

ALASKA LEGISLATURE COMMITTEE FILES 1987-88 8672

4451 HCRA HB 1 (FILE 3)

23

January, 1988

Governor Steve Cowper  
Office of the Governor  
P. O. Box A  
Juneau, Alaska 99811-0101

Dear Governor Cowper:

We the undersigned, in the interest of good representation and public information, believe public hearings should be held in all affected areas of SSHB-1 by the bill sponsors and local representatives.

Sincerely,

NAME	MAILING ADDRESS	PHYSICAL ADDRESS
<u>Ernst Simonet</u>	<u>Box 375 Healy 99743</u>	<u>Park Lane, Healy</u>
<u>Joyce Greenslade</u>	<u>Box 386 Clear 99704</u>	<u>276.8 Parks Hwy</u>
<u>Alan R. Greenslade</u>	<u>Box 386 Clear 99704</u>	<u>Mi. 276.8 Parks Hwy</u>
<u>Ronald J. Clark</u>	<u>Box 326 Healy 99743</u>	<u>Park Lane, Healy</u>
<u>Patrick O'Connor</u>	<u>Box 58 <sup>99745</sup> Healy</u>	<u>Parks Hwy 230</u>
<u>Mark R Menke</u>	<u>Box 134 Healy 99743</u>	<u>1.5 Hill Top Street</u>
<u>Margaret A Menke</u>	<u>"</u>	<u>"</u>
<u>A. Kaiu Saw</u>	<u>Box 100 Cantwell, <sup>99729</sup> AK</u>	<u>MP 229 Parks Hwy</u>
<u>Ronald E. Dino</u>	<u>Cantwell, AK 99729</u>	<u>Mile 229 Parks Hwy</u>
<u>Arleta O'Connor</u>	<u>Box 58 McKinley Park</u>	<u>mile 230 Parks Hwy</u>
<u>Jerry Keith</u>	<u>Box 609 Denali AK</u>	<u>Healy Subdivision</u>
<u>Karen Keith</u>	<u>Box 609 Denali AK</u>	<u>Healy Subdivision</u>
<u>Peter Tubbes</u>	<u>Box 366 Denali AK</u>	<u>Denali Park Hotel</u>
<u>Marlene Clark</u>	<u>Box 65 Healy AK</u>	<u>Healy Subdivision</u>
<u>Elizabeth Schenk</u>	<u>SP#1 Healy</u>	<u>MP 260 Parks Hwy</u>
<u>Steve Ziegler</u>	<u>Box 167 Healy AK</u>	<u>Tri Valley Sub Division</u>
<u>Janet Blonck</u>	<u>Box 167 Healy, AK</u>	<u>Tri Valley Subdivision</u>



January, 1988

Representative Henry Springer  
House of Representatives  
P. O. Box V  
Juneau, Alaska 99811

Dear Representative Springer:

We the undersigned, in the interest of good representation and public information, believe public hearings should be held in all affected areas of SSHB-1 by the bill sponsors and local representatives.

Sincerely,

NAME	MAILING ADDRESS	PHYSICAL ADDRESS
Borden Gregory M	Box 300 Healy, AK	229 Parks Highway
Imelda Decker	SR 1 M.P. 260 Healy AK	
Kronk, W. Paul	M 260 Parks Highway, AK	260 Parks Hwy
James D. Ennis	PO Box 209 Healy AK	260 Parks Hwy
Joan S. Truett	Box 132 Healy, AK 99743	Tri-Valley Subd. Lot 6, Box 6
Louise Decker	SR #1 M.P. 260 Parks Hwy	Healy AK 99743
Joe Pearson	P.O. Box 175 Healy 99743	Stampede Rd
Nancy Russell	Box 343 99755	1.5 X Igniter Rd
Lolita Valco	261 Parks Hwy	Healy 99743
Carl H. Tarsen	POB 40052 CLEAR AK	Mile 276.6 PARKS HWY
Paula B. Tarsen	PO Box 40053 Clear.	Mile 276.6 PARKS HWY
Ellen Ann	Box 4023 9 CLEAR	MILE 276 PARKS HWY
Robert Chubb	Box 4023 9 CLEAR	MILE 276 PARKS HWY
Paul E. Shubert	Box 52 Healy AK	Dry Creek
Rita Ann	S.K. 1 Healy	Tony
James Tarsen	SR 1 Healy	Fish
Barbara Carnes	Box 377	Healy AK
Paddy Tatum	ST. 212 Nenana, ak	99760

January, 1988

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House of Representatives  
P. O. Box V  
Juneau, Alaska 99811

Dear Representative Springer:

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NAME	MAILING ADDRESS	PHYSICAL ADDRESS
Patrick O'Connor	Box 58 McKinley Park 99755	Mile 230 Parks Hwy
Arlita O'Connor	BOX 58 McKinley Park 99755	mile 230 Parks Hwy
MARGARET Menke	Box 134 Healy 99743	1.5 Hill Top Rd
Mark R Menke	"	"
PETER CURBY	BOX 366 DENALI PARK	DENALI PARK HOTEL
Larry Kreutz	Box 609 Denali Park Alaska	
Shirley Duster	Box 301 Healy AK 99743	
Piley Gilliam	Box 161 Healy AK 99743	mile 261 Parks Hwy
June William	Box 161 Healy, AK 99743	mi 261 Pks Hwy
Tom Plaus	Box 161 Healy AK 99743	MI 261 PARKS HWY
Linda Franklin	Mile 261 Healy 99743	mile 261 Parks Hwy
Elizabeth Scheen	SR #1 Healy 99743	MP 260 Parks Hwy
Archie K. Glouch	Box 167 Healy AK	Tri Valley Subdivision
Steve Zeeb	Box 167 Healy AK	Tri Valley Subdivision







January, 1988

Representative Henry Springer  
House of Representatives  
P. O. Box V  
Juneau, Alaska 99811

Dear Representative Springer:

We the undersigned, in the interest of good representation and public information, believe public hearings should be held in all affected areas of SSHB-1 by the bill sponsors and local representatives.

Sincerely,

	PHYSICAL ADDRESS
Chris Miller	PO BOX 33, Healy 99743 Hwy mile 245
Bonnie Ziegler	10 1/2 S. Hwy 1000 N. W. Cross Road 34
Kathy Soper	Box 303 Healy 99743 Lot 50 block 5
James Ross	Box 316 Healy 99743 248.5 Parks Hwy
Christina Snyder	Box 147 Healy 99743 Lot 37 Block 5
Joseph R. Welton	Box 204 Denali Park Mile 230 Parks Hwy
Pat J. Wilner	Box 124 Healy AK 1.2 Egnite Rd.
James B. Brannon II	Box 39 Healy AK Brannon's Hill
Shirley Hamer	Box 105 Healy, AK 99743 914.248.5 Parks Hwy
Ken W. Dyrkorn	Box 313 Healy Hilltop Lane
James A. Brannon	Prucum 169 Healy AK Brannon's Hill
Rae Hoffman	Box 174 Healy 99743 Lot 43 Healy Sub.
J. N. Sharp	Box 8 Healy 99743 Hilltop Lane
Stanne Davatzky	Box 371 Healy AK 99743 Lot #2 Andy Drive
Norm Kocher	Box 61 Healy, AK Block 1 Lot 2
Jack Kiska	Kobayashi Lot 29 and address 99515
Guspa	
Jim Kelchner	Box 174 Denali PK AK 99755
Beth Miller	Box 51 Healy AK 99743
L. Monte Lamer	P.O. Box 277 Healy AK 99743
Bruce Carter	Box 48 Healy AK 99743

SSHB 1

Clare L. Sabino	Box 178 Healy	683-2565
Walter Baker	Box 1466 Healy	683-2508
James H. Morrison	Box 91 Healy	683-2587
Jeffrey Craig	Box 201 McKinley Park	M2.4 STAMPEDE RD.
Walter A. Henderson	Box 127 Healy	3-2782

January, 1988

Representative Henry Springer  
House of Representatives  
P. O. Box V  
Juneau, Alaska 99811

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We the undersigned, in the interest of good representation and public information, believe public hearings should be held in all affected areas of SSHB-1 by the bill sponsors and local representatives.

Sincerely,

NAME	MAILING ADDRESS	PHYSICAL ADDRESS
<del>Ronald K. Rane</del>	<del>Continental, Ak 99729</del>	<del>Milvick Park, Healy</del>
<del>A. Kaitua Lane</del>	<del>Cambell, Ak 99729</del>	<del>MP 229 Parka Hwy.</del>
<del>Debbie L Stratton</del>	<del>Box 67 Healy 99743</del>	<del>Tri-Valley Sub</del>
<del>L Thomas Stratton</del>	<del>" " " "</del>	<del>" " " "</del>
<del>Jyle Stratton</del>	<del>Box 100 Healy Ak 99743</del>	<del>Tri-Valley Sub</del>
<del>Ronald J. Clark</del>	<del>Box 326 Healy 99743</del>	<del>Park Lane, Healy</del>
<del>Melvin and Alice Mills</del>	<del>Box 351 Healy</del>	<del>Subdiv.</del>
<del>Starway Young</del>	<del>PO Box 5</del>	<del>Healy AK 99743</del>
<del>Bob Crowder</del>	<del>PO Box 77 Healy 99743</del>	<del>Tri-Valley Sub-division</del>
<del>Billy Collins</del>	<del>P.O. Box 102 Healy</del>	<del>Tri-Valley subdivision</del>
<del>Michael M. Jensen</del>	<del>to Box 106 Healy</del>	<del>Tri-Valley Subdivision</del>
<del>John Cates</del>	<del>P.O. Box 199 Healy</del>	<del>Tri-Valley Sub Div.</del>
<del>Jim Miller</del>	<del>Spur Box 60</del>	<del>Healy</del>
<del>Charmel Anderson</del>	<del>Box 103</del>	<del>Healy Alaska 99743</del>
<del>Alice Anderson</del>	<del>Box 103</del>	<del>Healy Ak 99743</del>
<del>Shirley Williams</del>	<del>Box 43</del>	<del>HEALY, AK 99743</del>
<del>Kenneth M. Atwood</del>	<del>AK</del>	<del>Healy Ak 99743</del>
<del>Lorie L. Hamel</del>	<del>Box 353</del>	<del>HEALY AK 99743</del>

→

<u>NAME</u>	<u>address</u>	<u>physical address</u>
Julie Boselli	Box 821 Denali	Mile 224 Parks Hwy
Al Busby	Po Box 614 Denali	Mile 224 Parks Hwy
TRAILER W/1 CURBS	P.O. BOX 1412, HEALY, AK 99743	Mi. 248 1/2 PARKS HWY
John Tom. S. Townsend	Box 198 Healy, AK 99743	Mile 245 Parks Hwy
David W. ...	Box 7 Healy 99743	CITRO LAKE
Sheila Lewis	Box 322 Healy 99743	The Valley Sub Div
Kathy Callahan	Healy, AK 99743	Field
...	...	...
...	...	...
Carol E. Desnoyers	P.O. Box 126 Cantwell	Behind Jaseyew
Mike Desnoyers	" " "	" "
W. ...	PO Box 40 Healy	Leather RD.
...	PO BOX 376 HEALY	LIGNITE RD.
Tim Candran	P.O. BOX 181 HEALY	1.4 Lignite RD.

Introduced: 1/20/88  
Referred: Community & Regional  
Affairs, Health, Education &  
Social Services and Finance

5-0166N

1 IN THE HOUSE

BY LARSON, MENARD  
AND DONLEY

2

2d SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 1

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6 For an Act entitled: "An Act providing for the incorporation or annexation

7

of all areas in the unorganized borough; and provid-

8

ing for an effective date.

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

10 \* Section 1. BOUNDARY PROPOSAL. (a) The local boundary commission  
11 shall study the unorganized borough to determine how the entire area should  
12 be organized into new home rule boroughs or annexed to existing boroughs  
13 and unified municipalities. Based upon the standards set out in  
14 AS 29.05.031, by December 31, 1989, the commission shall deliver to the  
15 governor and the legislature a preliminary boundary proposal for the unor-  
16 ganized borough. The proposal must include

17 (1) a designation of areas proposed for annexation to existing  
18 boroughs or unified municipalities; and

19 (2) proposed boundaries for new boroughs to be formed in the  
20 unorganized borough.

21 (b) In preparing the preliminary boundary proposal the commission  
22 shall consult with existing municipalities within or bordering the unor-  
23 ganized borough, regional educational attendance areas, and coastal re-  
24 source service areas. The commission shall conduct at least one public  
25 hearing in the area of each proposed new borough.

26 (c) The commission may submit any proposed annexation compatible with  
27 the preliminary boundary proposal to the legislature under  
28 AS 44.47.567 - 44.47.583.

29 (d) The commission shall, by March 31, 1990, submit to the governor

1 the new borough.

2 (b) AS 29.05.140 and 29.05.190 - 29.05.210 apply to boroughs incor-  
3 porated under this section.

4 \* Sec. 5. The division of legal services of the Legislative Affairs  
5 Agency shall prepare a bill conforming the Alaska Statutes to the changes  
6 made by this Act. The bill shall be presented to the House and Senate  
7 Rules Committees for introduction on the first day of Second Session of the  
8 Sixteenth Legislature.

9 \* Sec. 6. This Act takes effect immediately under AS 01.10.070(c).

XI-1

TOM TAGGART  
Box 150  
Hyder, Alaska 99923  
20 January, 1988

DAVID C. HARRISON  
c/o Rep. Heinrich Springer  
Alaska State Legislature  
Box V  
Juneau, Alaska 99811

re: SSHB1

Dear Mr. Harrison:

I'm interested in obtaining a copy of the (draft) Regional Government Study dated January, 1988, covered by a memorandum from Rep. Springer dated December 10, 1987, which cites yourself as the staff member who did the work on it. The copy we have here now is in general circulation among many people, and I only had 5 minutes or so to look at it, but am indeed interested in the subject. The copy I've seen had about 20 pages, including your effort thru Rep. Springer. If you could run me off a copy of this and send it through the mails I'd be very appreciative.

Hope to hear from you soon.

Sincerely,

*Tom Taggart*

MADE SEVERAL COMMENTS

1. 2ND SSHB 1 WAS BEFORE HURA
2. Hearing 1-29-88. etc

*DTA*

Sent SSHB1 & 2ND SSHB1 1-29-88  
*DTA*

Jn FEB. 02/88

FEB 10 1988  
in Cook.

SUE GULLEFSON, MGR.  
L.I.O. - L.A.A.  
Box Y  
JUNEAU, ALASKA 99811

Dear SUE G - - -

I'd like to see a copy of ALL  
THE INPUT TO LEGISLATION ON SSHBI.

✓

THIS INCLUDES AT LEAST 17 RESPONSES  
(ENUMERATED ON PAGES 19-20 OF DEC 10/87  
MEMO FROM H.C.R.A. COMMITTEE CHAIR,  
HENRY SPRINGER, TO ALL LEGISLATION).

THERE MAY BE ADDITIONAL RESPONSES BY  
NOW, SINCE DEC 10/87. I KNOW OUR  
VILLAGE PASSED A RESOLUTION AGAINST IT.

HOPE TO HEAR FROM YOU SOON, AND  
THANKS IN ADVANCE

Martha:  
As I promised per  
telephone call to you  
on 2/9/88. Thank!  
Becky/LIO

TOM TAGGARD  
HYDRA. ALASKA  
99923-0150  
Tom Taggard

# STATE OF ALASKA

6 2d SSHB/1  
STEVE COWPER, GOVERNOR

## DEPT. OF COMMUNITY & REGIONAL AFFAIRS

### MUNICIPAL & REGIONAL ASSISTANCE DIVISION

- |   |   |   |   |
|---|---|---|---|
| <input type="checkbox"/> 949 E. 36th AVENUE, SUITE 400<br>ANCHORAGE, ALASKA 99508-4302<br>PHONE: (907) 561-8588 | <input type="checkbox"/> P.O. BOX 348<br>BETHEL, ALASKA 99559-0348<br>PHONE: (907) 543-3475     | <input type="checkbox"/> P.O. BOX 10041<br>DILLINGHAM, ALASKA 99578-1041<br>PHONE: (907) 842-5135 | <input type="checkbox"/> 1514 CUSHMAN STREET, ROOM 210<br>FAIRBANKS, ALASKA 99701-8288<br>PHONE: (907) 452-7126 |
| <input type="checkbox"/> P.O. BOX BH<br>JUNEAU, ALASKA 99811-2110<br>PHONE: (907) 465-4750                      | <input type="checkbox"/> 710 MILL BAY RD.<br>KODIAK, ALASKA 99815-6340<br>PHONE: (907) 486-5736 | <input type="checkbox"/> P.O. BOX 350<br>KOTZEBUE, ALASKA 99752-0350<br>PHONE: (907) 442-3696     | <input type="checkbox"/> P.O. BOX 41<br>NOME, ALASKA 99762-0041<br>PHONE: (907) 443-5457                        |

January 28, 1988

### POSITION PAPER

RE: 2d Sponsor Substitute for House Bill 1

SPONSORS: Representatives Larson, Menard and Donley

#### EFFECTS OF THE BILL:

This bill provides that all areas of the Unorganized Borough shall be annexed to existing boroughs or incorporated as new boroughs. By December 31, 1989, the Local Boundary Commission is to initially determine which areas should be annexed to existing boroughs and what the boundaries of the new boroughs should be.

#### COMMENTS:

The Department of Community and Regional Affairs supports the establishment of regional municipal governments throughout Alaska. However, in order to be most effective and useful, such governments must be both economically viable and supported by their citizens. Therein lies a formidable dilemma with this legislation.

While the bill would extend regional municipal governments throughout Alaska, it would do so without consideration of their financial viability. As the Department noted in its recently completed Regional Government Study, a number of regions in the Unorganized Borough clearly appear to have capabilities to support borough government -- some of which are vastly superior to existing boroughs. However, it is equally clear that a number of other regions lack the capabilities to support borough government. Before any measure such as the one proposed by 2d SSHB 1 can be successful, it would seem necessary that programs for the distribution of state aid to municipalities be restructured to accommodate the vast disparities in financial capabilities of the different regions in Alaska.

The bill would also mandate the creation of boroughs. Such action could be expected to significantly diminish the level of support that citizens of those boroughs would have for their governments. The Department believes that residents would be far more supportive of boroughs formed through local initiative than those imposed upon them by the state. However, the Department also recognizes that substantial incentives presently exist for regions in the Unorganized Borough to remain unincorporated. Thus, it is unlikely under the present laws that many new boroughs will be formed under local initiative.

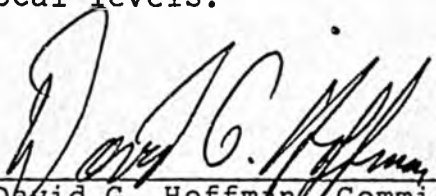
However, we believe that locally initiated regional governments would perhaps be the most efficient and effective providers of all types of governmental services. In addition to those typically associated with a borough, such as education, we believe that boroughs could be very effective in dealing with social problems throughout Alaska. For example, boroughs have the capacity, upon voter approval, to enact local option liquor laws under the provisions of AS 04.

In addition, boroughs have the potential, as regional entities, to offer services to individual communities which may not be presently feasible. For example, small villages may not be able to afford skilled mechanics to properly maintain equipment or they may not be able to hire critical administrative support to operate services (e.g. accountants, managers, etc.). However, because of economies of scale, a borough could employ the services of such employees to serve a number of communities in the region on an efficient scale.

As an alternative to the proposal offered by 2d SSHB 1, the Department feels that efforts should first be made to:

- Identify and address the disincentives to forming a borough;
- Fully identify and address the inequities in the financial capabilities to support local government both within existing boroughs and in unincorporated regions.
- Fully and carefully identify the costs and benefits associated with the extension of regional municipal governments throughout Alaska.
- Educate and inform residents of the Unorganized Borough concerning matters pertaining to regional government.
- Learn from residents of the Unorganized Borough what boundaries may serve as appropriate boundaries for future boroughs.

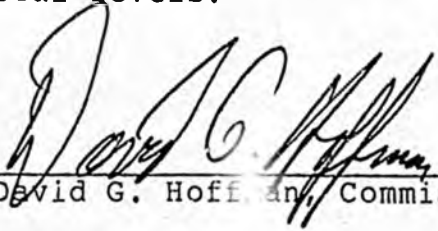
In conclusion, while the Department supports the goal of developing regional governments, we feel that adoption of legislation requiring mandatory boroughs is premature until all disincentives to borough formation have been identified and substantially addressed, thereby promoting regional government initiatives at the local levels.

  
\_\_\_\_\_  
David G. Hoffman, Commissioner

# **CORRECTION**

**THIS DOCUMENT  
HAS BEEN REPHOTOGRAPHED  
TO ASSURE LEGIBILITY**

In conclusion, while the Department supports the goal of developing regional governments, we feel that adoption of legislation requiring mandatory boroughs is premature until all disincentives to borough formation have been identified and substantially addressed, thereby promoting regional government initiatives at the local levels.



---

David G. Hoffman, Commissioner

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_  
Title: "An act..incorporation or annexation  
..unorganized borough..effective date."  
Sponsor: Larson, Menard & Donley  
Requestor: \_\_\_\_\_

Agency Affected: Community & Regional Affairs  
BRU: Local Government Assistance and  
Community Assistance Grants  
Components: Training & Development,  
Organizational Grants, Local Boundary Comm.

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL		64.	32.	25.	25.	
CONTRACTUAL		40.	70.	50.		
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES				6,000.	4,000.	2,000.
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING		104.	102.	6,075.	4,025.	2,000.
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND		104.	102.	6,075.	4,025.	2,000.
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Prepared by: Jim Plasman, Deputy Director  
Division: Municipal & Regional Assistance  
Approved by Commissioner: David C. Hoffman  
Agency: Community & Regional Affairs

Phone: 465-4750  
Date: 1-24-88  
Date: 1-24-88

Distribution (by preparer):

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

STATE OF ALASKA 1988 - 15TH LEGISLATURE  
SECOND SESSION  
FISCAL NOTE

Bill/Resolution No.: 2d SSHB 1

Title: "An Act providing for the incorporation or  
annexation ..areas..unorganized borough..effective date."

ANALYSIS:

Assumptions:

20 boroughs would be formed under the provisions of 2d SSHB 1

All boroughs would be incorporated during FY 91

That the provisions of SB 292, providing compensation to the LBC are approved

DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS

Organizational grants:

FY 91 = \$6,000,000  
FY 92 = \$4,000,000  
FY 93 = \$2,000,000

LBC/Staff travel and per diem

FY 89 = \$64,000  
FY 90 = \$32,000

NOTE: travel calculated as 5 LBC and 1 Staff traveling to 20 prospective boroughs and 10 prospective areas for annexation and 2 trips to Juneau to address the legislature. A total of 32 trips X 6 individuals X \$500 (\$300 travel and \$200 per diem) travel/per diem per trip = \$96,000. Assumed that two-thirds of the work would be done during FY 89 and the remainder in FY 90 prior to December 31, 1989.

LBC Compensation (Contractual line item)

FY 89 = 40,000  
FY 90 = 20,000

LBC compensation calculated as 2.5 days per meeting x 5 members X \$150 (assumes passage of SB 292) x 32 meetings = \$60,000. Assumed that two-thirds of the work would be done during FY 89 and the remainder in FY 90 prior to December 31, 1989.

Technical Assistance Requirements

FY 90	\$ 50,000	(contractual services)
FY 91	\$ 75,000	(\$25,000 travel & \$50,000 contractual)
FY 92	\$ 25,000	(travel)

NOTE: It is assumed that technical assistance will be provided by existing staff on a relatively short term basis and that the focus of the TA efforts will be establishing the initial administrative apparatus necessary to operate the boroughs. Projected costs are based on five trips to each of 20 new boroughs at a cost of \$500 per trip, allocated between FY 91 and FY 92.

\$100,000 has been allocated for development and printing of training and support materials for such subjects as codes of ordinances, accounting systems, assembly operating procedures, conducting elections, etc., and is allocated between FY 90 and FY 91.

JAN 20 1988

January 14, 1988

Representative Henry Springer  
Pouch V  
Juneau, Alaska 99811

Dear Representative Springer:

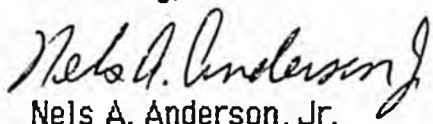
I have been looking at SSHB 1 and would like you to consider several suggestions that you may find worthwhile. I am not sure that the transition amount of \$600,000.00 for funding newly formed boroughs for the purpose of defraying the cost of transition to borough government is realistic today.

I am not sure when that figure was adopted but it seems fair to request that a more appropriate amount would be \$1,200,000.00 after looking at the time that has passed and the erosion of the value of the dollar. I believe that the amount of \$600,000.00 in the sixties was a huge amount but is not much today. You also have to remember that most of the unorganized borough is in rural Alaska which has a higher cost of doing business than urban areas.

I believe that an increase to \$1,200,000.00 would create more of an incentive to form new boroughs and it would help if the three period of assistance be increased as well. The larger amount of transition funds would be in line with the real costs of setting up a borough. A longer transition time frame would make it clear that the State was not abandoning the newly formed boroughs.

Finally, it would make me feel more comfortable if you could expand the scope of the powers of the boroughs formed under this bill to include all the powers that are available to boroughs under State law. It would be more acceptable if you gave the Unorganized Borough an expanded set of options to choose from rather than the most expensive burden of providing funds for education.

Sincerely,



Nels A. Anderson, Jr.

cc: Rep. Herrmann. Sen. Zharoff, Rep. Larson



ALASKA STATE LEGISLATURE  
HOUSE OF REPRESENTATIVES  
RESEARCH AGENCY

9 2d SSSHBI

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

February 2, 1988

MEMORANDUM

TO: Representative Heinrich Springer  
ATTN: David Harrison  
FROM: Karen Oakley *ko*  
Legislative Analyst  
RE: Second Sponsor Substitute For House Bill 1  
Research Request 88.154

You asked us to prepare a brief description and analysis of the Second Sponsor Substitute for House Bill 1 (SSSHB1) (Attachment A). All versions of House Bill 1 mandate the formation of boroughs from the unorganized borough. The first Sponsor Substitute for House Bill 1 (SSHB1) mandated that all areas within the unorganized borough not incorporated by local initiative by July 1, 1989 would become third class boroughs by default. Unless changed by local initiative, the boundaries of the Rural Educational Attendance Areas in 1982 would serve as the boundaries of the new boroughs.

The SSSHBI changes the deadline for borough formation, the boundaries that will be used, and the class of boroughs that will be formed. Briefly, the changes are:

- (1) the deadline for borough formation is moved back one year to 1990;
- (2) the boundaries for the new boroughs will be based on a study conducted by the Local Boundary Commission; and
- (3) the new boroughs will be home rule boroughs.

Table 1 compares the two sponsor substitutes. In Table 2, the schedule of events leading to borough formation under SSSHBI is laid out, and the roles that the Local Boundary Commission, Department of Community and Regional Affairs (DCRA), Legislature and the citizens of the unorganized borough will play in those events are described. In the following section, the home rule borough is described. The memorandum concludes with a brief analysis of the bill.

### The Home Rule Borough

A home rule borough has powers, duties and procedures which are set forth in a charter adopted by the voters of the borough. To become a home rule borough, the voters of the area must first elect a charter commission of seven members. Over the course of one year, this charter commission must prepare a proposed charter for submittal to the voters. The charter must define the powers, duties and procedures of the borough government. Except as specifically limited by the State Municipal Code, the charter may prescribe any powers, duties and procedures for the borough government.

There are 48 provisions in the Municipal Code that apply to, and thereby limit, the powers of a home rule government.<sup>1</sup> Among these provisions are the open meetings and conflict of interest laws and other laws which the legislature thought should apply to all forms of boroughs, for example, laws governing boundary changes, elections, property taxation and the like. Other than these very specific limits, the citizens of a home rule borough are free to govern themselves--through adoption of a charter--in the manner they see fit.

Home rule boroughs are required to exercise three powers on an areawide basis. These powers are education, taxation and land use planning. In this regard, home rule boroughs are no different from first class and second class boroughs. They also must exercise these three powers on an areawide basis. A home rule borough has, however, much more discretion in how these powers are exercised. For example, first class and second class boroughs may levy a sales tax up to six percent. A home rule borough may also levy a sales tax but could set a higher rate.

One of the biggest differences between the home rule borough and the other kinds of boroughs is in how the land use planning power is exercised. First class and second class boroughs must follow the conditions set forth in AS 29.40 in land use planning. AS 29.40 requires the borough to establish a planning commission which must prepare a comprehensive land use plan. Once adopted by the borough assembly, land use must be regulated in accordance with this plan. A home rule borough must exercise the land use planning power but is not bound by the requirements of AS 29.40. A home rule borough is free to specify the means of land use planning, platting and land use regulation.

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<sup>1</sup>Limitations on home rule power are set forth in AS 29.10.200.

### Analysis of SSSHBI

As did its predecessors, the SSSHBI sets a deadline for borough formation. As sponsor Representative Ron Larson has testified, he is not wedded to the date specified in the bill; what is most important is the decision that within the next few years all areas of the state will be organized at the regional level. This policy signals the end of the unorganized borough and is the single most important feature of the bill. The other features of the bill simply address the means by which this policy will be implemented, and it is in regard to these implementing features that SSSHBI is the most different from its predecessors.

The first sponsor substitute was analogous to the Mandatory Borough Act of 1963 in that a deadline was set and those areas not incorporating prior to that deadline became boroughs by default. The Mandatory Borough Act gave the citizens of the unorganized borough a period of time in which to organize on their own. Clearly, the legislature wanted to give citizens a chance to form boroughs by local initiative. The first sponsor substitute contained this same policy: organize on your own now or we will organize you, on our terms, later.

The second sponsor substitute does not give citizens of the unorganized borough a clear chance to organize on their own prior to becoming a borough by default. While there is nothing in the bill that explicitly prohibits citizens from organizing, the bill does not encourage local initiative in the same way that the first sponsor substitute or the Mandatory Borough Act did. The bill appears to discourage local initiative by mandating a study process in which the State government, rather than the citizens of the unorganized borough, has the primary responsibility. The Local Boundary Commission and the Department of Community and Regional Affairs are given the lead roles; the boundary commission is mandated to define borough boundaries, and the DCRA is mandated to devise a charter for use by the boroughs. The only clear opportunity that citizens have to influence either borough boundaries or the provisional borough charter is to testify at hearings held by the Local Boundary Commission and the DCRA, and the bill requires that only one hearing be held in the area of each new borough. Were the boroughs to form through local initiative, the citizens of each area would be more actively involved in defining the borough boundaries and in choosing the type of borough to be formed, and meetings would probably be held in many of the communities within each new borough.

Apparently, the mandate that the new boroughs be home rule boroughs arose from public comment at hearings on the first sponsor substitute that third class boroughs did not allow enough local control and that first and second class boroughs imposed too many limits on local control, particularly with regard to the land use planning process. Thus, comment seemed to indicate a preference for the home rule borough because home rule provides the greatest degree of local control. Ironically, the procedure by which these new home rule boroughs would be formed under SSSHBI appears to remove most of the local involvement normally required to form a home rule government.

Representative Springer  
February 2, 1988  
Page 4

The differences between the procedure by which a home rule borough is normally formed and the procedure by which home rule boroughs would be formed under the SSSHBI are fundamental. Normally, the citizens of the area must play an active role in the formulation of the charter by which they will eventually be governed. Citizens must vote to initiate a charter commission and must elect the persons that serve on the commission. They must also vote to approve the charter. Under SSSHBI, the Department of Community and Regional Affairs has the responsibility of drafting the charter, and the charter they come up with applies to all new boroughs. The only opportunity that citizens will have to tailor the charter to their own desires is to petition the DCRA with any amendments. If no amendments are proposed, the citizens never actually vote on the charter. Thus, in contrast to the normal procedure by which a home rule borough is formed, the citizens of a home rule borough formed under SSSHBI will have limited involvement in devising their charter. By definition, "home rule" requires "local initiative," and the method of forming home rule boroughs imposed by the SSSHBI appears to contradict this primary feature of a home rule government.

In summary, the second sponsor substitute maintains the primary policy objective of organizing the unorganized borough but it substantially changes the means by which that objective will be achieved by reducing reliance on local initiative.

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

Attachments

**TABLE 1**

**COMPARISON OF THE SECOND SPONSOR SUBSTITUTE FOR HOUSE BILL 1 TO THE FIRST SPONSOR SUBSTITUTE**

FEATURE	SECOND SPONSOR SUBSTITUTE	FIRST SPONSOR SUBSTITUTE
Deadline for formation of the new boroughs	1990	1989
Boundaries of the new boroughs	Boundaries will be proposed after study by the Local Boundary Commission; some areas may be annexed to existing boroughs, other areas may become new boroughs	Based on the boundaries of the Rural Educational Attendance Areas in 1982
Borough type	Home rule	Third class

Prepared by the House Research Agency, February 1988 (88-154A).

**TABLE 2**  
**SCHEDULE OF EVENTS LEADING TO FORMATION OF NEW BOROUGHS UNDER THE SECOND SPONSOR SUBSTITUTE FOR HOUSE BILL 1**

WHEN	WHO	WHAT	COMMENTS
Now through December 31, 1989	Local Boundary Commission (LBC)	Study the unorganized borough to determine how the entire area should be organized into boroughs or annexed to existing boroughs and unified municipalities. Prepare a preliminary boundary proposal.	During the study period, the Local Boundary Commission is required to consult with existing municipalities within or bordering the unorganized borough, the Rural Educational Attendance Areas and coastal resource service areas. The LBC is also required to hold at least one public hearing in the area of each proposed new borough.
	Department of Community and Regional Affairs	Prepare a provisional home rule charter for the new boroughs.	In preparing the provisional home rule charter, the department is required to conduct at least one public hearing in the area of each new borough. The charter shall provide that each new borough exercise only those powers that a home rule borough must exercise by law.
March 31, 1990	Local Boundary Commission	Submit to the governor and the legislature its final boundary proposal.	The submittal of the final boundary proposal and the provisional charter to the legislature and the governor is for informational purposes only. The legislature has no power to amend either the boundary proposal or the provisional charter.
	Department of Community and Regional Affairs (DCRA)	Submit to the governor and the legislature a provisional home rule charter for the new boroughs designated in the final boundary proposal.	
November 1990	Voters in the unorganized borough	Vote for the initial borough officials and on any amendments to the provisional charter.	Voters in the proposed boroughs must petition the Department of Community and Regional Affairs to place any desired amendments to the charter on the ballot.
December 1990		New boroughs are incorporated.	On the Monday following certification of the election of the initial borough officials, the boroughs are incorporated. The provisional charter prepared by the DCRA is the borough charter unless any amendments were approved during the election.

Prepared by the House Research Agency, February 1988 (88-154B).

# Alaska State Legislature

(12) 2d SSB 1

Session Address:  
STATE CAPITOL BUILDING  
BOX V  
JUNEAU, ALASKA 99811  
(907) 465-3727



Interim Address:  
BOX 53  
PALMER, ALASKA 99645  
(907) 745-3828 - Palmer  
(907) 376-8828 - Wasilla

Representative Ronald L. Larson  
District 16B

TO: House Community and Regional Affairs Committee  
FROM: Representative Ron Larson, <sup>R.L.</sup> Sponsor  
SUBJ: Bill Summary, 2nd SSB 1  
DATE: February 1, 1988

Following is a sectional analysis of 2nd SSB 1:

Section 1: (a) Directs the Local Boundary Commission to complete a study to determine how the unorganized borough should be organized into new boroughs or annexed to existing boroughs and unified municipalities. Based on standards set out in AS 29.05.031 (statute setting out standards that must be met for a borough to organize), the commission shall deliver to the governor and the legislature a preliminary boundary proposal by December 31, 1989.

(b) The commission shall consult with municipalities within or bordering the unorganized borough, PFAAs, and coastal resource service areas (this could range from public hearings to simple informational letters asking for input) and shall conduct at least one public hearing in the area of each proposed new borough.

(c) The commission shall submit to the legislature any proposed annexation compatible with the preliminary proposal under AS 44.47.567 - 44.47.583. (The cited statutes mandate the powers and duties of the local boundary commission as well as the procedures the commission is to use in considering boundary changes. Included is the stipulation that the commission shall present proposed changes to the legislature within the first ten days of a regular session.)

(d) By March 31, 1990 the commission shall submit to the governor and the legislature a final boundary proposal for areas to be included in new home rule boroughs, exclusive of the annexed areas established in subsection c.

Section 2: (a) By March 31, 1990 the Department of Community and Regional Affairs shall deliver to the governor and the legislature a provisional home rule charter for the new boroughs. In preparing the charter, the department shall conduct at least one public hearing in each new borough. (This means that each new borough will start out with the same basic charter outlining the minimal requirements set out in law.)

# Alaska State Legislature



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# Alaska State Legislature

## House of Representatives

### Committee on Community & Regional Affairs

Pouch V  
State Capitol  
Juneau, Alaska 99811  
(907) 465-4833

#### A N N O U N C E M E N T

To: All Interested Parties

From: Representative Henry Springer, Chairman  
Community and Regional Affairs Committee *HS*

Subject: 2d SSHB 1 - Organization of the Unorganized Borough

Date: February 2, 1988

The House Community and Regional Affairs Committee (HCRA) will be taking statewide testimony on 2d SSHB 1 via teleconference on Wednesday, February 17, 1988 and Wednesday, February 24, 1988, from 3:00 - 4:30 p.m. Participation will be possible through selected Legislative Information Offices (LIOs) or from anywhere in the state with telephone capability.

Testimony from the eastern half of the state (Parks Highway and eastward) will be heard on February 17th. Testimony from the western half of the state (west of the Parks Highway) will be heard on February 24th.

Witnesses may give testimony either from the LIOs listed below or by calling toll free 800-478-8353. The entire meeting can be heard from the LIO sites. Individual call-ins are asked to hang up after giving their testimony to make the phone line available for other people. This will allow for maximum participation from anywhere in the state. Copies of the typed minutes or tapes are available upon request. For tape duplicates, please send two (2) good quality, blank 90 minute cassette tapes for each meeting of which you would like a copy.

The following LIO sites will be on-line as specified:

February 17, 1988 - Parks Hwy and east - 3:00 to 4:30 p.m.

Anchorage	Delta	Fairbanks	Glennallen
Juneau	Kenai	Ketchikan	Mat-Su
Petersburg	Sitka	Valdez	

Or call toll free 800-478-8353

February 24, 1988 - West of Parks Hwy - 3:00 to 4:30 p.m.

Anchorage	Barrow	Bethel	Dillingham
Fairbanks	Juneau	Kodiak	Kotzebue
Nome			

Or call toll free 800-478-8353

Written testimony may be sent to HCRA at the above address. For more information, please call HCRA at 465-4833.

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

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

**House Research Agency Report 88-A**

**A NEW MANDATORY BOROUGH ACT:  
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Karen Oakley  
House Research Agency  
Alaska State Legislature  
February 1988

House Research Agency Report 88-A

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# **CORRECTION**

**THIS DOCUMENT  
HAS BEEN REPHOTOGRAPHED  
TO ASSURE LEGIBILITY**

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LOCAL EDUCATION COSTS AND POTENTIAL REVENUES  
OF NEWLY CREATED BOROUGHES**

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

**House Research Agency Report 88-A**

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

**A NEW MANDATORY BOROUGH ACT:  
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Karen Oakley  
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## INTRODUCTION

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

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

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

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

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

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

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

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

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

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

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

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

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

## EXECUTIVE SUMMARY

### CHAPTER ONE: THE UNORGANIZED BOROUGH

#### Political Status and Location

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

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

#### Population

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

#### Communities

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

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

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

#### Economy

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

#### Education

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

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

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

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

## CHAPTER TWO: HOUSE BILL 1

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

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

### The Third Class Borough

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

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

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

#### Previous Similar Legislation and Legislative Study

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

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

#### Configuration of School Districts Under House Bill 1

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

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

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

Boroughs formed from single REAAs were:

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

Boroughs formed by combining districts were:

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

### CHAPTER THREE: LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

#### Required Local Contributions Under the Foundation Aid Program

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

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

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

## EXECUTIVE SUMMARY

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

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

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

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

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

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

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

#### Changes in Foundation Aid to the Proposed Boroughs

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

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

**School Debt Service Requirements**

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

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

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**Potential Savings From Consolidating School Districts**

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

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

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

Effects on State Revenues

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

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

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

Effects on State Expenditures

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ten boroughs would need to levy additional taxes for education:

- Six boroughs must tax to meet their required local contribution but do not need to raise additional funds. These boroughs include three pipeline boroughs--Yukon-Koyukuk, Delta/Greely, and Copper River--which must each raise \$1.5 to \$3 million to meet their local contribution, and three other boroughs--Southwest Region, Railbelt and Chatham--which each need to raise less than \$200,000.

- Three boroughs do not need to tax to meet their required local contribution but must tax to cover the portion of the reduction in Foundation aid not offset by additional entitlements and consolidation savings. These boroughs include the Iditarod and Kuspuks boroughs, which would need to raise less than \$35,000 to maintain education funding, and the Lower Kuskowkim borough which would need to raise \$650,000.

- One borough--the Yukon Flats borough--would need to raise \$1.9 million to fulfill its local contribution requirement and an additional \$11,500 to maintain education funding (pages 69-72).

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

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

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

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

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

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

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

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

### Conclusions

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

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

CHAPTER ONE  
THE UNORGANIZED BOROUGH

POLITICAL STATUS

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

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

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

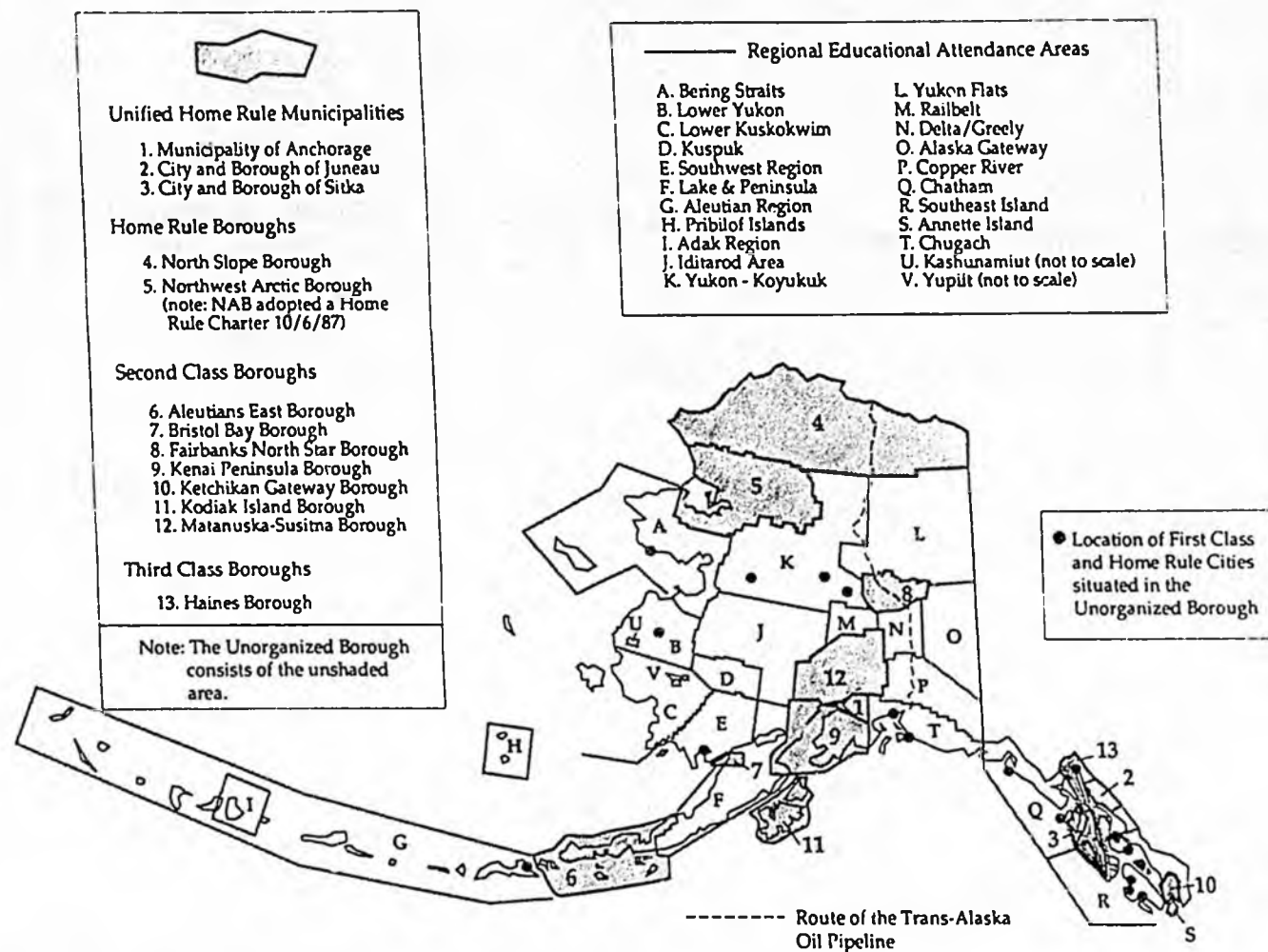
Deciding that boroughs could not be expected to form immediately upon statehood, and that some rural areas would not be financially or otherwise ready to organize for some years, the framers of the constitution mandated that the state would be divided into boroughs, organized and unorganized. At statehood,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

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

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<sup>1</sup>Alaska Constitution, Article X, Section 1.

FIGURE 1.1

LOCATION OF THE ALASKA UNORGANIZED BOROUGH IN 1988



Source: Alaska Department of Community & Regional Affairs

# **CORRECTION**

**THIS DOCUMENT  
HAS BEEN REPHOTOGRAPHED  
TO ASSURE LEGIBILITY**

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<sup>1</sup>Alaska Constitution, Article X, Section 1.

## THE UNORGANIZED BOROUGH

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

### LOCATION

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

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

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

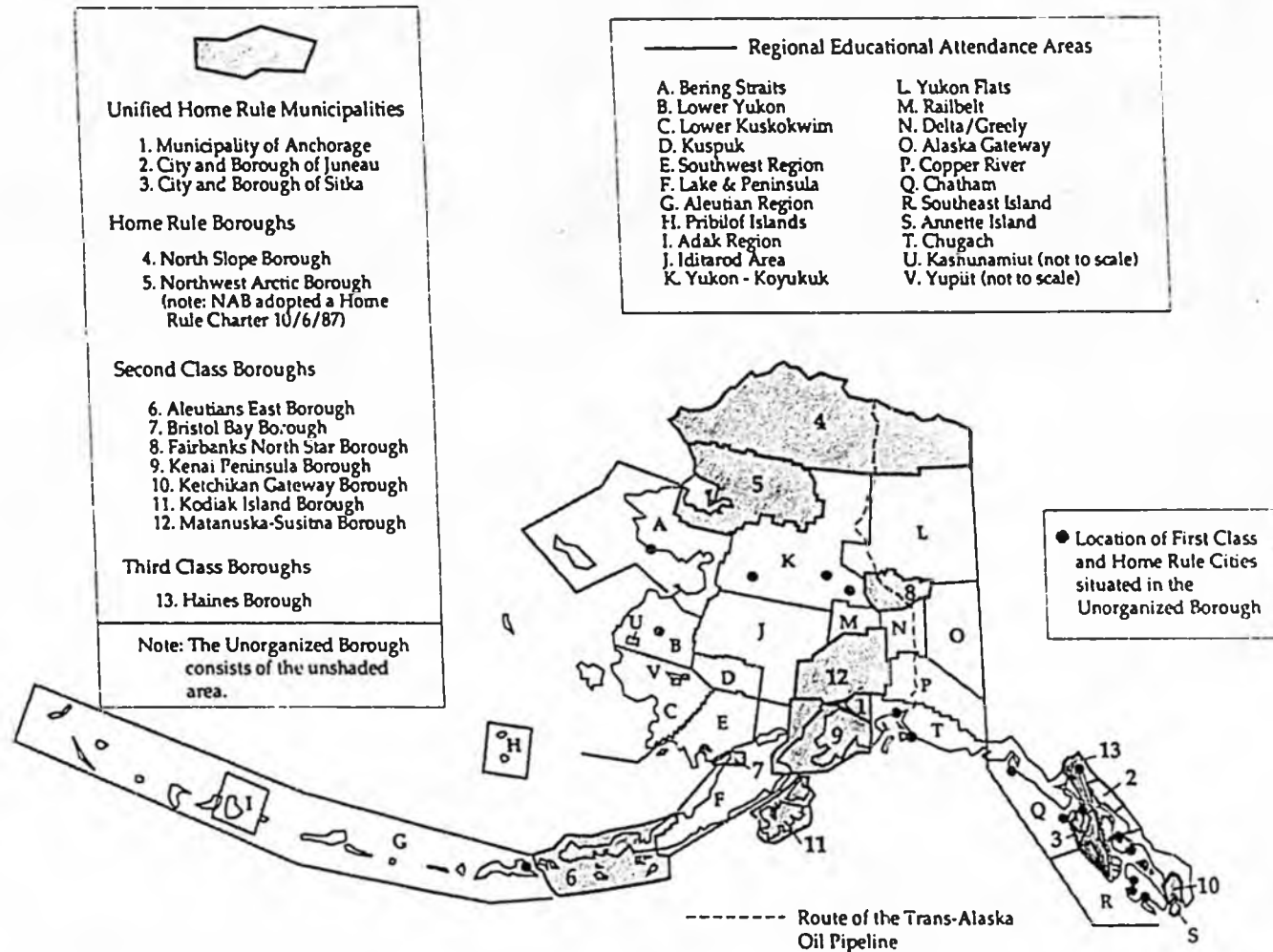
### POPULATION

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

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

FIGURE 1.1

LOCATION OF THE ALASKA UNORGANIZED BOROUGH IN 1988



Source: Alaska Department of Community & Regional Affairs

## THE UNORGANIZED BOROUGH

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

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

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

### COMMUNITIES

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

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

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

TABLE 1.1

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

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

Source: Alaska Department of Labor.

## THE UNORGANIZED BOROUGH

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

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

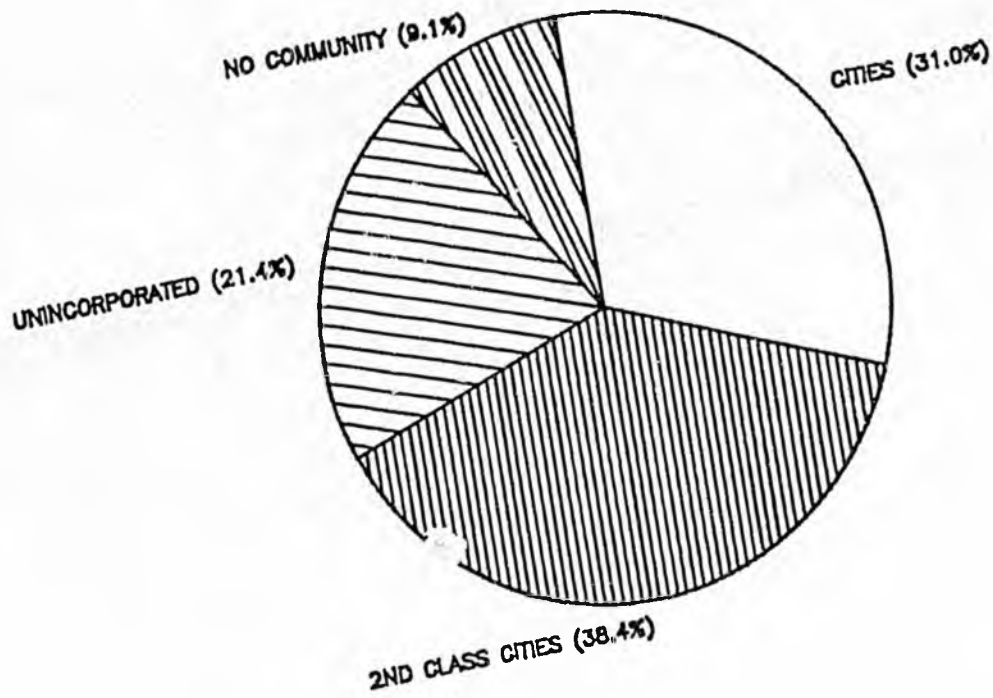
The above discussion categorized communities by how they are recognized under the State municipal code. These communities may also be categorized by how they are recognized under federal law. Some 77 villages in the unorganized borough are recognized under the Indian Reorganization Act. One community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

## ECONOMY

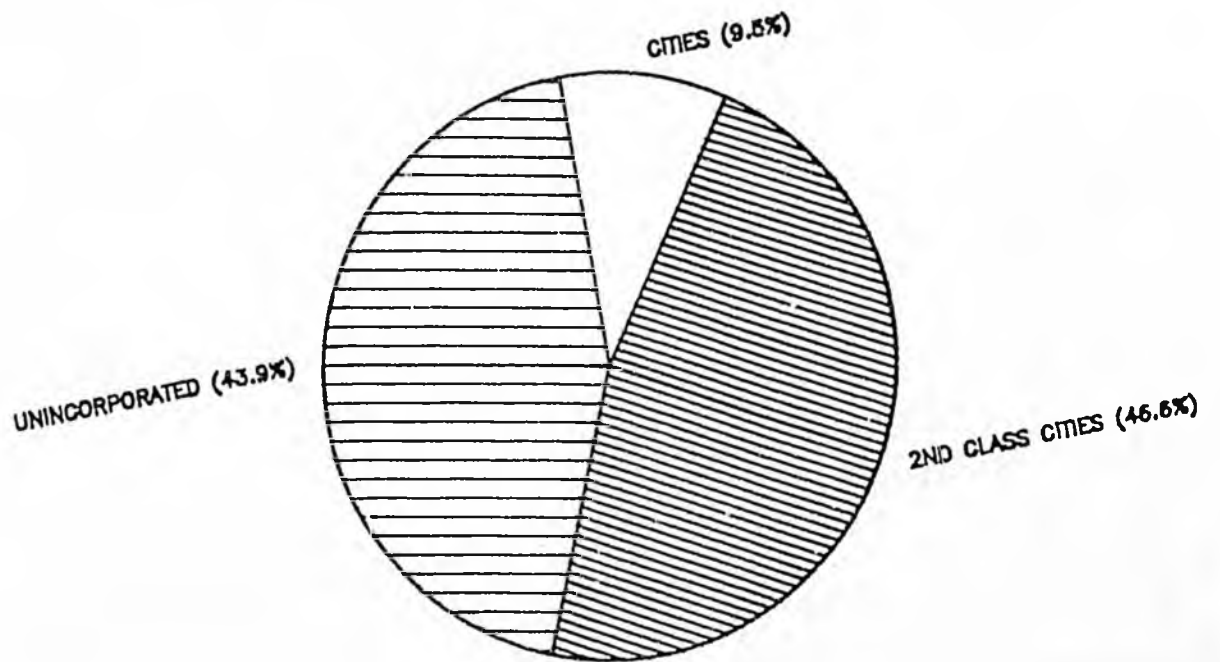
A detailed description of the economy of the unorganized borough is beyond the scope of this introductory chapter, but a general description is provided. The unorganized borough encompasses a large area that crosses regional boundaries and therefore does not, on its own, comprise an easily defined economic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

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

FIGURE 1.2  
UNORGANIZED BOROUGH RESIDENTS LIVING IN  
COMMUNITIES OF VARIOUS TYPES



PERCENT OF UNORGANIZED BOROUGH  
COMMUNITIES OF VARIOUS TYPES



## THE UNORGANIZED BOROUGH

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

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

### EDUCATION

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

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

## THE UNORGANIZED BOROUGH

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

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

## CHAPTER TWO

### HOUSE BILL 1

This chapter is devoted to a discussion of House Bill 1.<sup>4</sup> First, House Bill 1 is explained. Because HB 1 would create up to 21 new third class boroughs, and because the third class borough is a rare creature-- there is only one in the state--and thus relatively little known, a brief history and explanation of the third class borough is provided. To put HB 1 into perspective, previous similar legislation is recalled. Analysis of education costs and potential revenues of the individual boroughs that would be created under HB 1 required some assumptions about how Rural Educational Attendance Areas and city districts would be combined; consolidation of REAAs and city districts into the 17 proposed boroughs whose education costs and potential revenues are evaluated in the following chapters is described.

#### HOUSE BILL 1

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

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

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

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

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

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

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

Section 3 directs the Division of Legal Services of the Legislative Affairs Agency to prepare a bill entitled "An Act relating to the unorganized borough, school districts, and third class boroughs." This act would make the changes necessary to implement Sections 1 and 2 of HB 1.<sup>5</sup>

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

### THE THIRD CLASS BOROUGH

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

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

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

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

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

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

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

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

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

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

#### PREVIOUS SIMILAR LEGISLATION AND LEGISLATIVE STUDY

House Bill 1 is directly analogous to the Mandatory Borough Act enacted in 1963.<sup>9</sup> The Borough Act of 1961 had allowed for formation of boroughs under local option. After two years, only a single borough--the tiny Bristol Bay Borough--had formed, and it was obvious that local initiative was not working. The need for local areawide governments was increasing, however. There was an increasing demand for local services, particularly in the areas outside of cities, an increasing demand for local control of essentially local functions, a need to equalize tax burdens, and a need to integrate the special service districts--like the Haines Independent School District--into constitutional forms of local government. These needs provided the impetus for passage of the Mandatory Borough Act.

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

<sup>8</sup>Alaska Statute 29.05.031.

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

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

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

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

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

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

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