

ALASKA LEGISLATURE COMMITTEE FILES 1987-88 8672

4452 HCRA HB 1 (FILE 3)

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HOUSE BILL 1

set for a replay of many of the same issues and concerns that occupied the 1963 Legislature when it passed the Mandatory Borough Act.

CONFIGURATION OF SCHOOL DISTRICTS UNDER HOUSE BILL 1

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

Analysis of education costs and potential revenues of the boroughs created by HB 1 required some assumptions about how many boroughs would be formed and which communities would be included in each borough. As prescribed by HB 1, the boundaries of the REAAs in 1982 formed the basis of new borough boundaries. The Kashanait and Yupiit REAAs were formed after 1982, thus these REAAs were merged with their surrounding REAAs. All city districts were placed within their surrounding REAAs. Current standards for incorporation of a borough require that there be at least two separate communities and that there be at least 1,000 residents.¹² To be consistent with these standards, the Adak, Pribilof and Annette Island REAAs, which alone did not meet these standards, were incorporated into adjoining REAAs.

The result is 17 new boroughs formed from 22 REAAs and 19 city school districts.¹³ Table 2.1 shows how REAAs and city districts were combined to form these boroughs. These are the "proposed boroughs" whose education costs and potential revenues are analyzed in the remainder of this report. Further information about these boroughs, including a listing of all

¹²See 19 AAC 10.160 for standards for incorporation of organized boroughs.

¹³While the combination of districts could be different than presented here, two important effects of HB 1 on the configuration of school districts in the state should be noted. First, the total number of school districts would be significantly reduced. Using the assumptions made above, the number of districts is almost halved. Second, all school districts would be organized at the borough level.

TABLE 2.1

CONFIGURATION OF RURAL EDUCATIONAL ATTENDANCE AREAS (REAs) AND CITY SCHOOL DISTRICTS
 INTO THIRD CLASS BOROUGHS UNDER HOUSE BILL 1 AS USED IN THIS REPORT

Boroughs formed from single REAs	Boroughs formed by combining REAs with city districts or with other REAs		
	This REA:	Will absorb these city districts:	and these REAs:
Alaska Gateway	Aleutian Region	Unalaska	Adak, Pribilof
Copper River	Bering Strait	Nome	
Delta/Greely	Chatham	Yakutat, Pelican, Hoonah, Skagway	
Iditarod	Chugach	Cordova, Valdez	
Kuspuk	Lower Kuskokwim		Yupit
Lake and Peninsula	Lower Yukon	St. Mary's	Kashunamiut
Railbelt	Southeast Island	Kake, Petersburg, Wrangell, Klawock, Craig, Hydaburg	Annette Island
Yukon Flats	Southwest Region	Dillingham	
	Yukon-Koyukuk	Tanana, Galena, Nenana	

NOTES:

- House Bill 1 provides that the REAs in existence in 1982 will form the basis of the new third class boroughs. Therefore, the two REAs that were formed after 1982 were included in their surrounding REAs. The Yupit REA was included in the Lower Kuskokwim borough, and the Kashunamiut REA was included in the Lower Yukon REA.
- Current borough incorporation standards require boroughs to have two communities and at least 1,000 residents. Therefore, the Adak, Annette Island and Pribilof REAs were included in adjoining REAs.

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communities within their boundaries, is presented in Table 2.2. The boroughs are listed in Table 2.2 in five geographic groups:

- 1) Western,
- 2) Southwestern,
- 3) Interior-Pipeline,
- 4) Interior-Highways (No Pipeline), and
- 5) Southeastern.

To facilitate the presentation of data about the proposed boroughs, the sequence and grouping of boroughs used in Table 2.2 is used throughout the report.

TABLE 2.2
COMMUNITIES LOCATED WITHIN EACH OF THE 17 THIRD CLASS BOROUGHs PROPOSED TO BE CREATED UNDER HOUSE BILL 1

WESTERN ALASKA BOROUGHs

BERING STRAIT			LOWER YUKON			LOWER KUSKOKWIM			IDITAROD			KUSPUK		
Type	Name	Population	Type	Name	Population	Type	Name	Population	Type	Name	Population	Type	Name	Population
FCC	Nome	3,191	FCC	St. Mary's	458	SCC	Akiachak	459	SCC	Anvik	83	SCC	Aniak	481
SCC	Brevig Mission	164	SCC	Chevak	532		Akiak	289		Grayling	225		Chuathbaluk	124
	Diomede	158		Emmonak	613		Atmoutluak	234		Holy Cross	238		Lower Kalskag	281
	Elim	237		Fortuna Ledge	281		Bethel	4,006		McGrath	509		Upper Kalskag	154
	Gambell	494		Hooper Bay	686		Chefornak	277		Nikolai	122	UNIN	Crooked Creek	126
	Golovin	131		Kotlik	409		Eek	257		Shageluk	144		Red Devil	42
	Koyuk	202		Mountain Village	682		Goodnews Bay	241	UNIN	Lime Village	48		Sleetmute	130
	Saint Michael	287		Pilot Station	425		Kasigluk	405		Takotna	54		Stoney River	92
	Savoonga	487		Russian Mission	231		Kwethluk	546		Telida	38		Balance	64
	Shaktoolik	163		Scammon Bay	304		Mekoryuk	152		Balance	102			
	Shismaref	410		Sheldon Point	124		Napakiak	299						
	Stebbins	372	UNIN	Pitkas Point	106		Napaskiak	303						
	Teller	247		Balance	184		Newtok	207						
	Unalakleet	759					Nightmute	153						
	Wales	143					Nunapitchuk	356						
	White Mountain	164					Platinum	65						
UNIN	Perkinsville	45					Quinhagak	453						
	Balance	122					Tooksook Bay	362						
							Tuluksak	321						
						UNIN	Tununak	318						
							Kipnuk	408						
							Kongiginak	291						
							Kwiggillinock	244						
							Oscarville	63						
							Tuntutuliak	293						
							Balance	338						
TOTAL POPULATION		7,776			5,035			1,340			1,563			1,494

TABLE 2.2 (Continued)
 COMMUNITIES LOCATED WITHIN EACH OF THE 17 THIRD CLASS BOROUGHs PROPOSED TO BE CREATED UNDER HOUSE BILL 1

SOUTHWESTERN ALASKA BOROUGHs								
SOUTHWEST REGION			LAKE AND PENINSULA			ALEUTIANS WEST		
Type	Name	Population	Type	Name	Population	Type	Name	Population
FCC	Dillingham	2,141	SCC	Chignik	129	FCC	Unalaska	1,331
				Newhalem	165			
SCC	Alakanuk	556		Nondalton	234	SCC	Akutan	80
	Aleknagik	180		Port Heiden	108		Saint George	191
	Clarke's Point	79					Saint Paul	466
	Ekwak	107	UNIN	Chignik Lagoon	40			
	Manolotak	309		Chignik Lake	164	UNIN	Adak	4,665
	New Stuyahok	339		Egegik	112		Atka	93
	Togiak	556		Igiugig	38		Nikolsi	46
				Iliamna	126			
UNIN	Koliganek	161		Ivanof Bay	49		Balance	25
	Levelock	109		Kokhanok	68			
	Portage Creek	35		Pedro Bay	70			
	Twin Hills	44		Perryville	137			
				Pilot Point	79			
	Balance	87						
				Balance	41			
TOTAL POPULATION		4,703			1,560			6,897

TABLE 2.2 (Continued)

COMMUNITIES LOCATED WITHIN EACH OF THE 17 THIRD CLASS BOROUGHs PROPOSED TO BE CREATED UNDER HOUSE BILL 1

INTERIOR ALASKA-PIPELINE BOROUGHs

YUKON-KOYUKUK			YUKON FLATS			DELTA/GREELY			COPPER RIVER			CHUGACH		
Type	Name	Population	Type	Name	Population	Type	Name	Population	Type	Name	Population	Type	Name	Population
FCC	Galena	947	SCC	Fort Yukon	678	SCC	Delta Junction	1,299	UNIN	Chistochina	64	HRC	Cordova	1,901
	Nenana	544								Chitina	40		Valdez	3,271
	Tanana	425	UNIN	Arctic Village	132	UNIN	Big Delta	388		Copper Center	229	SCC	Whittier	344
SCC	Allakaket	188		Beaver	80		Fort Greely	1,672		Gakona	82			
	Bettles/Evansville	86		Birch Creek	29		Healy Lake	37		Glennallen	499	UNIN	Eyak	44
	Hughes	92		Central	42		Balance	1,353		Gulkana	98		Tatitlek	112
	Huslia	272		Chalkyitsik	94					Kenny Lake	37			
	Kaltag	278		Circle	94					Lower Tonsina	38		Balance	409
	Koyukuk	143		Rampart	59					Paxson	33			
	Nulato	368		Steven's Village	97					Slana	57			
	Ruby	241		Tatalina	13					Tazlina	38			
				Venetie	237					Tonsina	130			
UNIN	Campion Station	12		Balance	41					Balance	1,569			
	Indian Mountain	13												
	Manley Hot Springs	88												
	Minto	209												
	Balance	813												
TOTAL POPULATION		4,719			1,596			4,749			2,914			6,081

TABLE 2.2 (Continued)
 COMMUNITIES LOCATED WITHIN EACH OF THE 17 THIRD CLASS BOROUGHES PROPOSED TO BE CREATED UNDER HOUSE BILL 1

INTERIOR ALASKA--HIGHWAYS (NO PIPELINE) BOROUGHES:						SOUTHEASTERN ALASKA BOROUGHES					
RAILBELT			ALASKA GATEWAY			CHATHAM			SOUTHEAST ISLAND		
Type	Name	Population	Type	Name	Population	Type	Name	Population	Type	Name	Population
SCC	Anderson	566	SCC	Eagle	185	FCC	Hoonah	917	FCC	Craig	924
UNIN	Cantwell	91	UNIN	Chicken	48		Pelican	234		Hydaburg	463
	Healy	414		Dot Lake	77		Skagway	610		Kake	634
	McKinley Park	65		Mentasta	66		Yakutat	456		Klawock	613
	Usibelli	6		Northway	146	SCC	Angoon	588	HRC	Petersburg	3,145
	Balance	203		Tanacross	149		Tenakee Springs	142		Wrangell	2,387
				Tetlin	89	UNIN	Elfin Cove	47	SCC	Kasaan	83
				Tok	692		Gustavus	217		Kupreanof	41
				Balance	580		Balance	317		Port Alexander	131
										Thorne Bay	412
									UNIN	Annette	158
										Cape Pole	50
										Coffman Cove	272
										Hyder	73
										Metlakatla	1,270
										Meyers Chuck	53
										North Wale Pass	83
										Point Baker	108
										Balance	970
TOTAL POPULATION		1,345			2,032			3,528			11,870

NOTES:

1. Population figures are for 1986 from the Alaska Department of Labor.

FCC=First Class City HRC=Home Rule City SCC=Second Class City UNIN=Unincorporated Community Balance=Population residing outside any community

CHAPTER THREE

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

Borough and city governments have historically paid a portion of school operation and construction costs. Upon organization as a borough, the residents of the Rural Educational Attendance Areas will be required to contribute a portion of the costs of operating their public schools. In addition, they will have to pay at least some of the costs for school construction.

In this chapter, the local share of the costs of public education of the 17 proposed boroughs is discussed. First, the local contribution required under the Public School Foundation Program for each of the proposed boroughs is estimated, and changes in the amount of Foundation aid received by each borough are computed. Required local contributions are then compared to current local contributions to get an indication of how much additional revenue each borough would have to raise, presumably through taxation. Several city districts have bonded debt for school construction, and the impact of these debts on the affected boroughs is discussed. Finally, because nine of the 17 proposed boroughs will be formed through consolidation of districts, the potential magnitude of reduced administrative costs is estimated.

In summary:

- 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 non-oil and gas property in REAAs.
- Required local contributions of the proposed boroughs would total \$18.7 million, of which \$12.3 million would be derived from the REAAs.
- The amount of Foundation aid received by the proposed boroughs would be \$13.5 million less than would be received by the districts forming the boroughs under the status quo. For most of the proposed boroughs, the reductions are on the order of one to four percent, but for the pipeline boroughs, the reductions are much greater--on the order of 40 percent.

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

- Ten of the 17 proposed boroughs have current contributions in excess of required contributions and could therefore organize without having to levy any additional taxes to meet the required local contribution.
- Seven boroughs would have to institute taxes to meet the required local contribution. The four pipeline boroughs which currently levy no property taxes would each have to raise on the order of \$1.5 to \$3 million and would therefore have to institute a property tax. Three other boroughs 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.
- Five of the city school districts that would be integrated into boroughs have outstanding bonded indebtedness totalling \$39.6 million for school construction. Upon incorporation, these debts will become borough debts to which the full faith and credit of the borough is pledged. Although funds for repayment would be derived from the city incurring the debt, the debts will affect the new boroughs because a major proportion of their property tax capacity will be committed to debt service, thereby reducing the amount of their tax capacity they can exploit for operating or other expenses.
- Savings from consolidation of districts are estimated to be roughly \$200,000 for each district subsumed. For the two boroughs in Southeast Alaska, which each consolidate several districts, the savings are potentially significant, representing from seven to nine percent of current expenditures.

REQUIRED LOCAL CONTRIBUTIONS UNDER THE PUBLIC SCHOOL FOUNDATION PROGRAM

The State of Alaska funds a major portion of the operating costs of public schools within the state through a Foundation program. Under the Foundation method of school funding, the State guarantees a certain level of support to all school districts.¹⁴

¹⁴See "Public School Financing in Alaska," by Jay Livey and Gretchen Keiser, House Research Agency Report 87-A, February 1987, for a history of the Public School Foundation Program.

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

A local contribution was required under Alaska's first Foundation law enacted in 1962, and local governments were then contributing about 33 percent of their school district's revenues. The local share of school operating revenues has steadily dropped--while the State share has steadily increased--during the last 25 years, and with the massive influx of revenues from Prudhoe Bay, the "required local contribution" was eliminated. Amendments to the Foundation law in 1987, however, reinstated the requirement for local contributions. Thus, boroughs must pay a portion of school operating costs or lose their Foundation funding.

In this section, the local contribution that each proposed borough would be required to make is estimated and compared to the amount that the REAAs and cities forming each borough currently make.

Current Foundation Program Formula

In 1987, the legislature enacted a new and relatively uncomplicated method to calculate the amount of Foundation aid that school districts will receive. This method will be gradually implemented during the next three fiscal years. For simplicity, I have used the formula that will be in effect after this transition period. 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.

The basic need of each district is determined by multiplying the area cost differential by the number of instructional units by the value of an instructional unit. Area cost differentials are numbers that account for differences in costs of education due to location. The differentials range from 1.0, the cost differential for Anchorage, to 1.46, the cost differential for the Yukon Flats REAA. An instructional unit represents the level of activity required to provide instruction to a group of students. Separate schedules for computing the number of instructional units are kept for four different types of instruction--regular, vocational, special, and bilingual-bicultural education--which reflect the differing levels of effort required to provide that type of education to a group of students. Different schedules also apply depending upon the size of the "funding community."¹⁵ The instructional unit value is set by the legislature. In 1987, the legislature set the value of an instructional unit at \$60,000.

¹⁵Each district may be divided into a number of "funding communities" which reflect different geographic and attendance factors.

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

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.

Required local contributions are set forth in AS 14.17.025. Local contributions of a city or borough school district must include at least:

- 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
- 35 percent of the district's basic need.

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 PL 81-874 funds.

The full and true value of taxable real and personal property is determined by the Department of Community and Regional Affairs in consultation with the assessor for each district. The Alaska Municipal Code (Title 29) gives municipalities wide latitude in determining both the rate at which property will be taxed and what forms of property will be taxed. The full value determination made by the Department of Community and Regional Affairs 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. Full and true value is the estimated price that the property would bring in an open market and under the then prevailing market conditions in a sale between a willing buyer and a willing seller both conversant with the property and with prevailing general price levels.

Full Property Values in the Proposed Boroughs

Since most city districts already make local contributions to education through property taxation, full property values for these are known and reported annually in Alaska Taxable, a publication of the Department of Community and Regional Affairs. The property values of communities in the REAAs are not known. At the request of the legislature, the Department of Community and Regional Affairs prepared estimates of the property value of the REAAs last April. These estimates were based on the number of taxable parcels and an average full value per parcel. The value of irregularly distributed taxable improvements, such as cold storage facilities and canneries, and of State-assessed properties, primarily the TransAlaska Oil Pipeline, were then added to the appropriate REAAs to reach a total full taxable value for each REAA.

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

Table 3.1 presents the full taxable property values of the proposed boroughs based on the values of city districts as reported in Alaska Taxable and on the estimates for the REAAs prepared by DCRA. The total full value of these proposed boroughs is \$7.4 billion. The TransAlaska Oil Pipeline within the unorganized borough currently has a full value of \$3.8 billion and thereby accounts for 51 percent of the full taxable value of the proposed boroughs. First class and home rule cities are valued at \$2.7 billion, accounting for 36 percent of the total value. Only 13 percent of the value of the proposed boroughs is derived from non-petroleum property within the REAAs.

Table 3.1 also compares the property values of the proposed boroughs to the values of the existing boroughs. In total, property in existing boroughs is valued at \$48.4 billion--over six times the value in the proposed boroughs. Most existing boroughs have taxable 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).

On a per student basis, the pipeline boroughs--which have high values and low population--have taxable values that exceed the values for all existing boroughs except the North Slope Borough. The other proposed boroughs have per student values less than those generally found in existing boroughs.

Table 3.2 compares the percentages of total value and student population contributed by the city portion and the REAA portion of each borough formed through consolidation of city districts and REAAs. (Table C.1 in Appendix C provides a detailed look at the taxable values of the boroughs formed through consolidation.) In general, the area outside of cities represents a smaller percentage of the borough value and a higher percentage of borough student population. The two exceptions are the Lower Yukon borough, where the percentages of borough value and of borough students are approximately equal, and the Yukon-Koyukuk borough, where the area outside of cities contributes 95 percent of the borough value--due to the presence of the pipeline--while the students in the area outside of the cities represent only 65 percent of borough students.

TABLE 3.1
FULL TAXABLE PROPERTY VALUES OF PROPOSED BOROUGHS COMPARED TO VALUES OF EXISTING BOROUGHS

PROPOSED BOROUGHS				EXISTING BOROUGHS			
BOROUGH	FULL TAXABLE VALUE	STUDENT POPULATION	FULL VALUE PER STUDENT	BOROUGH	FULL TAXABLE VALUE	STUDENT POPULATION	FULL VALUE PER STUDENT
WESTERN/NORTHWEST							
Bering Strait	\$240,477,297	2,006	\$119,879	North Slope	\$13,570,786,300	1,152	\$11,785,312
Lower Yukon	89,378,063	1,587	56,319	Northwest Arctic	235,045,200	1,547	151,897
Lower Kuskowkim	321,017,461	2,859	112,283				
Iditarod	23,481,360	384	61,149				
Kuspuk	19,839,960	350	56,686				
SOUTHWEST							
Southwest Region	157,571,260	933	168,887	Aleutians East	102,890,443	317	324,576
Lake and Peninsula	30,546,520	354	86,290	Bristol Bay	101,541,000	219	464,081
Aleutians West	117,748,037	951	123,815	Kodiak	552,447,400	2,253	245,216
INTERIOR PIPELINE							
Yukon-Koyukuk	934,498,200	984	949,693	Fairbanks	4,726,913,900	12,895	366,570
Yukon Flats	1,035,432,040	372	2,783,419				
Delta/Greely	813,113,635	1,019	797,953				
Copper River	1,198,725,880	561	2,136,766				
Chugach	1,843,290,222	1,257	1,466,420				
INTERIOR/SOUTHCENTRAL HIGHWAYS							
Railbelt	30,176,160	366	82,449	Anchorage	19,343,356,800	39,748	486,650
Alaska Gateway	45,527,741	511	89,095	Mat-Su	2,716,755,000	8,668	313,427
				Kenai	3,905,341,000	8,178	477,525
SOUTHEAST							
Chatham	131,333,718	934	140,614	Haines	97,621,600	352	277,492
Southeast Island	358,683,415	2,633	136,226	Juneau	1,688,992,300	4,609	366,447
				Ketchikan	904,384,100	2,474	365,585
				Sitka	441,175,000	1,590	277,469

TOTAL	\$7,390,840,969	18,061	\$409,215		\$48,387,251,643	84,002	\$576,028

NOTES:

1. Full taxable property value determinations for Rural Educational Attendance Areas were prepared by the State Assessor with the Department of Community and Regional Affairs, April 1987. Values for existing boroughs and cities within the unorganized borough are from Alaska Taxable 1986.
2. Student population data are from the Department of Education and are the number of students reported to be in attendance during the first count period in FY 87 (Average Daily Membership).

TABLE 3.2

FULL TAXABLE PROPERTY VALUES AND STUDENT POPULATIONS OF PROPOSED BOROUGHs FORMED BY COMBINING CITY DISTRICTS WITH THEIR SURROUNDING RURAL EDUCATIONAL ATTENDANCE AREA (REAA)

PROPOSED BOROUGH	FULL TAXABLE VALUE	STUDENT POPULATION	FULL TAXABLE VALUE PER STUDENT	PERCENT OF TOTAL BOROUGH	
				VALUE	STUDENTS
ALEUTIANS WEST					
CITY	\$95,564,500	159	\$601,035	81	17
REAA	22,183,537	792	28,010	19	83
BERING STRAIT					
CITY	151,635,000	782	193,907	63	39
REAA	88,842,297	1,224	72,584	37	61
CHATHAM					
CITY	121,398,200	582	208,588	92	62
REAA	9,935,518	352	28,226	8	38
CHUGACH					
CITY	1,817,309,000	1,127	1,612,519	99	90
REAA	25,981,222	130	199,756	1	10
LOWER YUKON					
CITY	4,451,200	101	44,071	5	6
REAA	84,926,863	1,486	57,151	95	94
SOUTHEAST ISLAND					
CITY	312,697,800	1,791	174,594	87	68
REAA	45,985,615	842	54,615	13	32
SOUTHWEST REGION					
CITY	107,515,700	461	233,223	68	49
REAA	50,055,560	472	106,050	32	51
YUKON-KOYUKUK					
CITY	49,961,600	371	134,667	5	38
REAA	884,536,600	613	1,442,963	95	62
SUBTOTAL--CITY DISTRICTS					
	\$2,660,533,000	5,374	\$495,075	69	38
SUBTOTAL--REAA S					
	\$1,212,447,212	5,911	\$205,117	31	62
TOTAL--CITY/REAA BOROUGHs					
	\$3,872,980,212	11,285	\$343,197		

NOTES:

1. Full taxable property value determinations for Rural Educational Attendance Areas were prepared by the State Assessor with the Department of Community and Regional Affairs, April 1987. Values of cities are from Alaska Taxable 1986.
2. Student population data are from the Department of Education and are the number of students reported to be in attendance during the first count period in FY 87 (Average Daily Membership).

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

Required Local Contributions of the Proposed Boroughs

Table 3.3 shows the amounts that each proposed borough would be required to contribute to education to receive Foundation aid. (Table C.2 in Appendix C provides a detailed look at the required local contributions of the boroughs formed through consolidation.) The required local contribution is estimated based on the property values discussed above and on the basic need values for FY 88.

Required local contributions for the proposed boroughs range from less than \$100,000 to over \$3.7 million. In total, the proposed boroughs would be required to contribute \$18.7 million. Under the status quo, the city districts will be required to contribute \$6.4 million. Thus, the additional amount raised locally due to formation of boroughs from the REAAs is \$12.3 million.

Revenues from a four mill property tax in the proposed boroughs would raise a total of \$29.6 million. The difference between the required contribution and full property tax capacity is accounted for by those boroughs whose potential tax revenues exceed 35 percent of their basic need. 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 equals 35 percent of their basic need.

Comparison of Required Contributions to Current Local Contributions

To determine the actual amount that each new borough must raise locally through taxation to meet its obligation under the Foundation Program, the current local contributions that each district makes must be considered. Alaska Statute 14.17.250(7) defines the revenues that a district may use to meet its required local contribution. Local contributions include:

- (1) tax appropriations;
- (2) earnings on investments;
- (3) the value of in-kind services;
- (4) State tuition payments; and
- (5) ten percent of Public Law 81-874 payments.

TABLE 3.3

LOCAL CONTRIBUTIONS REQUIRED BY THE PUBLIC SCHOOL FOUNDATION PROGRAM OF THE PROPOSED BOROUGHES

PROPOSED BOROUGH	FOUR MILLS	35 PERCENT OF BASIC NEED	REQUIRED LOCAL CONTRIBUTION
WESTERN			
Bering Strait	\$961,909	\$7,162,680	\$961,909
Lower Yukon	357,512	6,148,590	357,512
Lower Kuskowkim	1,284,070	12,535,320	1,284,070
Iditarod	93,925	1,782,270	93,925
Kuspuk	79,360	1,696,590	79,360
SOUTHWESTERN			
Southwest Region	630,285	3,415,860	630,285
Lake and Peninsula	122,186	2,014,740	122,186
Aleutians West	470,992	2,678,042	470,992
INTERIOR PIPELINE			
Yukon-Koyukuk	3,737,993	3,939,180	3,737,993
Yukon Flats	4,141,728	2,041,200	2,041,200
Delta/Greely	3,252,455	2,059,470	2,059,470
Copper River	4,794,904	1,735,230	1,735,230
Chugach	7,373,161	2,873,850	2,873,850
INTERIOR HIGHWAYS (NO PIPELINE)			
Railbelt	120,705	1,130,850	120,705
Alaska Gateway	182,111	1,741,320	182,111
SOUTHEAST			
Chatham	525,335	2,617,440	525,335
Southeast Island	1,434,734	5,680,290	1,434,734
TOTAL -- PROPOSED BOROUGHES	\$29,563,364	\$61,252,922	\$18,710,867

NOTES:

1. Calculation of revenue possible under a four mill property tax based on full taxable value determinations by the Department of Community and Regional Affairs, April 1987 (see Table 3.1).
2. Basic need values are from the Department of Education for FY 88.
3. Required local contribution for each borough is the lesser of the revenue from a four mill tax on the full value of property or 35 percent of basic need.

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

Because investment earnings, in-kind services, tuition payments, and ten percent of their federal aid are considered by the Foundation law as "local contributions," the amount that a district must raise through taxation to meet its required contribution is reduced. In Table 3.4, the required local contribution of each proposed borough is compared to the contributions made in FY 87. (Table C.3 in Appendix C provides a detailed comparison of current and required local contributions of the boroughs formed through consolidation.) The results are somewhat surprising: The total local contributions of the proposed boroughs in FY 87 were \$15 million, of which only \$6.3 million was tax revenue from city districts.¹⁶ For ten of the 17 proposed boroughs, current local contributions exceed the required local contributions. For the seven proposed boroughs whose current contributions are less than their required contribution, the total amount they would need to raise to meet their obligation is \$9 million.

In six of the ten proposed boroughs where current contributions exceed required contributions, no property taxes are currently levied. That current contributions exceed required contributions in these proposed boroughs is generally the result of low property values combined with high earnings on investments and high PL 81-874 payments. The Kuspuik Borough provides an example: Its required local contribution is \$79,360--the result of low property values. In FY 87, the Kuspuik REAA received \$135,149 in investment earnings, and ten percent of its PL 81-874 payment was \$144,011. Thus, its total "local contribution" was \$279,160, exceeding the contribution required under the Foundation Program by \$199,800. The other proposed boroughs that do not currently levy property taxes but have local contributions that exceed the required contribution are the Iditarod, Lower Kuskokwim, Lower Yukon, Lake and Peninsula, and Alaska Gateway boroughs.

In the Bering Strait, Aleutians West, Chugach, and Southeast Island proposed boroughs, current contributions also exceed required contributions. Some--but not all--of the first class and home rule cities within these proposed boroughs levy property taxes, and current revenues from these taxes represent from 20 percent to over 200 percent of the required local contribution for these boroughs.

¹⁶Valdez contributed the lion's share of all tax appropriations from city districts--\$4.7 million.

TABLE 3.4
COMPARISON OF REQUIRED LOCAL CONTRIBUTIONS UNDER THE PUBLIC SCHOOL FOUNDATION PROGRAM TO CURRENT LOCAL CONTRIBUTIONS OF THE PROPOSED BOROUGHES

PROPOSED BOROUGH	REQUIRED LOCAL CONTRIBUTION	CURRENT LOCAL CONTRIBUTIONS						REQUIRED CONTRIBUTIONS IN EXCESS OF CURRENT CONTRIBUTIONS
		TAX APPROPRIATIONS	EARNINGS ON INVESTMENTS	IN-KIND SERVICES	STATE TUITION PAYMENTS	10 PERCENT OF PL 81-874	TOTAL	
WESTERN								
Bering Strait	\$961,909	\$206,000	\$417,705	0	\$11,468	\$503,563	\$1,138,736	0
Lower Yukon	357,512	0	707,031	0	0	644,578	1,351,609	0
Lower Kuskowkim	1,284,070	0	747,801	0	0	840,939	1,588,740	0
Iditarod	93,925	0	143,470	0	0	85,103	228,573	0
Kuspuk	79,360	0	135,149	0	0	144,011	279,160	0
SOUTHWESTERN								
Southwest Region	630,285	0	225,952	0	0	216,457	442,409	187,877
Lake and Peninsula	122,186	0	141,162	0	0	114,708	255,870	0
Aleutians West	470,992	122,000	329,382	0	0	329,309	780,691	0
INTERIOR PIPELINE								
Yukon-Koyukuk	3,737,993	45,739	211,680	0	39,789	269,886	567,094	3,170,899
Yukon Flats	2,041,200	0	72,297	0	0	64,583	136,880	1,904,320
Delta/Greely	2,059,470	0	94,332	0	0	130,622	224,954	1,834,516
Copper River	1,735,230	0	37,268	0	0	55,099	92,367	1,642,863
Chugach	2,873,850	4,706,394	172,682	8,052	486,285	27,391	5,400,804	0
INTERIOR HIGHWAYS (NO PIPELINE)								
Railbelt	120,705	0	47,421	0	0	12,941	60,362	60,343
Alaska Gateway	182,111	0	141,837	0	0	77,589	219,426	0
SOUTHEAST								
Chatham	525,335	101,114	139,124	11,339	83,564	42,615	377,756	147,579
Southeast Island	1,434,734	1,144,513	365,099	17,774	70,917	316,367	1,914,670	0
TOTAL--PROPOSED BOROUGHES	\$18,710,867	\$6,325,760	\$4,129,392	\$37,165	\$692,023	\$3,875,762	\$15,060,102	\$8,948,396

NOTES:

1. Required local contributions are based on comparison of revenues from a four mill property tax to 35 percent of basic need (see Table 3.3).
2. Current local contributions are from the audited expenditures of each school district for FY 87 as reported by the Department of Education.

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

In the remaining seven proposed boroughs, required contributions exceed current contributions. Four of these boroughs--Copper River, Delta/Greely, Yukon Flats, and Yukon-Koyukuk--are pipeline boroughs whose property values are so high that required contributions are on the order of two to four million dollars. Within these four boroughs, property taxes are levied only within Galena and Nenana, and current local contributions range from \$100,000 to \$600,000. Thus, for these four pipeline boroughs, required contributions exceed current local contributions by \$1.5 to \$3 million.

In the remaining three boroughs--Chatham, Railbelt, and Southwest Region--required local contributions are not extreme but they do exceed current local contributions by \$50,000 to \$200,000.

CHANGES IN FOUNDATION AID TO THE PROPOSED BOROUGHES

Table 3.5 shows the change in total Foundation aid to the region represented by each new borough in both dollars and as a percentage of the amount that they would have received under the status quo. (Table C.2 in Appendix C provides a detailed look at changes in Foundation aid to boroughs formed through consolidation.)

Under HB 1, the amount of Foundation aid--given FY 88 basic need--to the proposed boroughs would be approximately \$13.5 million less than would be received by the districts forming the boroughs under the status quo. For most of the proposed boroughs, the reductions in Foundation aid are on the order of one to four percent, however, for the "pipeline" boroughs, the declines are much greater--on the order of 40 percent.¹⁷ For the pipeline boroughs, the relatively large reduction in Foundation aid stems from their high 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.

¹⁷The required local contribution for four of the five pipeline boroughs is 35 percent of basic need, thus their Foundation aid is 65 percent of their basic need minus 90 percent of their federal aid. Therefore, their Foundation aid is reduced over the status quo by 35 percent plus the percentage that federal aid represents of their basic need.

TABLE 3.5
ESTIMATED FOUNDATION AID TO THE PROPOSED BOROUGHES

PROPOSED BOROUGH	BASIC NEED IN FY 88	REQUIRED LOCAL CONTRIBUTION	90 PERCENT OF PL 81-874	CHANGE IN FOUNDATION AID		AS A PERCENTAGE OF AMOUNT RECEIVED BY THE REGION UNDER THE STATUS QOO
				AMOUNT RECEIVED UNDER STATUS QOO	AMOUNT RECEIVED UNDER HOUSE BILL 1	
WESTERN						
Bering Strait	\$20,464,800	\$961,909	\$4,282,033	\$15,576,227	\$15,220,858	(\$355,369) -2.3
Lower Yukon	17,567,400	357,512	5,195,221	12,354,374	12,014,667	(339,707) -2.7
Lower Kuskokwim	35,815,200	1,284,070	6,976,279	28,838,921	27,554,851	(1,284,070) -4.5
Iditarod	5,092,200	93,925	849,651	4,242,549	4,148,624	(93,925) -2.2
Kuspuk	4,847,400	79,360	1,213,011	3,634,389	3,555,029	(79,360) -2.2
SOUTHWESTERN						
Southwest Region	9,759,600	630,285	2,097,021	7,232,516	7,032,294	(200,222) -2.8
Lake and Peninsula	5,756,400	122,186	1,036,848	4,719,552	4,597,366	(122,186) -2.6
Aleutians West	7,651,548	470,992	2,582,268	4,687,022	4,598,288	(88,734) -1.9
INTERIOR PIPELINE						
Yukon-Koyukuk	11,254,800	3,737,993	2,120,843	8,934,111	5,395,964	(3,538,147) -39.6
Yukon Flats	5,832,000	2,041,200	703,866	5,128,134	3,086,934	(2,041,200) -39.8
Delta/Greely	5,884,200	2,059,470	1,042,286	4,841,914	2,782,444	(2,059,470) -42.5
Copper River	4,957,800	1,735,230	398,113	4,559,687	2,824,457	(1,735,230) -38.1
Chugach	8,211,000	2,873,850	209,030	6,130,751	5,128,120	(1,002,631) -16.4
INTERIOR HIGHWAYS (NO PIPELINE)						
Railbelt	3,231,000	120,705	116,468	3,114,532	2,993,827	(120,705) -3.9
Alaska Gateway	4,975,200	182,111	626,551	4,348,649	4,166,538	(182,111) -4.2
SOUTHEAST						
Chatham	7,478,400	525,335	1,030,166	5,962,641	5,922,899	(39,742) -0.7
Southeast Island	16,229,400	1,434,734	1,227,515	14,924,858	14,740,915	(183,943) -1.2
TOTAL PROPOSED BOROUGHES	\$175,008,348	\$18,710,867	\$31,707,170	\$139,230,827	\$125,764,075	(\$13,466,752) -9.7

NOTES:

1. Calculation of revenue possible under a four mill property tax based on full taxable value determinations by the Department of Community and Regional Affairs, April 1987 (see Table 3.1).
2. Basic need and Public Law 81-874 values are from the Department of Education for FY 88.
3. Required local contribution for each borough is the lesser of the revenue from a four mill tax on the full value property or 35 percent of basic need (see Table 3.3).
4. Foundation Aid: basic need less the required local contribution less 90 percent of PL 81-874 funds.

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

In theory, the total revenue available to each of the proposed boroughs for schools is the same under HB 1 and the status quo; the local contributions merely replace Foundation aid.¹⁸ For the boroughs formed from single REAAs or by combining REAAs, required local contributions exactly match the reductions in Foundation aid. For all but one of the boroughs formed by combining city districts and REAAs, the reductions in Foundation aid match the required local contributions of the REAA.

The Chugach Borough is the only exception. This borough contains Valdez, whose property value is much greater than 35 percent of its basic need. However, the property value of Cordova and the other communities in the borough is less than 35 percent of their basic need. Because of the much greater value of Valdez, the required local contribution from the Chugach Borough is 35 percent of its basic need. Foundation aid for this borough is thus reduced by the required local contribution of the Chugach REAA plus the difference between 35 percent of basic need and four mills of their respective property values for the Chugach REAA and Cordova.

SCHOOL DEBT SERVICE REQUIREMENTS

Alaska Statute 29.05.130 requires that when a borough is formed, all special districts and service areas within the new borough must be integrated into the borough within two years of incorporation. On integration, the new borough succeeds to all the rights, powers, duties, assets and liabilities of the service area. A 1963 Attorney General's Opinion held that city school districts are a "service area" within the context of the integration provision.¹⁹

Five of the city school districts that would be integrated into boroughs under HB 1 have outstanding bonded indebtedness for school construction. The total outstanding debt as of January 1987 for these districts is \$39.6 million. According to current repayment schedules, these districts will be making payments for the next 9 to 18 years. Table 3.6 shows the outstanding debt, years to full repayment, and annual debt service payments for each of these districts.

¹⁸Total educational revenue will decline if the required local contribution is met by means other than taxation. See Chapter 5 for a discussion of the need for local taxes to maintain educational revenues at their current level.

¹⁹1963 Attorney General Opinion No. 29.

TABLE 3.6

SCHOOL CONSTRUCTION BONDED INDEBTEDNESS OF CITY SCHOOL DISTRICTS IN 1987

CITY DISTRICT	NOHE	UNALASKA	VALDEZ	WRANGELL	PETERSBURG
PROPOSED BOROUGH	BERING STRAIT	ALEUTIANS WEST	CHUGACH	SOUTHEAST ISLAND	SOUTHEAST ISLAND
TOTAL OUTSTANDING DEBT	\$6,030,000	\$855,000	\$19,760,000	\$8,975,000	\$4,045,000
YEARS TO REPAYMENT	9	14	13	18	11
ANNUAL PAYMENTS					
FY 88	\$1,116,722	\$101,665	\$2,872,838	\$1,131,366	\$770,720
FY 89	1,038,835	103,290	2,861,062	1,125,610	748,695
FY 90	973,510	99,690	2,755,738	1,112,610	633,370
FY 91	933,980	101,248	2,753,599	1,107,403	615,208
FY 92	893,110	102,780	2,643,488	1,112,065	597,602
FY 93	850,230	99,093	2,631,400	1,111,832	578,520
FY 94	806,010	100,140	1,913,375	1,113,262	562,760
FY 95	761,120	100,725	1,835,025	1,110,900	540,230
FY 96	715,560	100,800	1,846,075	1,109,291	521,115
FY 97		100,400	1,853,050	1,112,771	222,000
FY 98		99,600	1,851,075	1,110,573	203,500
FY 99		103,200	1,835,000	1,107,870	
FY 00		101,200	1,718,625	963,721	
FY 01		98,800		957,353	
FY 02				954,543	
FY 03				949,535	
FY 04				941,816	
FY 05				821,730	
TOTAL PRINCIPAL AND INTEREST	\$8,089,077	\$1,412,631	\$29,370,350	\$18,954,251	\$5,993,720

Source: Alaska Department of Education

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

School construction bonded indebtedness is State-supported debt. State-supported debt is debt whose ultimate source of payment may include General Fund appropriations, but to which the full faith and credit of the State is not pledged. Under AS 14.11.100, school districts are eligible for reimbursement of a certain percentage of their debt service payments. The percentage of debt reimbursed ranges from 80 to 100 percent, depending upon when the debt was issued. The actual amount that a district is reimbursed in any year depends upon cigarette tax receipts two years previously and on the amount that the legislature appropriates for reimbursement.

Cigarettes are taxed at eight mills, and 2.5 mills of the receipts are deposited in a school fund and may be used only to pay for school construction. Department of Education regulation 4 AAC 36.010 specifies how the cigarette tax receipts are to be allocated among districts.²⁰ Districts with school construction debt or districts making cash payments for school construction receive a basic allotment of \$6,000 plus a pro rata share of the remaining receipts. By becoming boroughs, the new boroughs will receive a larger share of cigarette tax receipts, due to their increased enrollments. The increased cigarette tax receipts will be exactly offset by decreased State reimbursement, thus borough formation will neither increase or decrease the amount that the new borough must pay. Existing boroughs will receive a smaller share of the cigarette tax receipts, and these decreases will be exactly offset by increased State reimbursement.

Alaska Statute 14.11.100 specifies the maximum amount of the principal and interest for which a district may be reimbursed. The legislature is not required to fund the reimbursement program at 100 percent, however. If the program is not funded at 100 percent, each district's entitlement is reduced pro rata. In FY 86, the reimbursement program was funded at 97 percent; in FY 87, it was funded at 91 percent. The FY 88 budget appropriated enough funds for reimbursement at 92 percent of the maximum entitlement.

Alaska Statute 29.05.130 specifies that all property in the service area subject to taxation for the purpose of paying the principal and interest of the bonds at the time of integration remains subject to taxation for that purpose. Alaska Statute 29.47.440, which addresses the bonded indebtedness

²⁰All school construction within the REAAs is paid for by the State, and REAAs do not receive any cigarette tax receipts.

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

of boroughs, specifies that a borough may incur debts for functions within the areas outside of cities or within a service area, and that the payment of debt principal and interest shall be derived from the area incurring the debt, but that the full faith and credit of the entire borough shall be pledged to guarantee the debt.

Thus, for the four boroughs that will subsume city school districts with outstanding school construction debts, an assessment of the full amount of local funding required for schools must include debt service payments. Since debt service is already being paid by city residents and cannot, apparently, be spread out over the entire borough, the debt service payments will not add to the amount of local money that the new borough must raise. However, because the full faith and credit of the borough is pledged to the debt, the presence of the debt will affect the new borough in several ways:

- The debt represents a major portion of city residents' current tax burden and therefore will affect their willingness to approve new bonds or to accept tax increases for other purposes. The new borough will start with a major portion of its property tax capacity already committed to debt service, which reduces the amount of tax capacity it can exploit for operating or other expenses.
- The debts of some cities are substantial and are probably higher than would have been approved if the city alone had to repay the entire debt. Voter approval of bonds issued after 1980 was undoubtedly conditioned on knowledge that the State would reimburse the city for a substantial portion of the debt. If the percentage of State reimbursement of debt service continues to decline, the new boroughs may have to raise mill rates within the city and increase the portion of the tax burden devoted to debt service. If the State were to end the reimbursement program, the borough would be ultimately responsible for full repayment. Alaska Statutes are not clear whether residents of outlying areas could be taxed to pay debt service for bonds originally issued by cities. Because the full faith and credit of the borough would be pledged to the debt, it seems possible that all borough residents could be taxed for repayment if default were imminent.

POTENTIAL SAVINGS FROM CONSOLIDATING SCHOOL DISTRICTS

Nine of the 17 proposed boroughs will be formed through consolidation of existing city districts and REAAs or by combining REAAs. Combining districts should reduce costs to operate the new borough district through the consolidation of central office administrative functions. These administrative functions include: school boards; superintendent's offices; planning and research; fiscal services; central purchasing; and statistical and data processing services.

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

Alaska school districts currently spend, on average, 12 percent of their total budgets on administrative functions (including principals). On a per student basis, districts vary widely in their administrative costs, with larger districts generally spending much less per student than smaller districts due to their economies of scale (Table 3.7).

To get a rough idea of how much would be saved by consolidating the 19 city districts and 22 REAAs into 17 borough districts, I analyzed the General Support Expenditures of all districts for FY 87. In linear regressions of these administrative expenses against student population size for all districts and for all small districts, the Y intercepts were \$300,000 and \$150,000, respectively. Based on these data, I estimated that the basic administrative cost of running a school district is about \$200,000 and that for every district that is subsumed into another district, \$200,000 is saved.

Table 3.8 shows the estimated potential savings from reduced administrative costs for each of the boroughs that will be created through consolidation. (Table C.4 in Appendix C provides a detailed look at the potential savings for each borough formed through consolidation.) In FY 87, administrative costs for the districts constituting the nine boroughs formed through consolidation were \$17.5 million. With consolidation, their administrative costs are estimated to be \$12.9 million--a potential savings of \$4.6 million. Administrative costs would be reduced overall by 26 percent.

Table 3.8 also shows the potential savings as a percentage of FY 87 expenditures. 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.

TABLE 3.7

ALASKA SCHOOL DISTRICTS RANKED BY PERCENT OF TOTAL FY 87 EXPENDITURES FOR ADMINISTRATION

DISTRICT	TOTAL EXPENDITURES	GENERAL SUPPORT EXPENDITURES	GENERAL SUPPORT AS A PERCENTAGE OF TOTAL	NUMBER OF STUDENTS	GENERAL SUPPORT PER STUDENT

25 PERCENT OR MORE					
ALEUTIAN REGION	\$1,675,139	\$465,959	28	91	\$5,149
KAKE	1,995,284	504,593	25	196	2,574
20 TO 24 PERCENT					
KASHUNAMIUT	1,796,965	432,331	24	172	2,514
PELICAN	614,184	145,931	24	54	2,683
ANNETTE ISLAND	2,821,443	602,461	21	421	1,431
SKAGWAY	988,996	204,608	21	137	1,493
HYDABURG	838,402	167,389	20	107	1,564
15 TO 19 PERCENT					
SAND POINT	968,116	187,018	19	118	1,581
CHUGACH	1,416,317	262,081	19	130	2,016
NORTH SLOPE	28,242,710	5,188,646	18	1,151	4,507
DELTA GREELY	6,235,515	1,129,329	18	1,019	1,109
GALENA	2,166,330	385,217	18	167	2,314
CRAIG	1,472,954	253,793	17	231	1,099
YUPIIT	4,226,065	676,834	16	295	2,297
ST. MARY'S	2,493,819	395,190	16	101	3,905
KLAWOCK	1,478,815	219,045	15	162	1,352
CORDOVA	2,831,863	419,261	15	432	970
10 TO 14 PERCENT					
ADAK	4,670,815	666,228	14	602	1,107
KODIAK	14,811,203	2,073,353	14	2,222	933
UNALASKA	1,466,044	201,021	14	159	1,264
MAT-SU	49,008,855	6,545,707	13	8,681	754
ANCHORAGE	207,184,931	27,634,086	13	39,752	695
YAKUTAT	1,395,841	179,973	13	157	1,146
ALASKA GATEWAY	4,882,920	626,015	13	511	1,226
PETERSBURG	3,302,404	418,134	13	601	696
KING COVE	1,957,364	247,550	13	133	1,865
HOONAH	1,857,897	232,250	13	234	991
IDITAROD	5,788,384	716,818	12	384	1,868
NENANA	1,923,734	236,640	12	123	1,924
SITKA	9,257,385	1,128,854	12	1,610	701
HAINES	3,021,557	363,352	12	352	1,033
RAILBELT	3,614,397	428,227	12	366	1,171

TABLE 3.7 (Continued)

ALASKA SCHOOL DISTRICTS RANKED BY PERCENT OF TOTAL FY 87 EXPENDITURES FOR ADMINISTRATION

DISTRICT	TOTAL EXPENDITURES	GENERAL SUPPORT EXPENDITURES	GENERAL SUPPORT AS A PERCENTAGE OF TOTAL	NUMBER OF STUDENTS	GENERAL SUPPORT PER STUDENT
10 TO 14 PERCENT (Continued)					
PRIBILOF	\$2,021,980	\$237,778	12	156	\$1,528
KENAI	54,969,386	6,376,434	12	8,144	783
JUNEAU	24,448,751	2,821,357	12	4,599	613
LOWER YUKON	15,442,898	1,737,055	11	1,314	1,322
COPPER RIVER	4,709,904	521,874	11	561	931
TANANA	2,183,827	241,045	11	81	2,976
KETCHIKAN	13,631,337	1,450,038	11	2,435	595
KUSPUK	5,428,170	569,919	10	351	1,624
LOWER KUSKOKWIM	30,134,277	3,129,911	10	2,564	1,221
NOME	6,255,560	644,964	10	782	825
SOUTHWEST REGION	6,608,486	681,284	10	472	1,443
YUKON FLATS	5,419,556	550,151	10	372	1,479
BRISTOL BAY	2,856,267	286,465	10	233	1,229
LAKE AND PENINSULA	5,726,746	573,516	10	354	1,618
FAIRBANKS	75,952,589	7,387,305	10	13,117	563
SOUTHEAST ISLAND	4,796,114	463,420	10	419	1,105
NORTHWEST ARCTIC	14,983,243	1,435,103	10	1,550	926
9 PERCENT OR LESS					
DILLINGHAM	4,503,868	425,046	9	462	921
BERING STRAIT	15,568,951	1,414,119	9	1,224	1,156
YUKON-KOYUKUK	7,671,235	682,101	9	613	1,113
VALDEZ	7,131,665	558,817	8	695	804
WRANGELL	2,968,790	211,612	7	494	428

NOTES:

1. General support expenditures include: school boards; superintendents' and principals' offices; planning and research; fiscal services: central purchasing; statistical and data processing services.

Source: Alaska Department of Education

TABLE 3.8

POTENTIAL SAVINGS FROM REDUCED ADMINISTRATIVE COSTS FROM CONSOLIDATION OF SCHOOL DISTRICTS UNDER HOUSE BILL 1

PROPOSED BOROUGH	STUDENT POPULATION	ADMINISTRATIVE COSTS		POTENTIAL SAVINGS FROM CONSOLIDATION	SAVINGS AS A PERCENTAGE	
		FY 87	WITH CONSOLIDATION		FY 87 EXPENDITURES	OF EXPENDITURES
WESTERN						
Bering Strait	2,006	\$2,059,083	\$1,859,083	\$200,000	\$16,224,511	1
Lower Yukon	1,587	2,564,576	2,164,576	400,000	19,733,682	2
Lower Kuskowkim	2,859	3,806,745	3,606,745	200,000	34,360,342	1
Iditarod	384	N/A	N/A	N/A	N/A	N/A
Kuspuk	350	N/A	N/A	N/A	N/A	N/A
SOUTHWESTERN						
Southwest Region	933	1,106,330	906,330	200,000	11,112,354	2
Lake and Peninsula	354	N/A	N/A	N/A	N/A	N/A
Aleutians West	951	1,170,022	770,022	400,000	9,833,978	4
INTERIOR PIPELINE						
Yukon-Koyukuk	984	1,545,003	945,003	600,000	13,945,126	4
Yukon Flats	372	N/A	N/A	N/A	N/A	N/A
Delta/Greely	1,019	N/A	N/A	N/A	N/A	N/A
Copper River	561	N/A	N/A	N/A	N/A	N/A
Chugach	1,257	1,240,159	840,159	400,000	11,379,845	4
INTERIOR HIGHWAYS (NO PIPELINE)						
Railbelt	366	N/A	N/A	N/A	N/A	N/A
Alaska Gateway	511	N/A	N/A	N/A	N/A	N/A
SOUTHEAST						
Chatham	934	1,212,720	412,720	800,000	8,679,824	9
Southeast Island	2,633	2,840,447	1,440,447	1,400,000	19,674,206	7
TOTAL--PROPOSED BOROUGHES	18,061	\$17,545,083	\$12,945,085	\$4,600,000	\$144,943,868	3

NOTES:

1. Student population data are from the Department of Education and are the number of students reported to be in attendance during the first count period of FY 87 (Average Daily Membership).
2. FY 87 administrative costs are those reported as "General Support Expenditures" by the Alaska Department of Education. These expenditures include: school boards; superintendents' and principals' offices; planning and research; fiscal services; central purchasing; statistical and data processing services; other general support activities.
3. Savings from consolidation were estimated to be \$200,000 for each district subsumed in the surrounding REAA.

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

DISCUSSION

The proposed boroughs fall into two groups with respect to local education costs under organized status: those which could probably organize without immediately instituting a property tax or levying any additional taxes and those which would be required to tax to meet their required local contribution.²¹ Table 3.9 lists the proposed boroughs falling in each category.

New Boroughs That May Not Need To Tax

Ten of the proposed boroughs could apparently organize as boroughs now and not be required to institute a property tax to meet their required local contribution. The proposed boroughs that fall within this category include six boroughs formed from REAAs only and four boroughs formed by combining city districts and REAAs.

The six boroughs formed from single REAAs or REAA combinations that could organize without a property tax are Lower Yukon, Lower Kuskokwim, Iditarod, Kuspuq, Lake and Peninsula, and Alaska Gateway. The feature of the Foundation law which allows ten percent of PL 81-874 funds, earnings on investments, State tuition payments and the value of in-kind services to be used to satisfy the required local contribution in combination with the relatively low property values in these regions produces the situation where current local contributions exceed required contributions. Thus, these REAAs, as boroughs, could likely meet their required local contribution without instituting a property tax. These boroughs would receive less Foundation aid, but the reductions are on the order of one to two percent. Because these proposed boroughs are formed from REAAs whose school construction costs have been paid in full by the State, these boroughs would begin operations without any bonded indebtedness.

²¹This discussion of the need to tax refers only to the need to tax to meet the required local contribution. The need for each borough to tax to maintain education funds at their current level is discussed in Chapter 5.

TABLE 3.9
 PROPOSED BOROUGHs CATEGORIZED BY THEIR NEED TO TAX TO MEET THEIR REQUIRED
 LOCAL CONTRIBUTION UNDER THE PUBLIC SCHOOL FOUNDATION PROGRAM

ADDITIONAL TAXATION IS:	
NOT REQUIRED	REQUIRED
Alaska Gateway	Chatham
Aleutians West	Copper River
Bering Straits	Delta/Greely
Chugach	Railbelt
Iditarod	Southwest Region
Kuspuk	Yukon Flats
Lake and Peninsula	Yukon-Koyukuk
Lower Kuskokwim	
Lower Yukon	
Southeast Island	

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

Four boroughs formed through consolidation of REAAs and city districts make current contributions to education in excess of required contributions. These boroughs would benefit from reduced costs by consolidating, and all have outstanding bonded indebtedness for school construction. The Bering Strait, Aleutians West, Chugach and Southeast Island proposed boroughs are included in this group. These boroughs each include at least one major city district where property taxes are currently levied, and each includes REAAs with relatively low property values. Thus, for these boroughs the reductions in Foundation aid are relatively small--being equivalent to revenues from a four mill property tax in the REAA portion of the new borough. For the Aleutians West and Southeast Island boroughs, the savings from consolidation are greater than the reductions in Foundation aid.

New Boroughs Where Taxation Will Be Required

Seven of the proposed boroughs would have to initiate local taxes of some sort to meet the required local contribution for education. These boroughs include four pipeline boroughs, which have high property values, and three boroughs with low property values. None of the boroughs in this category have any school construction debt.

Four pipeline boroughs--Yukon-Koyukuk, Yukon Flats, Delta/Greely, and Copper River--would have to institute a property tax to meet their required local contribution. The required local contribution of these boroughs is high precisely because their property tax capacity is high. These boroughs may be likened to the North Slope Borough, where most of the wealth in the borough is oil and gas property.

The proposed Railbelt, Southwest Region and Chatham boroughs have required contributions less than current contributions, thus taxation would most likely be required. The difference between their current and required local contributions is relatively small, however, and it is possible that they could raise the necessary revenue through sales taxation. For the Southwest Region and Chatham boroughs, which are formed through consolidation of a REAA and at least one city district, the potential savings from consolidation exceed the reductions in Foundation aid. The Railbelt borough, which would be formed from a single REAA, would not enjoy any savings from consolidation.

CHAPTER FOUR

EFFECTS OF BOROUGH FORMATION ON STATE REVENUES AND EXPENDITURES

The previous chapter examined House Bill 1 from the perspective of the proposed boroughs. Now we change perspectives and examine the effect that formation of 17 new boroughs would have on State revenues and expenditures. As a starting point, we know that the requirement that REAAs make a local effort for education will reduce the amount that the State must spend on Foundation aid. However, borough formation would affect other entitlement programs which transfer State funds to localities. In addition, borough formation would affect the amount of revenue the State retains from those revenue sources that the State shares with localities. Thus, one may not assume that HB 1 is a revenue positive measure for the State simply because HB 1 would reduce Foundation aid by increasing local contributions. A broader examination is required.

In this chapter, the effect of 17 new boroughs on State revenues and expenditures is analyzed. In summary, the effects of borough formation on oil and gas property tax and shared taxes receipts will largely offset the 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. These changes in revenues and expenditures are described in detail below and are summarized in Table 4.5 which appears at the end of this chapter.

EFFECTS ON STATE REVENUES

Local governments are created by State governments. Because local governments require revenue, and because the provision of services by a local government relieves the State government of providing those services, States often share revenue with the local governments in which the revenue was generated. Alaska shares revenue with boroughs by allowing boroughs to tax oil and gas pipeline property within the boroughs' boundaries and through its shared taxes programs. By creating 17 new boroughs, HB 1 will decrease State revenues by increasing the amounts of pipeline taxes and shared taxes going to localities. The potential magnitude of these decreases through each shared revenue program is discussed below.

EFFECTS OF BOROUGH FORMATION ON STATE REVENUES AND EXPENDITURES

Oil and Gas Pipeline Property Taxes

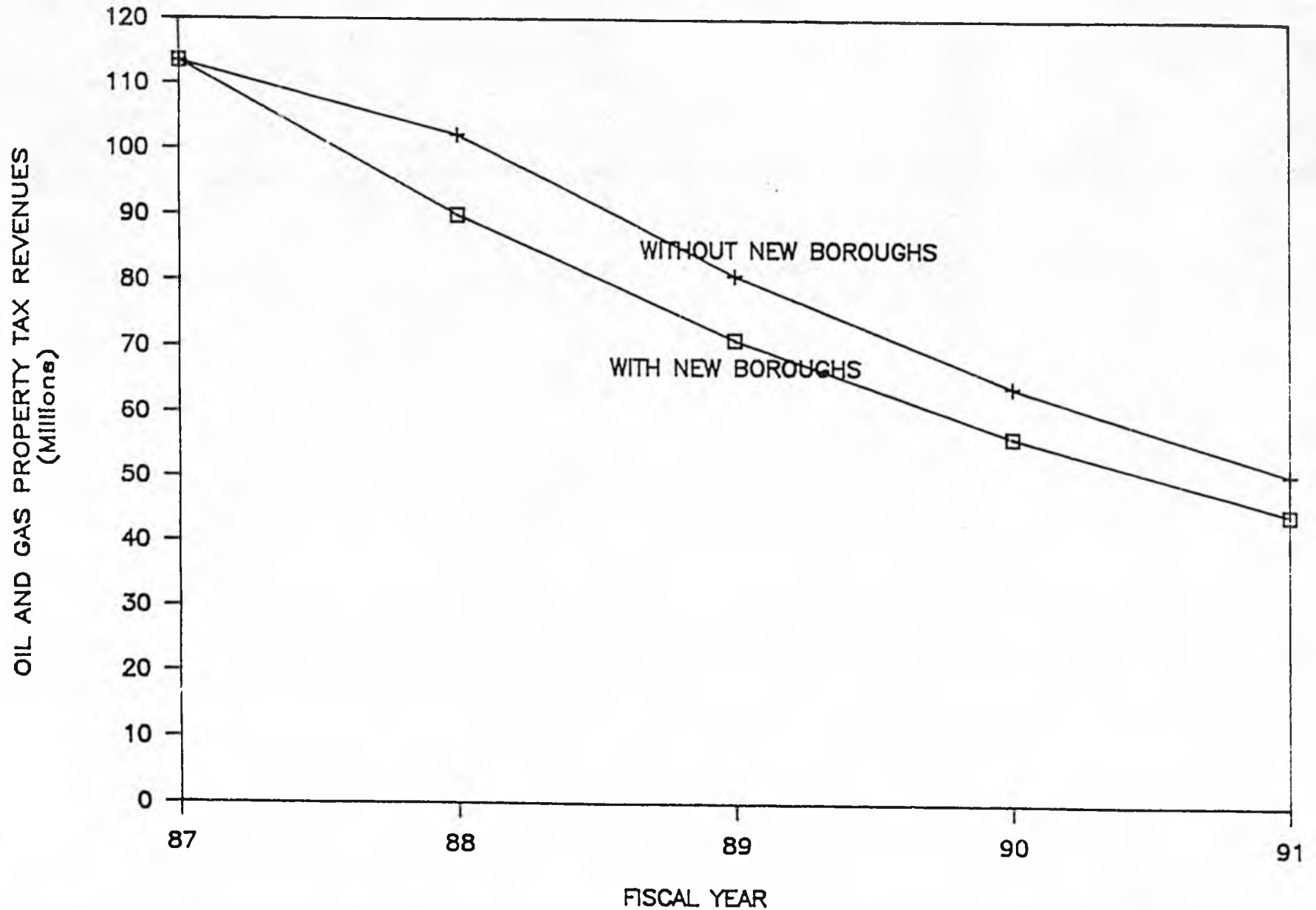
Under Alaska Statute 43.56, the State taxes oil and gas exploration, production and pipeline transportation property at the rate of 20 mills. Municipalities that contain petroleum property are required to levy and collect a tax on this property at the rate of taxation that applies to other property taxed within the municipality. Taxes on petroleum properties paid to a municipality are credited against the amount due to the State. Thus, for each dollar raised locally from the TransAlaska Pipeline, State General Fund revenues are reduced one dollar. The pipeline accounts for \$3.8 billion of the \$7.5 billion full taxable property value of the proposed boroughs. If the affected boroughs set their property tax rate at four mills for the support of education, revenues from taxation of the pipeline by the proposed boroughs will be about \$10 million, thus State General Fund revenues will be reduced about \$10 million. The boroughs could tax the pipeline at a higher rate which would further reduce General Fund revenues.²²

The oil and gas property tax is one of the more important sources of State unrestricted revenues. Revenues from this source in FY 87 were \$113.5 million. Taxation of the pipeline by the proposed boroughs (at four mills) would result in a 12 percent decrease in this source of revenue. The value of the pipeline is expected to decline about 10 percent per year during the next five years due to declining production and to settlement of a lawsuit over the method of valuing the pipeline for taxation purposes. In Figure 4.1, projected oil and gas property tax revenues for the next five years with and without borough formation are compared.

²²The temptation to tax property at a high rate due to the presence of the pipeline is tempered by the requirement that all property within the borough be taxed at the same rate.

FIGURE 4.1

Estimated State Revenues From the Oil and Gas Pipeline Property Tax
With and Without the Formation of the New Boroughs



EFFECTS OF BOROUGH FORMATION ON STATE REVENUES AND EXPENDITURES

Shared Taxes

Taxes or license fees from seven sources are refunded in total or in part to the local government in which the taxed activity occurs. These shared taxes are:

- coin-operated amusement and gaming devices tax;
- punchboard license tax;
- aviation fuel tax;
- telephone cooperative gross revenue tax;
- electric cooperative tax;
- liquor license fees; and the
- fisheries business tax.

In Table 4.1, each tax and its refund provision are described, and the amounts collected and refunded in FY 87 are presented. Table 4.1 also shows the additional amount that would be refunded due to the formation of the new boroughs.

In FY 87, nearly \$28 million was collected from these sources, of which \$10.3 million--37 percent--was refunded to local governments. The fisheries business tax, with revenues of \$16.5 million, and the aviation fuel tax, with revenues of \$8 million, represented the bulk of these tax revenues. Fisheries business tax refunds totalled \$8 million and thus represented the majority of total refunds. An insignificant portion of aviation fuel tax revenues are refunded to local governments.

Under House Bill 1, an additional \$3.2 million would be refunded. Refunds of fisheries business tax receipts, which would increase by \$2.9 million, account for the majority of the total increase.²³ Refunds of utility cooperatives taxes and liquor license fees would increase by about \$150,000 each.

²³While fisheries business tax revenues have generally increased over the last decade, these revenues are based on fish harvests which can vary from year to year. Thus, the actual amounts refunded to boroughs and the amount retained by the State could vary widely between years.

TABLE 4.1
TAXES OR LICENSE FEES SHARED WITH MUNICIPALITIES AND THE EFFECT OF BOROUGH
FORMATION ON DISTRIBUTION OF THESE TAX REVENUES

TAX	DESCRIPTION OF TAX	REFUND PROVISION	FY 87 GROSS RECEIPTS
Coin-operated Amusement and Gaming Devices (AS 43.35.010-090)	Levies an annual tax on devices such as pinball machines and video games. Tax ranges from \$48 to \$240 per year depending upon the type of device.	50 percent of the gross tax revenues are refunded to the borough or the city in the proportion that the revenue was earned in them. (AS 43.35.050)	\$102,157
Punchboard License Tax (AS 43.35.100-150)	Distributors of punchboards must pay a license tax ranging from \$2 to \$4 per board depending on the number of holes per board.	Seventy-five percent of the tax revenues from sales in a borough or city are refunded to the local government. (AS 43.35.130)	(included above)
Aviation Fuel Tax (AS 43.40)	Aviation fuel is taxed at four cents per gallon, and jet fuel is taxed at two and half cents per gallon.	Sixty percent of the revenues collected at an airport owned and operated or leased and operated by a municipality are refunded to the municipality. (AS 43.40.010(e))	8,071,496
Telephone Cooperative Gross Revenues Tax (AS 10.25.550)	Tax is one or two percent of gross revenues depending upon how long the cooperative has provided service.	Entire proceeds of both utilities cooperative taxes, less the State's collection costs, are refunded to the borough or city in proportion to the amount of revenue earned in the borough or city (AS 10.25.570).	1,960,297
Electric Cooperative Tax (AS 10.25.555)	Tax is one-fourth to one-half mill per kilowatt hour depending on how long the cooperative has provided service.		(included above)
Liquor License Fees (AS 04.11)	Annual license fees range from \$50 to over \$10,000 depending upon several factors, including the type of license and amount of business transacted. Fees are refunded only if the municipality provides police protection.	Entire proceeds of the license fees are refunded to the municipality in which the fees are collected. (AS 04.11.610)	1,367,788
Fisheries Business Tax (AS 43.75)	Tax is levied on the ex-vessel value of fisheries resources processed or exported for processing. Tax rate varies from one to five percent depending on the type of resource and the method and location of processing.	Boroughs receive 50 percent of the tax revenue collected outside of cities within the borough; cities in a borough receive 25 percent of the revenue collected within their bounds; cities outside a borough and unified municipalities receive 50 percent. (AS 43.75.130)	16,426,353
TOTALS			\$27,928,091

NOTES:

1. FY 87 gross receipts and refunds and the additional amounts expected to be refunded are from the Department of Revenue.
2. FY 87 gross receipts include penalties and interest, and liquor license fees which are not refunded. The gross receipts also include pre-pays and late payments and are therefore derived from more than one fiscal year.
2. The additional amount of fisheries business tax refunded under House Bill 1 was calculated as follows: 50 percent of the amount retained by the State in FY 87 less fifty percent of the amount refunded to cities in the unorganized borough.

FY 87 REFUNDS TO LOCAL GOVERNMENTS			ADDITIONAL AMOUNT REFUNDED UNDER HOUSE BILL 1	EFFECT OF NEW BOROUGH ON DISTRIBUTION OF TAX
BOROUGH	CITIES	TOTAL		
\$30,112	\$17,846	\$47,958	35,692	Cities within the new boroughs would still receive their refunds. Depending upon the tax, the borough would receive 50 or 75 percent of the revenues collected within the borough but outside of cities.
(included above)	(included above)	(included above)		
51,589	12,842	64,430	0	Formation of new boroughs will affect State revenues from the Aviation Fuel Tax only if the new boroughs operate airports. Because the boroughs will be third class boroughs, it is unlikely that any of the new boroughs would operate airports.
1,082,895	308,024	1,390,920	150,000 estimated	Cities within the new boroughs would still receive their refunds. The new borough would receive revenues collected within the borough but outside any cities. Since the state would be entirely divided into boroughs, the State would retain only the costs of collection.
(included above)	(included above)	(included above)		
390,916	354,222	745,138	155,975	Cities within the new boroughs would still receive their refunds. The new borough would receive revenues collected within the borough but outside any cities. Since the state would be entirely divided into boroughs, the State would not retain any of these revenues.
3,602,809	4,434,435	8,037,244	2,909,756	Cities within the new boroughs would only receive 25 percent of the revenue generated within their bounds, instead of the 50 percent received now. The new boroughs would receive 50 percent of the revenue generated outside of cities.
\$5,158,321	\$5,127,369	\$10,285,690	\$3,221,423	

EFFECTS OF BOROUGH FORMATION ON STATE REVENUES AND EXPENDITURES

EFFECTS ON STATE EXPENDITURES

In addition to sharing its revenues with boroughs, the State transfers funds to boroughs through several entitlement programs. These programs include the Public School Foundation, Municipal Assistance and Revenue Sharing programs, which provide entitlements on an annual basis, and the Transitional Assistance and Municipal Land Grants programs, which are nonrecurring entitlements provided at the time of borough formation. The effect of HB 1 on the costs of the annual entitlement programs and the costs to provide the nonrecurring entitlements are examined below. In all cases, estimates are based on the assumption that the entitlements of existing boroughs will not be reduced by the formation of new boroughs.

Annual Entitlement Programs

Public School Foundation Program

Required local contributions of the new boroughs, will result in a \$13.4 million decrease in the amount the State would otherwise spend on Foundation aid under the status quo. The legislature could respond to this decrease in two ways: The amount appropriated to the Foundation Program could be reduced by \$13 million, or the Program could be funded at the same level. The latter option would have the effect of increasing the value of an instructional unit. The \$13 million "savings" would then be distributed among all districts.

Revenue Sharing

The Revenue Sharing program established under AS 29.60 was created to provide for an equitable allocation of resources among municipalities and to assure that no municipality suffers impoverishment of necessary services because of the chance distribution of taxable wealth in the state.²⁴

Revenue sharing 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 tax base and its population. Municipalities with a high tax effort are rewarded with a greater per capita entitlement. To receive funds from the miscellaneous account, a municipality must provide certain

²⁴See House Research Memorandum 87.073 for a history of the Revenue Sharing program.

EFFECTS OF BOROUGH FORMATION ON STATE REVENUES AND EXPENDITURES

services, and the municipality is awarded a set amount per "service" performed. Unincorporated communities with at least 25 permanent residents are also eligible to receive a lump sum of \$25,000 from the miscellaneous account.

The legislature is not obligated to fund the revenue sharing accounts at the level that provides each municipality with 100 percent of its entitlement. If the legislature does not fully fund the program, each municipality's entitlement is reduced pro rata. In recent years, the Revenue Sharing program has been funded at less than full entitlement.

Each new borough that levies taxes of some sort will be eligible for funds from the Tax Resource 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 legislature continues to appropriate the same amount--about \$31 million--to the Equalization Account, the inclusion of 17 new boroughs will reduce the amount received by existing boroughs.

In Table 4.2, the Tax Resource Equalization entitlements of the proposed boroughs based on two different millage rate equivalents, are estimated using the FY 87 formula. If the new boroughs each had millage rate equivalents of 10.6--the weighted average millage rate equivalent of existing boroughs and unified municipalities--a total of \$4.1 million would have been required to fund their entitlements in FY 87. If the new boroughs each had millage rate equivalents of 3.5, typical of smaller boroughs, an additional \$1.4 million would have been required for the Tax Resource Equalization Account.

In addition to Tax Resource Equalization funds, a borough's revenue sharing entitlement includes funds from the Miscellaneous Municipal Services Account. The Miscellaneous Account provides funds for road maintenance, hospitals, health facilities and fire protection when a borough provides those services. The amount of funding a borough receives is dependent upon the level of service provided, e.g., the number of miles of road maintained. Because HB 1 mandates the formation of third class boroughs, the new boroughs will probably not make any immediate demands on the Miscellaneous funds Account. Third class boroughs cannot provide the services that are funded by the Miscellaneous Account on an areawide basis--these services could only be provided within a service area. As service areas are formed within the new boroughs, the boroughs will become eligible for funds from the Miscellaneous Account. We cannot predict whether or how long it may take for such service areas to form or the ultimate demand that the new boroughs will place on the Miscellaneous Account. We can only note that as service districts are formed within the new boroughs, additional funds will be required to fully fund the Miscellaneous Municipal Services Account.

TABLE 4.2
ESTIMATED TAX RESOURCE EQUALIZATION ENTITLEMENTS OF THE PROPOSED BOROUGHIS

PROPOSED BOROUGH	POPULATION	ESTIMATED FY 87 TAX RESOURCE EQUALIZATION ENTITLEMENT IF:	
		MILL RATE EQUIVALENT EQUALS 10.6	MILL RATE EQUIVALENT EQUALS 3.5
WESTERN			
Bering Strait	7,776	\$402,422	\$132,877
Lower Yukon	5,035	260,570	86,039
Lower Kuskowkim	11,340	586,865	193,779
Iditarod	1,563	80,888	26,709
Kuspuk	1,494	77,317	25,530
SOUTHWESTERN			
Southwest Region	4,703	243,388	80,366
Lake and Peninsula	1,560	80,733	26,657
Aleutians West	6,897	356,932	117,857
INTERIOR PIPELINE			
Yukon-Koyukuk	4,719	244,216	80,639
Yukon Flats	1,596	82,596	27,273
Delta/Greely	4,749	245,769	81,152
Copper River	2,914	150,805	49,795
Chugach	6,081	314,702	103,913
INTERIOR HIGHWAYS (NO PIPELINE)			
Railbelt	1,345	69,606	22,984
Alaska Gateway	2,032	105,160	34,723
SOUTHEAST			
Chatham	3,528	182,580	60,287
Southeast Island	11,870	614,293	202,836
TOTAL	79,202	\$4,098,842	\$1,353,415

NOTES:

1. The formula for Tax Resource Equalization entitlements is provided in AS 29.60.010-080. In FY 87, entitlements were equal to: population X millage rate equivalent X 5.1392 X 0.95.
2. Because the tax effort of each proposed borough could not be predicted, estimation of each borough's entitlement was based on the average millage rate equivalent of existing boroughs in 1986, 10.6 (see Note 3), and on a relatively low millage rate equivalent value (3.5) typical of some of the smaller boroughs.
3. Millage rate equivalents of existing boroughs in FY 87 were: Anchorage, 4.82; Bristol Bay, 11.79; Fairbanks, 5.27; Haines, 3.65; Juneau, 20.8; Kenai, 3.53; Ketchikan, 6.26; Kodiak, 3.82; Mat-Su, 4.84; North Slope, 10.78; Northwest Arctic, 0.0; Sitka, 11.53. The weighted average millage rate equivalent for existing boroughs (10.6) was calculated by dividing the total 1986 tax collections of existing boroughs by the total full value of existing boroughs as reported in Alaska Taxable.

EFFECTS OF BOROUGH FORMATION ON STATE REVENUES AND EXPENDITURES

Municipal Assistance

Under the Municipal Assistance program, the State distributes funds to municipalities based on corporate income tax revenues generated within the municipality. The current program was established in 1980 to replace the Gross Business Receipts Tax program under which municipalities were refunded 20 percent of gross business receipts tax revenues collected within their bounds.²⁵ Each municipality's entitlement is equal to a base amount plus a prorated share of any additional amount appropriated to the Municipal Assistance program. For municipalities formed prior to 1977, the base amount is the amount received under the 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 of cities most closely approximates the population outside of cities of the new borough.

Under current statute, the legislature may appropriate an amount equal to or greater than 30 percent of corporate income tax revenues from the prior fiscal year to the Municipal Assistance program. With the recent declines in oil revenues, the amounts appropriated to the Municipal Assistance fund have declined from their peak in FY 82 of \$87.9 million to \$65.8 million in FY 87. In FY 87, \$10.5 million went to fund the base entitlements, and \$55.2 million went to fund the excess entitlements.

Table 4.3 presents estimated Municipal Assistance entitlements for the proposed boroughs. I have assumed that the new boroughs are formed simultaneously, and the base entitlement of each new borough was determined by comparison with the base entitlements of the existing boroughs. If the new boroughs are formed at different times, the base entitlements could be different because for the boroughs incorporating later, the new boroughs which had incorporated earlier would be "existing boroughs."

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 are relatively small amounts, i.e., less than \$35,000. Three of the boroughs, 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, and for these boroughs, the base entitlement is \$1.2 million. Thus, of the \$3.8 million base entitlement of the proposed boroughs, 95 percent is derived from these three boroughs.

²⁵See House Research Memorandum 87.073 for a history of the Municipal Assistance program.

TABLE 4.3
ESTIMATED MUNICIPAL ASSISTANCE ENTITLEMENTS OF THE PROPOSED BOROUGHS

PROPOSED BOROUGH	TOTAL POPULATION	POPULATION OUTSIDE CITIES	EXISTING BOROUGH WITH SIMILAR POPN OUTSIDE CITIES	BASE AMOUNT	EXCESS ENTITLEMENT IF APPROPRIATION:		TOTAL ENTITLEMENT IF APPROPRIATION:	
					REMAINS AT FY 87 LEVEL	INCREASES TO MAINTAIN STATUS QUO FOR EXISTING BOROUGHS	REMAINS AT FY 87 LEVEL	INCREASES TO MAINTAIN STATUS QUO FOR EXISTING BOROUGHS
WESTERN								
Bering Strait	7,776	167	Northwest Arctic	\$7,275	\$14,696	\$16,533	\$21,971	\$23,808
Lower Yukon	5,035	290	Northwest Arctic	7,275	25,520	28,710	32,795	35,985
Lower Kuskowkim	11,340	1,637	Bristol Bay	13,986	144,056	162,063	158,042	176,049
Iditarod	1,563	242	Northwest Arctic	7,275	21,296	23,958	28,571	31,233
Kuspuk	1,494	454	Northwest Arctic	7,275	39,952	44,946	47,227	52,221
SOUTHWESTERN								
Southwest Region	4,703	436	Northwest Arctic	7,275	38,368	43,164	45,643	50,439
Lake and Peninsula	1,560	924	Haines	7,275	81,312	91,476	88,587	98,751
Aleutians West	6,897	4,829	Ketchikan	32,610	424,952	478,071	457,562	510,681
INTERIOR PIPELINE								
Yukon-Koyukuk	4,719	1,135	Bristol Bay	13,986	99,880	112,365	113,866	126,351
Yukon Flats	1,596	918	Haines	7,275	80,784	90,882	88,059	98,157
Delta/Greely	4,749	3,450	North Slope	1,203,621	303,600	341,550	1,507,221	1,545,171
Copper River	2,914	2,914	North Slope	1,203,621	256,432	288,486	1,460,053	1,492,107
Chugach	6,081	565	Haines	7,275	49,720	55,935	56,995	63,210
INTERIOR HIGHWAYS (NO PIPELINE)								
Railbelt	1,345	779	Haines	7,275	68,552	77,121	75,827	84,396
Alaska Gateway	2,032	1,847	Bristol Bay	13,986	162,536	182,853	176,522	196,839
SOUTHEAST								
Chatham	3,528	581	Haines	7,275	51,128	57,519	58,403	64,794
Southeast Island	11,870	3,037	North Slope	1,203,621	267,256	300,663	1,470,877	1,504,284
TOTAL	79,202	24,205		\$3,758,181	\$2,130,040	\$2,396,295	\$5,888,221	\$6,154,476

NOTES:

1. The formula for calculating a new borough's Municipal Assistance entitlement is provided in AS 29.60.
2. Population data for the proposed boroughs are for 1986 from the Department of Labor.
3. Determination of the existing borough with similar population residing outside cities was based on the FY 87 Final Report on State Revenue Sharing and Municipal Assistance, Department of Community and Regional Affairs.
4. Excess entitlement in FY 87 was \$99 per resident living outside a city.
5. Excess entitlement would have been reduced to \$88 per resident living outside cities if the 17 proposed boroughs had been included in FY 87.

EFFECTS OF BOROUGH FORMATION ON STATE REVENUES AND EXPENDITURES

The formation of 17 new boroughs will increase the portion of the Municipal Assistance fund devoted to "base" entitlements and thereby decrease 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 per capita to \$88 per capita. If the legislature decided to increase the appropriation to Municipal Assistance to ensure that existing cities and boroughs maintained their current entitlement of base plus \$99 per capita, an additional \$6.1 million would be required.

Nonrecurring Entitlement Programs

Transitional Assistance

Under AS 29.05.190, the State provides grants to new boroughs to help defray the costs of transition to borough government and to provide for interim governmental operations. These grants are \$300,000 for the first full or partial fiscal year, \$200,000 for the second fiscal year, and \$100,000 for the third fiscal year. Thus, during a period of three years, each new borough would receive \$600,000 in Transitional grants. Under House Bill 1, at least 17 new boroughs would be formed by June 30, 1989. The total amount that would be needed for organization grants for these new boroughs would be \$10.2 million. Assuming that all the new boroughs formed during FY 89, these grant funds would be disbursed as follows: \$5.1 million in FY 89, \$3.4 million in FY 90, and \$1.7 million in FY 91.

Alaska Statute 29.05.210 directs the Department of Community and Regional Affairs to provide assistance to each new borough in:

- establishing the initial sales and use tax assessment and collection department, if the borough adopts a sales or use tax; and
- determining the initial property tax assessment roll if the borough has adopted a property tax, including contracting for appraisals of property needed to complete the initial assessment.

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. The fiscal note attached to the bill implementing HB 1 will have to include an accounting of the amounts needed by DC&RA to fulfill these obligations.

EFFECTS OF BOROUGH FORMATION ON STATE REVENUES AND EXPENDITURES

Municipal Land Grants

Under AS 29.65.030, new boroughs are entitled to a general land grant equal to ten percent of the maximum total acreage of vacant, unappropriated, unreserved (VUU) State land within their bounds. However, a new borough may not receive more than 20 acres per person. In Table 4.4, maximum entitlements, based on population, are compared to ten percent of the number of acres that the Department of Natural Resources estimates is vacant, unappropriated and unreserved within each proposed borough.

The actual entitlement that a borough receives will be limited either by the population of the borough or by the amount of VUU land available for selection. One proposed borough, Lower Yukon, has no VUU land and would receive no land entitlement. Eleven of the proposed boroughs have maximum entitlements based on population that are less than the estimated amount of VUU land available for selection; for these boroughs, their entitlement will be limited by their population. Because the amount of land available for selection exceeds their entitlement, these boroughs will have some choice in the lands they receive. Five of the proposed boroughs have less VUU land than they would be entitled to on the basis of population, and these boroughs will have no choice in the selection process.

The estimated total entitlement for the proposed boroughs is 787,231 acres. We have not attempted to precisely estimate how much it would cost the State to transfer these lands. However, the total entitlement of existing boroughs and unified municipalities is similar, 861,421 acres, and the State has spent roughly \$150,000 per year during the last six years--a total of \$900,000--on transfer of these lands. Frank Mielke, Special Projects Coordinator with the Division of Land and Water Management, Department of Natural Resources, estimates that land transfer costs are a minimum of \$1 per acre. Thus, the State could expect to spend on the order of \$1 million over several years to transfer lands to the new boroughs.

DISCUSSION

The costs to the State of HB 1, summarized in Table 4.5, can be broken into two categories: 1) the nonrecurring costs associated with borough formation; and 2) the annual costs associated with foregone revenues and increased expenditures for entitlement programs. The nonrecurring costs to implement the bill are estimated to be on the order of \$12 million spread over a three to five-year period. The net annual cost of HB 1 is estimated to be on the order of \$8 million.

TABLE 4.4
ESTIMATED LAND ENTITLEMENTS OF THE PROPOSED BOROUGHES

PROPOSED BOROUGH	POPULATION	MAXIMUM LAND ENTITLEMENT (ACRES)	MAXIMUM AMOUNT OF VACANT, UNAPPROPRIATED AND UNRESERVED STATE LAND (ACRES)	ESTIMATED ENTITLEMENT (ACRES)
WESTERN				
Bering Strait	7,776	155,520	247,408	155,520
Lower Yukon	5,035	100,700	0	0
Lower Kuskowkim	11,340	226,800	56,660	56,660
Iditarod	1,563	31,260	1,121,923	31,260
Kuspuk	1,494	29,880	317,968	29,880
SOUTHWESTERN				
Southwest Region	4,703	94,060	691,299	94,060
Lake and Peninsula	1,560	31,200	432,970	31,200
Aleutians West	6,897	137,940	92,816	92,816
INTERIOR PIPELINE				
Yukon-Koyukuk	4,719	94,380	859,777	94,380
Yukon Flats	1,596	31,920	182,339	31,920
Delta/Greely	4,749	94,980	255,983	94,980
Copper River	2,914	58,280	262,044	58,280
Chugach	6,081	121,620	95,758	95,758
INTERIOR HIGHWAYS (NO PIPELINE)				
Railbelt	1,345	26,900	255,515	26,900
Alaska Gateway	2,032	40,640	467,016	40,640
SOUTHEAST				
Chatham	3,528	70,560	2,155	2,155
Southeast Island	11,870	237,400	6,343	6,343
TOTAL	79,202	1,428,520	5,100,564	787,231

NOTES:

1. Boroughs are entitled to 10 percent of the vacant, unappropriated and unreserved State land within their bounds, except that no borough may receive more than 20 acres per capita.
2. The maximum amount of vacant, unappropriated and unreserved (VUU) land within each proposed borough is ten percent of the total amount of VUU land within each borough. Estimates of total VUU land in each proposed borough were prepared by the Department of Natural Resources. The values presented do not account for land that may have been recently classified subject to a land use plan; these lands would not be available for selection by a borough. Thus, the values presented represent the maximum number of acres from which a new borough could select its entitlement.

TABLE 4.5
SUMMARY OF EFFECTS OF NEW BOROUGHES ON STATE REVENUES
AND EXPENDITURES

PROGRAM	ESTIMATED CHANGE IN CURRENT REVENUES OR EXPENDITURES DUE TO NEW BOROUGHES
SUMMARY	
Net Annual Revenues	-\$8 million
Nonrecurring Expenditures	\$12 million
REVENUES	
Oil and Gas Pipeline Property Taxes	-\$10 million
Shared Taxes	-\$3 million
Subtotal.....	-\$13 million
EXPENDITURES	
Annual Entitlement Programs	
Public School Foundation	-\$13 million
Municipal Assistance	+\$6 million
Revenue Sharing	+\$1 million
Subtotal.....	-\$5 million
Nonrecurring Entitlement Programs	
Transitional Assistance	
Grants	+\$10 million
DCRA Assistance	+\$1 million ?
Municipal Land Grants	+\$1 million
Subtotal.....	+\$12 million

EFFECTS OF BOROUGH FORMATION ON STATE REVENUES AND EXPENDITURES

In the long term, the State will have decreased revenues. It is difficult to predict precisely how much State revenues will decrease over the long term, but if the new boroughs along the pipeline levy a four mill property tax and fish harvests remain about the same, revenues will be initially reduced \$13 million. If the pipeline boroughs levy taxes at a higher rate, revenues will be further reduced. The value of the pipeline is expected to decline during the next several years, and the formation of new boroughs along the pipeline will further reduce State revenues from this source, particularly if these boroughs raise tax rates to stabilize revenues.

Other than the costs of implementation, HB 1 does not require either increased or reduced expenditures for any of the programs by which the State assists local governments. Rather, HB 1 would create a new set of political conditions under which the legislature must make decisions about allocation of funds to local governments. The requirement that the new boroughs make a local contribution to education would "free up" about \$13 million of the \$430 million currently appropriated to Foundation aid. If the Foundation aid appropriation remains at \$430 million, existing boroughs will receive more Foundation aid. If the Foundation Aid appropriation is reduced by \$13 million, the existing boroughs simply receive the same amount; only the new boroughs receive less funds. In either case, existing boroughs receive a greater portion of the Foundation appropriation than under the status quo.

To provide the new boroughs with their entitlements while each existing municipality receives its current (FY 87) amount under the Municipal Assistance and Revenue Sharing programs will require the appropriation of an additional \$7 to \$9 million. If the appropriations are not increased, the entitlements of all municipalities will be reduced. The FY 87 appropriations were already 20 percent less than in FY 86, and many communities have had to reduce basic services as a result of the decrease in revenue. All municipalities have felt the effects of the current economic downturn, and there is considerable pressure on the legislature to increase the amount of revenue transferred to local governments. The addition of 17 new boroughs will undoubtedly increase pressure on the legislature to appropriate more money for these local government assistance programs.

CHAPTER FIVE

POTENTIAL REVENUES OF THE PROPOSED BOROUGHS AND THE NECESSITY OF LOCAL TAXES FOR EDUCATION

In this chapter, we return to the perspective of the proposed boroughs and assess the necessity of each borough to levy taxes to maintain the current level of funding for education. It is an often expressed concern that some areas within the unorganized borough do not have the fiscal capacity to support education and other borough duties. To evaluate whether the new boroughs have sufficient fiscal capacity, one must first have an idea of how much money needs to be generated locally, and that is what we attempt to do here.

Under House Bill 1, the Foundation aid entitlement of each proposed borough will be reduced by an amount equivalent to the required local contribution. However, each borough will be eligible for funds from other entitlement programs, specifically the shared taxes, Revenue Sharing, and Municipal Assistance programs. To a third class borough, whose only areawide powers are education and taxation, these additional entitlements are, in fact, education funds. To varying degrees, these revenues will offset the reductions in Foundation aid. In addition, savings from the consolidation of districts may partially offset reductions in Foundation aid.

In order to determine whether local taxes must be imposed to maintain the current level of funding for education, the net change in revenue from all entitlement programs must be estimated. If the reduction in Foundation aid is not offset by consolidation savings and entitlements, a borough must levy local taxes to maintain education funding at the current level. If the reduction is offset, a borough could conceivably organize, at least initially, without having to levy local taxes.

Here, the need for local taxes for education is assessed by:

- estimating the potential revenues from entitlements other than education (Tables 4.2, 4.3, and 5.1); and
- estimating the net change in education revenues (Table 5.2).

POTENTIAL REVENUES OF THE PROPOSED BOROUGHES

In summary, of the 17 boroughs:

- Six boroughs must tax to meet their required local contribution, but do not need to raise additional funds.
- Three boroughs need not tax to meet their required local contribution, but they would have to tax to cover the portion of the reduction in Foundation aid not offset by additional entitlements and consolidation savings to maintain education expenditures at the current level.
- One borough must tax to meet the required local contribution and would also have to tax to cover the reduction in Foundation aid not offset by other revenue to maintain education expenditures at the current level.
- Seven boroughs need not tax--either to meet their required local contribution or to maintain education expenditures at the current level.

Unexpectedly, 13 of the 17 proposed boroughs would enjoy increased revenues for education, after consideration of any tax revenues needed to meet the required local contribution, other entitlements and any consolidation savings. Table 5.3, located at the end of the chapter, categorizes the proposed boroughs by their need to tax for education and shows which boroughs will have increased revenues.

POTENTIAL REVENUES FROM ENTITLEMENT PROGRAMS OTHER THAN EDUCATION

Revenues of the proposed boroughs from entitlement programs other than education will come from three sources: shared taxes, Revenue Sharing and Municipal Assistance. The estimated entitlements of each borough from Revenue Sharing and Municipal Assistance were presented previously in Chapter 4 (See Tables 4.2 and 4.3). Also in Chapter 4, shared taxes were described (See Table 4.1). Here, these shared tax revenues are allocated among the proposed boroughs to the extent possible.

Table 5.1 presents the FY 87 shared tax revenues of cities within each borough and the estimated revenues of each borough. No attempt was made to allocate gaming taxes because the currently undistributed receipts of this tax are only \$5,000. Similarly, allocation of the utility cooperative taxes and liquor license fees refunds was not attempted because the additional refunds from these sources would probably total less than \$300,000. In Table 5.1, the boroughs likely to receive revenues from these two sources are identified.

TABLE 5.1
FY 87 SHARED TAX REVENUES OF CITIES WITHIN THE PROPOSED BOROUGHS AND ESTIMATED SHARED TAX REVENUES OF THE PROPOSED BOROUGHS

PROPOSED BOROUGH	FISHERIES BUSINESS TAX		UTILITY COOPERATIVE TAXES		LIQUOR LICENSE FEES	
	FY 87 REVENUES OF CITIES WITHIN THE BOROUGH	ESTIMATED REVENUES OF THE BOROUGH	FY 87 REVENUES OF CITIES WITHIN THE BOROUGH	ESTIMATED REVENUES OF THE BOROUGH	FY 87 REVENUES OF CITIES WITHIN THE BOROUGH	ESTIMATED REVENUES OF THE BOROUGH
WESTERN						
Bering Strait	\$0	\$0	\$3,093	\$0	\$13,586	\$0
Lower Yukon	40,832	42,481	3,199	+	0	0
Lower Kuskowkim	59,554	61,959	1,499	+	0	0
Iditarod	1,557	1,620	472	+	3,900	0
Kuspuk	189	197	189	+	0	0
SOUTHWESTERN						
Southwest Region	52,046	54,148	29,276	+	5,314	0
Lake and Peninsula	179,267	186,508	0	0	0	0
Aleutians West	1,062,335	1,105,243	0	0	9,598	0
INTERIOR PIPELINE						
Yukon-Koyukuk	12,296	12,793	1,725	+	6,554	0
Yukon Flats	0	0	0	0	0	0
Delta/Greely	0	0	2,503	+	0	+
Copper River	0	0	0	0	0	+
Chugach	465,270	484,062	67,176	+	29,872	0
INTERIOR HIGHWAYS (NO PIPELINE)						
Railbelt	0	0	3,251	+	0	+
Alaska Gateway	0	0	0	0	0	+
SOUTHEAST						
Chatham	178,530	185,741	0	0	17,202	+
Southeast Island	744,918	775,005	0	0	26,902	+
TOTAL -- PROPOSED BOROUGHS						
	\$2,796,794	\$2,909,756	\$112,383	\$150,000	\$112,928	\$155,975

NOTES:

1. Only those boroughs with cities that currently receive fisheries business tax revenues were allocated fisheries business tax revenues. Borough allocations were based on the percentage of the total amount refunded received by cities in each borough.
2. Only those boroughs with cities that currently receive utility cooperative tax refunds were estimated to receive these revenues. Borough allocations were not made because the revenues attributed to unincorporated communities were not precisely known.
3. Only those boroughs with unincorporated communities likely to allow the sale of liquor were estimated to receive these revenues. Although the receipts from unincorporated communities and incorporated communities without police protection were known, borough allocations were not attempted.

POTENTIAL REVENUES OF THE PROPOSED BOROUGHES

Of the shared taxes, the fisheries business tax is the only tax that will provide a significant source of revenue to any of the proposed boroughs. I assumed that only those boroughs containing cities that received fisheries business tax refunds would receive these revenues, and the additional \$2.9 million that would be refunded to the new boroughs was allocated in proportion to the FY 87 receipts of the cities within each borough. Of the 17 proposed boroughs, 11 are expected to receive fisheries business tax refunds. For most of the coastal boroughs, the potential refunds are sizable, ranging from \$185,000 to over \$1 million. For the coastal boroughs in the western region and for interior region boroughs, the potential refunds are under \$100,000.

THE NECESSITY OF LOCAL TAXES FOR EDUCATION IN THE NEW BOROUGHES

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

The boroughs in which current local contributions are less than the required local contribution were identified in the analysis of local education costs in Chapter 3 (see page 46). Four pipeline boroughs and three other boroughs were in this situation. At minimum, these boroughs must raise the difference between their current contributions and the required contribution, or they will lose their Foundation aid. If these boroughs raise only the difference, they will have less money for education--by the amount of the their current contributions--unless the additional entitlements and consolidation savings are equal to or greater than their current contributions.

To determine which boroughs will need to tax to maintain education funding, net education revenues must first be determined. The net change in education revenues was estimated by taking into consideration the following:

- the reduction in Foundation aid;
- any required local contributions in excess of current local contribution;

POTENTIAL REVENUES OF THE PROPOSED BOROUGHES

- potential revenues from shared taxes, Revenue Sharing and Municipal Assistance entitlements; and

- any consolidation savings.

In Table 5.2, the net change in funds available for education in each proposed borough is presented. Overall, the additional entitlements offset nearly \$10 million of the \$13.4 million shortfall in Foundation aid to the proposed boroughs, and the savings from consolidation offset another \$4.6 million. The distribution of the additional 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 those boroughs with a net decrease, local taxes must be levied--in addition to any taxes already levied by cities for education and to any taxes needed to fulfill the local contribution requirement--to maintain education funding at the current level.

Table 5.3 categorizes the proposed boroughs by their need to tax for education. Six of the proposed boroughs include cities that currently levy property taxes for education, and these tax revenues were included in the assessment of current local contributions. The following assessment of the new boroughs' need to tax for education refers to the need to raise taxes in addition to any currently raised by the cities within the boroughs.

Ten boroughs must tax; seven borough do not need to tax. In the following discussion, the circumstances that affect whether each borough needs to tax are highlighted.

Boroughs Where Additional Taxation is Required

Of the ten boroughs that 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.

- Three boroughs need not tax to meet their required local contribution, but they would have to tax to cover the portion of the reduction in Foundation aid not offset by additional entitlements and consolidation savings to maintain education expenditures at the current level.

- One borough must do both. Taxation is required to meet the local contribution, and these tax revenues are insufficient to cover the reduction in Foundation aid not offset by other revenue.

The boroughs that need to tax to meet the required local contribution include four pipeline boroughs, which have high property values, and three boroughs which have much lower property values. The pipeline boroughs each need to raise from \$1.5 to \$3 million to fulfill their local

TABLE 5.2
ESTIMATED NET CHANGE IN EDUCATION REVENUES OF THE PROPOSED BOROUGHES

PROPOSED BOROUGH	CHANGE IN FOUNDATION AID	REQUIRED CONTRIBUTIONS IN EXCESS OF CURRENT CONTRIBUTIONS	ESTIMATED ENTITLEMENTS FROM:					POTENTIAL SAVINGS FROM CONSOLIDATION	NET CHANGE IN EDUCATION REVENUES
			FISHERIES BUSINESS TAXES	OTHER SHARED TAXES	REVENUE SHARING	MUNICIPAL ASSISTANCE			
WESTERN									
Bering Strait	(\$355,369)	\$0	\$0	\$0	\$132,877	\$23,808	\$200,000	\$1,316	
Lower Yukon	(339,707)	0	42,481	+	86,039	35,905	400,000	224,798	
Lower Kuskowkim	(1,284,070)	0	61,959	+	193,779	176,049	200,000	(652,283)	
Iditarod	(93,925)	0	1,620	+	26,709	31,233	N/A	(34,364)	
Kuspuk	(79,360)	0	197	+	25,530	52,221	N/A	(1,412)	
SOUTHWESTERN									
Southwest Region	(200,222)	187,877	54,148	+	80,366	50,439	200,000	372,608	
Lake and Peninsula	(122,186)	0	186,508	0	26,657	98,751	N/A	189,729	
Aleutians West	(88,734)	0	1,105,243	0	117,857	510,631	400,000	2,045,047	
INTERIOR PIPELINE									
Yukon-Koyukuk	(3,538,147)	3,170,899	12,793	+	80,639	126,351	600,000	452,535	
Yukon Flats	(2,041,200)	1,904,320	0	0	27,273	98,157	N/A	(11,450)	
Delta/Greely	(2,059,470)	1,834,516	0	+	81,152	1,545,171	N/A	1,401,369	
Copper River	(1,735,230)	1,642,863	0	+	49,795	1,492,107	N/A	1,449,535	
Chugach	(1,002,631)	0	484,062	+	103,913	63,210	400,000	48,554	
INTERIOR HIGHWAYS (NO PIPELINE)									
Railbelt	(120,705)	50,343	0	+	22,984	84,396	N/A	37,018	
Alaska Gateway	(182,111)	0	0	+	34,723	196,839	N/A	49,451	
SOUTHEAST									
Chatham	(39,742)	147,579	185,741	+	60,287	64,794	800,000	1,218,659	
Southeast Island	(183,943)	0	775,005	+	202,836	1,504,284	1,400,000	3,698,182	
TOTAL -- PROPOSED BOROUGHES	(\$13,466,752)	\$8,938,397	\$2,909,756	\$311,667	\$1,353,416	\$6,154,476	\$4,600,000		

NOTES:

1. Other shared taxes include gaming and amusement taxes, utility cooperative taxes and liquor license fees.
2. The Revenue Sharing entitlements of each borough are based on a millage rate equivalent of 3.5. See Table 4.2 for further information.
3. The Municipal Assistance entitlements of each borough are based on the FY 87 formula and a total appropriation sufficient to maintain the entitlements of all existing boroughs at their current level. See Table 4.3 for further information.
4. Estimated savings from consolidation of school districts were estimated to be \$200,000 for each district subsumed. See Table 3.8 for further information.

TABLE 5.3
 PROPOSED BOROUGHS CATEGORIZED BY THEIR NEED TO LEVY ADDITIONAL TAXES FOR EDUCATION

ADDITIONAL TAXATION REQUIRED			ADDITIONAL TAXATION NOT REQUIRED		
BOROUGH	AMOUNT NEEDED TO MEET REQUIRED LOCAL CONTRIBUTION	NET CHANGE IN FUNDS FOR EDUCATION	BOROUGH	AMOUNT NEEDED TO MEET REQUIRED LOCAL CONTRIBUTION	NET CHANGE IN FUNDS FOR EDUCATION
WESTERN					
Lower Kuskokwim	\$0	(\$652,283)	Bering Strait	\$0	\$1,316
Iditarod	0	(34,364)	Lower Yukon	0	224,798
Kuspuk	0	(1,412)			
SOUTHWESTERN					
Southwest Region	187,877	372,608	Lake and Peninsula Aleutians West	0	189,729 2,045,047
INTERIOR PIPELINE					
Yukon-Koyukuk	3,170,899	452,535	Chugach	0	48,554
Yukon Flats	1,904,320	(11,450)			
Delta/Greely	1,834,516	1,401,369			
Cooper River	1,642,863	1,449,535			
INTERIOR HIGHWAYS (NO PIPELINE)					
Railbelt	50,343	37,018	Alaska Gateway	0	49,451
SOUTHEAST					
Chatham	147,579	1,218,659	Southeast Island	0	3,698,182

NOTES:

1. Amount required to meet the required local contribution is the difference between current local local contributions and the required local contribution. See Table 3.4.
2. Net change in education funds is the additional amount of revenue available for expenditure on education once the reduction in Foundation aid, required local taxes, additional entitlements, and consolidation savings are taken into account. Negative values indicate that taxation would be required to maintain education expenditures at the current level. See Table 5.2.

POTENTIAL REVENUES OF THE PROPOSED BOROUGHS

obligation, and these boroughs would need to institute a property tax. The other three boroughs, Southwest Region, Railbelt and Chatham, each need to raise less than \$200,000; conceivably, they could raise this money through sales taxation.

The three boroughs that do not need to tax to meet the required local contribution but do need to tax to offset the reductions in Foundation aid are the Lower Kuskokwim, Iditarod and Kuspuk boroughs. For the Iditarod and Kuspuk boroughs, the net decreases in education funds are estimated to be under \$35,000. The FY 87 expenditures of the districts forming these boroughs were several million dollars each, thus these reductions in education funding are insignificant. For the Lower Kuskokwim borough, the additional entitlements and consolidation savings offset only a portion of the reduction in Foundation aid, and net education revenues decrease \$650,000 unless taxes are levied.

The Yukon Flats borough, a pipeline borough, needs to tax to meet its local contribution requirement, but must tax at a rate slightly higher than needed to meet the requirement in order to maintain education funding. After the taxes required to fulfill the local contribution and the additional entitlements are considered, this borough is only \$11,000 short of its current level of funding. This amount is insignificant relative to the current level of education expenditures in this proposed borough.

Boroughs Where Additional Taxation is Not Required

Seven boroughs will not need to tax 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 are Bering Strait, Lower Yukon, Lake and Peninsula, Aleutians West, Chugach, Alaska Gateway, and Southeast Island.

Strictly speaking, the boroughs with city districts that currently levy property taxes for education--the Bering Strait, Aleutians West, Chugach, and Southeast Island boroughs--will have to tax, because these tax revenues comprise part of the current local contribution. However, no additional tax revenue would be needed, and to the extent that the additional entitlements and consolidation savings exceed the reduction in Foundation aid to the borough, these boroughs could reduce their tax appropriations for education. For the Aleutians West and Southeast Island boroughs, the net change in education revenues far exceeds the current local tax contributions of the cities within these boroughs. These boroughs could reduce or even eliminate tax appropriations for school operations and still have more revenues for education than under the status quo.

The Lower Yukon, Lake and Peninsula, and Alaska Gateway boroughs are formed from REAAs, and their current local contributions therefore do not include any tax appropriations. These REAAs could organize as boroughs without levying local taxes and still maintain, and in fact, increase, revenues available for schools.

POTENTIAL REVENUES OF THE PROPOSED BOROUGHS

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

The purpose of examining the net education revenues of the proposed boroughs was to determine how much revenue the boroughs would have to raise through local taxes; we anticipated that all boroughs would have to raise substantial sums simply to maintain education funding at current levels. That 13 of the 17 proposed boroughs would have more education revenue than under the status quo was an unexpected result.

When the additional entitlements, tax revenues required to fulfill the local contribution, and consolidation savings are considered, 13 of the proposed boroughs have more revenue for education than under the status quo (See Table 5.3). These boroughs are the Bering Strait, Lower Yukon, Southwest Region, Lake and Peninsula, Aleutians West, Yukon-Koyukuk, Delta/Greely, Copper River, Chugach, Railbelt, Alaska Gateway, Chatham and Southeast Island boroughs.¹ As discussed above, some of these boroughs need to tax to meet their required local contribution, but the additional entitlements and consolidation savings exceed the reductions in Foundation aid, thus they have a net increase in education revenue.

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 in education revenue are moderate, ranging from \$200,000 to \$500,000. For the five remaining boroughs--Aleutians West, Southeast Island, Delta/Greely, Copper River, and Chatham--the increases are \$1 million or more and are therefore significant. The circumstances creating the large increases for each of these boroughs are explained below:

For the Aleutians West borough, the increase is due primarily to the estimated \$1 million in fisheries business tax revenues. However, this borough would also receive \$0.5 million in Municipal Assistance, which alone would offset the \$88,734 reduction in Foundation aid.

¹The 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.

POTENTIAL REVENUES OF THE PROPOSED BOROUGHS

The Southeast Island borough comes out \$3.7 million ahead due to fisheries business tax receipts of \$0.75 million and a Municipal Assistance entitlement of \$1.5 million. This sizable Municipal Assistance entitlement is due to the fortuitous parallel between the number of people residing outside of cities within the borough and the number residing outside cities in the North Slope Borough. Under the current formula for determining the base Municipal Assistance entitlement of newly created boroughs, a new borough receives the base entitlement of the existing borough that has a similar population residing outside cities. The base entitlement of the North Slope Borough is \$1.2 million, thus the base entitlement of the new Southeast Island borough is \$1.2 million.

The Delta/Greely and Copper River boroughs would also receive sizable Municipal Assistance entitlements because the number of people residing outside of cities coincides with number residing outside of cities in the North Slope Borough. While these boroughs must raise significant sums through taxation to meet the local contribution requirement, they will also have an increase in education revenues due to receipt of large Municipal Assistance entitlements.

For the Chatham borough, its \$1 million increase is due in part to fisheries business tax refunds and to consolidation savings that could total \$0.8 million.

Conclusions

This chapter has focused on the necessity of local taxes for the operational support of schools. Upon organization, the boroughs must also take responsibility for school construction costs, which will increase the amount that each borough must raise locally for schools. In the long run, all of the proposed boroughs will surely have to levy local taxes to support education 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 borough formation requires substantial sums to be raised locally and 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. That some of these areas have not yet organized--despite the financial incentive to do so--suggests either that people are not aware of the financial benefits of organization or that people do not want to organize. Based on this analysis, the generally slow development of boroughs from the unorganized borough should probably be attributed more to sociological than to financial factors.

POTENTIAL REVENUES OF THE PROPOSED BOROUGHES

This analysis also suggests that the legislature should re-evaluate the methods by which State funds are distributed among local governments. The method for 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.

APPENDIX A
SPONSOR SUBSTITUTE FOR HOUSE BILL 1

1 IN THE HOUSE

BY LARSON AND MENARD

2

SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 1

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6

For an Act entitled: "An Act converting regional educational attendance

7

areas into third class boroughs; and providing for an

8

effective date."

9

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

10

* Section 1. THIRD CLASS BOROUGHES CREATED. (a) The areas within the

11

boundaries of the regional educational attendance areas formed under

12

AS 14.08.031 as of July 1, 1982, become third class boroughs effective

13

July 1, 1989. A city school district located within the boundary of a

14

borough formed under this section is part of that borough's school dis-

15

trict.

16

(b) Two or more regional educational attendance areas may combine to

17

form a third class borough under this section. The school boards of

18

regional educational attendance areas that decide to combine to form a

19

single borough under this subsection shall notify the lieutenant governor

20

of that decision as soon as possible.

21

(c) The lieutenant governor shall hold elections for initial assembly

22

members of boroughs formed under this section no later than June 1, 1989.

23

The initial assembly of a borough formed under this section shall consist

24

of seven members elected at large from the borough. The initial assembly

25

shall provide for the form of representation, composition, and apportion-

26

ment of the assembly under AS 29.20.060 - 29.20.110.

27

(d) This section does not apply to a regional educational attendance

28

area that organizes as a borough before the effective date of this Act.

29

* Sec. 2. TRANSITION. (a) The Department of Education shall oversee

1 and assist the transition from a regional educational attendance area to a
2 borough under this Act. On July 1, 1989,

3 (1) all property of the regional educational attendance area
4 becomes the property of the borough;

5 (2) the borough becomes the successor to all contracts and other
6 obligations, litigation, hearings, and other proceedings involving the
7 regional educational attendance area that are pending or in effect;

8 (3) faculty, staff, officers, and employees of the regional
9 educational attendance area are transferred to the borough.

10 (b) The term of office of a school board member from a regional
11 educational attendance area or a city school district described in sec. 1
12 of this Act ends on the date the election of the assembly members of the
13 third class borough formed from the regional educational attendance area is
14 certified.

15 * Sec. 3. The division of legal services of the Alaska Legislative
16 Affairs Agency shall prepare a bill conforming the Alaska Statutes to the
17 changes made by secs. 1 and 2 of this Act. The title of the bill shall be
18 "An Act relating to the unorganized borough, school districts, and third
19 class boroughs." The bill shall be presented to the House and Senate Rules
20 Committees for introduction on the first day of the Second Session of the
21 Fifteenth Alaska State Legislature.

22 * Sec. 4. Sections 1 and 2 of this Act take effect on the effective
23 date of a version of an Act passed by the legislature during the Second
24 Session of the Fifteenth Alaska State Legislature entitled "An Act relating
25 to the unorganized borough, school districts, and third class boroughs."

26 * Sec. 5. Section 3 of this Act takes effect immediately under AS 01.-
27 10.070(c).

APPENDIX B
SECOND SPONSOR SUBSTITUTE
FOR HOUSE BILL 1

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 and the legislature its final boundary proposal. The proposal must provide
2 for the entire area of the unorganized borough, excluding areas annexed
3 under (c) of this section, to be included within new home rule boroughs.

4 * Sec. 2. PROVISIONAL HOME RULE CHARTERS. (a) By March 31, 1990, the
5 Department of Community and Regional Affairs shall deliver to the governor
6 and the legislature a provisional home rule charter for the new boroughs
7 designated in the final boundary proposal. In preparing the charter the
8 department shall conduct at least one public hearing in the area of each
9 new borough. The charter shall provide that each new borough exercise
10 only those powers a home rule borough must exercise by law.

11 (b) The voters of an area designated as a new borough in the final
12 boundary proposal may petition the department for an amendment to the
13 provisional charter for that new borough. If the department determines
14 that at least 15 percent of the number of voters who voted in the last
15 general election in the area have signed the petition, the department shall
16 submit the proposed amendment to the director of elections.

17 * Sec. 3. ELECTIONS. The director of elections shall schedule an
18 election of initial borough officials to be held under AS 29.05.120 in each
19 new borough designated in the final boundary proposal during or before the
20 general election held in 1990. Any proposed amendments to the provisional
21 charter of a new borough received by the director under sec. 2(b) of this
22 Act shall be submitted to the voters at the election of initial borough
23 officials.

24 * Sec. 4. INCORPORATION OF NEW BOROUGHES. (a) A new borough designated
25 in the final boundary proposal is incorporated as a home rule borough on
26 the first Monday following certification of the election held under sec. 3
27 of this Act. The provisional home rule charter prepared by the Department
28 of Community and Regional Affairs under sec. 2 of this Act, together with
29 any charter amendments approved by the voters, operates as the charter for

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).

APPENDIX C
EDUCATION COSTS OF BOROUGHES FORMED
THROUGH CONSOLIDATION

TABLE C.1
 FULL TAXABLE PROPERTY VALUES AND STUDENT POPULATION OF PROPOSED BOROUGHS FORMED BY COMBINING CITY DISTRICTS WITH THEIR SURROUNDING RURAL EDUCATIONAL ATTENDANCE AREA (REAA) OR BY COMBINING REAAS

PROPOSED BOROUGH	FULL TAXABLE VALUE	STUDENT POPULATION	FULL TAXABLE VALUE PER STUDENT	PERCENT OF TOTAL BOROUGH	
				VALUE	STUDENTS
Aleutians West					
Adak REAA	\$0	602	\$0	0	63
Pribilof REAA	14,153,160	155	91,311	12	16
Unalaska	95,564,500	159	601,035	81	17
Area outside cities	8,030,377	35	229,439	7	4
Total	\$117,748,037	951	\$123,815		
Bering Strait					
Nome	151,635,000	782	193,907	63	39
Area outside cities	88,842,297	1,224	72,584	37	61
Total	\$240,477,297	2,006	\$119,879		
Chatham					
Yakutat	18,136,700	157	115,520	14	17
Pelican	14,987,400	54	277,544	11	6
Hoonah	29,237,500	234	124,947	22	25
Skagway	59,036,600	137	430,924	45	15
Area Outside Cities	9,935,518	352	28,226	8	38
Total	\$131,333,718	934	\$140,614		
Chugach					
Valdez	1,693,326,700	695	2,436,441	92	55
Cordova	123,982,300	432	286,996	7	34
Area Outside Cities	25,981,222	130	199,856	1	10
Total	\$1,843,290,222	1,257	\$1,466,420		
Lower Kuskokwim					
Yupit REAA	18,357,736	294	62,441	6	10
Lower Kuskokwim REAA	302,659,726	2564	118,042	94	90
Total	321,017,462	2,858	112,322		
Lower Yukon					
St. Mary's	4,451,200	101	44,071	5	6
Kashunamiut REAA	9,445,343	172	54,915	11	11
Area Outside Cities	75,481,520	1,314	57,444	84	83
Total	\$89,378,063	1,587	\$56,319		

TABLE C.1 (Continued)
 FULL TAXABLE PROPERTY VALUES AND STUDENT POPULATION OF PROPOSED BOROUGHS FORMED BY COMBINING CITY DISTRICTS WITH THEIR SURROUNDING RURAL EDUCATIONAL ATTENDANCE AREA (REAA) OR BY COMBINING REAAS

PROPOSED BOROUGH	FULL TAXABLE VALUE	STUDENT POPULATION	FULL TAXABLE VALUE PER STUDENT	PERCENT OF TOTAL BOROUGH	
				VALUE	STUDENTS
Southeast Island					
Kake	\$12,108,400	196	\$61,778	3	7
Petersburg	135,355,400	601	225,217	38	23
Wrangell	108,670,500	494	219,981	30	19
Klawock	5,841,100	162	36,056	2	6
Craig	37,304,700	231	161,492	10	9
Hydaburg	13,417,700	107	125,399	4	4
Annette Island REAA	0	421	0	0	16
Area Outside Cities	45,985,615	421	109,229	13	16
Total	\$358,683,415	2,633	\$136,226		
Southwest Region					
Dillingham	107,515,700	461	233,223	68	49
Area Outside Cities	50,055,560	472	106,050	32	51
Total	\$157,571,260	933	\$168,887		
Yukon-Koyukuk					
Tanana	11,755,200	81	145,126	1	8
Galena	20,106,900	167	120,401	2	17
Kenana	3,099,500	123	147,150	2	13
Area Outside Cities	884,536,600	613	1,442,963	95	62
Total	\$934,498,200	984	\$949,693		
TOTAL--CITY DISTRICTS	\$2,660,533,000	5,374	\$495,075	63	38
TOTAL--AREA OUTSIDE CITIES (REAAs)	1,533,464,674	8,769	\$174,873	37	62
TOTAL--CITY/REAA BOROUGHS	\$4,193,997,674	14,143	\$296,542		

NOTES:

1. Full taxable property value determinations for Rural Educational Attendance Areas were prepared by the State Assessor with the Department of Community and Regional Affairs, April 1987. Values of cities are from Alaska Taxable 1986.
2. Student populations are from the Department of Education and are the number of students reported to be in attendance during the first count in FY 87 (Average Daily Membership).

TABLE C.2
ESTIMATED REQUIRED LOCAL CONTRIBUTIONS AND FOUNDATION AID TO PROPOSED BOROUGHs FORMED BY COMBINING CITY DISTRICTS
WITH THE SURROUNDING RURAL EDUCATIONAL ATTENDANCE AREA (REAAS) OR BY COMBINING REAAS

PROPOSED BOROUGH	REQUIRED LOCAL CONTRIBUTIONS			BASIC NEED		FOUNDATION AID		CHANGE IN FOUNDATION AID	
	FOUR MILLS	35 PERCENT OF BASIC NEED	REQUIRED CONTRIBUTIONS	IN FY 88	90 PERCENT OF PL 81-874	AMOUNT RECEIVED UNDER STATUS QUO	AMOUNT RECEIVED UNDER HOUSE BILL 1	IN DOLLARS	AS A PERCENTAGE OF AMOUNT RECEIVED BY THE REGION UNDER STATUS QUO
ALEUTIANS WEST									
Adak REAA	\$0	\$1,395,870	\$0	\$3,988,200	\$1,792,632	\$2,195,568			
Pribilof REAA	56,613	668,640	56,613	1,910,400	602,751	1,307,649			
Unalaska	382,258	544,740	382,258	1,556,400	154,473	1,019,669			
Area outside cities	32,122	68,792	32,122	196,548	32,412	164,136			
Total	470,992	2,678,042	470,992	7,651,548	2,582,268	4,687,022	\$4,598,263	(\$88,734)	-1.9
BERING STRAIT									
Nome	606,540	1,808,520	606,540	5,167,200	82,724	4,477,936			
Area outside cities	355,369	5,354,160	355,369	15,297,600	4,199,309	11,098,291			
Total	\$961,909	\$7,162,680	\$961,909	\$20,464,800	\$4,282,033	\$15,576,227	\$15,220,858	(\$355,369)	-2.3
CHATHAM									
Hoonah	116,950	577,290	116,950	1,649,400	190,808	1,341,642			
Pelican	59,950	232,470	59,950	664,200	0	604,250			
Skagway	236,146	376,320	236,146	1,075,200	0	839,054			
Yakutat	72,547	420,000	72,547	1,200,000	56,386	1,071,067			
Area Outside Cities	39,742	1,011,360	39,742	2,889,600	782,972	2,106,628			
Total	\$525,335	\$2,617,440	\$525,335	\$7,478,400	\$1,030,166	\$5,962,641	\$5,922,899	(\$39,742)	-0.7
CHUGACH									
Cordova	495,929	922,950	495,929	2,637,000	15,603	2,125,468			
Valdez	6,773,307	1,375,290	1,375,290	3,929,400	9,495	2,544,615			
Area Outside Cities	103,925	575,610	103,925	1,644,600	183,932	1,460,668			
Total	\$7,373,161	\$2,873,850	\$2,873,850	\$8,211,000	\$209,030	\$6,130,751	\$5,128,120	(\$1,002,631)	-16.4

TABLE C.2 (Continu 1)
 ESTIMATED REQUIRED LOCAL CONTRIBUTIONS AND FOUNDATION AID TO PROPOSED BOROUGHS FORMED BY COMBINING CITY DISTRICTS
 WITH THE SURROUNDING RURAL EDUCATIONAL ATTENDANCE AREA (REAS) OR BY COMBINING REAS

PROPOSED BOROUGHS	REQUIRED LOCAL CONTRIBUTIONS			BASIC NEED IN FY 88	90 PERCENT OF PL 81-874	FOUNDATION AID		CHANGE IN FOUNDATION AID	
	FOUR MILLS	35 PERCENT OF BASIC NEED	REQUIRED CONTRIBUTIONS			AMOUNT RECEIVED UNDER STATUS QUO	AMOUNT RECEIVED UNDER HOUSE BILL 1	IN DOLLARS	AS A PERCENTAGE OF AMOUNT RECEIVED BY THE REGION UNDER STATUS QUO
LOWER KUSKOKWIM									
Lower Kuskokwim REAA	1,210,639	11,187,960	1,210,639	31,965,600	5,933,153	26,032,447			
Yupit REAA	73,431	1,347,360	73,431	3,849,600	1,043,126	2,806,474			
Total	\$1,284,070	\$12,535,320	\$1,284,070	\$35,815,200	\$6,976,279	\$28,838,921	\$27,554,851	(\$1,284,070)	-4.5
LOWER YUKON									
Kashunamiut REAA	\$37,781	\$681,450	\$37,781	\$1,947,000	\$498,907	\$1,448,093			
St. Mary's	17,805	476,280	17,805	1,360,800	62,613	1,280,382			
Area Outside Cities	301,926	4,990,860	301,926	14,259,600	4,633,701	9,625,899			
Total	\$357,512	\$6,148,590	\$357,512	\$17,567,400	\$5,195,221	\$12,354,374	\$12,014,667	(\$339,707)	-2.7
SOUTHEAST ISLAND									
Annette Island REAA	0	903,210	0	2,580,600	1,406,836	1,173,764			
Craig	149,219	506,940	149,219	1,448,400	32,973	1,266,208			
Hydaburg	53,671	360,150	53,671	1,029,000	0	975,329			
Kake	48,434	480,900	48,434	1,374,000	209,395	1,116,171			
Klawock	23,364	460,110	23,364	1,314,600	210,198	1,081,038			
Petersburg	541,422	1,133,370	541,422	3,238,200	8,155	2,688,623			
Wrangell	434,682	974,610	434,682	2,784,600	2,037	2,347,881			
Area Outside Cities	183,942	1,764,210	183,942	5,040,600	764,757	4,275,843			
Total	\$1,434,734	\$6,583,500	\$1,434,734	\$18,810,000	\$2,634,351	\$14,924,858	\$14,740,915	(\$183,942)	-1.2

C-5

TABLE C.2 (Continued)

ESTIMATED REQUIRED LOCAL CONTRIBUTIONS AND FOUNDATION AID TO PROPOSED BOROUGHES FORMED BY COMBINING CITY DISTRICTS WITH THE SURROUNDING RURAL EDUCATIONAL ATTENDANCE AREA (REAAS) OR BY COMBINING REAAS

PROPOSED BOROUGH	REQUIRED LOCAL CONTRIBUTIONS			FOUNDATION AID			CHANGE IN FOUNDATION AID		
	FOUR MILLS	35 PERCENT OF BASIC NEED	REQUIRED CONTRIBUTIONS	BASIC NEED IN FY 88	90 PERCENT OF PL 81-874	AMOUNT RECEIVED UNDER STATUS QUO	AMOUNT RECEIVED UNDER HOUSE BILL 1	IN DOLLARS	AS A PERCENTAGE OF AMOUNT RECEIVED BY THE REGION UNDER STATUS QUO
SOUTHWEST REGION									
Dillingham	430,063	1,143,240	430,063	3,266,400	354,651	2,481,686			
Area Outside Cities	200,222	2,272,620	200,222	6,493,200	1,742,370	4,750,830			
Total	\$630,285	\$3,415,860	\$630,285	\$9,759,600	\$2,097,021	\$7,232,516	\$7,032,294	(\$200,222)	-2.8
YUKON-KOYUKUK									
Galena	80,428	535,290	80,428	1,529,400	443,016	1,005,956			
Nenana	72,398	606,270	72,398	1,732,200	6,566	1,653,236			
Tanana	47,021	386,820	47,021	1,105,200	186,793	871,386			
Area Outside Cities	3,538,146	2,410,800	2,410,800	6,888,000	1,484,468	5,403,532			
Total	\$3,737,993	\$3,939,180	\$3,737,993	\$11,254,800	\$2,120,843	\$8,934,111	\$5,395,964	(\$3,538,146)	-39.6
TOTAL--CITY DISTRICTS	\$10,642,132	\$13,321,560	\$5,244,117	\$38,061,600	\$2,025,886	\$30,791,599			
TOTAL--REAAS	\$6,133,859	\$34,632,902	\$5,236,353	\$98,951,148	\$25,101,326	\$73,849,822			
TOTAL--CITY/REAA BOROUGHES	\$16,775,991	\$47,954,462	\$12,276,680	\$137,012,748	\$27,127,212	\$104,641,421	\$97,608,857	(\$7,032,565)	-6.7

NOTES:

1. Calculation of revenue possible under a four mill property tax based on full taxable value determinations by the Department of Community and Regional Affairs, April 1987.
2. Basic need and Public Law 81-874 values are from the Department of Education for FY 88.

TABLE C.3

COMPARISON OF REQUIRED LOCAL CONTRIBUTIONS UNDER THE PUBLIC SCHOOL FOUNDATION PROGRAM TO CURRENT LOCAL CONTRIBUTIONS OF THE PROPOSED BOROUGHES FORMED THROUGH CONSOLIDATION

PROPOSED BOROUGH	CURRENT LOCAL CONTRIBUTIONS							REQUIRED CONTRIBUTIONS IN EXCESS OF CURRENT CONTRIBUTIONS
	REQUIRED LOCAL CONTRIBUTION	TAX APPROPRIATIONS	EARNINGS ON INVESTMENTS	IN-KIND SERVICES	STATE TUITION PAYMENTS	10 PERCENT PL 81-874	TOTAL	
ALEUTIANS WEST								
Adak REAA	\$0	\$0	\$248,133	\$0	\$0	\$206,072	\$454,205	
Pribilof REAA	56,613	0	45,798	0	0	73,710	119,508	
Unalaska	382,258	122,000	6,464	0	0	14,838	143,302	
Area outside cities	32,122	0	28,987	0	0	34,689	63,676	
Total	\$470,992	\$122,000	\$329,382	\$0	\$0	\$329,309	\$780,691	0
BERING STRAIT								
Nome	606,540	206,000	92,403	0	11,468	1,867	311,738	
Area outside cities	355,369	0	325,302	0	0	501,696	826,998	
Total	\$961,909	\$206,000	\$417,705	\$0	\$11,468	\$503,563	\$1,138,736	0
CHATHAM								
Hoonah	116,950	0	11,549	11,339	59,775	16,859	99,522	
Pelican	59,950	14,000	5,862	0	5,126	0	24,988	
Skagway	236,146	58,500	7,879	0	0	0	66,379	
Yakutat	72,547	28,614	3,706	0	18,663	6,420	57,403	
Area Outside Cities	39,742	0	110,128	0	0	19,336	129,464	
Total	\$525,335	\$101,114	\$139,124	\$11,339	\$83,564	\$42,615	\$377,756	0
CHUGACH								
Cordova	495,929	618,005	30,853	8,052	176,638	3,065	836,613	
Valdez	1,375,290	4,088,389	127,794	0	309,647	2,301	4,528,131	
Area Outside Cities	103,925	0	14,035	0	0	22,026	36,061	
Total	\$2,873,850	\$4,706,394	\$172,682	\$8,052	\$486,285	\$27,391	\$5,400,804	0

TABLE C.3 (Continued)

COMPARISON OF REQUIRED LOCAL CONTRIBUTIONS UNDER THE PUBLIC SCHOOL FOUNDATION PROGRAM TO CURRENT LOCAL CONTRIBUTIONS OF THE PROPOSED BOROUGHES FORMED THROUGH CONSOLIDATION

PROPOSED BOROUGH	CURRENT LOCAL CONTRIBUTIONS							REQUIRED CONTRIBUTIONS IN EXCESS OF CURRENT CONTRIBUTIONS
	REQUIRED LOCAL CONTRIBUTION	TAX APPROPRIATIONS	EARNINGS ON INVESTMENTS	IN-KIND SERVICES	STATE TUITION PAYMENTS	10 PERCENT PL 81-874	TOTAL	
LOWER KUSKOKWIM								
Lower Kuskokwim REAA	1,210,639	0	660,769	0	0	715,691	1,376,460	
Yupit REAA	73,431	0	87,032	0	0	125,249	212,281	
Total	\$1,284,070	\$0	\$747,801	\$0	\$0	\$840,939	\$1,588,740	0
LOWER YUKON								
Kashunamit REAA	\$37,781	\$0	\$24,029	\$0	\$0	\$59,498	\$83,527	
St. Mary's	17,805	0	128,137	0	0	43,948	172,085	
Area Outside Cities	301,926	0	554,865	0	0	541,132	1,095,997	
Total	\$357,512	\$0	\$707,031	\$0	\$0	\$644,578	\$1,351,609	0
SOUTHEAST ISLAND								
Annette Island REAA	0	0	113,233	0	0	163,911	277,144	
Craig	149,219	0	22,577	15,074	0	4,603	42,254	
Hydaburg	53,671	0	5,250	0	0	0	5,250	
Kake	48,434	0	0	0	63,703	43,538	107,241	
Klawock	23,364	0	15,505	2,700	7,214	0	25,419	
Petersburg	541,422	606,460	36,238	0	0	1,431	644,151	
Wrangell	434,682	538,053	41,136	0	0	804	579,993	
Area Outside Cities	183,942	0	131,160	0	0	102,082	233,242	
Total	\$1,434,734	\$1,144,513	\$365,099	\$17,774	\$70,917	\$316,367	\$1,914,670	0

TABLE C.3 (Continued)

COMPARISON OF REQUIRED LOCAL CONTRIBUTIONS UNDER THE PUBLIC SCHOOL FOUNDATION PROGRAM TO CURRENT LOCAL CONTRIBUTIONS OF THE PROPOSED BOROUGHES FORMED THROUGH CONSOLIDATION

PROPOSED BOROUGH	REQUIRED LOCAL CONTRIBUTION	CURRENT LOCAL CONTRIBUTIONS					TOTAL	REQUIRED CONTRIBUTIONS IN EXCESS OF CURRENT CONTRIBUTIONS
		TAX APPROPRIATIONS	EARNINGS ON INVESTMENTS	IN-KIND SERVICES	STATE TUITION PAYMENTS	10 PERCENT PL 81-874		
SOUTHWEST REGION								
Dillingham	430,063	100,000	88,667	0	0	40,090	228,757	
Area Outside Cities	200,222	0	225,952	0	0	216,457	442,409	
Total	\$630,285	\$100,000	\$314,619	\$0	\$0	\$256,546	\$671,165	0
YUKON-KOYUKUK								
Galena	80,428	15,739	31,876	0	3,586	70,622	121,823	
Nenana	72,398	30,000	31,938	0	24,003	320	86,251	
Tanana	47,021	0	45,055	0	12,200	23,446	80,701	
Area Outside Cities	2,410,800	0	102,811	0	0	175,497	278,308	
Total	\$3,737,993	\$45,739	\$211,680	\$0	\$39,789	\$269,886	\$567,094	3,170,899

NOTES:

1. Required local contributions are based on comparison of revenues from a 4 mill property tax to 35 percent of basic need (see Table 3.3).
2. Current local contributions are from audited expenditures of each school district for FY 87 as reported by the Department of Education.

TABLE C.4
 POTENTIAL SAVINGS FROM REDUCED ADMINISTRATIVE COSTS FROM CONSOLIDATION OF SCHOOL DISTRICTS

PROPOSED BOROUGH	STUDENT POPULATION	ADMINISTRATIVE COSTS			SAVINGS FROM CONSOLIDATION	FY 87 EXPENDITURES	SAVINGS AS A PERCENTAGE OF EXPENDITURES
		FY 87	WITH CONSOLIDATION				
ALEUTIANS WEST							
Adak REAA	602	\$666,228				\$4,670,815	
Pribilof REAA	155	237,778				2,021,980	
Unalaska	159	201,021				1,466,044	
Area outside cities	35	64,995				1,675,139	
Total	951	\$1,170,022	\$770,022		\$400,000	\$9,833,978	4
BERING STRAIT							
Nome	782	644,964				655,560	
Area outside cities	1,224	1,414,119				15,568,951	
Total	2,006	\$2,059,083	\$1,859,083		\$200,000	\$16,224,511	1
CHATHAM							
Hoonah	234	232,250				1,857,897	
Pelican	54	145,931				614,184	
Skagway	137	204,608				988,996	
Yakutat	157	179,973				1,395,841	
Area Outside Cities	352	449,958				3,822,906	
Total	934	\$1,212,720	\$412,720		\$800,000	\$8,679,824	9
CHUGACH							
Cordova	432	419,261				2,831,863	
Valdez	695	558,817				7,131,665	
Area Outside Cities	130	262,081				1,416,317	
Total	1,257	\$1,240,159	\$846,159		\$400,000	\$11,379,845	4

TABLE C.4 (Continued)
 POTENTIAL SAVINGS FROM REDUCED ADMINISTRATIVE COSTS FROM CONSOLIDATION OF SCHOOL DISTRICTS

PROPOSED BOARD	STUDENT POPULATION	ADMINISTRATIVE COSTS			FY 87 EXPENDITURES	SAVINGS AS A PERCENTAGE OF EXPENDITURES
		FY 87	WITH CONSOLIDATION	SAVINGS FROM CONSOLIDATION		
LOWER KUSKOKWIM						
Lower Kuskokwim REAA	2,564	3,129,911			30,134,277	
Yupit REAA	294	676,834			4,226,065	
Total	2,858	\$3,806,745	\$3,606,745	\$200,000	\$34,360,342	1
LOWER YUKON						
Kashunamiut REAA	172	\$432,331			\$1,796,965	
St. Mary's	101	395,190			2,493,819	
Area Outside Cities	1,314	1,737,055			15,442,898	
Total	1,587	\$2,564,576	\$2,164,576	\$400,000	\$19,733,682	2
SOUTHEAST ISLAND						
Annette Island REAA	421	602,461			2,821,443	
Craig	231	253,793			1,472,954	
Hydaburg	107	167,389			838,402	
Kake	196	504,593			1,995,284	
Klawock	162	219,045			1,478,815	
Petersburg	601	418,134			3,302,404	
Wrangell	494	211,612			2,968,790	
Area Outside Cities	421	463,420			4,791,114	
Total	2,633	\$2,840,447	\$1,440,447	\$1,400,000	\$19,674,206	7
SOUTHWEST REGION						
Dillingham	461	425,046			4,503,868	
Area Outside Cities	472	681,284			6,608,486	
Total	933	\$1,106,330	\$906,330	\$200,000	\$11,112,354	2

TABLE C.4 (Continued)
 POTENTIAL SAVINGS FROM REDUCED ADMINISTRATIVE COSTS FROM CONSOLIDATION OF SCHOOL DISTRICTS

PROPOSED BOROUGH	STUDENT POPULATION	ADMINISTRATIVE COSTS			FY 87 EXPENDITURES	SAVINGS AS A PERCENTAGE OF EXPENDITURES
		FY 87	WITH CONSOLIDATION	SAVINGS FROM CONSOLIDATION		
YUKON-KOYUKUK						
Galena	167	385,217			2,166,330	
Nenana	123	236,640			1,923,734	
Tanana	81	241,045			2,183,827	
Area Outside Cities	613	682,101			7,671,235	
Total	984	\$1,545,003	\$945,003	\$600,000	\$13,945,126	4
TOTAL	14,143	\$17,545,085	\$12,945,085	\$4,600,000	\$144,943,868	3

NOTES:

1. Student populations are from the Department of Education and are the number of students reported to be in attendance during the first count in FY 87 (Average Daily Membership).
2. FY 87 administrative costs are those reported as "General Support Expenditures" by the Alaska Department of Education. These expenditures include: school boards; superintendent's and principals' offices; planning and research; fiscal services; central purchasing; statistical and data processing services; other general support activities.
3. Savings from consolidation were estimated to be \$200,000 for each district subsumed into the surrounding REAA.