the circumstances so warrant.

4. Another possible problem with the proposed formula contained in HB 843 is that it would tie a municipality's position in the revenue sharing pool to statewide variables such as statewide assessed value that are largely beyond its control. For example, a major resource development project that might alter variables such as statewide per capita income and assessed value could affect the revenue sharing entitlements of local governments without regard to changes in need for those municipalities. Under HB 843, it is difficult for a municipality to project what its revenue sharing entitlement might be two or three years in the future.

5. In a rapidly growing area such as Anchorage, the local per capita income and property value would likely increase at a greater rate than the state average thereby creating an adverse effect in the equalization formula.

6. After first having become reasonably satisfied with the validity of the revenue sharing data elements, the "new" version printouts and formula modification were analyzed to determine the effect on Anchorage. Two of Anchorage's concerns with the original version of HB 843 appear to have been rectified.

The sales tax portion of the proposed revenue sharing formula has been changed to eliminate the disproportionate weight given to a sales tax in the original formula. The effect of the change is to cause the proposed revenue sharing allocation system to be neutral with respect to each municipality's taxing philosophy. However, Section 29.88.045, subpart 2 (b)V, of the bill appears to exclude hotel-motel tax.

Revenues from Anchorage's 5% hotel and motel tax have been recognized as a sales tax in the new printouts. It is interesting to note that Anchorage's hotel and motel tax receipts are almost equal to all of Juneau's sales tax receipts and are almost half of the city of Fairbanks'

sales tax receipts. However, the effect of this has been reduced by the above change in the sales tax portion of the proposed revenue sharing formula.

The following matrix provides a comparison of the effect on Anchorage of HB 843:

	<u>1977 Actual (a)</u>	<u>Original HB 843</u>	<u>Substitute HB 843</u>
Amount Shown on State Printout	\$8.4 million	\$9.2 million (b)	\$9.6 million (c)
Amount if Funded at 1977 Level	\$8.4 million	\$6.8 million	\$6.6 million
Anchorage's % of State Total	46%	37%	36%

(a) \$18.3 million total state payout

(b) \$25.0 million total state payout

(c) \$27.0 million total state payout

The second line of the above matrix shows Anchorage's funding if the total state funding were not increased. Under HB 843, Anchorage's share of state-shared revenues will diminish from 46% of the state total to only 36%. For comparative purposes, it should be noted that a 46% share of a \$27.0 million state payout would equal \$12.4 million.

We find it difficult to support the philosophical approach behind HB 843. There is no simple correlation between tax base, personal income and what state revenue sharing should be. Tax base is only indicative of the size of the physical plant (building, dwellings, etc.) within a given community. Tax base does not necessarily relate to service needs or demands. Urban densities, congested traffic, large numbers of unemployed and crime rates are more closely connected to the need for service. Service demands criteria are important factors to consider before making any judgments on tax base and its relationship to state revenue sharing.

The assumption behind HB 843 as the bill is presently drafted appears to be that some municipalities are not receiving a fair share of revenue sharing funds, and, conversely, that other local governments are receiving a disproportionate amount of available dollars to which they are not equitably entitled. Although the first portion of this assumption may be correct, Anchorage objects to the implication that the Municipality is receiving more under the present revenue sharing program than it should equitably receive. Our calculations indicate that, at present, Anchorage receives approximately 46% of state revenue sharing funds. With approximately 50% of the state's population, the present program is, if anything, slightly inequitable on a per capita basis for Anchorage taxpayers. Under the proposal advanced in HB 843, the percentage of revenue sharing funds for Anchorage would decline to only 36%. Although there may be merit in providing increased assistance to municipalities with a relatively small tax base resource, it seems difficult to justify taking funds from Anchorage that will, in essence, need to be replaced by Anchorage taxpayers. It is well known that the

existing revenue sharing program has been under funded in recent years. . . . If a need is felt to provide increased assistance to some municipalities, a strong statement from the Legislature calling for 100% funding of the present program would be an appropriate beginning. If funding at a higher level can be provided by the state (i.e., the \$27.0 million level proposed in the substitute HB 843), then the state revenue sharing rates contained in the existing law should be increased to partially compensate for the increase in the consumer price index since they were originally established. This would help local governments in maintaining a status quo in the services they are able to render through state shared revenues rather than lose ground due to inflation.

Municipality of
Anchorage 5/28

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NOTES TO MARCH 25, 1978 REVENUE SHARING PRINTOUTS

The "new" version printouts are based on a modification of the formula that appears in HB 843 and SB 502. The sales tax portion of the formula is changed. Instead of multiplying the sales tax per cent rate by 2.3, the new version compares the sales tax revenues of each municipality to the revenue generated by 1 mil of property tax in each municipality. The quotient is expressed as a mil rate equivalent. The effect of the change is to cause the proposed revenue sharing allocation system to be neutral with respect to each municipality's taxing philosophy.

REVENUE SHARING DATA--1977

PER CAPITA EXISTING: The dollar amounts in this column correspond to the entitlements received this year by each municipality for all service categories except road maintenance, health facilities and hospitals, and military entitlements. The categories in this column would be repealed by HB 843. Entitlements are lumped into the first listing for each municipality with several listings.

R,H,M: The dollar amounts in the column correspond to the 1978 entitlements that will be received for road maintenance, health facilities and hospitals, and military support. These categories of the present revenue sharing law are saved by HB 843.

TOTAL ENTITLEMENT: The column sums the entitlements that will be received this year (each entitlement has been adjusted for the cost of living allowance).

POP: The certified population numbers used by the Department of Community and Regional Affairs (CRA) for the revenue sharing program.

PER CAPITA PROP. VALUE: The column lists the full and true property value of each municipality or subdivision thereof divided by the population of the municipality or subdivision thereof. Municipalities without property assessments are estimated (EST). The estimated value for second class cities in the unorganized borough is determined by averaging the per capita property values for communities in the unorganized borough with populations of 750 or less.

1976 PCI: The dollar amounts listed in the column correspond to the per capita income figures as determined by adjusting the 1974 Bureau of Census income estimates by 1976 data supplied by the National Planning Data Corp.

PROP. TAX: The numbers in the column correspond to the adjusted property tax mil rate of each municipality or subdivision thereof. Property tax rates appropriated to educational purposes are excised from the base figure before the mil rate is adjusted to the equivalent mil rate on the full and true value of property as determined by the state assessor.

SALES TAX: The numbers correspond to the sales tax per cent rate in each municipality. Sales tax appropriated to education is not included. The per cent rate shown is used in the original version of HB 843, but is not used in the new formula.

S. TAX REVENUE: Sales tax revenues are obtained from the municipal audits filed with the Dept. of CRA. When 1977 audits were not available, the sales tax revenue number taken from the 1976 audits was inflated to represent the expected increase in sales tax revenues in 1977. When no audit was available, each community known to have a sales tax ordinance was credited with an estimated sales tax revenue amount obtained by a similar community with the same sales tax rate in effect.

COLA: Cost of living allowance.

'NEW' PROPOSED REVENUE SHARING (1977 DATA)

PROPERTY TAX: The adjusted property tax mil rate.

S.T. EQUIV: The column lists the sales tax equivalent expressed as a mil rate. The number is determined by dividing the actual sales tax revenues of each municipality (less any portion appropriated to educational purposes) by the revenue generated by 1 mil of property tax on the full and true value of property in that municipality.

PCI RATIO: The numbers are the quotients determined by dividing the state average per capita income (\$8,001) by the per capita income of each municipality or when available, the per capita income of a subdivision of a municipality. A quotient greater than 1 indicates that the per capita income is lower than the state average. 2

PROPERTY RATIO: The numbers are the quotients determined by dividing the state average per capita property value (\$42,871.8) by the full and true per capita property value of each municipality or subdivision thereof. As with the PCI ratio, a number greater than 1 indicates that the municipality has a per capita property value lower than the state average.

AVE. RATIO: The numbers in the column are the average of the two previous columns.

LOCAL EFFORT: The numbers are the result of adding the property tax mil rate to the sales tax mil rate equivalent and multiplying the sum by the average ratio. The product of the local effort number and the proration factor (3.3516427) is the dollar amount per capita that each municipality would receive under the formula portion of HB 843. The local effort factor is not allowed to exceed 25, as specified for in HB 843.

POP.: Population.

PER CAPITA ENTITLEMENT: The dollar amounts are determined by multiplying the local effort factor times the population times the proration factor of 3.3516427. (The proration factor represents the upward proration of each entitlement necessary to pay out a total of \$25 million.)

TOTAL (+ RHM): The column adds the entitlement in the previous column to the entitlement for road maintenance, health facilities and hospitals, and military support.

PRESENT ENTITLEMENT: The dollar amount that will be received by each municipality in 1978.

This printout does not consider Sec. 9 of HB 843 which specifies that each municipality will, for the next three years, receive no less than their 1978 entitlement. The next printout does consider Sec. 9. The entitlements shown on the next printout for municipalities which receive more under the formula than their 1978 entitlement are 96.9% of the entitlements shown on this printout due to the Sec. 9 add ons.

'NEW' VERSION HOUSE BILL NO. 843 (1977 DATA)

PROPERTY TAX: The adjusted property tax mil rate.

S.T. EQUIV: The calculated mil rate equivalent of each municipality's sales tax.

POP: Population.

CHAPTER 88 ENTITLEMENT: The dollar amounts represent the entitlements calculated for Chapter 88 of HB 843, which is the formula entitlement.

CHAPTER 89 ENTITLEMENT: The dollar amounts represent the entitlements calculated for Chapter 89 of HB 843, which is the entitlement for road maintenance, health facilities, and military support.

SECTION 9 ADD ON: The dollar amounts listed in the column correspond to the difference between the 1978 entitlement and the entitlement under HB 843 for every community which receives less under the proposed legislation than they did in 1978.

HB 843 ENTITLEMENT: This column sums the three previous columns and multiplies the sum by .96861730, which is the downward proration factor necessary to pay out \$25 million after the Sec. 9 add ons have been considered.

PRESENT ENTITLEMENT: The actual 1978 entitlement which will be received by each municipality.



ALASKA HOUSE OF REPRESENTATIVES

Community and Regional Affairs Committee

LISA RUDD, Chair

Pouch V, State Capitol
Juneau, Alaska 99811
(907) 465-3870

M E M O R A N D U M

TO: Lisa Rudd

FROM: Annette Smith

DATE: April 28, 1978

SUBJECT: Revenue Sharing

You have asked me to look at the present revenue sharing program and at the new proposal for revenue sharing contained in HB 843 in terms of the validity of each program's intent and its workability. And further, to examine the concerns expressed so far by the municipalities and the Department of Community and Regional Affairs with regard to HB 843, together with any possible solutions there may be. The following, then, is a brief summary of each program and its intent, and a compilation of the problems expressed with HB 843 and the suggestions which have been made for amendments.

The present revenue sharing statute was adopted in 1969 to respond to an intolerable situation developing with Alaska's local governments. Mike Bradner summarized the situation in his Study of State Spending Impact on Local Government as follows:

"Alaska's municipalities in 1969 were in something of a 'double trouble' situation. Many were facing a growing restlessness among real property taxpayers, while at the same time they were under tremendous pressure for expansion and improvements. Real property tax rates had moved generally upward in Alaska communities in the mid-1960s, in part to finance post-statehood growth and optimism, and secondly under the expanded ability to serve brought by the creation of boroughs.

Anchorage was particularly under pressure from growth expansion, with taxes running in the area of 20-mils total, while Fairbanks had experienced a run-up of taxes in the 1960s from fairly modest rates to a total of 26 mils (plus 5% sales tax)."¹

1 Mike Bradner, Study of State Spending Impact on Local Government, 1978, p. 6.

Not every local government situation was the same. Some municipalities were under pressures from increasing population to expand services, while others were simply struggling to catch up with long unmet needs of their communities.

The revenue sharing program was therefore conceived and organized in terms of population and services. The two primary factors determining the shared revenue allocation to each community are: (1) population and (2) categories of services provided by the municipality. Service categories range from the basics of police and fire, through land use planning and transportation facilities, to hospitals operation and construction. Each category is assigned a dollar value or, as in HB 70, assigned a unit value. Values vary according to how important a service is felt to be.²

The statute requires certain minimum qualifications as a prerequisite to funding each service. For example, the fire department must be registered by the state fire marshall, police service must be available 24 hours a day, and hospital and health care facilities must be licensed by the Department of Health and Social Services. AS 43.18.040 provides that the Department of C&RA will establish regulations to assure that each municipality is performing the services they claim at least at the prescribed minimum level. The tenor of the statute however, is that the Department should distribute funds to any municipality which is making the barest attempt to provide a service to its residents.

The basic rationale of the program seems to be that population requires services. The simplicity of the program is very attractive since it is easy for everyone to understand. But the program favors the more sophisticated and populous municipalities. One need only look at the increasing share of the pot which Anchorage has commanded over the years with its rapidly expanding population and municipal government. From 1973 to 1977 Anchorage has gone from 40.3% to 47.5% of the total revenue sharing allocation. This becomes an important factor when the program is not fully funded.

Over the years the eligible categories have been increased as municipalities have increased services, and there are several proposals currently in the Legislature which would expand eligible services further. For example: HB 70 would include solid waste disposal and ambulance; SB 507 would include cultural facilities operation; HB 536 would extend revenue sharing for contractual health care facilities in the bush; and HB 691 would extend revenue sharing for certain municipal operations in state or federally owned health care facilities.

2 See Attachment No. I.

Since its inception there have been calls for reform in the program. It was recognized immediately that the purely per capita approach is not particularly helpful to the smaller municipalities. There is recognized a certain "irreducible minimum cost of doing business" regardless of population.³ Even the very smallest cities should provide certain basic administrative services. There is no category for administrative services.

Another problem is the lack of requirements for standards and criteria for services. All the Department of C&RA is required to do is satisfy itself that the municipality is providing the service it is claiming. Quality of the service is not an important factor. Thus a city can qualify for \$1500 a mile for road maintenance for a few miles of road which are rarely if ever graded. A city can locate an open space, call it a park and qualify for \$5.00 per capita in revenue sharing, leaving the park maintenance up to the birds.

Several of the amendments to the revenue sharing program have been for the purpose of changing the amounts to be received for each category. Presumably, this was to meet the rising costs of services and also to assist in the distribution of any increased appropriations. But any such changes had to be accomplished by going through the entire legislative process.

Finally, it was recognized that the categorical approach did not take into account the actual underpinnings of local government services, namely, local property and sales taxes which are the primary sources of funding for municipal services.

3 Letter from Representative Mike Miller, Chairman, Interim Committee on Revenue Sharing to Senator Genie Chance, December 8, 1975, p. 2.

The present program delivers the same rate of funding for services regardless of whether the municipalities have any local support at all or whether they have to tax themselves to the hilt to provide those services.

In 1975 an interim committee was established to study the revenue sharing program and to recommend necessary revisions to the statute. The committee's resultant proposal was HB 474 which is, I understand, substantially contained in the current HB 70.

It is interesting to note that Mike Miller's letter of introduction for HB 474 discusses the fact that several municipalities argued for a revenue sharing program which would recognize local tax effort as being a more equitable and realistic approach to revenue sharing. In fact, the interim committee studied legislative proposals which would have implemented such a concept. However, the concept was not adopted by the committee. Apparently, when the figures were run on the local effort proposals, municipalities

realized they may not do as well as they expected.⁴ I do not know the details of these proposals. Suffice it to say, Alaska's municipalities have recognized the need for reform of the revenue sharing statute and have actually advocated the concept of local effort as a legitimate basis for revenue sharing.

Intent

The stated intent of the present state aid to local governments program is to "reduce local taxation in reasonable proportion to the amount of state aid received". The question is whether the program has had such an effect on local taxation.

There is no doubt that revenue sharing is of great assistance to local government operations, however, it can be argued that the stated intent -- to lower taxes -- has not been accomplished in reasonable proportion to the amount of state aid received.

4 Mike Miller's letter P. 3

Mike Bradner's recent report on the state spending impact on local governments gives an idea of the favorable effect state aid has had on local government tax rates. His report concentrates only on Anchorage and Fairbanks, but since these communities are the two largest in Alaska, and therefore the two most likely to benefit most from the per capita base of the present revenue sharing program, his report is pertinent. Mr. Bradner's study does indicate that the total state aid program has contributed to lowered taxes in Fairbanks; in Anchorage it has allowed taxes to remain constant while the municipality has expanded the quantity and quality of its services.

The state aid which helped Fairbanks lower its taxes was state aid for school construction. The borough was able to lower borough taxes and thus allow city taxes to remain constant without undue burden to the taxpayers. While Fairbanks has not added substantial new services, it has increased the quality of its services which apparently was greatly needed. Increased property values due at first to inflation and most recently to high value pipeline company property has contributed to the Fairbanks municipalities' ability to keep tax rates down.

The Municipality of Anchorage has been able to keep tax rates relatively constant while embarking on a program of rapid expansion of municipal government. Mr. Bradner contributes this success also to school aid, revenue sharing and increased property values (and, of course, good management).

Several of the smaller first class cities, on the other hand, are still high in tax rates and low in services. Dillingham has a 1977 tax rate of 17 mils; Cordova, 22, Nome 17.9, and all first class cities have a sales tax.

Across the state municipal governments have been growing over the past ten years in costs as well as in services. Inflation is probably factor number one. Pressure from the local populations to provide more and better services is another prime factor. Pressures also have been growing from the federal and state governments for local governments to provide more services and

more sophisticated administration. 5

Expansion costs; and while revenue sharing appropriations have increased substantially over the years, the program has not been able to live up to its stated intent to lower taxes in proportion to state aid received. It has helped municipalities get their feet under themselves and it has assisted in the expansion of municipal services.

Proponents of HB 843 argue that the intent of present law to reduce local taxes proportional to state aid is lost because the formula takes no account of what local taxes are and what the local tax base is. Feeding money to a municipality for services at the same rate, regardless of the rate at which the municipality must tax itself to provide those services, does not reach to the intent of the legislation.

The sponsors of HB 70 seem to have recognized the superfluousness of the intent to reduce taxes, since they left out of the bill any statement of intent whatsoever.

It is conceivable that there is a reasonable public purpose in assuring that specific services are provided by local government, especially if the services are directly related to the health and welfare of the citizens. However, the present program allows a mix of health and welfare and commercial and economic services. There are presently 11 service categories recognized as eligible to receive revenue sharing monies. This is exactly half of the services enumerated in AS 29.48.030. as services which municipalities are empowered to provide. Why are some services favored over others? Why not include every local service?

5 Examples: EPA requirements to revamp municipal sewer and water systems; Coastal Zone Management Program, demanding more sophisticated planning and administration; the State Highway Department encouraging increased local maintenance of road systems.

It may be argued that the categorical approach may encourage municipalities to assume more local services and thereby reduce the state's participation in local government services.

Observations of the Department of CRA indicate that revenue sharing is not a sufficient incentive to expand services at the local level. There is not a category which provides enough money to encourage a municipality to assume responsibility for a service. Police service, surprisingly, is a financial loss even at \$12.00 per capita. The City of Yakutat, population 442, has avoided taking on local police services. It would probably cost them \$50,000 for a one man police department. Revenue sharing would be \$5,300. The State Troopers, therefore provide police protection for Yakutat. The community of Eagle River, population 7,200, resisted local police service for years. It was the community's desire for a better quality of service which finally lead to the determination to assume responsibility for local police service. Their entitlement will be \$86,400.

The broadness of the categories and the lack of any criteria will, however, encourage the small cities to seek to qualify for some categories at the minimal level - parks and recreation, health facilities and roads being the easiest for which to qualify.

SUMMARY

The present revenue sharing program enjoys the support of most if not all of the state's municipalities. Although somewhat arbitrary, it is simple and easy for everyone to understand. It has assisted municipalities to meet the increased demands made on them during the past 10 years of growth, especially favoring the larger population centers where the full spectrum of local services is provided.

However, the program is not without recognized deficiencies. The Act has been amended every year since its enactment and the 1975-76 Legislative interim committee considered major overhauls of the program including a local effort concept supported by the Municipal League. The concept of local effort as the legitimate basis for a revenue sharing program has again been proposed in HB 843.

HB 843 repeals all provisions of the present program which allocate monies on a per capita basis (police, fire, parks and recreation, land use planning, transportation, and air and water pollution control). Sections of the present program which allocate monies on an other than per capita basis (health facilities, hospitals, road maintenance and military installations) are retained.

The repealed portion is replaced with a per capita allocation system based on population, taxing rate, and a factor which compares each local government to the state average using per capita property value and per capita income as indicators.

Some municipalities with high property values and low tax rates will lose revenue sharing dollars with this approach. Additionally, several second class cities and one first class city which do not levy any local taxes would receive less. In order to give these communities a chance to come to grips with the new approach, Section 10 of the bill provides a generous three year hold harmless clause so that no municipality will get less than its 1978 entitlement.

The sponsor substitute also includes \$25,000 minimum grants to all municipalities in a effort to increase the effectiveness of those local governments.

INTENT

The intent as stated in the sponsor substitute is to:

1. Improve the revenue raising and distribution system for the benefit of resident of home rule and general law municipalities by providing for more equitable allocation of financial resources among municipalities to improve their fiscal capacities;
2. Assure that no municipality suffers improverishment of necessary public services, relative to other municipalities, because of the change location of taxable wealth in the state;
3. Provide an incentive to improvement of the administrative capacity of less populous municipalites. ⁶

The basic rationale is that those cities with high property values and high per capita incomes are generally in a better position to fund their local government services than are the municipalities with low property values and low incomes. One mill of tax from a poor tax base will not generate as much revenue as from a good tax base, nor will the revenues go as far to fund services.

The framers of HB 843 have recognized that there is a great imbalance in the distribution of wealth in the state created by the development of the state's oil wealth. The equalization approach is intended to bring every community in line with a mean level of wealth. Most of the state's municipalities have to be brought up to the mean because the North Slope Borough and Valdez far outstrip every other community in terms of wealth. And those economically disadvantaged communities are given an extra tug through this program.

The statement of intent discards any attempt to influence the lowering of municipal taxes. It may therefore run into opposition from conservative interests who would like to at least think that state pressure is being placed on municipalities to lower taxes. The conservative goal of lowering taxes is replaced with the liberal goal of distributing a portion of the state's resource wealth to municipalities and their citizens not directly benefitting from those resources. The conservative side is addressed by the concept that a show of local effort is prerequisite to receiving state shared revenues. This worthy idea is somewhat dampened by the introduction of a generous minimum grant for every community regardless of local effort or population.

The minimum grants provision addresses the "irreducible cost of doing business" on the very basic level. It is considered that just to be organized and functioning as a municipality requires operation funds to hire a person, rent space, but supplies and postage, hold meetings and elections and pay for an audit.

Finally the bill leaves it up to local decision makers what services they wish to provide, presumably according to what they can afford. This eliminates the inequities of the service categories approach where some services were given more weight (dollars) than others and more or less arbitrarily. It also eliminates the encouragement to provide services just because they are included in the shopping list eligible for revenue sharing.

PROBLEMS WITH HB 843

It is difficult to argue against the concept of revenue sharing according to local effort, and it is difficult to argue that all the state's residents should not benefit from the state's resource wealth. However, it is fairly easy to argue the specifics of how to go about it. The following concerns have been raised with regard to HB 843:

1. The formula includes statewide variables over which the municipality has no control; thereby making it difficult to do any long range financial planning. Primarily this problem relates to the state averages which are involved. A variance of .50 in both the PCI and the PCPV ratio can mean as much as \$300,000 difference in the Anchorage areawide entitlement.

The projections which have been made for HB 843 have used a 1977 data base; that is, one year old data. And this data has just become available in 1978. It may be helpful to use a 2 year old data base on which to determine entitlements. This would at least give municipalities a secure base for projections. The drawback would be that the revenue sharing entitlements would be a bit antiquated.

2. The formula for determining local effort does not induce lowering of taxes, but rather encourages keeping taxes high. As noted earlier, it is not the intent of the program to reduce taxes, but rather to augment the local tax revenues. Local tax effort for local services is considered a good thing, otherwise the state would be fully funding local services.

A ceiling of 25 local effort factor has been included in the bill. A municipality gets no more credit for local effort over that figure. Therefore, it is not to a municipality's advantage to raise taxes above that level purely for revenue sharing purposes. There are several cities in the state which already come out above 25 in local effort (primarily first class cities), which might indicate they are hard pressed to meet demand made on their local governments.

John Williams has made a study of how much these municipalities would be able to reduce taxes and still retain the same revenue sharing entitlement.⁷ His findings indicate most municipalities may reduce taxes a very small amount provided everything remains equal. It is probably more realistic to expect only those communities about the 25 local effort factor would actually be able to reduce taxes.

It is more likely municipalities will keep taxes the same and increase either the quality or quantity of municipal services. Municipalities which do not now levy a tax may find it advantageous to levy a tax. This is considered a plus by the framers of HB 843. Additionally, municipalities which lose substantial revenue sharing funds under this new approach (by virtue of having a low tax rate and high PCPV and PCI) may find it advantageous to raise tax rates to make up the difference. Valdex, for example, will have to raise their mil rate .20 mils to regain their former entitlement level.

7

Memo from John Williams to Terry Gardiner, April 17, 1978, Attachment II.

Lowering the maximum local effort factor to 20 or 15 would have the effect of: 1) reducing the total pay-out; 2) helping those communities with high per capita assessed value, high per capita income, and lower tax rates come closer to the average and thereby receive a larger entitlement; 3) decreasing any incentive there may be to raise taxes for revenue sharing purposes; and 4) decreasing the entitlements to those cities which are above the 25 factor already.

It should be kept in mind that there are two ceilings placed on local effort. One is the 25 local effort factor ceiling of HB 843, and the other is how much the local taxpayers wish to fund services. There is a constant pressure exerted by the taxpayers to lower taxes, regardless of how low they are. It will be more difficult for a council or assembly to reduce taxes, in that a good deal more study will have to be done on the various repercussions of such a move.

The formula, then, while not specifically conducive to lowering taxes, is also not necessarily an incentive to increase taxes except in a case where there are no taxes or very low taxes. The pressures to go either up or down with taxes come primarily from the local taxpayers either in the form of demands for services or demands for lower taxes. ⁸

3. Per capita income is not an appropriate indicator of a municipality's ability to pay. It is argued that a city with relatively high income may have either a low or no property tax base, leaving the municipality with a poor showing in the local effort factor. Income tax is not an option available to municipalities. The City of Sand Point testified that a small number of very successful fishermen has driven the PCI for that community up out of proportion. Large tracts of land may be owned by out-of-state landowners or corporations whose income is not reflected in the community.

The framers of HB 843 argue that state averages are needed to come up with relative numbers for the formula, and two indicators, namely PCPV and PCI, are necessary to make the equation mathematically valid. They maintain that income is a valid indicator of a municipalities ability to pay. Without it, the picture would be lopsided. If the PCI were left out of the formula, there would be a dramatic change in the entitlements of several municipalities.

At my request, John Williams ran the figures for all municipalities given a local effort factor of 20 and eliminating PCI from

8 Other pressure may come from the state and federal governments as exemplified in footnote 5, page 6

from the formula. The changes were, indeed dramatic. Anchorage gains about \$2 million dollars; Juneau gains a few hundred thousand; Sand Point gains \$18,000 or 30% and the North Slope Borough loses practically all of its entitlement. This is because the North Slope Borough property values are about 10 times the state average, but the per capita income is well below the state average which serves to bring that municipalities profile more in line with reality. The other main losers with this approach are the first class cities and some second class cities, which by and large are the municipalities which show the highest local effort factors. 9

4. The conversion of sales tax to a millage equivalent has been called into question by both Anchorage and the Department of C&RA. Anchorage felt that the conversion gives a disproportionate emphasis on sales tax. This has been taken care of to some extent by the Department's suggestion of converting the sales tax to millage equivalent according to the revenue generated.

For example:	Property Tax Revenues (10 mils)	\$1,000,000
	Sales Tax Revenues (3%)	300,000
	Total Revenues	<u>\$1,300,000</u>

One mil property tax equals \$100,000 in revenues.

	Total Revenues	\$1,300,000
Revenue from 1 mil property tax		<u>100,000</u>

=13 mil (millage equivalent) 10

This is a more equitable approach in that it easily takes into account the local situation. Any exemptions granted by municipal ordinances, such a food, are reflected in the revenues. But sales tax will generally outshine millage simply because it can generate more revenues from the turnover of goods and services in a community.

Sales tax is in the formula because it is one of the two main sources of revenue open to local governments. In some communities this is the only revenue source, since there is no property tax base. Anchorage fortunately has not found it necessary to impose a general sales tax. The hotel tax which the Municipality of Anchorage levies on its visitors is presently not included in HB 843, but it can be included by amendment. The addition to Anchorage's entitlement would be about \$320,000.11

9 Attachment III
 10 Letter to Gardiner from DC&RA, March 14, 1978
 11 Anchorage Hotel tax = \$1,108,739 revenue= .244 millage equivalent.

Anchorage has also argued that this revenue sharing formula actually encourages Anchorage to institute a sales tax. According to Legislative Research, the institution of a 1% sales tax in Anchorage would increase its revenue sharing entitlement by \$959,003. Direct revenues from the sales tax would be at least \$12.6 million. For each additional revenue sharing dollar, therefore, the Municipality would generate more than \$13 in direct tax revenues.¹² It is not likely the extra \$900 thousand in revenue sharing alone would be sufficient incentive for the Anchorage area to institute a sales tax, but this is a decision the local taxpayers would have to make.

The Department of C&RA pointed out that several small municipalities could reach the 25 local effort factor simply by instituting a 1.5% sales tax. This was true for the original HB 843, but since the millage equivalent is now determined according to the sales tax revenues, this is no longer likely.

5. The high minimum grants (\$25,000) detract from the philosophy of the program, that local effort is a prerequisite for state aid. Most of the small second class cities get revenue sharing dollars in amounts substantially less than \$25,000 + COLA. But they do also receive federal revenue sharing dollars. It could be several years before many of these cities are developed enough to find it advantageous to increase their local effort beyond the present level, which in many cases is zero. The burden of local effort remains on the medium and larger sized cities while the smaller ones get a free ride.

The counter argument is that if the state will provide enough money for a city to actually function as a city (including perhaps an administrative person, an office, typewriter, etc.) the city will start to find other sources of revenue, provide more services, and eventually increase its citizens' desires to the point where local effort is required in order to fund the expanded services. It has been suggested that a minimum grant of \$15,000 + COLA would be more appropriate and would serve the same end result. It should be kept in mind that these municipalities also receive Federal revenue sharing funds, although in many cases it is not more than \$1,000. ¹³

More importantly, it should be noted that several of the second class cities incorporated in the state are not really functioning as municipalities now.

12 Memo from John Williams, Legislative Affairs to Terry Gardiner, 3/8/78.

13 Attached print out dated 4/26/78 also shows minimum entitlements at \$15,000 + COLA. Attachment III

The Department of Community and Regional Affairs has compiled an overview of the state's municipalities and the basic administrative services (i.e. regular elections, regular council meetings, budget and accounting systems, local ordinances, administrative personnel employed, community planning) provided on the local level.¹⁴ The results show that a significant number of municipalities do not provide any of these basic administrative services.

Some of these cities still do receive state and federal revenue sharing and state shared taxes. All of them will receive at least the \$25,000 minimum grant if HB 843 (or HB 70) is instituted.

It may be in order to have the Local Boundary Commission take a close look at some of these municipalities and dissolve those which are not functioning.

6. The new program reduces the degree of local autonomy in that it specifies that funds allocated on a service area basis or differential tax zones must be spent in those areas. The present program leaves it up to the municipality to determine how the funds shall be spent.

This provision was included as a logical extension of the local effort philosophy. That is that the area generating the revenues should benefit from the additional input provided by the state.

Most municipalities expressing concern over this provision have hastened to add that this is currently their policy anyway. This section, of course, may be easily eliminated.

7. The Department of C&RA has suggested that that portion of the property tax used to support enterprise activities such as utilities and boat harbors should be subtracted from the eligible millage. (That amount going to support schools is already subtracted.) The argument is that they should be self-supporting services and this revenue sharing approach may in fact be an incentive to always have these activities partially subsidized by taxes

The present revenue sharing program provides revenue sharing for water and sewer systems and transportation facilities which includes docks and boat harbors. The Department does not agree with this support.

14 Local Government Checklist, Alaska Local Government, by Paul Conger, Research Analyst, Vol. XVII, No. 2, February 1978, pp. 6-12, Attachment IV

The argument to retain revenue sharing support of such services would be that in some areas it may not be possible to make these services self-supporting at this time. Water and sewer would be a prime example in the small cities which have had to install expensive treatment plants requiring extra personnel, chemicals, energy, maintenance. User fees skyrocket, but operation still requires some subsidy from the municipal general fund. A bus service is another example of a needed service, which cannot support itself at the outset at least until its clientele is built up.

8. The Department has also suggested that road maintenance be eliminated either from the formula or from the Chapter 89 per mile allocation. The argument is that municipalities are paid twice for this function. \$1,500 a mile sounds like a very generous amount. I understand that the Highway Department has been trying to encourage municipalities to take over responsibility for more of their local roads, and perhaps the \$1,500 per mile is part of that encouragement. However, when this amount is translated into the costs of road maintenance, it does not seem so generous. Without revenue sharing support it is probable several municipalities would drop much of their road maintenance.

If the Department could suggest a change in either the formula or the per mile entitlement, which would keep entitlements fairly equal, an amendment may be possible.

9. A further suggestion of the Department is that support of military installations be incorporated into the formula. I have suggested that the Department propose a formula which would accomplish this.

10. One of the largest concerns with the adoption of this new program is funding. The sponsors have provided a model with a total payout of \$27 million. The present program funding level is \$18.3 million. This in itself is a major policy decision for the Legislature. Is it appropriate to increase municipal revenue sharing nearly \$9 million? And can municipalities expect full funding in the future?

General municipal revenue sharing has increased since 1970 from \$2.0 to an estimated \$18.3 in 1978 -- \$16.3 million in 8 years. Much of this increased funding was due to new cities, boroughs and fire districts joining the program since 1970. The program's participants have increased from 9 boroughs and 54 cities in 1970 to 3 unified governments, 7 boroughs, 139 cities and 45 fire protection groups in 1977. 15

Additional increases in the appropriations were accomplished by amendments to the per capita service categories.

It may be that the time is appropriate for a substantial increase because both HB 474, proposed in 1976, and HB 70, introduced in 1977, carried fiscal notes in the range of \$25 million.

Over the years the revenue sharing program has not always enjoyed full funding; 1973, 1974, and 1977 being the most noteworthy with funding allocations at 92.27%, 91.96% and 95% respectively.

There are some important guarantees contained in HB 843 -- the minimum grant entitlement and the Section 10 grandfather entitlements. This program will not work without the increased level of funding. The bill's sponsor has therefore included the provision that the program will not take effect unless the full appropriation of \$27 million has been secured. It would be advantageous to build a similar mechanism into the bill at least for the next three years (the duration of Section 10) and preferably extending into the future, so that no municipality will suffer unduly from underfunding of the total program.

SUMMARY

The concept of HB 843 makes sense in that it approaches state aid to local governments from the standpoint of augmenting their local revenue sources. It attempts to address the local situation insofar as how easily local revenues can be generated. It gets away from the strictly per capita approach which only favors metropolitan areas, and the service categories approach which places a strain on small municipalities to try to qualify for something even at the barest minimum in order to add some extra dollars into their meager treasuries.

The infusion of extra dollars into the program is welcome and needed as more and more responsibilities are being thrust on local governments.

The program appears workable as proposed though it could sustain amendments which may work to the advantage of some municipalities.

The greatest problem with the bill appears to be its dependent on statewide variables. Every municipality relates to the others in that increases or decreases in entitlements conversely affects all the others, because the program is funded with a set amount of money. Property values and per capita income can be affected by major factors over which municipalities either

singly or collectively can have no control. With so many variables involved a municipality cannot plan ahead with much accuracy, thus reducing its level of responsiveness to the local citizenry. Unfortunately, this reference to statewide averages is also the beauty of the bill in its intent to distribute the state's wealth according to relative need.

ATTACHMENTS

- I. Breakdown of Present Revenue Sharing Funding Categories.
- II. Memo from John William to Terry Gardiner, April 17, 1978 and print-out.
- III. Print-out dated April 27, 1978 showing Local Effort Factor - 20, No Per Capita Income, \$15,000 Minimum Grants
- IV. Local Government Checklist, Alaska Local Government, by Paul Conger, Research Analyst, Vol. IVII, No. 2, February 1978, pp.6-12, Attachment IV
- V. Revenue Sharing Funding Summary Sheet provided by Department of Community and Regional Affairs.

PRESENT REVENUE SHARING FUNDING

Local Government Hi-lites

Police Protection	12.00 each person
Fire Protection	7.50 each person
Air/Water Pollution	2.00 each person
Land Use Planning	2.00 each person
Parks and Recreation	5.00 each person
Transportation Facilities	5.00 each person
Road Maintenance	
a. Public Roads	1500.00 each mile
b. Ice Roads	900.00 each mile
Health Service	2.00 each person
Health Facilities	1000.00 each bed 4000.00 each facility
Hospitals	1000.00 each bed 25000.00 each hospital 75000.00 each hospital
Construction Aid (Hospitals)	2500.00 each bed

2 Analytic Statement

The following schedule provides a history of the program as well as a projection of the total costs:

<u>FY</u>	<u>AVAILABLE APPROPRIATION</u>	<u>FULL FORMULA FUNDING</u>	<u>NUMBER OF APPLICANTS PARTICIPATING</u>
1970	\$ 1,000,000 1,020,000 <u>1/</u>	\$ 2,015,281 <i>100%</i>	9 boroughs 54 cities
1971	6,500,000	6,333,708 <i>100%</i>	1 unified government 80 cities 8 boroughs 5 fire protection groups
1972	7,035,000 415,000 <u>2/</u>	7,505,497 <i>99.1%</i>	1 unified government 94 cities 8 boroughs 14 fire protection groups
1973	7,800,000 44,300 <u>3/</u>	8,501,575 <i>92.2%</i>	2 unified governments 107 cities 7 boroughs 20 fire protection groups
1974	8,777,000	9,544,000 <i>91.9%</i>	2 unified governments 109 cities 8 boroughs 44 fire protection groups
1975	12,929,000	12,458,626 <i>100%</i>	2 unified governments 119 cities 8 boroughs 48 fire protection groups
1976	15,130,100	14,039,600 <i>100%</i>	3 unified governments 138 cities 8 boroughs 38 fire protection groups
1977	<i>16,593,346</i> 15,113,600 <u>4/</u> <	<i>17,335,512</i> <i>95%</i> 16,969,800 (est.)	3 unified governments <i>39</i> 157 cities 7 boroughs 45 fire protection groups

1/ Supplemental appropriation provided by Chapter 1, SLA 1970.

2/ \$413,930 of FY 1973 appropriation allocated by 1972 Legislature to provide additional funding for approved entitlements of FY 1972 applicants.

3/ Additional funds provided by Revised Program for health facilities initially determined to be non-qualifying.

4/ The proration factor between full funding and available funding would be approximately 89.06%.

BRU MUNICIPAL SERVICES REVENUE SHARING BRU CODE 07-73-02-01-01 REVISED _____

2 ANALYTIC STATEMENT

#2 BASIC ADMINISTRATIVE SERVICE - LGAD TRAVEL

To provide LGAD with an overview of basic administrative services (i.e. regular elections, regular council meetings, budget and accounting systems, local ordinances, administrative personnel employed, community planning) provided on the local level and assistance rendered by LGAD, an efficiency rating and Table, similar to that used in the previous section, was prepared.

The method used to determine the cities efficiency rating in reference to the basic administrative services they provided is as follows:

A city would be given a rating of -

"6" if the city provided all six services listed above in 1977;

"5" if the city provided all 5 of the six services listed above in 1977;

"4" if the city provided 4 of the six services listed above in 1977;

"3" if the city provided 3 of the six services listed above in 1977;

"2" if the city provided 2 of the six services listed above in 1977;

"1" if the city provided 1 of the six services listed above in 1977;

"0" if the services were not provided.

Mention should be made of the difference between the criteria utilized in this efficiency rating and the one prepared for the SRS-Travel sections in Table 2 and 3. The cities in this section are given efficiency ratings based on administrative services provided in 1977 and does not extend back to include the years 1972-76; however, the travel section in Table 4 does comprise the six year period.

The outcome of the efficiency rating for cities conducting basic administrative functions is listed below:

33 cities received a rating of 6
11 cities received a rating of 5
20 cities received a rating of 4
17 cities received a rating of 3
20 cities received a rating of 2
11 cities received a rating of 1
12 cities received a rating of 0

Information was not obtainable on 16 of the cities.

To portray the relationship between the cities based on their efficiency ratings and travel by LGAD to those cities, Table 4 depicts this comparison and can be interpreted in the same manner as Table 2-3.

It is difficult to measure the two factors in this section because the information on services rendered does not extend back to 1972, as does the travel data. The data on Table 4 does indicate that towns providing all the functions in 1977 were also the cities that received the most visits over the past six years. An indicator that would be more revealing regarding the current status of the "services-travel" relationship, is the fact that of the 33 cities that provided all six functions, ten of those cities were visited at least once in 1977.

3 ADMINISTRATIVE PERSONNEL ON DUTY/LGAD TRAVEL

One of the points of interest that was entertained when the topics for the Local Government Checklist were considered, was the desire to see what impact administrative personnel at the local level had on the cities' ability to provide the basic administrative services listed in the previous section. Furthermore, it was discussed that we should ascertain what influence, if any, assistance rendered by LGAD had on their capacity to facilitate the above mentioned duties. *Data compiled from the checklist relative to basic administrative services produced the results listed below.

The cities in the left hand column illustrates the breakdown of cities that have administrative personnel on duty in 1977, but received no visits from LGAD. In the right hand column, is the breakdown of cities that have administrative personnel on duty and were visited by LGAD in 1977.

BASIC ADMINISTRATIVE SERVICES

NO LGAD VISIT

75 cities had administrative personnel on duty in 1977 and did not receive any visits by LGAD that year.

14%, or 11 cities, provided all six services;

6%, or 5 cities, provided 5 of the 6 services;

25%, or 19 cities, provided 4 of the 6 services;

20%, or 15 cities, provided 3 of the 6 services;

26%, or 20 cities, provided 2 of the 6 services;

8%, or 6 cities, provided 1 of the 6 services.

No city in this category provided less than one service.

LGAD VISIT

32 cities had administrative personnel on duty in 1977 and were visited by LGAD during this year.

69%, or 22 cities, provided all six services;

19%, or 6 cities, provided 5 of the 6 services;

3%, or 1 city, provided 4 of the 6 services;

3%, or 1 city, provided 3 of the 6 services;

6%, or 2 cities, provided 2 of the 6 services;

No city in this category provided less than two services;

*Data not available on 16 cities

NO ADMIN PERSONNEL
NO VISITS - 1977

15 cities had no administrative personnel on duty in 1977 and received no visits from LGAD

1 city provided 2 of the six services

2 cities provided 1 of the six services

12 cities provided no administrative services

NO ADMIN PERSONNEL
VISITED - 1977

One city having no administrative personnel on duty, received a visit from LGAD

1 city provided 2 of the six services

As the above information indicates, cities that are without administrative personnel are also cities that have the poorest record of providing administrative services. Cities that have administrative personnel on board show a noticeable increase in the number of services provided. This is supported by the fact that 50 of the 75 cities in this category provided at least half of the services listed in this study. The appreciable difference, however, of the cities' ability to provide administrative services, based on the criteria presented in this section, is the combination of administrative personnel on duty and a visit by LGAD. This combination appears to be a good mixture with 55% more cities providing all six services than those that did not benefit from a visit by LGAD.

4 Population STATE REVENUE AND BASIC ADMINISTRATIVE FUNCTIONS

To broaden the overview of Alaskan cities, Table 5 provides an accounting of the basic administrative services provided at the local level in relation to a breakdown based on population.

Table 5 denotes the basic administrative services provided in 1977, and relates this to a population breakdown throughout the state. All Alaskan cities, with a population of 800 or more, with the exception of one, provided all six of the basic administrative functions. Cities with the second best average were in the 600-699 population range averaging 5.4 of the services in 1977. Cities with a population of 0-99 received the poorest average, averaging only 1.11 basic administrative services during 1977.

5 Incorporation Date STATE REVENUE & BASIC ADMINISTRATIVE FUNCTIONS

To supplement the population data presented in Section 4, material was also gathered to provide a comparison between cities based on their incorporation dates. The motivation behind this comparison was to draw a parallel between the cities with early incorporation dates against cities that have incorporated more recently, to see if one is demonstrating an ability to provide more viable government based on the criteria that we have established in this study. In making this comparison, incorporated cities were grouped in the following manner:

- 1) cities incorporated 1970-76 totaling 57*
- 2) cities incorporated 1960-69 totaling 51*
- 3) cities incorporated 1900-59 totaling 31

Table 6 displays the comparison between the groups.

In reference to State Revenue Sharing:

- 1) 27 cities, or 87% of the cities in the older group received SRS all six years;
- 2) 36 cities, or 71% of the cities in the middle group (1960-69) received SRS all six years;
- 3) 16 cities, or 28% of the cities in the 1970 or later group received SRS all six years.

Based on the above, cities incorporated prior to 1970 are applying for and receiving SRS far more successfully than cities incorporated after 1970. Also cities incorporated after 1970 had eight cities receiving no SRS the past six years; while in the older group, no city received less than four years of SRS.

Regarding the second element of concern in this section, basic administrative services rendered at the local level, the breakdown of the cities is as follows:

The older group performed an average of 5.54 of the services in 1977, having 22 cities, or 71%, providing all six administrative functions;

The middle group performed an average of 3.30 of the services in 1977 with 8 cities, or 16%, providing all six administrative functions;

The group incorporated in 1970 or later, performed an average of 2.36 of the basic administrative services in 1977 with only three, or 5%, performing all six activities.

In both revenue sharing and basic administrative services rendered, the

older group showed a definite upper hand over those cities incorporated more recently by having 87% of the cities in their group receiving SRS all six years and 70% of the cities in this group performing all the basic administrative services in 1977. This would indicate that cities that have been exposed to the process of applying for and receiving SRS, and have had time to become acquainted with the operations of municipal government, have the edge in providing more viable government at the local level.

CITY OF CORDOVA

Phone: (907) 424-3237
or 424-3238

Box 1210

Reply to:

CORDOVA, ALASKA 99574

"The Friendly City"

MAR 16 1978

March 14, 1978

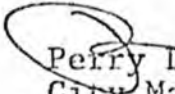
Representative Hugh Malone
Pouch V
Juneau, Alaska 99811

Dear Representative ^{Hugh} ~~Malone~~:

The Cordova City Council at the regular meeting of March 13, 1978 voted unanimously to support House Bill 843. The City of Cordova presently has one of the highest tax rates in the state with a 22 mill property tax plus 4% sales tax. The additional revenue generated by House Bill 843 would be a significant step in the reduction of local taxes.

We appreciate and encourage your efforts to reduce the local tax burden.

Very truly yours,


Perry D. Lovett
City Manager

cc Pete Loveseth
Jim Role

copy to C&RA

Municipality of Anchorage



POUCH 6-650
ANCHORAGE, ALASKA 99502
(907) 274-2525

GEORGE M. SULLIVAN,
MAYOR

OFFICE OF THE MUNICIPAL ATTORNEY

April 6, 1978

Representative Lisa Rudd
Chairperson, House Community
& Regional Affairs Committee
Pouch V
Juneau, Alaska 99811

*Terry - We have received a
number of requests for
information about an interim
committee. Any suggestions?
Pls. return letter
Lisa*

Dear Representative Rudd:

The purpose of this letter is to inform your Committee that the Municipal Administration has reviewed HB 843 and would object to further action on this legislation until all affected local governments have been able to thoroughly assess the strengths and weaknesses of the proposed new revenue sharing formula.

The assumption behind HB 843 as the bill is presently drafted appears to be that some municipalities are not receiving a fair share of revenue sharing funds, and, conversely, that other local governments are receiving a disproportionate amount of available dollars to which they are not equitably entitled. Although the first portion of this assumption may be correct, the Anchorage Administration objects strongly to the implication that the Municipality is receiving more under the present revenue sharing program than it should equitably receive. Our calculations indicate that, at present, Anchorage receives approximately 46% of state revenue sharing funds. With approximately 50% of the state's population, the present program is, if anything, slightly inequitable on a per capita basis for Anchorage taxpayers. Under the proposal advanced in HB 843, the percentage of revenue sharing funds for Anchorage would decline to only 40%. Although there may be merit in providing increased assistance to municipalities with a relatively small tax base resource, it seems difficult to justify taking funds from Anchorage that will, in essence, need to be replaced by Anchorage taxpayers. The Committee is, of course, well aware that the existing revenue sharing program has been underfunded in recent years. If a need is felt to provide increased assistance to some municipalities, a strong statement from the Legislature calling for 100% funding of the present program would be an appropriate beginning.

Rep. Lisa Rudd

April 6, 1978

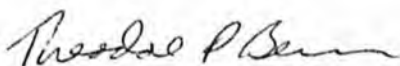
Page 2

Another possible problem with the proposed formula contained in HB 843 is that it would tie a municipality's position in the revenue sharing pool to statewide variables such as statewide assessed value that are largely beyond its control. For example, a major resource development project that might alter variables such as statewide per capita income and assessed value could affect the revenue sharing entitlements of local governments without regard to changes in need for those municipalities. Under HB 843, it is difficult for a municipality to project what its revenue sharing entitlement might be two or three years in the future.

Although Anchorage does not oppose the concept of a new approach to revenue sharing, the formula proposed in HB 843 would so radically depart from the present system and would have such major impacts on local governments, that it should not be adopted without thorough review and input from both small and large municipalities. For example, Anchorage would like to be presented with a series of printouts similar to those accompanying HB 843 showing the relative position of the Municipality under a variety of realistic assumptions about future statewide assessed value and per capita income. Perhaps a study committee consisting of legislators, representatives from the state administration and local governments could study the proposal prior to the commencement of the next Legislature and could respond with recommendations for a new approach to revenue sharing that would be equitable for all parties concerned.

I appreciate the opportunity to comment on this legislation. If the Committee has any questions concerning the above, please contact me at 264-4237.

DEPARTMENT OF LAW



Theodore D. Berns
Municipal Attorney

TDB:gml

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

DIVISION OF LOCAL GOVERNMENT ASSISTANCE

POUCH B - JUNEAU 99811

April 5, 1978

The Honorable Lisa Rudd, Chair
House Community and Regional
Affairs Committee
Pouch V
Juneau, Alaska 99811

Dear Representative Rudd:

Re: HB 843

You have asked for our opinion concerning the ways in which a Municipality may unduly benefit from the proposed revenue sharing bill (HB 843). The Department analysis of the bill (contained in the 14 March 1978 letter to you) explains very briefly some of the problem areas of the bill. In addition to that letter, Local Government Specialist Bruce Aronson of the Department offers the following comments concerning the ways in which municipalities may manipulate the proposed statute to their own best interest.

1. Enterprise activities (utilities, small boat harbors, etc.) should not be included in the formula. In other words, any sales and/or property taxes levied to support enterprise activities should be excluded from the tax rates. If this is not done, the tax rates might be unfairly inflated, and utility fees would be reduced. The State of Alaska would, in effect, support an activity that should be self-supporting.

2. Since the categories of roads, ice roads, and health services and facilities are retained in the legislation, it hardly seems appropriate to include any locally generated taxes, used to fund these services, under Ch. 88 of the bill. A gross example of this type of situation would be a single purpose service area created for road maintenance being eligible under Ch. 88 of the bill for the basic local tax effort formula funds, and also receiving \$1,500 per mile for roads maintained. This dual eligibility would seem to be necessary.

3. A simple and rational approach to establish assessed valuations per capita for second class cities in the unorganized borough would

Page two
The Honorable Lisa Rudd
April 5, 1978

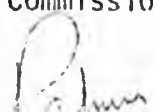
benefit by a low assessed value per capita number. Our earlier suggestion of averaging the per capita assessed value of municipalities of population less than 750 located in the unorganized borough is still one available alternative.

4. HB 843 arbitrarily multiplies the sales tax rate times 2.3 and adds in the property tax rate (in mills). It would be to any municipality's advantage to analyze the "rate of return" to the municipality under its current tax rates. By altering the sales and property tax rates (and assuming total local revenue is constant) a municipality may be able to gain slightly. A "cure-all" to this problem would be to add all locally collected taxes and divide by the revenue generated from one mill property tax. This new number would be the "millage equivalent". By doing the above, a municipality would not tinker with local tax rates to gain some additional State shared wealth.

5. If a municipality has no local retail stores, and/or property that could be taxed (utilizing a property tax) it would be to the municipality's advantage to "raise" local "taxes" until the maximum local effort factor has reached (25). One estimate by Legislative Affairs indicates that in a small rural city, the local effort factor is reached when a 1½% sales tax is levied. No additional benefit occurs when the number 25 is reached.

Sincerely,

Lee McAnerney
Commissioner


by: Palmer McCarter
Director

PMc:pc

STATE OF ALASKA

JAY S. WALSH, GOVERNOR

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

DIVISION OF LOCAL GOVERNMENT ASSISTANCE / POLICY B - JUNEAU 0011

March 14, 1978

The Honorable Terry Gardiner, Representative
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Representative Gardiner;

Re: HB 843 "An Act providing for equalization of the tax resources of municipalities and continuing a portion of the program of state aid for municipal purposes; and providing for an effective date."

This bill (as well as SB 502) would dramatically alter the method by which the State of Alaska distributes financial assistance to municipalities. Currently, under AS 43.18, the State distributes in excess of \$18 million dollars annually to municipalities and volunteer fire departments in the unorganized borough utilizing a categorial approach. For example, if a city has a police department, and meets the minimum requirements, the State pays the city \$12 per person served by the police department. No consideration is given to the relative ability of the city taxpayers to support the police department, nor the rate of municipal taxation.

The existing revenue sharing formula (AS 43.18) encourages municipalities to provide a wide variety of services, even though the quality of such services may be minimal, and no local tax effort is required. Additionally, the present revenue sharing program favors the more sophisticated municipalities (due to the categorial approach) as well as favoring municipalities having greater populations in a relatively small area. The new concept of distributing State generated wealth utilizing a formula based on relative taxable wealth, relative ability to pay, tax rates, and population makes sense to us and is definitely a step forward in assisting the development of local government in Alaska. Briefly, the concept may be described as helping those municipalites willing to help themselves.

The Department's initial review of HB 843 indicates that consideration should be given to amending the bill in the following areas:

1. The municipal tax rates should be downwardly adjusted to account for taxes used to support utilities (utilities should be self-supporting), and taxes used to support roads, ice roads, and health services and facilities (these categories are retained in this legislation).

2. Since there are no assessed valuations for essentially all second class cities in the unorganized borough, perhaps an arbitrary assessed value could be established. One approach is to compute an average assessed valuation per capita figure based on all first class cities in the unorganized borough having a population less than 750 (the Department already has these figures). This approach would be equitable and inexpensive. Those cities (3) having a population in excess of 750 could be assessed at State expense.

3. Other components of the formula should be carefully considered. For instance, are the per capita income figures credible? Also, because petroleum property in a few boroughs so distorts the State average valuation, should that figure be adjusted? Exclusion of extreme values or use of the median property value in the State might be appropriate alternatives.

4. For ease of administration, we feel the military population should be treated in a manner consistent with that used for the civilian population. One method of accomplishing this would be to apply the areawide local effort factor to the military population.

5. The concept of calculating a millage equivalent based on all revenues should be explored. For example, a city collecting \$1,000,000 dollars from a 10 mill property tax, and \$300,000 from a 3% sales tax, would be given a millage equivalent of:

Property Tax Revenues	\$1,000,000
Sales Tax Revenues	<u>300,000</u>
Total Revenues	\$1,300,000

One mill property tax equals \$100,000 in revenues.

$$\frac{\text{Total Revenues}}{\text{Revenue from 1 mill property Tax}} = \frac{\$1,300,000}{\$100,000} = 13 \text{ mills (millage equivalent)}$$

Representative Terry Gardiner
March 14, 1978
Page three

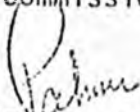
This approach would seem to be equitable in that residents have determined locally the best balance between sales and property taxes to produce sufficient municipal revenues.

The Division of Research, Legislative Affairs Agency has prepared an analysis of the impact of this bill (at various funding levels) on all municipalities.

The Department wholeheartedly supports the concept of HB 843. Also, the proposed amendments would in our opinion, improve the intent of the act providing for equalization of the tax resources of municipalities.

Sincerely,

Lee McAnerney
Commissioner


by: Palmer McCarter
Director

cc: Mike Harper
Jessie Dodson
Fran Ulmer



CITY of BETHEL

P. O. Box 388 • Bethel, Alaska 99559

545-2297 — Area Code 907

PC
4-3-78

March 29, 1978

Representative Lisa Rudd
Chairperson House Community and Regional Affairs Committee
Pouch V
Juneau, Alaska 99811

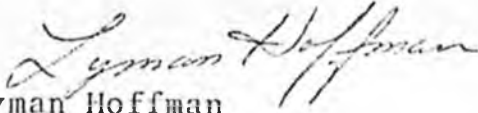
Dear Representative Rudd:

At the regular City Council Meeting of March 27, 1978, Council passed and approved Resolution No. 231, endorsing House Bill No. 843, "AN ACT PROVIDING FOR EQUALIZATION OF TAX RESOURCES OF MUNICIPALITIES AND CONTINUING A PORTION OF THE PROGRAM OF STATE AND FOR MUNICIPAL PURPOSES; AND PROVIDING FOR AN EFFECTIVE DATE."

Although the present systems for distributing State Revenue Sharing funds does assist municipalities in providing services there exists an incentive in the revenue sharing program for municipalities to increase or improve the service by increasing local taxes. Under the provision of House Bill No. 843, however, this would all change the proposed formula allocation system, increase the amount of revenue sharing if the Community increases its sales tax or property tax.

If your office should have any questions in regard to Bethel's position on the piece of legislation do not hesitate to contact me.

Sincerely,


Lyman Hoffman
City Manager

LH:1f

CITY OF BETHEL
RESOLUTION NO. 231

A RESOLUTION OF THE CITY OF BETHEL, ALASKA ENDORSING "AN ACT PROVIDING FOR EQUALIZATION OF TAX RESOURCES OF MUNICIPALITIES AND CONTINUING A PORTION OF THE PROGRAM OF STATE AID FOR MUNICIPAL PURPOSES; AND PROVIDING FOR AN EFFECTIVE DATE." IN THE FORM OF HOUSE BILL NO. 843.

WHEREAS, House Bill No. 843, would not distribute State Revenue Sharing strictly on a per capita basis with the remaining 25% allocated according to miles of road maintained and number of health facilities and hospitals, but would improve the allocation system and revenue raising for the benefit of home rule and general law municipalities by providing a more equitable allocation of financial resources among municipalities, and to assure no municipality would suffer impoverishment of necessary public services because of chance location of taxable wealth in the State, and

WHEREAS, this bill would accomplish this by implementing an equalization formula that would base entitlement due each municipality on its population, relative to general revenue and local tax efforts, and

WHEREAS, Bethel City Council believes that the passage of this bill would distribute State Revenue Sharing dollars on a much more equitable basis than the system presently utilized.


NOW THEREFORE, be it resolved that the City of Bethel, Alaska endorses House Bill No. 843, "AN ACT PROVIDING FOR EQUALIZATION OF THE TAX RESOURCES OF MUNICIPALITIES AND CONTINUING A PORTION OF THE PROGRAM OF STATE AID FOR MUNICIPAL PURPOSES; AND PROVIDING FOR A EFFECTIVE DATE.", and would support similar legislation if introduced in the Senate, and

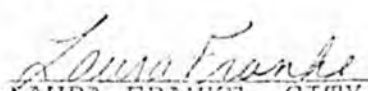
BE IT FURTHER RESOLVED that the City of Bethel encourages the State Legislature to pass and approve this legislation.

PASSED AND APPROVED by the Bethel City Council this 27 day of March, 1978.

ATTEST:

APPROVED:


JOHN P. GUINN, MAYOR


Laura Franks

Municipality of Anchorage

MEMORANDUM

DATE: March 9, 1978

TO: Ted Berns, Municipal Attorney

FROM: Larry D. Crawford, Director, OMB *L.D.C.*

SUBJECT: House Bill NO. 843

The following comments are offered regarding House Bill No. 843 providing for "equalization of the tax resources of municipalities and continuing a portion of the program of state aid for municipal purposes." Comments from the Finance Department have been incorporated in this memorandum.

GENERAL

Under HB 843, Sections 43.18.010-43.18.050 of the present statutes are repealed. These sections provide the authority for current state-shared revenues. In lieu of this, new Chapters 88 and 89 have been added to Section 29 of the statutes. Chapter 88 deals with a new source of revenue called an "Equalization Entitlement." Chapter 89 provides for the continuation of a portion of the state-shared revenues formerly authorized in Section 43. Exhibit A is a copy of HB No. 843; Exhibit B is a copy of the present statutes authorizing state-shared revenues.

Exhibit C is an analysis of HB 843 prepared by the State Legislative Affairs Agency and contains an attachment (Exhibit D) demonstrating the comparative revenue distribution under current law and HB 843.

A review of HB 843 reveals it to be ambiguous in certain cases as well as presenting redistribution of income approach to state revenue sharing. On the basis of the information made available to us, it appears to be detrimental to the Municipality of Anchorage.

AMBIGUITIES

Many of the ambiguities in HB 843 have been clarified by the analysis contained in Exhibit C. However, some problems remain.

1. Two sections (Sec 29.88.055 & 29.73.060) refer to "fiscal year" without indicating whose fiscal year - - the state or local. Complex calculations will be required because of the different fiscal year periods regardless of which year is implied.
2. Section 29.88.030 would lead one to believe that two series of computations would have to be made for the Municipality of Anchorage - - - one for service areas and another for taxing districts. However, the computations in Exhibit D are based on taxing districts.
3. Exhibit C (page 6) states that in the equalization entitlement, the property tax mill rates and sales tax per cent rates are to be converted to mill equivalents. Where is this so stated in the bill? By converting both factors to mill equivalents, a disproportionate emphasis is placed on the sales tax.
4. In order to determine the equalization entitlement in Exhibit D, the products of the formula in HB 843 have been multiplied by a factor of 2.983535316 - - - what

authorizes such a factor? Without the factor, the equalization entitlement per the formula would have been only \$6.1 million. With the factor it becomes \$18.3 million.

APPROACH TO STATE REVENUE SHARING

HB 843 presents a redistribution of income approach to the concept of state-shared revenues. The title of the new item of revenue - - - "Equalization Entitlement" - - - provides an insight in itself. The stated purpose of the bill is "to assure that no municipality suffers impoverishment of necessary public services, relative to other municipalities, because of the chance location of taxable wealth in the state." (Sec 29.88.005). One of the criticisms of the present law stated in Exhibit C (page 3) is that it does not include "ability to pay" considerations. A community with a larger than the state average per capita property valuation receives revenues at the same rate as communities which are relatively poor. It is further stated that the same criticisms can be raised with respect to per capita income differentials from which taxes are paid. The net effect of the formula is to favor economically disadvantaged communities.

EFFECTS ON THE MUNICIPALITY OF ANCHORAGE

1. A municipality will be better off if it is high or low in the various components of the equalization entitlement formula as follows:

Population	High
General Govt. Property Tax Mill Rate	High
Sales Tax % Rate	High
Local Per Capita Income*	Low
Local Per Capita Property Value*	Low

* Compared to state averages

At this point, it may be interesting to compare these state components with the following used in determining federal revenue sharing entitlements and whether a governmental jurisdiction is better off if it is high or low:

Population	High
Tax Effort	High
Relative Income	Low

Both the federal and state components follow the same pattern.

2. Anchorage has both a higher than average per capita income and per capita property value. This is confirmed by Exhibit D which shows Anchorage to have unfavorable income and property value factors in the computation formula compared with most other jurisdictions within the state.

3. The most discriminatory portion of the formula, however, is the sales tax element. Sales taxes receive disproportionate weight in the formula (e.g., a 4% sales tax carries the same weight as a 9.20 mill rate). Using the computations for Anchorage in Exhibit D, Anchorage would be entitled to the following additional revenues under the equalization entitlement at the various indicated sales tax rates:

<u>Sales Tax</u>	<u>Additional Entitlement</u>
2%	\$3.3 million
3%	\$5.0 million
4%	\$6.6 million
5%	\$8.3 million

In effect, HB 843 is detrimental to Anchorage for its lack of a sales tax. Although Anchorage does have a 5% hotel and motel tax, no provision for such a selective tax is made in the bill.

4. HB 843 would greatly reduce the degree of local autonomy. In addition to the effects of the lack of a sales tax, communities would be faced with a new restriction as to use of the state revenues. Under current state statutes (see Exhibit B - Sec. 43.18.010 (f)), state-shared revenues may be expended for any public purpose for which the local government has power to expend public funds, except for a few limitations regarding health facilities revenues. Sec. 29.88.030 of HB 843 contains additional requirements regarding the use of funds for specific service areas and tax zones. Although the new provisions are fairly consistent with the way Anchorage has been allocating past state-shared revenues, we would no longer have the flexibility to do otherwise if the circumstances so warrant.

5. In a rapidly growing area such as Anchorage, the local per capita income and property value would increase at a greater rate than the state average thereby creating an adverse effect in the equalization formula.

6. Total state-shared revenues to Anchorage under the new bill shown on the front page of Exhibit D are \$9.2 million compared to \$8.4 million using the present law. From that, it would appear that the bill is advantageous to us. However, if you look at the last page of Exhibit D, you will find that these amounts are based on total funding of \$25 million for the new bill versus \$18.3 million under the present law. Will the state appropriation really increase by nearly \$7 million if HB 843 is passed? Since there is nothing to indicate such an increase, if only the current level of \$18.3 million is available for distribution, Anchorage's share would be only approximately \$6.7 million - - - that's \$1.7 million less than under the present law. No matter which figure you use as the base, under HB 843 Anchorage's share of state-shared revenues will diminish from 46% of the state total to only 37%.

OTHER CONSIDERATIONS

The impact of the D-2 lands issue is uncertain at this time - - how will the state-selected lands ultimately affect the state per-capita property value? Major concerns relate to the complex calculations and the Municipality's ability to generate the base data required during the budget process. The problems we have now in getting estimated assessed valuations, population, road mileage and hospital bed and facility figures give us an indication of the problems that would be faced.

LDC/en

Attachments

JAY S. HAMMOND
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

March 20, 1978

The Honorable Lisa Rudd
Chairman
Community and Regional Affairs
Committee
House
Pouch V
Juneau, Alaska 99811

Dear Representative *Lisa* Rudd:

In my November 5, 1977, speech to the Alaska Municipal League, I suggested that the State look for means by which to reward localities which make good faith efforts to tax themselves. In that talk, I sketched a plan whereby shared revenue would vary inversely to a municipality's per capita property values. This suggestion was made in recognition of the disparity of wealth among the communities in our State. I feel the proposed formula is a useful step toward implementation of the concepts contained in that speech.

I have been briefed on legislative proposals (SB 502, HB 843) to redesign the Municipal Revenue Sharing Program. Under these proposals, a municipality's entitlement would be determined by a formula to include as key elements both population and local effort. The latter would, as I understand it, incorporate local property and sales tax rates adjusted by a factor to account for local differences in property tax base and income.

I commend the Legislature for the careful study and deliberation which has gone into preparation of the proposals. I also support the philosophy of State and local government relationships and responsibilities which is expressed in the proposals. I would like to briefly mention several reasons for my support.

First, I believe that the most responsive government is that which is closest to the people it serves. Under the present categorical approach to Revenue Sharing, the State exerts considerable influence on the direction and type of local

The Honorable Lisa Rudd
March 20, 1978

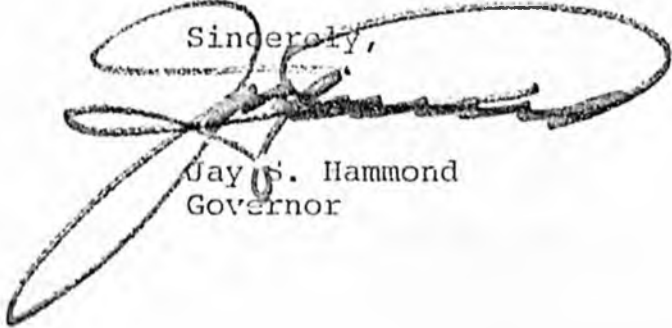
Page Two

services to be provided. I believe the proposed formula approach will give localities more desirable flexibility to determine service priorities at the local level.

Second, I have been an advocate for some time for the formation of local governments in the unorganized borough. At the November 10, 1977, Convention of the Alaska Federation of Natives, I expressed the view that a major obstacle to local government formation was an inadequate tax base which made it difficult for many rural areas to adequately meet the costs of local government services. I indicated then that Revenue Sharing adjusted for variations in per capita property values would help alleviate these problems. I believe the proposed legislation provides a useful tool for encouraging action in this regard.

My staff and that of the Department of Community and Regional Affairs have studied the legislation and have suggested refinements which we feel would facilitate administration of a formula based program. My position on funding of the proposal will have to await review of the fiscal impact of this legislation and the action the Legislature takes in the budget act itself.

Sincerely,



Jay S. Hammond
Governor

February 24, 1978

Report of the Local Government Committee
RurAlCap Citizen Participation Conference

The committee recognized the large number of House and Senate bills, either proposed or already introduced, addressing state, city, and borough needs. In addition, the committee recognized the limited time available to review and comment on these bills.

The committee, therefore, decided to study only those bills of extreme importance, that have the greatest impact on boroughs and cities. The committee, following the advise and suggestion of the assigned Technical Assistant, chose to consider, in detail, the following bills:

- see below* {
- o HB843: "Providing for equalization of the tax resources of municipalities and continuing a portion of the program of state aid for municipal purposes".
 - o SB502: Identical to HB843.
 - see below* - o SB208: "Relating to municipal organization grants".
 - add non residents* - o SSHB75: "Authorizing a borough or city tax on net income".
 - o ~~HB802~~: "Providing for assessment, levy, and collection of a tax on developed land in the unorganized borough".
 - o ~~HB809~~: "Exempting certain items from sales tax".
 - o ~~HB878~~: "Relating to the levy and collection of sales and use tax by municipalities".

The committee, after study and evaluation of the bills identified above, recommended the following:

1. HB843/SB502: The committee supports this bill in principle, with the stipulation that: (a) Section 29.88.010(b) be revised to indicate that the grant made available to a municipality be a minimum of \$50,000 in those cases where the indicated formula grant is lower than \$50,000, and (b) the last sentence of Section 29.89.010(a) ("No payment may be made...") be eliminated.
2. SB208: The committee supports this bill with the proposed Department of Community and Regional Affairs amendments relative to dollar amounts available under Section 29.18.180(1) and (2) (please see the attached). Further, the committee feels that a section should be added to provide for pre-planning study grants of up to \$50,000 for borough incorporation, and up to \$25,000 for city incorporation; provided that: (1) the applicant submit a projected budget, (2) unexpended grant monies be returned to the State, and (3) identification of local governing bodies eligible for pre-planning grants occur.

3. SSHB75: The committee supports the concept of this bill with a stipulation that Section 29.53.500(g) be modified to include transient residents as subject to income tax payment. The concern of the committee is that non-resident wage earners should be taxed on their earned income.

*company
workers,
etc.*

The committee members unanimously agreed that they cannot support HB202, HB509, and HB578 and, therefore, have recommend to the entire Citizen Participation Conference delegation that it not support the bills.

Submitted: February 24, 1978

Committee Chairperson: Mr. Lutena Mulitalo
Facilitator: Mr. Gordon Jackson
Technical Assistant: Mr. Bill Pritchard

STATE SPENDING IMPACT ON LOCAL GOVERNMENT

Second, in terms of the present, the 1977 school debt pick-up legislation has some far reaching impact on local government.

- Fairbanks principal bond debt \$40.7 million
- (less) Municipally Bonded Projects . . \$ 3.0 million
- School debt picked up by state \$37.7 million (est.)
- Net remaining borough liability. . . . \$ 3.7 million

However, Fairbanks' actual debt exposure "plus interest" will be \$62-million, with all but \$3-million (plus interest) being the actual amount the state will pick up on behalf of the borough. In other words, the 1977 action of the legislature will leave the state's second largest borough with only a debt of \$3 million plus interest.

The Fairbanks and Anchorage school principal and interest to be picked up by the state as a result of the 1970 and 1977 laws totals about \$188-million.

The simple point to be made here is that two enactments (1970 and 1977), have made Alaska local governments virtually debtless. Such a situation is beyond the wildest dreams of policymakers throughout most of the other states.

<u>TOTAL STATE AID TO LOCAL SCHOOLS</u> 1966 - 1977 (in millions)			
1966	\$16.9	1972	\$65.7
1967	\$19.4	1973	\$69.6
1968	\$20.8	1974	\$73.1
1969	\$25.8	1975	\$83.8
1970	\$35.1	1976	\$119.6
1971	\$64.1	1977	\$124.4

The chart on the following page breaks school aid down as it impacted Juneau, Anchorage, and Fairbanks between 1966 and 1977.

STATE EDUCATION AID TO ANCHORAGE, FAIRBANKS, JUNEAU (In Millions)			
	ANCHORAGE	FAIRBANKS	JUNEAU
1965	\$ 7.1	\$ 2.4	\$1.1
1967	\$ 8.1	\$ 2.7	\$1.3
1968	\$ 8.9	\$ 2.6	\$1.3
1969	\$11.2	\$ 3.3	\$1.6
1970	\$16.5	\$ 4.8	\$2.1
1971	\$31.0*	\$ 9.2*	\$4.3*
1972	\$29.0	\$ 8.4	\$4.1
1973	\$30.8	\$ 8.5	\$4.6
1974	\$34.8	\$ 9.1	\$4.9
1975	\$38.7	\$10.9	\$5.4
1976	\$45.0	\$14.5	\$6.4
1977	\$49.1	\$16.1	\$7.1
TOTAL	\$301.3-Million	\$92.5-Million	\$44.2-Million

The above chart shows school aid increasing very marginally in the late 1960s, taking a jump in 1969 after increased severance taxes boosted state income in 1968, again aid increased in 1970 in anticipation of the bonus sale in late 1969, and then state school support approximately doubled for Fairbanks, Anchorage, and Juneau under the Alaska School Foundation Act of 1970.

It should be noted also that Anchorage commands almost half of total state aid to education throughout the schedule.

STATE AID FOR LOCAL SCHOOL CONSTRUCTION DEBT (In Millions)			
Year	Debt Service & Cash Payments	Entitlement (% & Less Cig. Tax)	Authorized Reimbursement
1971	\$ 6.1	\$ 2.4	\$ 1.8
1972	\$ 7.3	\$ 2.3	\$ 2.3
1973	\$ 9.7	\$ 3.5	\$ 3.4
1974	\$16.9	\$ 7.0	\$ 5.7
1975	\$18.2	\$ 7.6	\$ 5.6
1976	\$21.6	\$ 9.2	\$ 8.8
1977	\$25.6	\$10.1	\$ 9.0
1978	\$24.2	\$10.8	\$10.8 (50%)*
1979	\$25.4	\$25.6	\$23.6 (100%)

*Total 71-76 \$45.4 million

The previous chart shows the rate of state pickup of local school construction debt beginning in 1971, and following through until 1978 and 1979 when the state financial outlay will double from \$10.8 million per year to \$23.6 million.

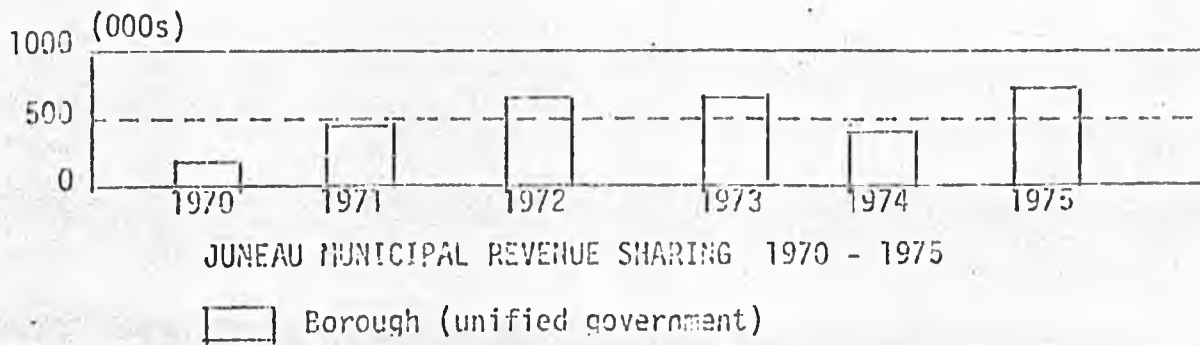
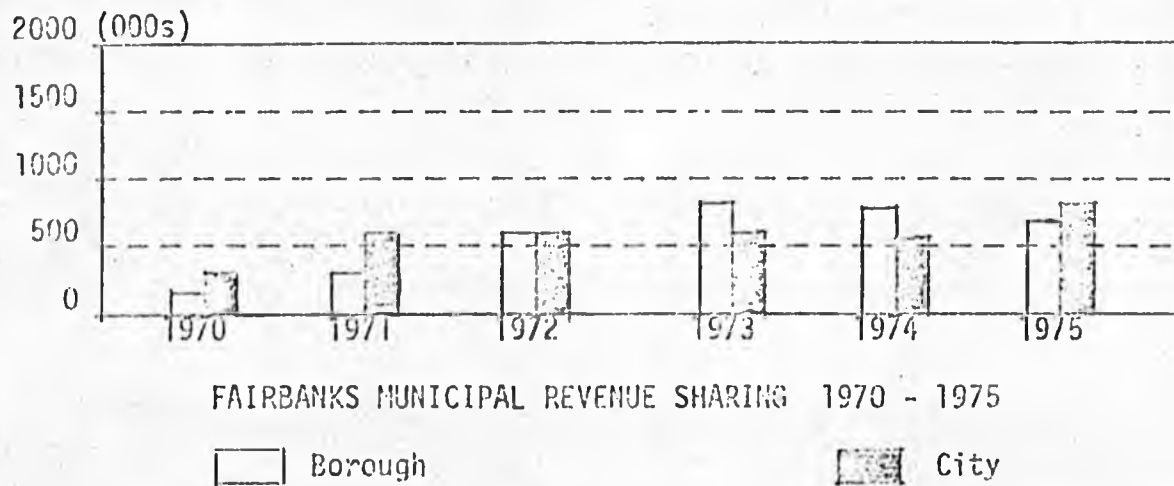
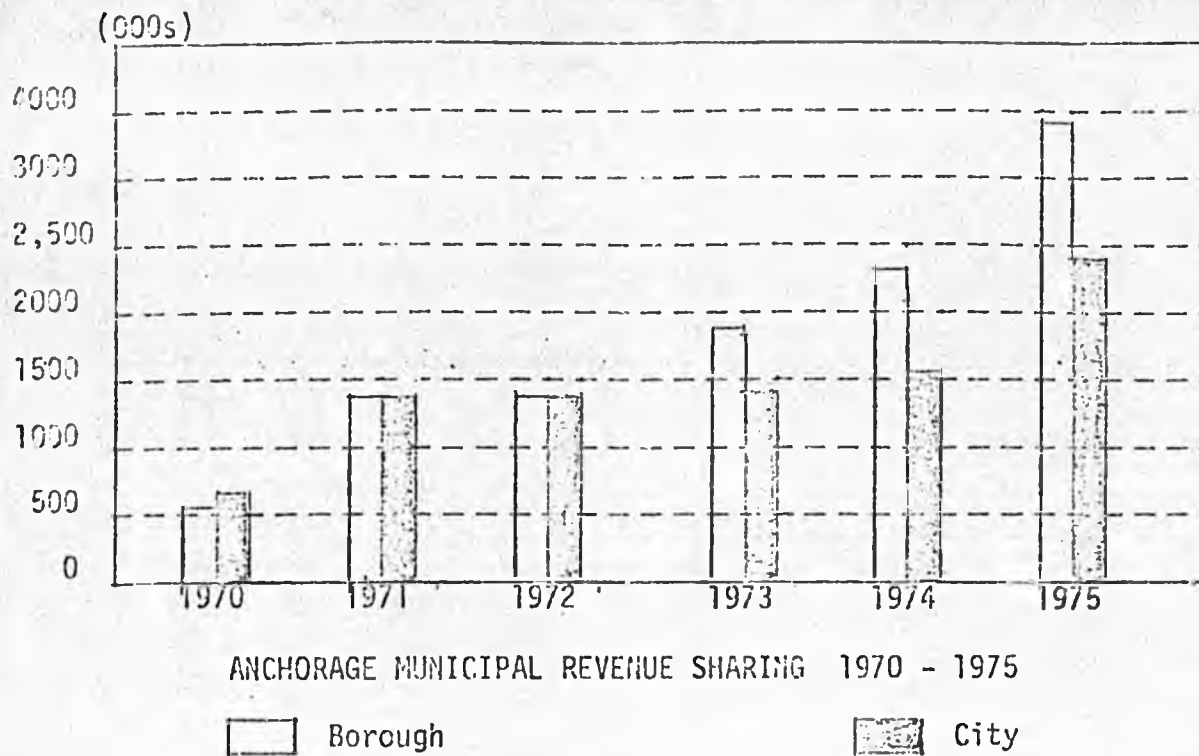
Other sources of direct aid from the state to school districts are also present. For example, at the beginning of the bonus money period the state enacted the State Impact Program, patterned after the federal impact program (PL874), and designed to compensate local school districts for the impact of state employees working in "tax exempt" facilities (industrial tax loss).

For example, a community such as Fairbanks annually collected approximately \$500,000 in state impact aid, for a cumulative revenue between 1969 and 1974 of \$2.5 million. In addition, local school districts have been fully compensated by the state for school bus costs. Again, using Fairbanks as a localized example, transportation aid in recent years has run about \$1 million annually, for a cumulative between 1969 and 1974 of \$5.7 million.

Additionally, local communities were receiving substantial state aid under the State General Revenue Sharing Programs, with aid being broken down by areas of responsibility (fire, police, hospital, etc.), being exercised by a city or borough.

<u>GENERAL MUNICIPAL REVENUE SHARING</u>	
<u>(in millions)</u>	
1970	\$ 2.0
1971	\$ 6.3
1972	\$ 7.5
1973	\$ 7.8
1974	\$ 8.8
1975	\$12.4
1976	\$ -
1977	\$16.6

statewide figures



Alaska municipalities in 1969 were in something of a "double trouble" situation. Many were facing a growing restlessness among real property taxpayers, while at the same time they were under a tremendous pressure for expansion and improvements. Real property tax rates had moved generally upward in Alaska communities in the mid-1960s, in part to finance post-statehood growth and optimism, and secondly under the expanded ability to serve brought by the creation of boroughs.

Anchorage was particularly under pressure from growth expansion, with taxes running in the area of 20-mills total, while Fairbanks had experienced a run-up of taxes in the 1960s from fairly modest rates to a total of 26-mills (plus 5% sales tax).

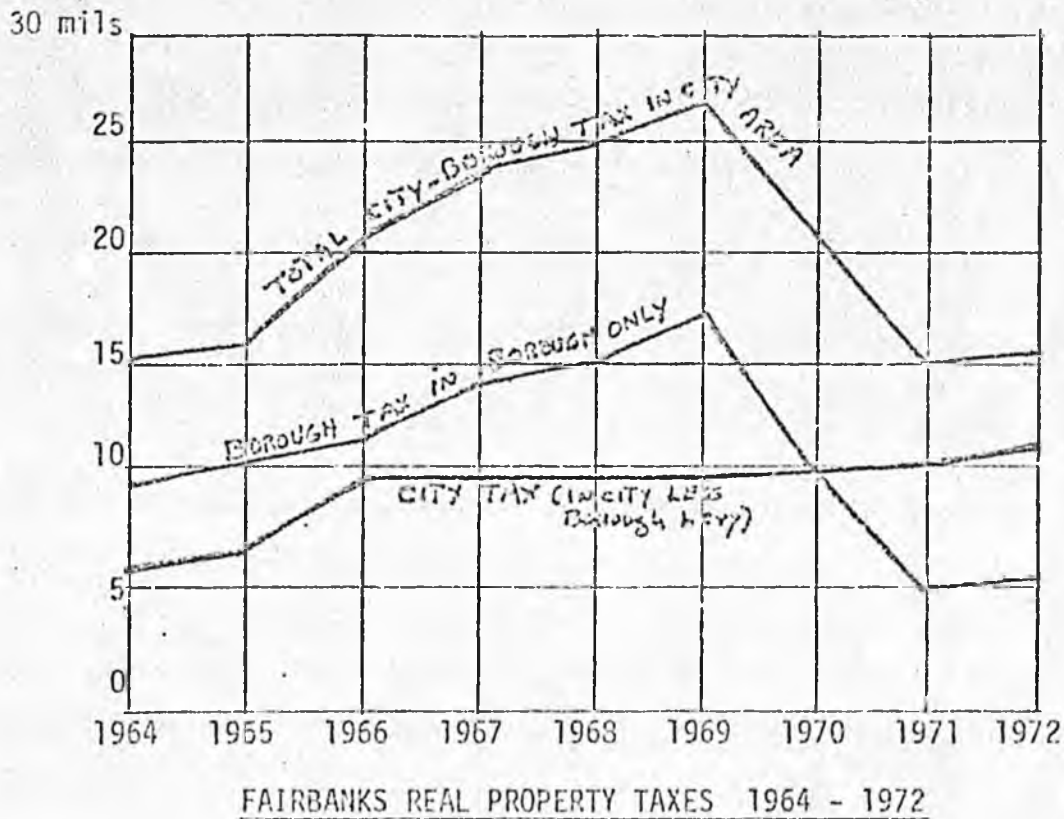
Hence, the beginning of bonus money revenue sharing was both a potential source of tax relief for local taxpayers, and a means of financing the needs of community growth without tax increases. During the period many communities would have an expanding assessed value base to help finance growth, but that increasing assessed value also demonstrates the pressure the community was under. Other communities were simply struggling to catch-up with long unmet needs under the momentum and optimism of statehood. Anchorage perhaps typifies the growth impacted community, struggling to just finance growth needs without increasing taxes, while Fairbanks typified the community simply trying to finance needs for existing population and still experiencing a tax run-up.

The relationship of revenue sharing from the \$900-Million can therefore be viewed from a perspective of:

- 1) Tax reductions by local community
- 2) Increased services (evidenced by increases in employees)
- 3) Increased local assessment value as an indicator of local growth pressures.

The following charts focus primarily on Alaska's larger and more sophisticated urban communities, in part because they typify what was happening in the late '60s and early '70s to a majority of Alaskans, and because any attempt to analyze Alaskan local government in terms of an overall view is difficult -- local circumstances of grass roots government in Alaska varies so greatly individualized comparison is difficult if not impossible. However, the view of state action as a catalyst to local government policy by viewing individual communities, at least provides some opportunity for a comprehensive insight to the dramatic influence the state has through revenue sharing.

The following chart provides some insight to the experience of Fairbanks from a real property tax viewpoint in the mid-1960s and the early 1970s. The impact of the state revenue sharing efforts can be seen beginning in 1969.



The Fairbanks graph is perhaps the most dramatic in terms of visibility of \$900-Million revenue sharing impact. Initially the community opted to take its revenue sharing benefits in the form of real property tax reductions on the borough level. The business of the borough being primarily schools was in a position to take the most advantage in terms of benefits, being the recipient of the major share of revenue sharing through school foundation aid. The general municipal functions of the borough at the time were just beginning to develop.

The City of Fairbanks, which qualified only for general municipal revenue sharing, used revenues to keep its tax rate relatively "level," while expanding some operations at a revenue advantage by shifting powers to the borough, and also through a mildly increasing assessed evaluation base.

However, Fairbanks by the end of the 1960s was undergoing a genuine tax crisis. The combined borough/city property taxes levied in the city area, grew from a traditional level of about 16-mills in the early 1960's, to a record high of 26-mills in 1969 --only 4-mills short of the state legal limit. The level of taxes in 1969, in fact, generated a "taxpayers revolt" in Fairbanks that did not subside until the middle 1970's, despite the fact that taxes dropped 40% in the city and 60% in the borough area by 1971.

The tax crisis of 1969 in Fairbanks forced the community to take its \$900 million benefits largely in tax reductions rather than ... expanded services. It was the borough which was able to cut taxes due to the state school support increases. The city on the other hand benefited greatly by the tax cut of the borough, since the relief granted city property owners from the borough cut "relieved tax pressure," and allowed the city to maintain its level of taxation. As a result the city was able to gradually expand services through: 1) increased state revenue sharing, 2) increasing assessed property values, 3) annexation of new areas (and assessed values), and 4) through the gradual shift of city services to the "broader" tax base of the borough.

Generally, the Fairbanks pattern was reflected throughout the state to some degree, with schools able to generate the tax break, so that cities, which generated most "homeowner" services, could expand their taxes and services beneath that shelter of relief.

Fairbanks represented the most extreme crisis of municipalities in 1969. The community had a 26-mill tax level in the city area, and also had a 5% sales tax in the city zone. However, even with such high tax levels the Fairbanks Community was still just struggling to fill out the needs of its basic pre-1964 structure. In other words, like alot of other communities, Fairbanks was simply struggling to "catch up" with needs.

During the period Fairbanks was growing slowly, with the assessed evaluation of the city growing from \$90 million in 1964 to \$179 million in 1972. The borough's value also doubled from a 1964 level of \$150 million in 1964 to a 1972 level of \$301 million. However, a large share of the value gains were simply reevaluation of existing properties, as compared with additions of new property values. However, between 1972 and 1974 Fairbanks added another \$100 million in value, and with the addition of full pipeline assessed values the community has now soared over the billion dollar assessed value mark. The addition of the pipeline as a rich industrial tax base, has probably resolved Fairbanks' real property tax problems. In just two years Fairbanks went from a prime example of a tax-poor community to a prime example of a tax-rich community.

The impact of state revenue sharing can also be seen by a quick comparison of the "changing relationships" of the larger revenue sources in the Fairbanks Borough.

FAIRBANKS BOROUGH REVENUE RELATIONSHIPS

State Foundation Act, Sales Tax, Property Tax

<u>Revenue Source</u>	<u>68-69</u>	<u>69-70</u>	<u>70-71</u>	<u>71-72</u>	<u>73-74</u>	<u>74-75</u>
State Fd. Act	\$3.5(1)	\$4.7(1)	\$9.0(1)	\$8.2(1)	\$9.2(1)	\$9.7(1)
Sales Tax	\$1.6(3)	\$2.0(3)	\$2.1(3)	\$2.2(2)	\$2.6(2)	\$3.0(2)
Property Tax	\$3.3(2)	\$3.3(2)	\$2.2(2)	\$1.3(3)	\$2.2(3)	\$2.7(3)

(*) Numbers reflect rank is predominant revenue earner

Viewing the three predominant revenue producers, state school support has been number one since back in the early 1960s, although at times it barely eclipsed property taxes as number two. Sales tax ran third.

However, in 1971-72 the state school support had widened its lead as number one to almost double sales tax and property taxes combined, and property taxes dropped behind sales taxes to third place.

Nor does the above chart show the whole picture. By 1978 the total revenue of the borough coming from other governments had increased to about 70% of total revenue, while traditional sales taxes and property taxes commanded about 25% of total revenue.

An alternate picture is what the impact of new state revenues did to employment by local governments. However, this is a somewhat difficult picture to show because it involves revenue "relief" that affected three inter-related governments, and it also was a period when services were gradually being transferred from the smaller population base or cities to the larger base of the relatively new borough governments.

The following chart shows Fairbanks combined city/borough employment totals. Combining the totals compensates for statistical error inherent in transfers of powers and services from the city to the borough.

TOTAL EMPLOYEES FAIRBANKS CITY AND BOROUGH ⁽¹⁾									
1958 - 1975									
Government	1958	1969	1970	1971	1972	1973	1974	1975	1976
Borough	40	45	53	69	85	117	137	174	172
Education	399	370	463	478	459	464	471	564	732
City	173	194	237	238	306	263	262	259	-
<u>TOTAL ALL GOVT</u>	612	609	753	835	850	844	870	997	

(1) Does not include School classified employees

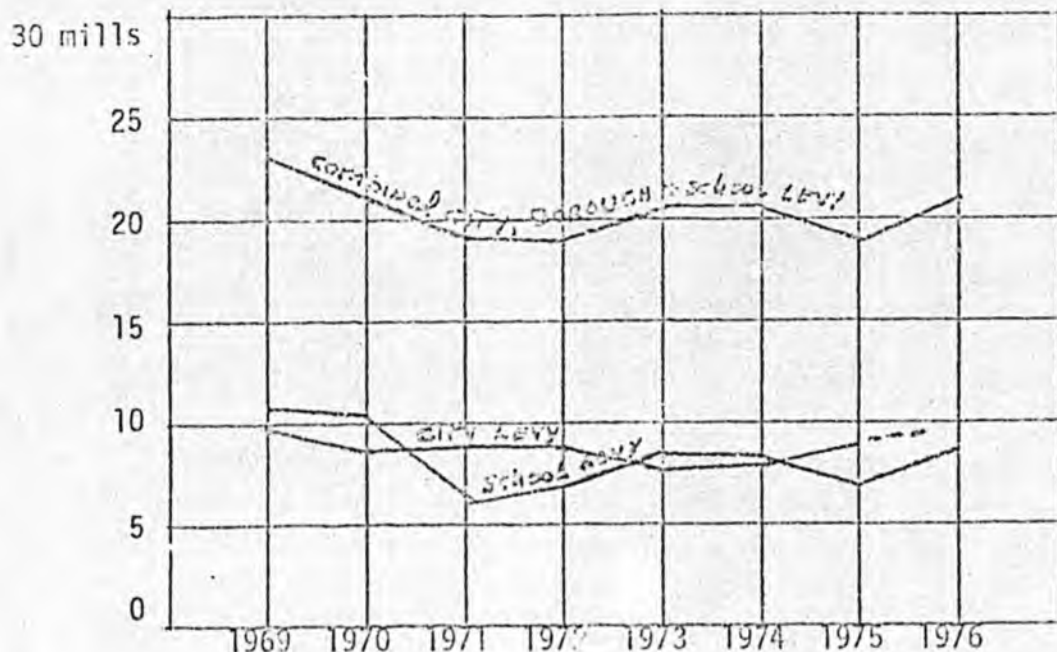
The previous chart shows some employment jumps in the 1969 - 1975 period, and then an increase in the pipeline period. However, during the period the borough's general government growth was in part due to a transfer of function from the city, and the jump in education between 1974 and 1975 was due to the transfer into the system of "on-base" schools (from the state).

THE ANCHORAGE PICTURE

The Anchorage impact due to state revenue transfers is less precise, in part because the expanding Anchorage community took their "relief" from the state largely in the form of expanded services. Anchorage during the period was undergoing a period of rapid expansion, and it is likely that the large infusions of state revenue simply enabled the community to meet new demands without a tax increase.

The Anchorage tax base also rests predominantly on real property taxes, supplemented by a personal property tax. The community does not have a sales tax, a luxury few Alaska municipalities have been able to afford.

The Borough was also much more aggressive in Anchorage in absorbing services (powers) from the city that would be more equitably provided on the expanded tax base of the borough. However, transfers of services tends to distort the indicators of "growing or falling" tax levies, total spending, and numbers of employees. Nevertheless, the collective totals tend to show whatever pattern was prevalent. During the period Anchorage's assessed evaluation was also growing significantly, thus expanding the tax base of the community.



ANCHORAGE REAL PROPERTY TAXES 1969 - 1976

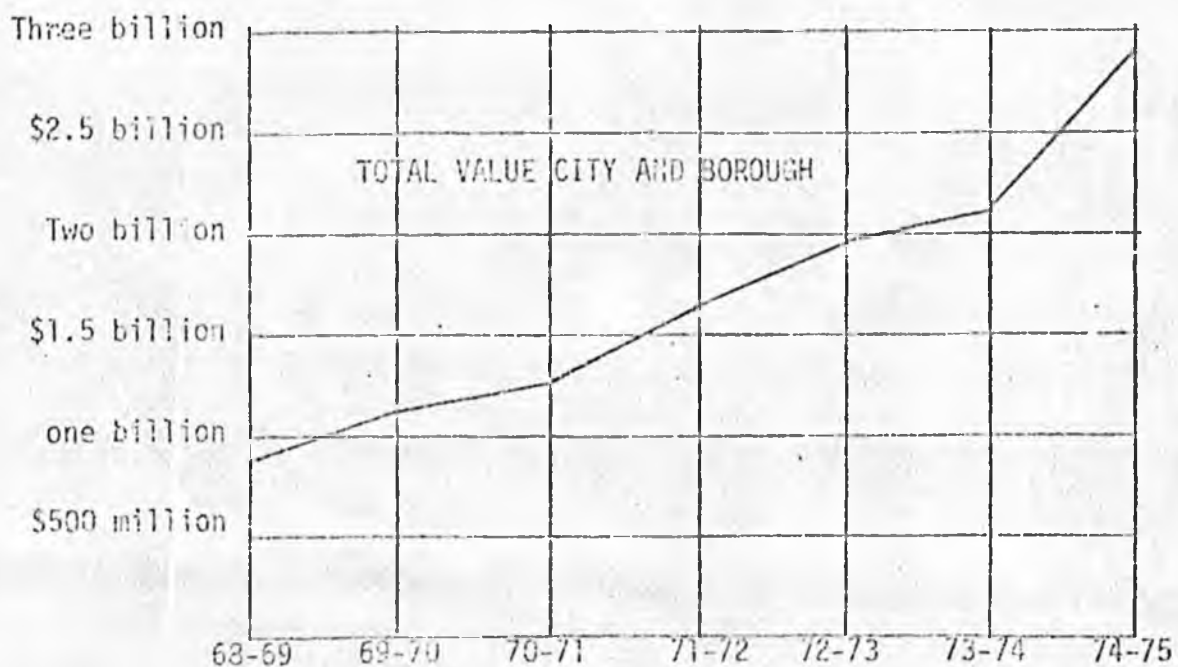
The above chart shows the infusion of state revenue sharing in 1969-1976 dropping basically school taxes, allowing the city to drop taxes slightly while increasing services.

<u>ANCHORAGE BOROUGH REVENUE RELATIONSHIPS</u>						
Property Taxes and Other Governmental Revenue						
<u>Revenue Source</u>	<u>68-69</u>	<u>69-70</u>	<u>70-71</u>	<u>71-72</u>	<u>73-74</u>	<u>74-75</u>
Revenue Other Gov't Sources	\$17.4	\$24.2	\$38.6	\$44.7	\$54.9	\$68.1
Property Taxes	\$15.8	\$14.0	\$11.6	\$16.5	\$33.0	\$30.6
(in millions)						

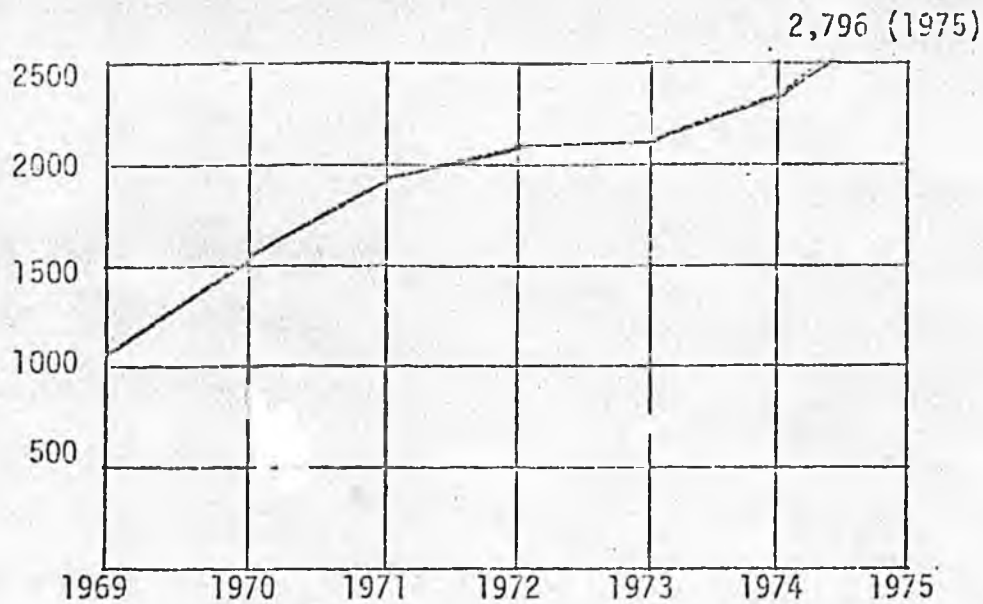
The above chart does not reflect total borough revenues. However, it does show the changing revenue relationship from 1968-'69, when property tax revenues almost equaled "other governmental transfers," until 1974-'75 when "other governmental transfers" double property taxes. Total revenues from the two sources went from \$35-million (68-69) to \$98-million (1974-75).

The total spending of the Anchorage Borough went from \$34.8 million in 1968-69, to \$104.9-million in 1974-'75. Since Anchorage chose rapid expansion of services during the 1968-'75 period, the following charts reflects growth by function and expenditure.

<u>ANCHORAGE BOROUGH GROWTH BY SPENDING AND PROGRAM</u>			
1968-'69 to 1974-'75			
Program	1968-'69	1971-'72	1974-'75
General Gov.	\$2.1 (million)	\$6.9 (million)	\$13.3 (million)
Health	\$409,000	\$1.3 "	\$ 3.4 "
Public Safety	\$627,000	\$2.4 "	\$ 6.2 "
Consy. Nat. Rcs.	\$ 11,740	\$704,624	\$ 2.0 "
Education	\$21.2 (million)	\$45.0 (million)	\$64.2 (million)
Debt Service	\$ 3.5 (million)	\$ 8.5 (million)	\$14.1 (million)
<u>TOTAL SPENDING</u>	\$34.8 million	\$65.3 million	\$104.9 million



GROWTH ANCHORAGE EVALUATION 1969-'68 to 1974-'75



GROWTH BY EMPLOYEES ANCHORAGE CITY AND BOROUGH

The growth in the numbers of employees in the Anchorage city and borough reflected a rapid growth between 1969 and 1971, and then leveled off until 1974.

In general the uniformity of Anchorage real property taxes between 1969 and 1975, the increases in general spending, the growth in assessed value, and the growth in numbers of employees, all reflect a community that was in the midst of expansion. Hence, the impact of state revenue sharing for Anchorage was to moderate the costs of growth and expansion for local taxpayers.

Get computer run which takes mis. exemptions into acct.

Introduced: 2/14/78
Referred: Community & Regional
Affairs and Finance

BY GARDINER, BRADLEY, FREEMAN,
MALONE, MILLER, NAKAK, OSTERBACK
AND PARR

1 IN THE HOUSE

2 HOUSE BILL NO. 843

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act providing for equalization of the tax resources
7 of municipalities and continuing a portion of the
8 program of state aid for municipal purposes; and pro-
9 viding for an effective date."

10 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

11 * Section 1. AS 29 is amended by adding a new chapter to read:

12 CHAPTER 88. MUNICIPAL TAX RESOURCE EQUALIZATION.

13 Sec. 29.88.005. PURPOSE. It is the purpose of this chapter to im-
14 prove the revenue raising and distribution system for the benefit of
15 residents of home rule and general law municipalities by providing for
16 more equitable allocation of financial resources among municipalities to
17 improve their fiscal capacities, and to assure that no municipality
18 suffers impoverishment of necessary public services, relative to other
19 municipalities, because of the chance location of taxable wealth in the
20 state.

21 Sec. 29.88.010. STATE EQUALIZATION OF THE RESOURCES OF MUNICIPALI-
22 TIES FOR GENERAL GOVERNMENT SERVICES. (a) During each fiscal year the
23 state shall pay to a municipality an equalization entitlement for general
24 government services provided by the municipality.

25 (b) The equalization entitlement due each municipality is based on
26 its population, relative ability to generate revenue, and local tax rate
27 and is determined by the application of the formulas:

28 (1) Entitlement = P x LE

29 where P = population; and

LE = local effort, but not exceeding 25.

(2) LE shall be calculated in accordance with the formula

$$LE = (PT + 2.3 ST) \times \frac{(SPCI/LPCI + SPCPV/LPCPV)}{2}$$

where PT = property tax mill rate;

ST = sales tax per cent rate;

SPCI = state average per capita income;

LPCI = local per capita income;

SPCPV = state average per capita property value; and

LPCPV = local per capital property value.

(c) For purposes of this section,

(1) the population of the taxing unit is determined annually in accordance with sec. 15 of this chapter;

(2) property tax mill rate equals the full and true ad valorem mill rate of the taxing unit for general government services during the preceding fiscal year of the taxing unit determined by adjustment of the unit's property tax rate in accordance with sec. 20 of this chapter;

(3) sales tax per cent rate equals the full and true sales tax per cent rate of the taxing unit for general government services during the preceding fiscal year of the taxing unit determined by adjustment of the unit's sales tax rate in accordance with sec. 20 of this chapter;

(4) state per capita income equals the state average per capita income determined in accordance with sec. 20 of this chapter;

(5) local per capita income equals the local taxing unit per capita income determined in accordance with sec. 20 of this chapter;

(6) state per capita property value equals the state average per capita assessed property value determined in accordance with sec. 20 of this chapter; and

1 (7) local per capita property value equals the local taxing
2 unit per capita assessed property value determined in accordance with
3 sec. 20 of this chapter.

4 Sec. 29.88.015. DETERMINATION OF POPULATION. For purposes of this
5 chapter, population of a taxing unit shall be determined by the latest
6 figures of the United States Bureau of the Census or other population
7 data which, in the judgment of the department, is reliable.

8 *adjust tax rate down for muni. exemptions*
9 Sec. 29.88.020. DETERMINATIONS OF LOCAL EFFORT. (a) Not later
10 than October 15 of each fiscal year, or as soon thereafter as is rea-
11 sonably convenient, the department shall make a final determination of
12 the tax effort of each taxing unit which will be used as the basis for
13 computation of entitlements and a distribution of equalization entitle-
14 ments for the fiscal year under this chapter. The department shall make
15 the determinations based upon the information returned by the muni-
16 cipality and upon the several audits or financial statements prepared
17 and submitted by the municipality.

18 (b) If, upon review of information obtained by the department, it
19 determines that a portion of the estimated or actual municipal tax
20 effort claimed by the municipality does not qualify for inclusion in and
21 recognition as tax effort for general government purposes, the depart-
22 ment shall deduct an amount equal to its estimate of revenue which is
23 not recognized for these purposes before computing the local tax effort
24 entitlement for general property or general sales tax rate. Before
25 making a determination to disallow an amount, the department shall first
26 notify the municipality in writing of the reasons for the proposed dis-
27 allowance and provide the municipality reasonable time in which to
28 respond or to challenge the department's determination.

29 (c) The per capita income of the state or of the taxing unit
30 shall be determined by the department by the latest figures of the

1 United States Bureau of the Census or other reliable data computed for
2 the state and its municipalities or election districts and which, in the
3 judgment of the department, is reliable. The department may not accept
4 an estimate of per capita income from a municipality unless the munici-
5 pality provides estimates of data for all municipalities; if the most
6 reliable data computed for the state and its municipalities expresses
7 per capita income on the basis of election districts or similar regional
8 unit, the department may apply the data to all taxing units within the
9 election district or similar regional unit.

10 (d) The per capita full and true per capita assessed property
11 value shall be computed by the state assessor in the manner provided for
12 computation of state aid to education under AS 14.17. The state as-
13 sessor shall compute a value under this subsection for any municipal
14 school district which is authorized to levy and collect a property tax
15 but which does not levy a tax.

16 Sec. 29.88.025. FINANCIAL REPORTS. No entitlement may be computed
17 and distributed to a municipality until the municipality has first
18 submitted a financial report to the department for the fiscal year pre-
19 ceding the year for which the entitlement is sought, together with a
20 budget for the municipality's current fiscal year. The financial re-
21 ports shall specifically include a listing of general revenues collected
22 from taxes levied and assessed by the municipality which, in the opinion
23 of the municipal officials, are eligible for inclusion within computa-
24 tions for determination of the local effort of the taxing unit. The
25 department may, by regulation, prescribe procedures and filing dates for
26 submitting financial reports and for obtaining all information required
27 to compute and determine the municipality's local effort.

28 Sec. 29.88.030. LIMITATION ON COMPUTATION AND USE OF ENTITLEMENTS.

29 (a) Entitlements allocated to a unified municipality or organized

1 borough which includes cities or service areas shall be computed with
2 reference to and expended by the municipality in accordance with the
3 following:

4 (1) an entitlement determined with reference to the local
5 effort of a municipality for areawide purposes shall be used for area-
6 wide purposes only;

7 (2) an entitlement determined with reference to the local
8 effort of a municipality for a service area shall be used for that
9 service area only;

10 (3) an entitlement determined with reference to the local
11 effort of a municipality for exercise of a nonareawide power shall be
12 used for the provision of nonareawide services only.

13 (b) Entitlements allocated to a city which contains one or more
14 differential tax zones established under AS 29.53.405 having differen-
15 tial levies for services shall be computed with reference to and ex-
16 pended by the municipality in accordance with the following:

17 (1) an entitlement determined with reference to the local
18 effort of the city for areawide purposes shall be used for areawide
19 purposes only; and

20 (2) an entitlement determined with reference to the local
21 effort of the city in a differential tax zone shall be used for the pro-
22 vision of a service in that tax zone only.

23 Sec. 29.88.040. EQUALIZATION ACCOUNT. (a) This chapter may not
24 be construed so as to create a debt to the state.

25 (b) The municipal tax equalization account is established. Funds
26 to carry out the provisions of this chapter may be appropriated annually
27 by the legislature to the account. The amount appropriated to the
28 account shall be fully allocated by the department for the purpose of
29 fulfilling each municipality's share authorized under sec. 10 of this

1 chapter, and shall be distributed by the department pro rata among
2 eligible municipalities.

3 Sec. 29.88.045. REGULATIONS. The department may adopt regulations
4 necessary to implement the purposes and provisions of this chapter.

5 Sec. 29.88.050. DEFINITIONS. In this chapter

6 (1) "department" means the Department of Community and Re-
7 gional Affairs;

8 (2) "general government services" means those services, ex-
9 clusive of public education, which are authorized to and provided by a
10 municipality; for purposes of this chapter, the term

11 (A) includes property and sales tax levies for retire-
12 ment of debt service, except debt service attributable to public
13 education construction costs;

14 (B) excludes fees for government services and inspec-
15 tions, special assessments upon property, or locally levied taxes
16 the incidence of which does not generally burden residents or
17 property owners within the taxing unit;

18 (3) "municipality" means a city, borough or unified munic-
19 ipality incorporated under the laws of the state;

20 (4) "taxing unit" means a municipality and

21 (A) in a borough or unified municipality, a service area
22 or the entire area outside cities;

23 (B) in a city, a differential tax zone.

24 * Sec. 2. AS 29 is amended by adding a new chapter to read:

25 CHAPTER 89. STATE AID FOR MISCELLANEOUS

26 MUNICIPAL PURPOSES.

27 Sec. 29.89.005. REVENUE SHARING PAYABLE. In addition to the en-
28 titlements under ch. 88 of this title, during each fiscal year the state
29 shall pay aid to a municipality or other eligible recipient which has

1 the power to provide the services described in this chapter and exer-
2 cises the power in the manner required by this chapter.

3 Sec. 29.89.010. STATE AID TO MUNICIPALITIES FOR ROADS. (a) The
4 state shall pay to a city or organized borough of any class which has
5 power to provide for road maintenance and exercises the power a sum
6 equal to \$1,500 a mile for each mile of road, street or highway main-
7 tained by the local government, excluding the official state highway
8 system, roads, streets or highways not dedicated to public use, any
9 roads, streets or highways maintained under the local service road
10 program (AS 19.30.111 - 19.30.251), and alleyways, in accordance with
11 regulations adopted by the Department of Transportation and Public
12 Facilities. No payments may be made for maintenance of roads not used
13 by automotive equipment.

14 (b) Frozen waterways and connections from inhabited areas to the
15 waterways which may be safely used for public transportation by auto-
16 motive equipment and are so used during a portion of a year are eligible
17 for payments of \$900 per mile if the waterways and connections are main-
18 tained during the period of use by a municipality or combination of
19 municipalities. The Department of Community and Regional Affairs, after
20 consultation with the Department of Transportation and Public Facili-
21 ties, shall determine which waterways and connections qualify and, where
22 the waterways or connections lie outside the corporate limits of a
23 municipality, which municipality is eligible for the shared revenue
24 unless the municipalities involved have agreed in writing to a parti-
25 cular distribution.

26 Sec. 29.89.015. STATE AID TO MUNICIPALITIES AND OTHER ELIGIBLE
27 RECIPIENTS FOR HEALTH FACILITIES AND HOSPITALS. (a) The state shall
28 pay \$2 per capita to a municipality which has the power to provide
29 health facilities and services and in which a hospital is located.

1 (b) In addition to the payment made under (a) of this section, the
2 state shall make payments

3 (1) to a municipality which has the power to provide hospital
4 facilities and services and which exercises the power on the basis of
5 \$1,000 per bed for each bed actually used for patient care limited to
6 the number of beds provided for in the construction design of the hospi-
7 tal, or \$75,000 a hospital for those hospitals with 10 or more beds, or
8 \$25,000 a hospital for those hospitals with less than 10 beds, as the
9 municipality may elect; funds received under this paragraph may be used
10 only for hospitals and shall be apportioned among qualifying hospitals
11 as the municipality determines;

12 (2) on the basis set out in (1) of this subsection to a muni-
13 cipality for nonprofit hospitals not operated by a municipality if the
14 municipality first certifies to the department that the hospital is in
15 compliance with all standards for hospitals which have been adopted by
16 the municipality; in the absence of this certification the funds which
17 would have gone to the hospital lapse into the state general fund; pay-
18 ments to the municipality shall be transferred to the hospital in accord
19 with the basis by which the entitlement was generated by the hospital
20 and shall be applied to the annual cost of operation and maintenance of
21 the hospital or for the provision of health care service at the hospital
22 as the directors of the hospital determine;

23 (3) \$1,000 per bed to an organized borough or city outside an
24 organized borough in which a health facility is operated for each bed
25 actually used for patient care, limited to the number of beds provided
26 for in the construction design of the health facility, or \$4,000 per
27 health facility as the municipality may determine;

28 (c) A hospital may not receive payment under both (b)(1) and
29 (b)(2) of this section.

1 (d) Funds received by a municipality under (a) or (b)(3) of this
2 section shall be used for expenses of health services or operation and
3 maintenance of facilities as the municipality determines.

4 (e) Before funds may be distributed under this section, the com-
5 missioner of health and social services shall certify to the distri-
6 buting agency that any accumulation of assets by nonprofit corporations
7 or other recipients under this section are dedicated irrevocably to a
8 public purpose.

9 Sec. 29.89.020. STATE AID FOR HOSPITAL CONSTRUCTION. If construc-
10 tion of a facility began after January 1, 1968 and state matching aid
11 for construction approved for payment to the municipality or other
12 facility sponsor constitutes less than 25 per cent of the total project
13 cost, the state shall pay to the municipality or other facility sponsor
14 each fiscal year a sum equal to \$2,500 a bed for the maximum number of
15 beds provided for in the construction design of the facility. State aid
16 provided for in this section shall continue until the municipality or
17 other facility sponsor has received an amount which, combined with state
18 matching money for construction of the facility, equals 25 per cent of
19 the total project cost. No funds received for construction shall be
20 used for any other purpose.

21 Sec. 29.89.025. STATE AID TO MUNICIPALITIES FOR POPULATION LOCATED
22 ON MILITARY RESERVATIONS. (a) A municipality may not receive state
23 shared revenue provided in this chapter based on the population residing
24 on that portion of a military reservation annexed to a municipality
25 after January 1, 1973, except as provided in this section.

26 (b) If a military reservation is located within a municipality,
27 the municipality is limited in its entitlement to state shared revenue,
28 based on the population residing on the reservation, as follows:

29 (1) \$6 per capita for police protection services under (c) of

1 this section;

2 (2) \$1.25 per capita for parks and recreation services under
3 (d) of this section;

4 (3) \$2.50 per capita for transportation services or facili-
5 ties under (e) of this section.

6 (c) Shared revenue may be paid for police protection services
7 under this section if

8 (1) municipal police protection is available 24 hours a day;
9 and

10 (2) municipal police officers are citizens of the United
11 States who are at least 19 years of age and none of whom has been con-
12 victed of a crime involving moral turpitude within the past 10 years.

13 (d) Shared revenue may be paid for parks and recreation services
14 under this section if the municipality provides parks or recreation
15 facilities or services within or in the near vicinity of the military
16 reservation.

17 (e) Shared revenue may be paid for transportation services or
18 facilities under this section if the municipality provides municipally
19 operated small boat harbors, ports, airports, or mass transit systems.

20 Sec. 29.89.030. STATE AID TO VOLUNTEER FIRE DEPARTMENTS IN THE UN-
21 ORGANIZED BOROUGH. (a) The state shall pay to a volunteer fire depart-
22 ment registered with the state fire marshal and serving an area not in
23 an organized borough or a city a sum for protection purposes equal to
24 \$7.50 per capita for the population served by the department, as deter-
25 mined by the state fire marshal using the latest figures of the United
26 States Bureau of the Census or other reliable data.

27 (b) Grants shall be made as set out in (a) of this section to
28 facilitate the organization of volunteer fire departments in an area not
29 in an organized borough or a city, upon application of the proposed fire