

ALASKA LEGISLATURE COMMITTEE FILES 1987-1988 8672

5202 SCRA SB 162

774

SB

162

Alaska State Legislature

ARLISS STURGULEWSKI, Chairman
TIM KELLY, Vice Chairman
RICK HALFORD
MIKE SZYMANSKI
FRED ZHAROFF



P. O. BOX V
JUNEAU, ALASKA 99811
(907) 465-4989

Senate Community and Regional Affairs Committee

TO: Senate C&RA Members

April 7, 1987

FROM: Senate C&RA Staff

A handwritten signature in dark ink, appearing to be "MEL".

RE: SB 162 - "An Act relating to fisheries business tax refunds to local government; and providing for an effective date."

Revenue from raw fish tax is currently split up to three ways. Raw fish tax collected in cities located within boroughs is divided; with 50% going to the state, 15% to the borough, and 25% to the city. Outside of boroughs, cities and the state split the tax 50-50.

In an area where there are existing cities, the formation of a borough would result in a sudden 50% decline in the cities' revenue from fish tax.

SB 162 would only apply in boroughs formed after the effective date. It is designed to ease the fiscal transition for cities in such areas by phasing in the split over five years.

The Department of Community and Regional Affairs strongly supports the bill. A position paper and zero fiscal note from that department is included in this packet as are three zero fiscal notes from the Department of Revenue.

Also included in this packet are several letters and attached back up from the communities of the Aleutians East region. Because of the possible formation of an East Aleutian Borough, these communities are the most likely to be affected. They strongly support the legislation.

STATE OF ALASKA

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

March 16, 1987

STEVE COWPER, GOVERNOR

- P.O. BOX B
JUNEAU, ALASKA 99811-2100
PHONE: (907) 465-4700
- 949 E. 36TH AVENUE, SUITE 400
ANCHORAGE, ALASKA 99508-4302
PHONE: (907) 563-1073

POSITION PAPER

RE: SB 162 -- "An Act relating to fisheries business tax refunds to local government; and providing for an effective date."

SPONSOR: Senator Zharoff

Program Effects of Bill:

Section 1 of the bill amends existing language in AS 43.75.130(a) to provide for a new subsection (d) as well as several minor "house cleaning" wording changes.

Section 2 of the bill amends AS 43.75.130 by adding a new subsection (d) which provides for a five-year phasing in of the sharing of fish tax revenues between cities and boroughs in the instance of new borough formation.

Section 3 of the bill provides for an immediate effective date for the Act.

Comments:

The existing State Fisheries Business Tax law provides for a "refund" of this state tax to municipalities in whose jurisdiction the tax was collected. In the case of unified municipalities and cities in the unorganized borough, 50 percent of the tax revenue collected within municipal boundaries is returned. However, cities located within a borough must in turn share 50 percent of their fish tax refund with the surrounding borough. In other words, such a city would receive only 25 percent of the fish tax collected within its jurisdiction; the other 25 percent would go to the borough.

March 16, 1987
Page Two
SB 162

The state fish tax provides a significant and relatively stable portion of total revenues for many cities presently located outside of organized boroughs. The formation of a borough which would include such cities would result in sudden and substantial revenue losses for these cities. Cities located within the new borough have no guarantee of receiving any of this funding back from the borough. The prospect of such a revenue shock represents a clear disincentive to borough formation. Providing for a phased transition into the sharing of fish tax revenues from cities to new boroughs would reduce the severity of the shock to city operations; consequently, reducing the disincentive to borough formation.

The establishment of strong, self-sufficient, local and regional government throughout Alaska is a longstanding goal of the Department of Community and Regional Affairs. The Department endorses practical measures which provide incentives, or reduce existing disincentives, with regard to borough formation. The measures provided for in this bill appear to be straightforward in effect and relatively simple in their implementation. The Department therefore supports the expeditious passage of this bill.



David G. Hoffman, Commissioner

**STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE**

REQUEST: _____

Bill Version: SB 162

Publish Date: _____

Revision Date: _____

Agency Affected: Community & Regional Affairs

Title: "An Act..fisheries business tax
refunds to local government..."

BRU: Local Government Assistance

Sponsor: _____

Components: Training & Development

Requestor: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Prepared by: Michael Cushing, Planner

Phone: 465-4750

Division: Municipal & Regional Assistance

Date: 4/6/87

Approved by Commissioner: *David C. Hoffman*

Date: 4-6-87

Agency: Community & Regional Affairs

Distribution (by preparer):

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

No. 140

Handwritten initials/signature

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

SENATE
BILL VERSION: SB 162 a
PUBLISH DATE: 3/19/87

REQUEST _____

Revision Date: 3/10/87
Title: An Act relating to fisheries
business refunds to local governments
Sponsor: Znaroff
Requestor: _____

Agency Affected: Revenue
BRU: Audit

Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
OPERATING						
PERSONAL SERVICES	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
TRAVEL	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
CONTRACTUAL	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
SUPPLIES	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
EQUIPMENT	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
LANDS & STRUCTURES	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
GRANTS, CLAIMS	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
MISCELLANEOUS	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
TOTAL OPERATING	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
CAPITAL	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
REVENUE	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -

FUNDING: (Thousands of Dollars)

GENERAL FUND	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
FEDERAL FUNDS	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
OTHER	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
TOTAL	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: See attached.

Prepared By: Steven E. Kettel *Steven E. Kettel*
Division: Audit

Phone: 465-2320
Date: 3/10/87

Approved by Commissioner: *J. McLean*
Agency: _____

Date: 3/18/87

Distribution (by Agency preparing fiscal note):

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

No. 141

STATE OF ALASKA 1987 LEGISLATIVE SESSION

FISCAL NOTE SENATE

BILL VERSION: SB 162 b

PUBLISH DATE: 3/19/87

REQUEST: _____

Revision Date: _____
Title: Relating to Fisheries Business Tax
Refunds to Local Government
Sponsor: Znaroff
Requestor: _____

Agency Affected: Revenue
BRU: _____

Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING						

CAPITAL						
---------	--	--	--	--	--	--

REVENUE		-0-	-0-	-0-	-0-	-0-
---------	--	-----	-----	-----	-----	-----

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS :

Prepared by: Robert Elliott *RE*
Division: Research Section

Phone: 465-2173
Date: 3/13/87

Approved by Commissioner: [Signature]
Agency: _____

Date: 3/19/87

- Distribution (by preparer):
- Legislative Finance
 - Legislative Sponsor
 - Requestor
 - Office of Management and Budget
 - Impacted Agency(ies)
 - Senate Secretary

140. 143

MC

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

SENATE
BILL VERSION: SB 162 d
PUBLISH DATE: 3/19/87

REQUEST
Revision Date:
Title: An act relating to fisheries
business tax refunds to local gov't
Sponsor: Zharoff
Requestor: Senate Labor & Commerce

Agency Affected: Revenue
RPU: Administrative Services
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
OPERATING						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS:

There is no measurable administrative impact on this division.
The accounting for shared taxes will be made slightly more complex.

Prepared By: *E. B. Jones* Phone: 465-2313
Division: Administrative Services Date: 3/17/87

Approved by Commissioner: *J. Malone* Date: 3/18/87
Agency: Revenue

Distribution (by Agency preparing fiscal note):

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

CITY OF KING COVE

P.O. Box 37 • King Cove, Alaska 99812 • (907) 497-2340

April 7, 1987

Dear Honorable Members of the Senate and House Community and Regional Affairs Committees

The communities of the Aleutians East region, Akutan, Cold Bay, False Pass, King Cove, Nelson Lagoon and Sand Point, ask for your support of SB 162/HB 226, an Act relating to Fisheries Business Tax refunds. Our region is presently circulating the petition required to establish a borough government, and we view passage of SB 162/HB 226 as critical to formation of the new Aleutians East borough.

SB 162/HB 226 will enable the phased transfer of fish tax revenues between existing cities and newly established boroughs. This transition would occur over a period of five years and would allow the cities to adjust existing service delivery to the decrease in the amount and percentage of fish tax revenues they will receive.

Alaska Statutes stipulate that the State equally share its fish tax revenues with cities in the unorganized borough for fish delivered to processors in city boundaries. However, if a borough exists, the State retains its 50% share, but the cities (25%) and the borough (25%) equally share the other 50%. Thus, under existing statutes, when the Aleutians East Borough is established, the cities will lose one-half of the fish tax revenues they have traditionally received.

The amount of fish tax the cities receive varies each year, but the loss of one-half of this tax would generally result in a 15% - 20% decrease in Akutan's and King Cove's annual operating revenues, and a 5% - 10% decrease in Sand Point's and Cold Bay's revenues. Simply stated, this revenue loss, when coupled with losses in State Revenue Sharing, Municipal Assistance, Federal Revenue Sharing and other traditional sources of city revenues, is difficult to adjust to in one year. SB 162/HB 226 would provide cities a phased five year adjustment period by reducing the percentage of city fish tax revenues each year by 5% until the equal sharing of revenues with the borough is obtained. Attachment I illustrates the total amount of revenues to be shared between the borough and cities, and Attachment II illustrates this sharing of revenues with each city.

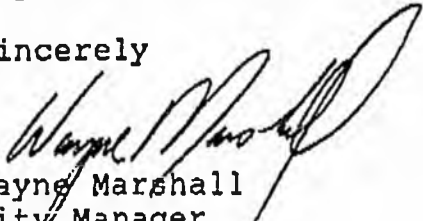
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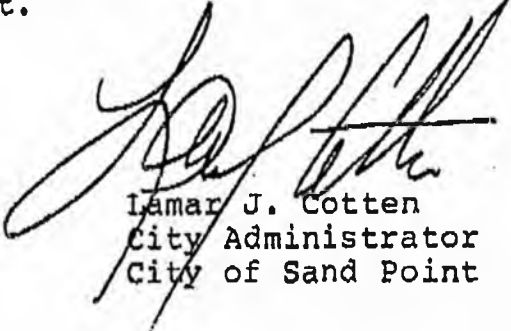
Also, this legislation will not negatively affect the newly established borough's ability to meet service delivery expenses. The borough, because of its larger boundaries, will be receiving fish tax revenues that the State has not previously shared with cities. These revenues will be collected from the area that was in the unorganized borough. SB 162/HB 226 structures the phase in of revenues so that as the borough undertakes delivering service which were previously done by the Cities, its percentage of revenues will increase and the city share of revenues will decrease. In year five, the borough will receive its full share. Attachment I identifies new revenues that will be available to the Aleutians East Borough.

In addition, as SB 162/HB 226 addresses one of the disincentives that affects borough formation, its passage may encourage cities in areas other than the Aleutians East to consider establishing a borough. The Aleutians East region is pursuing Borough formation because of decreases in State and Federal expenditures, and the region's desire to continue good quality service delivery. Other areas may need to pursue borough government for similar reasons.

We ask for your support of SB 162/HB 226 to remove one of the disincentives affecting borough organization, particularly in the Aleutians East region. This bill will not affect the new borough's ability to deliver quality services, does not affect fish tax revenues existing boroughs receive and does not affect State revenues. In addition, it does not require any new State monies to implement.

Sincerely


Wayne Marshall
City Manager
City of King Cove


Lamar J. Cotten
City Administrator
City of Sand Point

On behalf of the Aleutians East communities.

2

ATTACHMENT I

In Fiscal Year 1987, the total amount of State Fisheries Business Tax revenues shared with the four incorporated cities (State tax on fish delivered to processors within City boundaries) in the Aleutians East region was \$805,000. This tax represents 10%-50% of each of the cities general operating revenues. Under existing statutes, if a borough is established, these cities must equally share these revenues with the borough.

HB 226/SB 162 which the Aleutians East communities support, would allow a phased transfer of fish tax revenues between cities and the new borough. Table I, below, illustrates this revenue transition. This revenue transition will allow cities to adjust service delivery to the decreased revenues, and will not negatively effect the borough's ability to deliver services.

TABLE I
HB 226/SB 162 Formula for Shared Revenues

	<u>City Share</u>	<u>Borough Share</u>
Year 1	\$734,500 (45%)	\$ 80,500 (5%)
Year 2	644,000 (40%)	161,000 (10%)
Year 3	563,500 (35%)	241,500 (15%)
Year 4	483,000 (30%)	322,000 (20%)
Year 5	402,500 (25%)	402,500 (25%)

Starting in year 5 and each year thereafter, the borough and cities will equally share State Fish Business Tax revenues for fish delivered within City limits.

Also, the Borough will annually receive about \$1,200,000 in new revenues that none of the existing cities receive. These revenues, when combined with the borough's share of fish tax revenues identified in Table I, will be adequate to meet anticipated borough expenditures. The \$1,200,000 mainly consists of the following revenue sources:

- o \$400,000 in State Fish Business Tax Revenues for fish delivered to processors within borough boundaries, but outside City limits. The State is the only entity that presently receives these funds.

- o \$700,000 in sales/use tax revenues. The Borough plans to levy a 2% sales/use tax as its main method of local taxation.

- o \$100,000 in State revenue sharing and municipal assistance monies and other shared revenues.

ATTACHMENT II

The tables below illustrate how revenues would be shared with the individual cities in the new borough if HB 226/SD 102 is adopted. If this bill is not adopted, revenues would immediately be shared as indicated in year 5 of these tables. This sharp one year drop in revenues would seriously effect each city's ability to deliver services, and may negatively effect potential borough formation.

AKUTAN - \$356,000 in FY 87
approximately 50% of Akutan's Budget

	City		Borough
Year 1	\$320,400 (45%)		\$ 35,600 (5%)
Year 2	284,800 (40%)		71,200 (10%)
Year 3	249,200 (35%)		106,800 (15%)
Year 4	213,600 (30%)		142,400 (20%)
Year 5	178,000 (25%)		178,000 (25%)

COLD BAY - \$7,200 in FY 87
approximately 10% of Cold Bay's Budget

	City		Borough
Year 1	\$ 6,840 (45%)		\$ 720 (5%)
Year 2	5,760 (40%)		1,440 (10%)
Year 3	5,040 (35%)		2,160 (15%)
Year 4	4,320 (30%)		2,880 (20%)
Year 5	3,600 (25%)		3,600 (25%)

KING COVE - \$327,000 in FY 87
approximately 35% of King Cove's budget

	City		Borough
Year 1	\$294,300 (45%)		\$ 32,700 (5%)
Year 2	261,600 (40%)		65,400 (10%)
Year 3	228,900 (35%)		98,100 (15%)
Year 4	196,200 (30%)		130,800 (20%)
Year 5	163,500 (25%)		163,500 (25%)

SAND POINT - \$114,000 in FY 87
approximately 10% of Sand Point's budget

	City		Borough
Year 1	\$102,600 (45%)		\$ 11,400 (5%)
Year 2	91,200 (40%)		22,800 (10%)
Year 3	79,800 (35%)		34,200 (15%)
Year 4	68,400 (30%)		45,600 (20%)
Year 5	57,000 (25%)		57,000 (25%)

The communities of False Pass and Nelson Lagoon, which are also in the Aleutians East area, do not presently receive State Fish Business Tax revenues because they are unincorporated. The State only shares these revenues with incorporated cities.

March 18, 1987

Dear Honorable Members of the Senate Labor and Commerce Committee

The communities of the Aleutians East region, Akutan, Cold Bay, False Pass, King Cove, Nelson Lagoon and Sand Point, ask for your support of SB162, an Act relating to Fisheries Business Tax refunds. Our region is presently circulating the petition required to establish a borough government, and we view passage of SB162 as critical to formation of the new Aleutians East borough.

SB162 will enable the phased transfer of fish tax revenues between existing cities and newly established boroughs. This transition would occur over a period of four years and would allow the cities to adjust existing service delivery to the decrease in the amount and percentage of fish tax revenues they will receive.

Alaska Statutes stipulate that the State equally share its fish tax revenues with cities in the unorganized borough for fish harvested in city boundaries. However, if a borough exists, the State retains its 50% share, but the cities (25%) and the borough (25%) equally share the other 50%. Thus, under existing statutes, when the Aleutians East Borough is established, the cities will lose one-half of the fish tax revenues they have traditionally received.

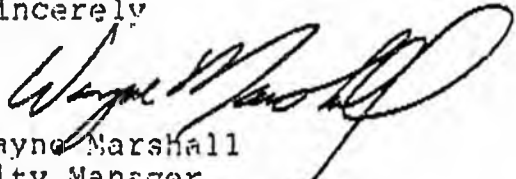
The amount of fish tax the cities receive varies each year, but the loss of one-half of this tax would generally result in a 15% - 20% decrease in Akutan's and King Cove's annual operating revenues, and a 5% - 10% decrease in Sand Point's revenues. Simply stated, this revenue loss, when coupled with losses in State Revenue Sharing, Municipal Assistance, Federal Revenue Sharing and other traditional sources of city revenues, is difficult to adjust to in one year. SB162 would provide cities a phased four year adjustment period by reducing the percentage of city fish tax revenues each year by 5% until the equal sharing of revenues with the borough is obtained.

Also, this legislation will not negatively affect the newly established borough's ability to meet service delivery expenses. The borough, because of its larger boundaries, will be receiving fish tax revenues that the State has not previously shared with cities. These revenues will be collected from the area that was in the unorganized borough. SB162 structures the phase in of revenues so that as the borough undertakes delivering service which were previously done by the Cities, its percentage of revenues will increase and the city share of revenues will decrease. In four years, the borough will receive their full share.

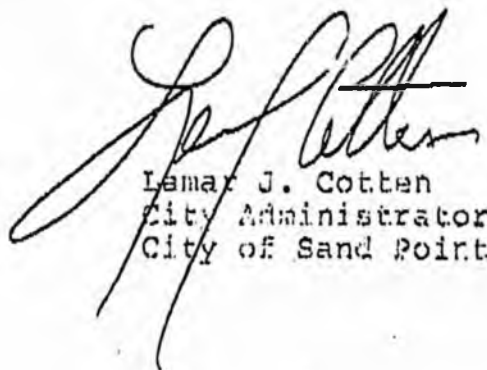
In addition, as SB162 addresses one of the disincentives that affects borough formation, its passage may encourage cities in areas other than the Aleutians East to consider establishing a borough. The Aleutians East region is pursuing Borough formation because of decreases in State and Federal expenditures in the region and the region's present and future desire to continue quality service delivery. Other areas may need to pursue borough government for similar reasons.

We ask for your support of SB162 to remove one of the disincentives affecting borough organization, particularly in the Aleutians East region. This bill will not affect the new borough's ability to deliver quality services, does not affect fish tax revenues existing boroughs and receive does not affect State revenues. In addition, it does not require any new State monies to implement.

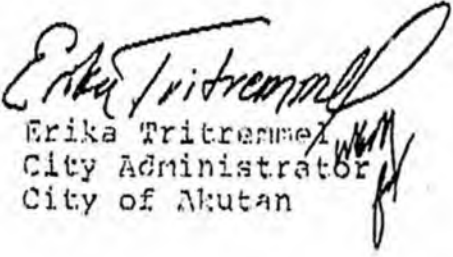
Sincerely



Wayne Marshall
City Manager
City of King Cove



Lamar J. Cotten
City Administrator
City of Sand Point



Erika Tritremmel
City Administrator
City of Akutan

CITY OF KING COVE

FEB 27 1987

P.O. Box 37 • King Cove, Alaska 99612 • (907) 497-2340

February 23, 1987

Honorable Fred Zharoff
Alaska State Senate
Box V
Juneau, Alaska 99811

RE: Request for Fish Tax Legislation to Support Aleutians
East Borough Incorporation

Dear Senator Zharoff:

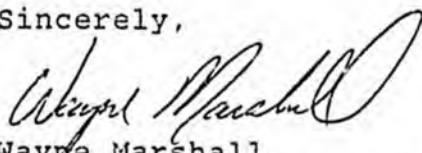
The Aleutians East region requests your support in submitting legislation to enable a phased transition of fish business tax revenues between cities and a borough when an Aleutians East Borough is established. Enclosed is a copy of language prepared by the Department of Community and Regional Affairs that amends the existing statute to allow this phased transition. The region supports this language and recommends it be used in the legislation.

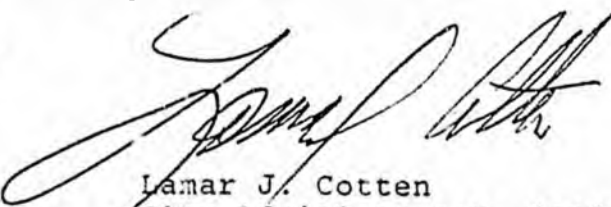
As we have discussed, the regional representatives that met at the February 8 meeting in Anchorage support the phased transition of fish tax revenues to resolve one of the disincentives affecting transition to a borough government. This transition is of particular concern to the Cities of King Cove and Akutan, which would lose a significant amount of their operating revenues from establishment of a borough. We believe this legislation will present opportunities for the cities to gradually adjust to decreased revenues and that it is the best way to ensure the region's residents that the Borough will comply with this phased transfer.

We will also explore opportunities for the Borough to address this phased transition of revenues in its incorporation petition to the Local Boundary Commission. However, we recommend legislation be introduced as the best way to guarantee that this transfer would occur for incorporation of the Aleutians East borough and potential other boroughs.

We hope we can work together to have this legislation submitted and adopted this legislature session.

Sincerely,


Wayne Marshall
City Manager, King Cove


Lamar J. Cotten
City Administrator, Sand Point

CITY OF KING COVE

P.O. Box 37 • King Cove, Alaska 99612 • (907) 497-2340

January 12, 1987

The Honorable Fred Zharoff
P.O. Box 405
Kodiak, Alaska 99615

RE: Establishing a Borough Government in the Aleutians East Region

Dear Senator Zharoff:

The six communities of the Aleutians East region, Akutan, Cold Bay, False Pass, King Cove, Nelson Lagoon and Sand Point, are pursuing possible formation of a borough government. On November 10, 1986, leaders from the above communities met to examine concerns facing the region and the merits of forming a borough as a way to address these concerns. The general consensus of the 27 persons that participated in this meeting was:

- o there are a number of serious financial, capital improvement project, political and other problems facing the region;
- o community leaders should meet again early in 1987 to make a more informed decision on establishing a Borough;
- o additional information must be gathered and examined before community leaders decide if the area should incorporate an Aleutians East Borough;
- o an Aleutians East Borough is probably the best way for residents to address many of the region's problems; and
- o incorporation of an Aleutians East Borough may soon be necessary.

This consensus reflects an awareness that the serious financial problems facing the State and Aleutians East communities will require the region to examine ways to raise additional local revenues to maintain service delivery.

In addressing forming a borough, community leaders identified concerns which may be impediments to establishing a Borough. Three of these concerns, which are identified below and

described in the attached topical papers, are ones which will require legislative assistance and action to accomplish. The region asks for your support and direction in helping to relieve the problems caused by these impediments.

The three concerns which require legislative attention include:

1) Effect of Establishing a Borough Government on Revenues for Education Services that the Region will Receive. The concern centers on the potential of significantly decreased revenues to the district for education if a Borough is established. The existing State School Foundation Funding Formula does not include provisions to address the merging of three school districts into a single district. The region needs assistance from you to work with the Departments of Education and Revenue, and fellow legislators to ensure the Borough School District receives a level of education funds equal to those which would have been provided to the Aleutians REAA and King Cove and Sand Point School Districts.

2) Shared Fish Tax Distribution - Borough/Cities: The concern centers on the loss of State Shared Fish Tax (Fishery Business Taxes) revenues to the region's four cities if a Borough is established. This occurs because the present law requires cities in the organized borough to equally share raw fish tax revenues they would receive with a borough, while a city in the unorganized borough receives a full share of these taxes. The region proposes the existing law be amended to allow a three year phase-out of the amount of revenue the cities will lose to a borough. This amendment is fully explained in the attached issue paper and will require legislative action.

3) Borough Formation Assistance Funds: The region needs approximately \$30,000 and assistance from the Department of Community and Regional Affairs (DCRA) to complete its efforts to form a Borough. To date, the region has used FY 85 Regional Strategy Funds from DCRA to fund its organizational efforts. These funds are now exhausted. The region would use the funds to conduct meetings of regional representatives, gather data, prepare its incorporation petition and publish public information. The region will need the funds to conduct these activities in March -December 1987.


These three issues, if they can be resolved, will lessen the impediments and provide incentives to establish a Borough. The region will keep you apprised of our efforts to pursue Borough formation and is available to further discuss the above three concerns with you. In addition you and your staff are invited to participate in the next meeting of community leaders, which is tentatively scheduled for the first week of February in Anchorage.

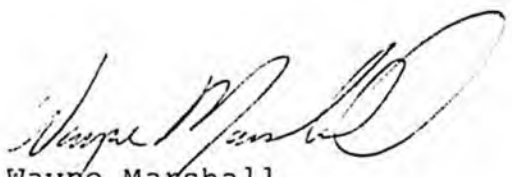
Also, enclosed for your review is information that has been produced on the Aleutians East Borough. This information includes:

- o Aleutians East Regional Government Study, March 1986 report;
- o Executive summary of the above report, March 1986;
- o Aleutians East Regional Government Study, Issues/Data Update paper, October 31, 1986, which was distributed to representatives that attended the November 10, 1986 meeting;
- o Aleutians East Borough - Why Is It Being Considered?, brochure, January 1987, which was distributed on January 9, 1987 to all box holders in the Aleutians East region.

We would appreciate the opportunity to discuss the region's concerns with you when you pass through Anchorage on your way to Juneau.

Sincerely,


Lamar J. Cotten
City Administrator


Wayne Marshall
City Manager

1689 'C' Street
Anchorage, Alaska 99501
276-2700

STATE FISHERIES BUSINESS (RAW FISH) TAX

DESCRIPTION OF PRESENT DISTRIBUTION SYSTEM FOR STATE

FISHERIES BUSINESS TAX REVENUES: Existing State law provides that the State and cities in the Unorganized Borough equally share, 50%-50%, State Fisheries Business Tax revenues (for fish delivered within city boundaries). However, if a borough exists, the State receives its 50% share, but the borough and cities within the borough must equally share the other 50% of revenues. Thus, if an Aleutians East Borough is established, cities which presently receive 50% of State Fisheries Tax revenues see this amount decrease to 25% of the State tax, a loss of half of the cities' present fish tax revenues.

The cities of Akutan, King Cove and Sand Point, and to a lesser extent, Cold Bay, receive a large amount of their municipal revenues from State Fish Tax revenues. For example, the following represents revenues received for FY 86 and FY 87:

	<u>Akutan</u>	<u>King Cove</u>	<u>Sand Point</u>	<u>Cold Bay</u>
FY 86	\$121,000	\$410,000	\$ 88,000	(about)\$2,500
FY 87	\$356,000	\$327,000	\$114,000	(about)\$2,500

In short, the above cities received a total of \$621,500 in FY 86, and \$800,000 in FY 87.

DESCRIPTION OF CONCERN: In examining Borough formation, the present distribution method causes significant concern among the cities in the Aleutians East region. If a Borough is established, each city would immediately lose a significant amount of its local revenue base to the new Borough. This loss, when coupled with projected decreases in State Municipal Assistance (elimination of this program has been publicly discussed by Governor Cowper's administration), State Revenue Sharing and State School Foundation funds, will make it extremely difficult for these cities to absorb the loss of half of the State Fish Tax monies. This revenue loss is heightened because it occurs in one year; the year the borough is incorporated.

The City of King Cove's budget and revenues are used to illustrate the extent of loss. In FY 86, King Cove had general operating revenues of about \$1,000,000. Of these, \$411,000 or about 41%, were obtained from the 50% disbursement of State Shared Fish Tax revenues. If a borough existed in FY 86, King Cove would have lost about \$205,000 or 20% of its general operating revenue base to the borough.

Similarly, in FY 87, about 35% (\$327,000) of King Cove's revenues are from State Shared Fish Tax revenues; or a loss of about 18% of its operating funds if a borough existed. Akutan obtains an even greater percentage of its operating funds than King Cove from State Shared Fish Tax revenues, while Sand Point receives a lesser, but significant amount.

Collectively, the Aleutians East region cities view the present method for distributing State Shared Fish Tax revenues as a disincentive to establishing a borough. This revenue loss (if a borough is established), combined with the projected losses in other State assistance funds, and little, if any, decrease in services which the cities deliver, except for education, will cause severe shortfalls in City budgets. The cities need a way to mitigate these losses so they, like the State, can gradually adjust to reduced revenues. Specifically, the Aleutians East region cities need time to adjust to the elimination of half of the Fish Tax Revenues which they presently receive.

LEGISLATIVE ASSISTANCE NEEDED: Cities in the Aleutians East region as well as those in other coastal areas which may pursue borough formation, would benefit from a phased reduction in the amount of State Shared Fish Tax revenues, rather than an abrupt immediate reduction of half of these revenues. The intent of the phased reduction is to provide the cities with a transition period to adjust to permanent revenue losses, and to mitigate one of the disincentives for borough incorporation. Two options are recommended for legislative action to help accomplish this objective.

Option 1 - The State provides each City 75% of its full share for year one, 50% for year two, and 25% for year three, of the difference between 50% and 25% of State Shared Fish Tax revenues after a Borough is established. In addition, the Borough begins to receive its full 25% share of State revenues from the date the Borough is established.

The following illustrates how Option #1 would apply assuming a City were eligible to receive (if it had remained in the Unorganized Borough) \$400,000 in State Shared Fish Tax revenues for each of 3 years.

Year #1. City receives \$200,000, plus an additional appropriation of \$150,000 (75% of funds Borough would receive), and the Borough would receive \$200,000.

Year #2. City receives \$200,000, plus an additional appropriation of \$100,000 (50% of funds Borough would receive), and Borough would receive \$200,000.

Year #3. City receives \$200,000, plus an additional appropriation of \$50,000 (25% of funds Borough would receive) and Borough would receive \$200,000.

Year #4 and beyond. City receives \$200,000 and Borough receives \$200,000. No additional State funds are required.

Option #1 will enable cities to adjust to the permanent loss of these revenues over a three year period, rather than in one year. Also, this provides a Borough with the funds it needs to deliver services to borough residents. This approach would require the State to provide additional revenues for a period of three years to this region (and potentially others that may establish a Borough), but would not require a permanent commitment of State funds above and beyond present State Fish Tax formula distributions. In return, the State would encourage Borough formation, a State goal, by removing one of the obstacles - immediate loss of revenues - to the Cities.

This approach is similar to the State's method of trying to reach a sustainable budget. The State is gradually reducing services/budget to a sustainable level, rather than making wholesale reductions in one year because of revenue shortfalls --- making the budget equal revenues received. This policy is being pursued even though it requires the infusion of one time sources of revenues or reserve or savings account funds into the State budget.

Option 2 - The State retains its 50% of revenues, and each City receives its 25% share, plus a graduated reduction of the borough's 25% share. The proposed distribution of a percentage of the Borough's State Shared Fish Tax revenue to the respective cities would be over 3 years. Each City would receive its respective share at the rate of 75% of Borough share -year 1, 50% of Borough share -year 2, and 25% of Borough share -year 3.

Using the same example as Option #1, \$400,000 per year in Fish Tax business done within city limits, Option #2 would result in the following:

Year #1. City would receive \$200,000, plus 75% of the Borough's allocation \$150,000, and the Borough would receive \$50,000.

Year #2. City would receive \$200,000, plus 50% of the Borough's allocation \$100,000, and the Borough would receive \$100,000.

Year #3. City would receive \$200,000, plus 25% of the Borough's allocation \$50,000, and the Borough would receive \$150,000.

Year #4 and beyond. City would receive \$200,000, but none of the borough share, and the borough would receive its full \$200,000 allocation.

This would allow cities to gradually wean themselves from reliance on fish tax revenues and mitigate one of the concerns with establishing a Borough - immediate loss of almost 20% of city revenues for at least 2 of the Aleutians East cities.

However, this approach, unlike option 1, may cause problems for Borough service delivery. The newly established borough will not receive its full share of Fish Tax revenues, and may not have adequate funds to operate. For example, in FY 37, the Aleutians East Borough (if it was established) would not have received approximately \$360,000, because the cities would retain these funds in year one using this option. In year two, this amount would decrease to about \$240,000, and in year three, would further decrease to about \$120,000, because of the graduated reduction. However, this method would not require the allocation of additional State funds, it would only require legislative action to adopt the change, and administrative action to implement it. The major disadvantage to this option from the region's perspective is the loss of funds to help the newly established borough become operational.

The communities which are considering borough formation in the Aleutians East recognize that either of these options may be difficult to achieve, but believe a phased reduction in State Shared Fish Tax revenues is needed to encourage borough formation.

5-0648B
Hein
4/9/87

Original sponsor: Zharoff

1 IN THE SENATE

BY THE COMMUNITY AND
REGIONAL AFFAIRS COMMITTEE

2 CS FOR SENATE BILL NO. 162 (C&RA)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to fisheries business tax refunds to
7 local government; and providing for an effective
8 date."

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

10 * Section 1. AS 43.75.130(a) is amended to read:

11 (a) Except as provided in (d) of this section, the [THE] commis-
12 sioner of revenue shall pay

13 (1) to each unified municipality and to each city located
14 in the unorganized borough, 50 percent of the amount of tax revenue
15 collected in the municipality from taxes levied under [BY] this chap-
16 ter;

17 (2) to each city located within a borough, 25 percent of
18 the amount of tax revenue collected in the city from taxes levied
19 under [BY] this chapter; and

20 (3) to each borough

21 (A) 50 percent of the amount of tax revenue collected
22 in the area of the borough outside cities from taxes levied under
23 [BY] this chapter; and

24 (B) 25 percent of the amount of tax revenue collected
25 in cities located within the borough from taxes levied under [BY]
26 this chapter.

27 * Sec. 2. AS 43.75.130 is amended by adding new subsections to read:

28 (d) Notwithstanding the provisions of (a)(2) and (a)(3)(B) of
29 this section, the commissioner shall pay

1 (1) to each city in a borough that is incorporated after
2 the effective date of this Act the following percentages of the tax
3 revenue collected in the city from taxes levied under this chapter:

4 (A) 45 percent of the taxes collected during the
5 calendar year in which the borough is incorporated;

6 (B) 40 percent of the taxes collected during the first
7 calendar year after the calendar year in which the borough is
8 incorporated;

9 (C) 35 percent of the taxes collected during the
10 second calendar year after the calendar year in which the borough
11 is incorporated; and

12 (D) 30 percent of the taxes collected during the third
13 calendar year after the calendar year in which the borough is
14 incorporated; and

15 (2) to each borough that is incorporated after the effec-
16 tive date of this Act the following percentages of the tax revenue
17 collected in the cities located within the borough from taxes levied
18 under this chapter:

19 (A) 5 percent of the taxes collected during the calen-
20 dar year in which the borough is incorporated;

21 (B) 10 percent of the taxes collected during the first
22 calendar year after the calendar year in which the borough is
23 incorporated;

24 (C) 15 percent of the taxes collected during the
25 second calendar year after the calendar year in which the borough
26 is incorporated; and

27 (D) 20 percent of the taxes collected during the third
28 calendar year after the calendar year in which the borough is
29 incorporated.

1 (e) Notwithstanding the provisions of (d) of this section, a
2 city may adopt an ordinance to transfer a portion of the funds re-
3 ceived under (d)(1) of this section to the borough in which the city
4 is located.

5 * Sec. 3. This Act takes effect immediately under AS 01.10.070(c).
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TO: MARTY

FROM: DAN

SUBJECT SB 162

The following offers two options for language which might be added to the referenced bill to allow flexibility in the implementation of the raw fish taxes. The suggested language would be inserted at the end of the first section of the bill (bottom of page two of the version which I have). In fact, both options could be included in the bill (in which case you should change the subsection designation of option 2 from "(e)" to "(f)". Frankly, I think option two is necessary.

OPTION I

e) In the event that the provisions of subsection (d) may cause financial infeasibilities for the newly formed borough, the city council of any city within the borough may agree, during any of the first four calendar years of the borough's existence, to transfer to the newly formed borough a portion of the city's annual entitlement to revenue collected from taxes levied under this chapter. The amount to which the city agrees to transfer to the borough may not reduce the entitlement of the city for any one year below that provided by AS 43.75.130(a)(2). The commissioner shall distribute funds to cities and boroughs in accordance with the provisions of any agreements reached under this subsection.

OPTION II

e) In the event that the provisions of subsection (d) may cause financial infeasibilities for a borough proposed to be formed under the provisions of AS 29.05, petitioners for incorporation of the borough may include in the petition, provisions for increased entitlements to the borough during any of the first four calendar years of its existence for revenue collected from taxes levied under this chapter. The increased entitlement may not exceed the entitlement of the borough for any one year beyond that provided by AS 43.75.130(a)(3). The commissioner shall pay the newly formed borough an entitlement in accordance with the provisions of the petition under which it was incorporated.

*See by Petitioners
Board Files
614*

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

Bill Version: SB 162

Publish Date: _____

REQUEST _____

Revision Date: 3/10/87

Title: An Act relating to fisheries
business refunds to local governments

Sponsor: Zharoff

Requestor: _____

Agency Affected: Re

BRU: Audit

Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
OPERATING						
PERSONAL SERVICES	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
TRAVEL	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
CONTRACTUAL	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
SUPPLIES	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
EQUIPMENT	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
LANDS & STRUCTURES	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
GRANTS, CLAIMS	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
MISCELLANEOUS	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
TOTAL OPERATING	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
CAPITAL	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
REVENUE	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -

FUNDING: (Thousands of Dollars)

GENERAL FUND	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
FEDERAL FUNDS	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
OTHER	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
TOTAL	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: See attached.

Prepared By: Steven E. Kettel

Division: Audit

Phone: 465-2320

Date: 3/10/87

Approved by Commissioner: _____

Agency: _____

Date: 3/18/87

Distribution (by Agency preparing fiscal note):

Legislative Finance

Legislative Sponsor

Requestor

Office of Management and Budget

Impacted Agency(ies)

Senate Secretary

page 1 of 2

REVENUE'S FISCAL NOTE

Fiscal Note Analysis
Senate Bill 162
Prepared 3/10/87

The communities of Sand Point, King Cove, Akutan, False Pass and Nelson Lagoon will soon be incorporating to form a new borough within the state. AS 43.75.130(a) currently provides that to each unified municipality and to each city located within an unorganized borough, 50 percent of the amount of fisheries business tax revenue collected in the municipality will be refunded by the commissioner of revenue to these agencies. The cities named above have in past years received this 50 percent share. However, when a city lies within an organized borough, the city and the borough each receive a 25 percent share. Therefore, in order to phase in an anticipated reduction in shared revenues to these areas, SB 162 amends AS 43.75.130 by adding a new subsection (d) to minimize the revenue impact on the impacted cities.

AS 43.75.130(d) provides that the commissioner of revenue shall pay to each city in a borough that is incorporated after the effective date of this Act: 45 percent of the taxes collected during the calendar year in which incorporation occurs; 40 percent of the taxes collected during the first calendar year following the year of incorporation; 35 percent of the taxes collected during the second calendar year; and 30 percent of the taxes collected during the third calendar year.

Subsection (d) also provides that the commissioner shall pay to each borough that is incorporated after the effective date of this Act: 5 percent of the taxes collected during the calendar year in which the borough is incorporated; 10 percent during the first calendar year after incorporation; 15 percent during the second calendar year; and 20 percent during the third calendar year.

The Act is to take effect immediately under AS 01.10.070(c).

**STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE**

REQUEST: _____

Bill Version : SB 162
Publish Date : _____

Revision Date: _____
Title: Relating to Fisheries Business Tax
Refunds to Local Government
Sponsor: Zharoff
Requestor: _____

Agency Affected: Revenue
BRU: _____
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING						

CAPITAL						
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REVENUE		-0-	-0-	-0-	-0-	-0-
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FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Prepared by: Robert Elliott *RE* Phone: 465-3173
Division: Research Section Date: 3/12/87
Approved by Commissioner: [Signature] Date: 3/18/87
Agency: _____

- Distribution (by preparer):
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)
 Senate Secretary

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

Bill Version: SB 162
Publish Date: _____

REQUEST _____

Revision Date: _____
Title: An act relating to fisheries business tax refunds to local gov't
Sponsor: Zharoff
Requestor: Senate Labor & Commerce

Agency Affected: Revenue
RPU: Administrative Services
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
OPERATING						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: Attach a separate page if necessary.

There is no measurable administrative cost to this division.
The accounting for shared taxes will be made slightly more complex.

Prepared By: Eryn B. Jones Phone: 465-2313
Division: Administrative Services Date: 3/17/87

Approved by Commissioner: [Signature] Date: 3/18/87
Agency: Revenue

Distribution (by Agency preparing fiscal note):

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

STATE OF ALASKA

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

March 16, 1987

POSITION PAPER

STEVE COWPER, GOVERNOR

- P.O. BOX B
JUNEAU, ALASKA 99811-2100
PHONE: (907) 465-4700
- 949 E. 36TH AVENUE, SUITE 400
ANCHORAGE, ALASKA 99508-4302
PHONE: (907) 563-1073

RE: SB 162 -- "An Act relating to fisheries business tax refunds to local government; and providing for an effective date."

SPONSOR: Senator Zharoff

Program Effects of Bill:

Section 1 of the bill amends existing language in AS 43.75.130(a) to provide for a new subsection (d) as well as several minor "house cleaning" wording changes.

Section 2 of the bill amends AS 43.75.130 by adding a new subsection (d) which provides for a five-year phasing in of the sharing of fish tax revenues between cities and boroughs in the instance of new borough formation.

Section 3 of the bill provides for an immediate effective date for the Act.

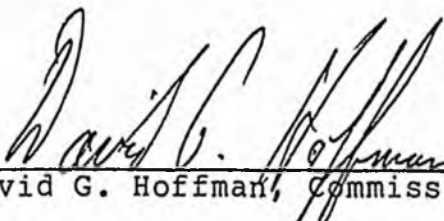
Comments:

The existing State Fisheries Business Tax law provides for a "refund" of this state tax to municipalities in whose jurisdiction the tax was collected. In the case of unified municipalities and cities in the unorganized borough, 50 percent of the tax revenue collected within municipal boundaries is returned. However, cities located within a borough must in turn share 50 percent of their fish tax refund with the surrounding borough. In other words, such a city would receive only 25 percent of the fish tax collected within its jurisdiction; the other 25 percent would go to the borough.

The state fish tax provides a significant and relatively stable portion of total revenues for many cities presently located outside of organized boroughs. The formation of a borough which would include such cities would result in sudden and substantial revenue losses for these cities. Cities located within the new borough have no guarantee of receiving any of this funding back from the borough. The prospect of such a revenue shock represents a clear disincentive to borough formation. Providing for a phased transition into the sharing of fish tax revenues from cities to new boroughs would reduce the severity of the shock to city operations; consequently, reducing the disincentive to borough formation.

SB 162
March 16, 1987
Page Two

The establishment of strong, self-sufficient, local and regional government throughout Alaska is a longstanding goal of the Department of Community and Regional Affairs. The Department endorses practical measures which provide incentives, or reduce existing disincentives, with regard to borough formation. The measures provided for in this bill appear to be straightforward in effect and relatively simple in their implementation. The Department therefore supports the expeditious passage of this bill.



David G. Hoffman, Commissioner

**STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE**

Bill Version: HB 162
Publish Date: _____

REQUEST: _____

Revision Date: _____
Title: An Act relating to fisheries
business tax refunds to local gov't
Sponsor: Senator Zharoff
Requestor: Senate L & C Committee

Agency Affected: Community & Regional Affs.
BRU: Local Government Assistance

Components: Statewide Assistance

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Prepared by: Michael Cushing, Planner
Division: Municipal & Regional Assistance

Phone: 465-4750
Date: 3/16/87

Approved by Commissioner: *David G. Hoffmann*
Agency: Community & Regional Affairs

Date: 3-16-87

Distribution (by preparer):

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



SENATOR FRED F. ZHAROFF
ALASKA STATE LEGISLATURE

P.O. BOX 405, KODIAK, ALASKA 99615 (907) 486-5257

DURING SESSION:

P.O. BOX V, JUNEAU, ALASKA 99811 • (907) 465-3473 • 465-3474

DISTRICT N

ALASKA PENINSULA • ALEUTIAN CHAIN • BRISTOL BAY • KODIAK ISLAND • LAKE CLARK/LAKE ILIAMNA • PRIBILOF ISLANDS • SHUMAGIN ISLANDS

MEMORANDUM

TO: Senator Arliss Sturgulewski, Chairman
Senate Community & Regional Affairs Committee

FROM: Senator Fred F. Zharoff *F. Zharoff*

DATE: March 30, 1987

SUBJ: Scheduling for SB 162

Recently, SB 162, An Act Relating to Fisheries Business Tax Refunds to Local Government, and Providing for an Effective Date, which I sponsored was moved out of the Labor & Commerce Committee with a further referral to the Community & Regional Affairs Committee.

I sponsored this bill in response to the potential formation of a new borough in the East Aleutians region. Communities in the region are concerned that upon formation of the borough, one half of the raw fish taxes presently disbursed to the communities will be disbursed to the new borough. This bill would reduce the immediate financial impact to the communities of the formation of a borough by gradually reducing the fish tax disbursement to the community and gradually increasing the fish tax disbursement to the borough.

I would appreciate your consideration in scheduling a hearing on this measure in the near future or a possible waiver of the bill to the Finance Committee.

Thank you.

March 18, 1987

Dear Honorable Members of the Senate Labor and Commerce Committee

The communities of the Aleutians East region, Akutan, Cold Bay, False Pass, King Cove, Nelson Lagoon and Sand Point, ask for your support of SB162, an Act relating to Fisheries Business Tax refunds. Our region is presently circulating the petition required to establish a borough government, and we view passage of SB162 as critical to formation of the new Aleutians East borough.

SB162 will enable the phased transfer of fish tax revenues between existing cities and newly established boroughs. This transition would occur over a period of four years and would allow the cities to adjust existing service delivery to the decrease in the amount and percentage of fish tax revenues they will receive.

Alaska Statutes stipulate that the State equally share its fish tax revenues with cities in the unorganized borough for fish harvested in city boundaries. However, if a borough exists, the State retains its 50% share, but the cities (25%) and the borough (25%) equally share the other 50%. Thus, under existing statutes, when the Aleutians East Borough is established, the cities will lose one-half of the fish tax revenues they have traditionally received.


The amount of fish tax the cities receive varies each year, but the loss of one-half of this tax would generally result in a 15% - 20% decrease in Akutan's and King Cove's annual operating revenues, and a 5% - 10% decrease in Sand Point's revenues. Simply stated, this revenue loss, when coupled with losses in State Revenue Sharing, Municipal Assistance, Federal Revenue Sharing and other traditional sources of city revenues, is difficult to adjust to in one year. SB162 would provide cities a phased four year adjustment period by reducing the percentage of city fish tax revenues each year by 5% until the equal sharing of revenues with the borough is obtained.

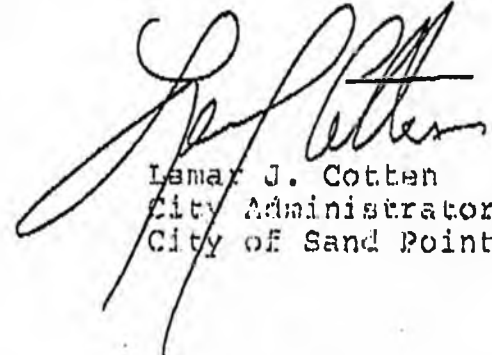
Also, this legislation will not negatively affect the newly established borough's ability to meet service delivery expenses. The borough, because of its larger boundaries, will be receiving fish tax revenues that the State has not previously shared with cities. These revenues will be collected from the area that was in the unorganized borough. SB162 structures the phase in of revenues so that as the borough undertakes delivering service which were previously done by the Cities, its percentage of revenues will increase and the city share of revenues will decrease. In four years, the borough will receive their full share.

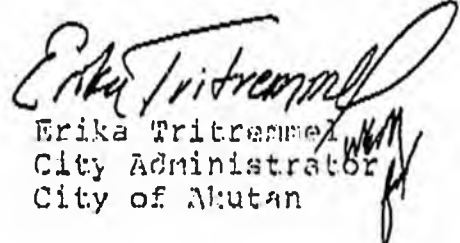
In addition, as SB162 addresses one of the disincentives that affects borough formation, its passage may encourage cities in areas other than the Aleutians East to consider establishing a borough. The Aleutians East region is pursuing Borough formation because of decreases in State and Federal expenditures in the region and the region's present and future desire to continue quality service delivery. Other areas may need to pursue borough government for similar reasons.

We ask for your support of SB162 to remove one of the disincentives affecting borough organization, particularly in the Aleutians East region. This bill will not affect the new borough's ability to deliver quality services, does not affect fish tax revenues existing boroughs and receive does not affect State revenues. In addition, it does not require any new State monies to implement.

Sincerely


Wayne Marshall
City Manager
City of King Cove


Lamar J. Cotten
City Administrator
City of Sand Point


Erika Tritreumel
City Administrator
City of Akutan



SENATOR FRED F. ZHAROFF
ALASKA STATE LEGISLATURE

P.O. BOX 405, KODIAK, ALASKA 99615 (907) 486 5259

DURING SESSION:

P.O. BOX V, JUNEAU, ALASKA 99811 • (907) 465-3473 • 465-3474

DISTRICT N

ALASKA PENINSULA • ALEUTIAN CHAIN • BRISTOL BAY • KODIAK ISLAND • LAKE CLARK/LAKE ILIAMNA • PRIBILOF ISLANDS • SHUMAGIN ISLANDS

MEMORANDUM

TO: Senator Tim Kelly, Chairman
Senate Labor & Commerce Committee

FROM: Senator Fred F. Zharoff

DATE: March 12, 1987

SUBJ: Scheduling for SB 162

Recently, SB 162, An Act Relating to Fisheries Business Tax Refunds to Local Government, and Providing for an Effective Date, which I sponsored was introduced and referred to the Labor & Commerce Committee.

I sponsored this bill in response to the potential formation of a new borough in the East Aleutians region. Communities in the region are concerned that upon formation of the borough, one half of the raw fish taxes presently disbursed to the communities will be disbursed to the new borough. This bill would reduce the immediate financial impact to the communities of the formation of a borough by gradually reducing the fish tax disbursement to the community and gradually increasing the fish tax disbursement to the borough.

For the benefit of the committee, I have attached information regarding the formation of this borough. In addition, I have requested, and hope to receive in the near future, position papers and fiscal notes from the Departments of Revenue and Community & Regional Affairs regarding this bill. I would appreciate your consideration in scheduling a hearing on this measure.

Thank you.

CITY OF KING COVE

P.O. Box 37 • King Cove, Alaska 99612 • (907) 497-2340

January 12, 1987

The Honorable Fred Zharoff
P.O. Box 405
Kodiak, Alaska 99615

RE: Establishing a Borough Government in the Aleutians East Region

Dear Senator Zharoff:

The six communities of the Aleutians East region, Akutan, Cold Bay, False Pass, King Cove, Nelson Lagoon and Sand Point, are pursuing possible formation of a borough government. On November 10, 1986, leaders from the above communities met to examine concerns facing the region and the merits of forming a borough as a way to address these concerns. The general consensus of the 27 persons that participated in this meeting was:

- o there are a number of serious financial, capital improvement project, political and other problems facing the region;
- o community leaders should meet again early in 1987 to make a more informed decision on establishing a Borough;
- o additional information must be gathered and examined before community leaders decide if the area should incorporate an Aleutians East Borough;
- o an Aleutians East Borough is probably the best way for residents to address many of the region's problems; and
- o incorporation of an Aleutians East Borough may soon be necessary.

This consensus reflects an awareness that the serious financial problems facing the State and Aleutians East communities will require the region to examine ways to raise additional local revenues to maintain service delivery.

In addressing forming a borough, community leaders identified concerns which may be impediments to establishing a Borough. Three of these concerns, which are identified below and

described in the attached topical papers, are ones which will require legislative assistance and action to accomplish. The region asks for your support and direction in helping to relieve the problems caused by these impediments.

The three concerns which require legislative attention include:

1) Effect of Establishing a Borough Government on Revenues for Education Services that the Region will Receive. The concern centers on the potential of significantly decreased revenues to the district for education if a Borough is established. The existing State School Foundation Funding Formula does not include provisions to address the merging of three school districts into a single district. The region needs assistance from you to work with the Departments of Education and Revenue, and fellow legislators to ensure the Borough School District receives a level of education funds equal to those which would have been provided to the Aleutians REAA and King Cove and Sand Point School Districts.

2) Shared Fish Tax Distribution - Borough/Cities: The concern centers on the loss of State Shared Fish Tax (Fishery Business Taxes) revenues to the region's four cities if a Borough is established. This occurs because the present law requires cities in the organized borough to equally share raw fish tax revenues they would receive with a borough, while a city in the unorganized borough receives a full share of these taxes. The region proposes the existing law be amended to allow a three year phase-out of the amount of revenue the cities will lose to a borough. This amendment is fully explained in the attached issue paper and will require legislative action.

3) Borough Formation Assistance Funds: The region needs approximately \$30,000 and assistance from the Department of Community and Regional Affairs (DCRA) to complete its efforts to form a Borough. To date, the region has used FY 85 Regional Strategy Funds from DCRA to fund its organizational efforts. These funds are now exhausted. The region would use the funds to conduct meetings of regional representatives, gather data, prepare its incorporation petition and publish public information. The region will need the funds to conduct these activities in March -December 1987.

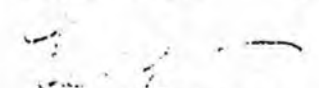
These three issues, if they can be resolved, will lessen the impediments and provide incentives to establish a Borough. The region will keep you apprised of our efforts to pursue Borough formation and is available to further discuss the above three concerns with you. In addition you and your staff are invited to participate in the next meeting of community leaders, which is tentatively scheduled for the first week of February in Anchorage.

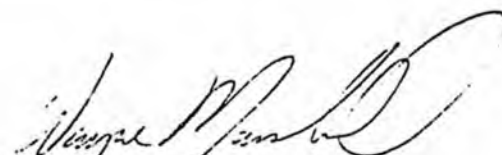
Also, enclosed for your review is information that has been produced on the Aleutians East Borough. This information includes:

- o Aleutians East Regional Government Study, March 1986 report;
- o Executive summary of the above report, March 1986;
- o Aleutians East Regional Government Study, Issues/Data Update paper, October 31, 1986, which was distributed to representatives that attended the November 10, 1986 meeting;
- o Aleutians East Borough - Why Is It Being Considered?, brochure, January 1987, which was distributed on January 9, 1987 to all box holders in the Aleutians East region.

We would appreciate the opportunity to discuss the region's concerns with you when you pass through Anchorage on your way to Juneau.

Sincerely,


Lamar J. Cotten
City Administrator


Wayne Marshall
City Manager

1689 'C' Street
Anchorage, Alaska 99501
276-2700

STATE FISHERIES BUSINESS (RAW FISH) TAX

DESCRIPTION OF PRESENT DISTRIBUTION SYSTEM FOR STATE FISHERIES BUSINESS TAX REVENUES: Existing State law provides that the State and cities in the Unorganized Borough equally share, 50%-50%, State Fisheries Business Tax revenues (for fish delivered within city boundaries). However, if a borough exists, the State receives its 50% share, but the borough and cities within the borough must equally share the other 50% of revenues. Thus, if an Aleutians East Borough is established, cities which presently receive 50% of State Fisheries Tax revenues see this amount decrease to 25% of the State tax, a loss of half of the cities' present fish tax revenues.

The cities of Akutan, King Cove and Sand Point, and to a lesser extent, Cold Bay, receive a large amount of their municipal revenues from State Fish Tax revenues. For example, the following represents revenues received for FY 86 and FY 87:

	<u>Akutan</u>	<u>King Cove</u>	<u>Sand Point</u>	<u>Cold Bay</u>
FY 86	\$121,000	\$410,000	\$ 88,000	(about)\$2,500
FY 87	\$356,000	\$327,000	\$114,000	(about)\$2,500

In short, the above cities received a total of \$621,500 in FY 86, and \$800,000 in FY 87.

DESCRIPTION OF CONCERN: In examining Borough formation, the present distribution method causes significant concern among the cities in the Aleutians East region. If a Borough is established, each city would immediately lose a significant amount of its local revenue base to the new Borough. This loss, when coupled with projected decreases in State Municipal Assistance (elimination of this program has been publicly discussed by Governor Cowper's administration), State Revenue Sharing and State School Foundation funds, will make it extremely difficult for these cities to absorb the loss of half of the State Fish Tax monies. This revenue loss is heightened because it occurs in one year; the year the borough is incorporated.

The City of King Cove's budget and revenues are used to illustrate the extent of loss. In FY 86, King Cove had general operating revenues of about \$1,000,000. Of these, \$411,000 or about 41%, were obtained from the 50% disbursement of State Shared Fish Tax revenues. If a borough existed in FY 86, King Cove would have lost about \$205,000 or 20% of its general operating revenue base to the borough.

Similarly, in FY 87, about 35% (\$327,000) of King Cove's revenues are from State Shared Fish Tax revenues; or a loss of about 18% of its operating funds if a borough existed. Akutan obtains an even greater percentage of its operating funds than King Cove from State Shared Fish Tax revenues, while Sand Point receives a lesser, but significant amount.

Collectively, the Aleutians East region cities view the present method for distributing State Shared Fish Tax revenues as a disincentive to establishing a borough. This revenue loss (if a borough is established), combined with the projected losses in other State assistance funds, and little, if any, decrease in services which the cities deliver, except for education, will cause severe shortfalls in City budgets. The cities need a way to mitigate these losses so they, like the State, can gradually adjust to reduced revenues. Specifically, the Aleutians East region cities need time to adjust to the elimination of half of the Fish Tax Revenues which they presently receive.

LEGISLATIVE ASSISTANCE NEEDED: Cities in the Aleutians East region as well as those in other coastal areas which may pursue borough formation, would benefit from a phased reduction in the amount of State Shared Fish Tax revenues, rather than an abrupt immediate reduction of half of these revenues. The intent of the phased reduction is to provide the cities with a transition period to adjust to permanent revenue losses, and to mitigate one of the disincentives for borough incorporation. Two options are recommended for legislative action to help accomplish this objective.

Option 1 - The State provides each City 75% of its full share for year one, 50% for year two, and 25% for year three, of the difference between 50% and 25% of State Shared Fish Tax revenues after a Borough is established. In addition, the Borough begins to receive its full 25% share of State revenues from the date the Borough is established.

The following illustrates how Option #1 would apply assuming a City were eligible to receive (if it had remained in the Unorganized Borough) \$400,000 in State Shared Fish Tax revenues for each of 3 years.

Year #1. City receives \$200,000, plus an additional appropriation of \$150,000 (75% of funds Borough would receive), and the Borough would receive \$200,000.

Year #2. City receives \$200,000, plus an additional appropriation of \$100,000 (50% of funds Borough would receive), and Borough would receive \$200,000.

Year #3. City receives \$200,000, plus an additional appropriation of \$50,000 (25% of funds Borough would receive) and Borough would receive \$200,000.

Year #4 and beyond. City receives \$200,000 and Borough receives \$200,000. No additional State funds are required.

Option #1 will enable cities to adjust to the permanent loss of these revenues over a three year period, rather than in one year. Also, this provides a Borough with the funds it needs to deliver services to borough residents. This approach would require the State to provide additional revenues for a period of three years to this region (and potentially others that may establish a Borough), but would not require a permanent commitment of State funds above and beyond present State Fish Tax formula distributions. In return, the State would encourage Borough formation, a State goal, by removing one of the obstacles - immediate loss of revenues - to the Cities.

This approach is similar to the State's method of trying to reach a sustainable budget. The State is gradually reducing services/budget to a sustainable level, rather than making wholesale reductions in one year because of revenue shortfalls --- making the budget equal revenues received. This policy is being pursued even though it requires the infusion of one time sources of revenues or reserve or savings account funds into the State budget.

Option 2 - The State retains its 50% of revenues, and each city receives its 25% share, plus a graduated reduction of the borough's 25% share. The proposed distribution of a percentage of the Borough's State Shared Fish Tax revenue to the respective cities would be over 3 years. Each City would receive its respective share at the rate of 75% of Borough share -year 1, 50% of Borough share -year 2, and 25% of Borough share -year 3.

Using the same example as Option #1, \$400,000 per year in Fish Tax business done within city limits, Option #2 would result in the following:

Year #1. City would receive \$200,000, plus 75% of the Borough's allocation \$150,000, and the Borough would receive \$50,000.

Year #2. City would receive \$200,000, plus 50% of the Borough's allocation \$100,000, and the Borough would receive \$100,000.

Year #3. City would receive \$200,000, plus 25% of the Borough's allocation \$50,000, and the Borough would receive \$150,000.

Year #4 and beyond. City would receive \$200,000, but none of the borough share, and the borough would receive its full \$200,000 allocation.

This would allow cities to gradually wean themselves from reliance on fish tax revenues and mitigate one of the concerns with establishing a Borough -immediate loss of almost 20% of city revenues for at least 2 of the Aleutians East cities.

However, this approach, unlike option 1, may cause problems for Borough service delivery. The newly established borough will not receive its full share of Fish Tax revenues, and may not have adequate funds to operate. For example, in FY 87, the Aleutians East Borough (if it was established) would not have received approximately \$360,000, because the cities would retain these funds in year one using this option. In year two, this amount would decrease to about \$240,000, and in year three, would further decrease to about \$120,000, because of the graduated reduction. However, this method would not require the allocation of additional State funds, it would only require legislative action to adopt the change, and administrative action to implement it. The major disadvantage to this option from the region's perspective is the loss of funds to help the newly established borough become operational.

The communities which are considering borough formation in the Aleutians East recognize that either of these options may be difficult to achieve, but believe a phased reduction in State Shared Fish Tax revenues is needed to encourage borough formation.

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

LEGISLATIVE REFERENCE LIBRARY

POUCH Y. - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

May, 1988

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS database CMPR. In order to save space copies of minutes have not been left in the files.

Mary Van Nimwegen

Senate C+RA 4-7-87 3:30 p.m.

5-0648B
Hein
4/9/87

Admitted

Original sponsor: Zharoff

1 IN THE SENATE

BY THE COMMUNITY AND
REGIONAL AFFAIRS COMMITTEE

2 CS FOR SENATE BILL NO. 162 (C&RA)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to fisheries business tax refunds to
7 local government; and providing for an effective
8 date."

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

10 * Section 1. AS 43.75.130(a) is amended to read:

11 (a) Except as provided in (d) of this section, the [THE] commis-
12 sioner of revenue shall pay

13 (1) to each unified municipality and to each city located
14 in the unorganized borough, 50 percent of the amount of tax revenue
15 collected in the municipality from taxes levied under [BY] this chap-
16 ter;

17 (2) to each city located within a borough, 25 percent of
18 the amount of tax revenue collected in the city from taxes levied
19 under [BY] this chapter; and

20 (3) to each borough

21 (A) 50 percent of the amount of tax revenue collected
22 in the area of the borough outside cities from taxes levied under
23 [BY] this chapter; and

24 (B) 25 percent of the amount of tax revenue collected
25 in cities located within the borough from taxes levied under [BY]
26 this chapter.

27 * Sec. 2. AS 43.75.130 is amended by adding new subsections to read:

28 (d) Notwithstanding the provisions of (a)(2) and (a)(3)(B) of
29 this section, the commissioner shall pay

that is located

1 (1) to each city in a borough that is incorporated after
2 the effective date of this Act the following percentages of the tax
3 revenue collected in the city from taxes levied under this chapter:

4 (A) 45 percent of the taxes collected during the
5 calendar year in which the borough is incorporated;

6 (B) 40 percent of the taxes collected during the first
7 calendar year after the calendar year in which the borough is
8 incorporated;

9 (C) 35 percent of the taxes collected during the
10 second calendar year after the calendar year in which the borough
11 is incorporated; and

12 (D) 30 percent of the taxes collected during the third
13 calendar year after the calendar year in which the borough is
14 incorporated; and

15 (2) to each borough that is incorporated after the effec-
16 tive date of this Act the following percentages of the tax revenue
17 collected in the cities located within the borough from taxes levied
18 under this chapter:

19 (A) 5 percent of the taxes collected during the calen-
20 dar year in which the borough is incorporated;

21 (B) 10 percent of the taxes collected during the first
22 calendar year after the calendar year in which the borough is
23 incorporated;

24 (C) 15 percent of the taxes collected during the
25 second calendar year after the calendar year in which the borough
26 is incorporated; and

27 (D) 20 percent of the taxes collected during the third
28 calendar year after the calendar year in which the borough is
29 incorporated.

C+RA - CS

Reg. by Dept

1 ~~(e) Notwithstanding the provisions of (d) of this section, a~~
 2 ~~city may adopt an ordinance to transfer a portion of the funds re-~~
 3 ~~ceived under (d)(1) of this section to the borough in which the city~~
 4 ~~is located.~~

5 * Sec. 3. This Act takes effect immediately under AS 01.10.070(c).
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SENATE AMENDMENT

By Senator Zharoff

~~admitted~~

To: CS SENATE BILL No. 162 (C&RA)

To: _____ HOUSE BILL No. _____

PAGE: 2

LINE: 1

After "city" insert "that is located"
After "borough" delete "that is"

OK

1 IN THE SENATE

BY ZHAROFF

2

SENATE BILL NO. 162

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

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> C+RA amendment <

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Alaska State Legislature

ARLISS STURGULEWSKI, Chairman
TIM KELLY, Vice Chairman
RICK HALFORD
MIKE SZYMANSKI
FRED ZHAROFF



P. O. BOX V
JUNEAU, ALASKA 99811
(907) 465-4989

Senate Community and Regional Affairs Committee

TO: Senate C&RA Members

April 7, 1987

FROM: Senate C&RA Staff

A handwritten signature in dark ink, appearing to be "MEL".

RE: SB 162 - "An Act relating to fisheries business tax refunds to local government; and providing for an effective date."

Revenue from raw fish tax is currently split up to three ways. Raw fish tax collected in cities located within boroughs is divided; with 50% going to the state, 25% to the borough, and 25% to the city. Outside of boroughs, cities and the state split the tax 50-50.

In an area where there are existing cities, the formation of a borough would result in a sudden 50% decline in the cities' revenue from fish tax.

SB 162 would only apply in boroughs formed after the effective date. It is designed to ease the fiscal transition for cities in such areas by phasing in the split over five years.

The Department of Community and Regional Affairs strongly supports the bill. A position paper and zero fiscal note from that department is included in this packet as are three zero fiscal notes from the Department of Revenue.

Also included in this packet are several letters and attached back up from the communities of the Aleutians East region. Because of the possible formation of an East Aleutian Borough, these communities are the most likely to be affected. They strongly support the legislation.

CORRECTION

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

1 IN THE SENATE

BY ZHAROFF

2

SENATE BILL NO. 162

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - FIRST SESSION

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> C+RA amendment <

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Alaska State Legislature

ARLISS STURGULEWSKI, Chairman
TIM KELLY, Vice Chairman
RICK HALFORD
MIKE SZYMANSKI
FRED ZHAROFF



P. O. BOX V
JUNEAU, ALASKA 99811
(907) 465-4989

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STATE OF ALASKA

STEVE COWPER, GOVERNOR

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

March 16, 1987

- P.O. BOX B
JUNEAU, ALASKA 99811-2100
PHONE: (907) 465-4700
- 949 E. 36TH AVENUE, SUITE 400
ANCHORAGE, ALASKA 99508-4302
PHONE: (907) 563-1073

POSITION PAPER

RE: SB 162 -- "An Act relating to fisheries business tax refunds to local government; and providing for an effective date."

SPONSOR: Senator Zharoff

Program Effects of Bill:

Section 1 of the bill amends existing language in AS 43.75.130(a) to provide for a new subsection (d) as well as several minor "house cleaning" wording changes.

Section 2 of the bill amends AS 43.75.130 by adding a new subsection (d) which provides for a five-year phasing in of the sharing of fish tax revenues between cities and boroughs in the instance of new borough formation.

Section 3 of the bill provides for an immediate effective date for the Act.

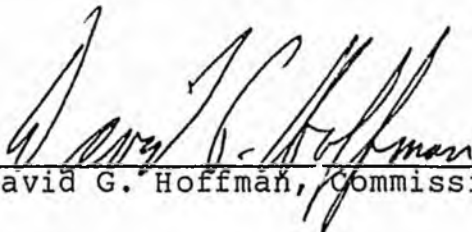
Comments:

The existing State Fisheries Business Tax law provides for a "refund" of this state tax to municipalities in whose jurisdiction the tax was collected. In the case of unified municipalities and cities in the unorganized borough, 50 percent of the tax revenue collected within municipal boundaries is returned. However, cities located within a borough must in turn share 50 percent of their fish tax refund with the surrounding borough. In other words, such a city would receive only 25 percent of the fish tax collected within its jurisdiction; the other 25 percent would go to the borough.

March 16, 1987
Page Two
SB 162

The state fish tax provides a significant and relatively stable portion of total revenues for many cities presently located outside of organized boroughs. The formation of a borough which would include such cities would result in sudden and substantial revenue losses for these cities. Cities located within the new borough have no guarantee of receiving any of this funding back from the borough. The prospect of such a revenue shock represents a clear disincentive to borough formation. Providing for a phased transition into the sharing of fish tax revenues from cities to new boroughs would reduce the severity of the shock to city operations; consequently, reducing the disincentive to borough formation.

The establishment of strong, self-sufficient, local and regional government throughout Alaska is a longstanding goal of the Department of Community and Regional Affairs. The Department endorses practical measures which provide incentives, or reduce existing disincentives, with regard to borough formation. The measures provided for in this bill appear to be straightforward in effect and relatively simple in their implementation. The Department therefore supports the expeditious passage of this bill.



David G. Hoffman, Commissioner

**STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE**

Bill Version: SB 162
Publish Date: _____

REQUEST: _____

Revision Date: _____
Title: "An Act..fisheries business tax
refunds to local government..."
Sponsor: _____
Requestor: _____

Agency Affected: Community & Regional Affairs
BRU: Local Government Assistance

Components: Training & Development

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Prepared by: Michael Cushing, Planner
Division: Municipal & Regional Assistance

Phone: 465-4750
Date: 4/6/87

Approved by Commissioner: [Signature]
Agency: Community & Regional Affairs

Date: 4-6-87

Distribution (by preparer) :

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

Handwritten initials/signature

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

SENATE
BILL VERSION: SB 162 a
PUBLISH DATE: 3/19/87

REQUEST

Revision Date: 3/10/87
Title: An Act relating to fisheries
business refunds to local governments
Sponsor: Zharoff
Requestor: _____

Agency Affected: Revenue
BRU: Audit
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
OPERATING						
PERSONAL SERVICES	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
TRAVEL	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
CONTRACTUAL	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
SUPPLIES	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
EQUIPMENT	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
LANDS & STRUCTURES	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
GRANTS, CLAIMS	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
MISCELLANEOUS	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
TOTAL OPERATING	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
CAPITAL	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
REVENUE	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -

FUNDING: (Thousands of Dollars)

GENERAL FUND	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
FEDERAL FUNDS	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
OTHER	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
TOTAL	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: See attached.

Prepared By: Steven E. Kettel *Steven E. Kettel*
Division: Audit

Phone: 465-2320
Date: 3/10/87

Approved by Commissioner: *A. Malone*
Agency: _____

Date: 3/19/87

Distribution (by Agency preparing fiscal note):

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

STATE OF ALASKA 1987 LEGISLATIVE SESSION

FISCAL NOTE SENATE

BILL VERSION: SB 102 b

PUBLISH DATE: 3/19/87

REQUEST: _____

Revision Date: _____

Title: Relating to Fisheries Business Tax

Refunds to Local Government

Sponsor: Zharoff

Requestor: _____

Agency Affected: Revenue

BRU: _____

Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING						

CAPITAL						
---------	--	--	--	--	--	--

REVENUE		-0-	-0-	-0-	-0-	-0-
---------	--	-----	-----	-----	-----	-----

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS :

Prepared by: Robert Elliott RE

Division: Revenue Section

Phone: 465-2173

Date: 3/11/87

Approved by Commissioner: [Signature]

Agency: _____

Date: 3/12/87

Distribution (by preparer):

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

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MC

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

SENATE
BILL VERSION: SB 162 d
PUBLISH DATE: 3/19/87

REQUEST _____
Revision Date: _____
Title: An act relating to fisheries
business tax refunds to local gov't
Sponsor: Zharoff
Requestor: Senate Labor & Commerce

Agency Affected: Revenue
RPU: Administrative Services
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
OPERATING						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS:

There is no measurable administrative impact on this division.
The accounting for shared taxes will be made slightly more complex.

Prepared By: *Ervin B. Jones*
Division: Administrative Services

Phone: 465-2313
Date: 3/17/87

Approved by Commissioner: *H. Malone*
Agency: Revenue

Date: 3/18/87

Distribution (by Agency preparing fiscal note):

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

CITY OF KING COVE

P.O. Box 37 • King Cove, Alaska 99812 • (907) 497-2340

April 7, 1987

Dear Honorable Members of the Senate and House Community and Regional Affairs Committees

The communities of the Aleutians East region, Akutan, Cold Bay, False Pass, King Cove, Nelson Lagoon and Sand Point, ask for your support of SB 162/HB 226, an Act relating to Fisheries Business Tax refunds. Our region is presently circulating the petition required to establish a borough government, and we view passage of SB 162/HB 226 as critical to formation of the new Aleutians East borough.

SB 162/HB 226 will enable the phased transfer of fish tax revenues between existing cities and newly established boroughs. This transition would occur over a period of five years and would allow the cities to adjust existing service delivery to the decrease in the amount and percentage of fish tax revenues they will receive.

Alaska Statutes stipulate that the State equally share its fish tax revenues with cities in the unorganized borough for fish delivered to processors in city boundaries. However, if a borough exists, the State retains its 50% share, but the cities (25%) and the borough (25%) equally share the other 50%. Thus, under existing statutes, when the Aleutians East Borough is established, the cities will lose one-half of the fish tax revenues they have traditionally received.

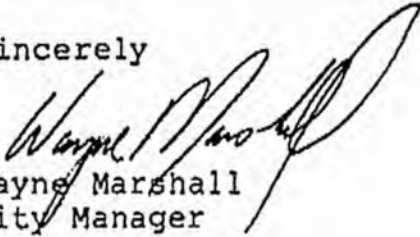
The amount of fish tax the cities receive varies each year, but the loss of one-half of this tax would generally result in a 15% - 20% decrease in Akutan's and King Cove's annual operating revenues, and a 5% - 10% decrease in Sand Point's and Cold Bay's revenues. Simply stated, this revenue loss, when coupled with losses in State Revenue Sharing, Municipal Assistance, Federal Revenue Sharing and other traditional sources of city revenues, is difficult to adjust to in one year. SB 162/HB 226 would provide cities a phased five year adjustment period by reducing the percentage of city fish tax revenues each year by 5% until the equal sharing of revenues with the borough is obtained. Attachment I illustrates the total amount of revenues to be shared between the borough and cities, and Attachment II illustrates this sharing of revenues with each city.

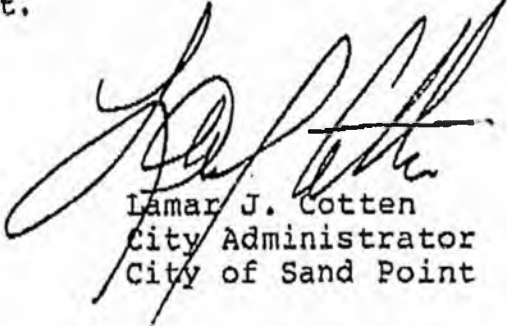
Also, this legislation will not negatively affect the newly established borough's ability to meet service delivery expenses. The borough, because of its larger boundaries, will be receiving fish tax revenues that the State has not previously shared with cities. These revenues will be collected from the area that was in the unorganized borough. SB 162/HB 226 structures the phase in of revenues so that as the borough undertakes delivering service which were previously done by the Cities, its percentage of revenues will increase and the city share of revenues will decrease. In year five, the borough will receive its full share. Attachment I identifies new revenues that will be available to the Aleutians East Borough.

In addition, as SB 162/HB 226 addresses one of the disincentives that affects borough formation, its passage may encourage cities in areas other than the Aleutians East to consider establishing a borough. The Aleutians East region is pursuing Borough formation because of decreases in State and Federal expenditures, and the region's desire to continue good quality service delivery. Other areas may need to pursue borough government for similar reasons.

We ask for your support of SB 162/HB 226 to remove one of the disincentives affecting borough organization, particularly in the Aleutians East region. This bill will not affect the new borough's ability to deliver quality services, does not affect fish tax revenues existing boroughs receive and does not affect State revenues. In addition, it does not require any new State monies to implement.

Sincerely


Wayne Marshall
City Manager
City of King Cove


Lamar J. Cotten
City Administrator
City of Sand Point

On behalf of the Aleutians East communities.

ATTACHMENT I

In Fiscal Year 1987, the total amount of State Fisheries Business Tax revenues shared with the four incorporated cities (State tax on fish delivered to processors within City boundaries) in the Aleutians East region was \$805,000. This tax represents 10%-50% of each of the cities general operating revenues. Under existing statutes, if a borough is established, these cities must equally share these revenues with the borough.

HB 226/SB 162 which the Aleutians East communities support, would allow a phased transfer of fish tax revenues between cities and the new borough. Table I, below, illustrates this revenue transition. This revenue transition will allow cities to adjust service delivery to the decreased revenues, and will not negatively effect the borough's ability to deliver services.

TABLE I
HB 226/SB 162 Formula for Shared Revenues

	<u>City Share</u>	<u>Borough Share</u>
Year 1	\$734,500 (45%)	\$ 80,500 (5%)
Year 2	644,000 (40%)	161,000 (10%)
Year 3	563,500 (35%)	241,500 (15%)
Year 4	483,000 (30%)	322,000 (20%)
Year 5	402,500 (25%)	402,500 (25%)

Starting in year 5 and each year thereafter, the borough and cities will equally share State Fish Business Tax revenues for fish delivered within City limits.

Also, the Borough will annually receive about \$1,200,000 in new revenues that none of the existing cities receive. These revenues, when combined with the borough's share of fish tax revenues identified in Table I, will be adequate to meet anticipated borough expenditures. The \$1,200,000 mainly consists of the following revenue sources:

- o \$400,000 in State Fish Business Tax Revenues for fish delivered to processors within borough boundaries, but outside City limits. The State is the only entity that presently receives these funds.

- o \$700,000 in sales/use tax revenues. The Borough plans to levy a 2% sales/use tax as its main method of local taxation.

- o \$100,000 in State revenue sharing and municipal assistance monies and other shared revenues.

ATTACHMENT II

The tables below illustrate how revenues would be shared with the individual cities in the new borough if HB 220/5B 102 is adopted. If this bill is not adopted, revenues would immediately be shared as indicated in year 5 of these tables. This sharp one year drop in revenues would seriously effect each city's ability to deliver services, and may negatively effect potential borough formation.

AKUTAN - \$356,000 in FY 87
approximately 50% of Akutan's Budget

	City	Borough
Year 1	\$320,400 (45%)	\$ 35,600 (5%)
Year 2	284,800 (40%)	71,200 (10%)
Year 3	249,200 (35%)	106,800 (15%)
Year 4	213,600 (30%)	142,400 (20%)
Year 5	178,000 (25%)	178,000 (25%)

COLD BAY - \$7,200 in FY 87
approximately 10% of Cold Bay's Budget

	City	Borough
Year 1	\$ 6,840 (45%)	\$ 720 (5%)
Year 2	5,760 (40%)	1,440 (10%)
Year 3	5,040 (35%)	2,160 (15%)
Year 4	4,320 (30%)	2,880 (20%)
Year 5	3,600 (25%)	3,600 (25%)

KING COVE - \$327,000 in FY 87
approximately 35% of King Cove's budget

	City	Borough
Year 1	\$294,300 (45%)	\$ 32,700 (5%)
Year 2	261,600 (40%)	65,400 (10%)
Year 3	228,900 (35%)	98,100 (15%)
Year 4	196,200 (30%)	130,800 (20%)
Year 5	163,500 (25%)	163,500 (25%)

SAND POINT - \$114,000 in FY 87
approximately 10% of Sand Point's budget

	City	Borough
Year 1	\$102,600 (45%)	\$ 11,400 (5%)
Year 2	91,200 (40%)	22,800 (10%)
Year 3	79,800 (35%)	34,200 (15%)
Year 4	68,400 (30%)	45,600 (20%)
Year 5	57,000 (25%)	57,000 (25%)

The communities of False Pass and Nelson Lagoon, which are also in the Aleutians East area, do not presently receive State Fish Business Tax revenues because they are unincorporated. The State only shares these revenues with incorporated cities.

March 18, 1987

Dear Honorable Members of the Senate Labor and Commerce Committee

The communities of the Aleutians East region, Akutan, Cold Bay, False Pass, King Cove, Nelson Lagoon and Sand Point, ask for your support of SB162, an Act relating to Fisheries Business Tax refunds. Our region is presently circulating the petition required to establish a borough government, and we view passage of SB162 as critical to formation of the new Aleutians East borough.

SB162 will enable the phased transfer of fish tax revenues between existing cities and newly established boroughs. This transition would occur over a period of four years and would allow the cities to adjust existing service delivery to the decrease in the amount and percentage of fish tax revenues they will receive.

Alaska Statutes stipulate that the State equally share its fish tax revenues with cities in the unorganized borough for fish harvested in city boundaries. However, if a borough exists, the State retains its 50% share, but the cities (25%) and the borough (25%) equally share the other 50%. Thus, under existing statutes, when the Aleutians East Borough is established, the cities will lose one-half of the fish tax revenues they have traditionally received.


The amount of fish tax the cities receive varies each year, but the loss of one-half of this tax would generally result in a 15% - 20% decrease in Akutan's and King Cove's annual operating revenues, and a 5% - 10% decrease in Sand Point's revenues. Simply stated, this revenue loss, when coupled with losses in State Revenue Sharing, Municipal Assistance, Federal Revenue Sharing and other traditional sources of city revenues, is difficult to adjust to in one year. SB162 would provide cities a phased four year adjustment period by reducing the percentage of city fish tax revenues each year by 5% until the equal sharing of revenues with the borough is obtained.


Also, this legislation will not negatively affect the newly established borough's ability to meet service delivery expenses. The borough, because of its larger boundaries, will be receiving fish tax revenues that the State has not previously shared with cities. These revenues will be collected from the area that was in the unorganized borough. SB162 structures the phase in of revenues so that as the borough undertakes delivering service which were previously done by the Cities, its percentage of revenues will increase and the city share of revenues will decrease. In four years, the borough will receive their full share.

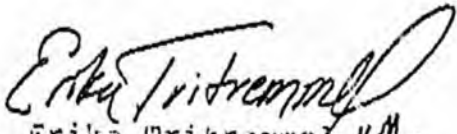
In addition, as SB162 addresses one of the disincentives that affects borough formation, its passage may encourage cities in areas other than the Aleutians East to consider establishing a borough. The Aleutians East region is pursuing Borough formation because of decreases in State and Federal expenditures in the region and the region's present and future desire to continue quality service delivery. Other areas may need to pursue borough government for similar reasons.

We ask for your support of SB162 to remove one of the disincentives affecting borough organization, particularly in the Aleutians East region. This bill will not affect the new borough's ability to deliver quality services, does not affect fish tax revenues existing boroughs and receive does not affect State revenues. In addition, it does not require any new State monies to implement.

Sincerely


Wayne Marshall
City Manager
City of King Cove


Lamar J. Cotten
City Administrator
City of Sand Point


Erika Tritrammel
City Administrator
City of Akutan

CITY OF KING COVE

FEB 27 1987

P.O. Box 37 • King Cove, Alaska 99612 • (907) 497-2340

February 23, 1987

Honorable Fred Zharoff
Alaska State Senate
Box V
Juneau, Alaska 99811

RE: Request for Fish Tax Legislation to Support Aleutians
East Borough Incorporation

Dear Senator Zharoff:

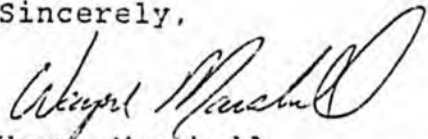
The Aleutians East region requests your support in submitting legislation to enable a phased transition of fish business tax revenues between cities and a borough when an Aleutians East Borough is established. Enclosed is a copy of language prepared by the Department of Community and Regional Affairs that amends the existing statute to allow this phased transition. The region supports this language and recommends it be used in the legislation.


As we have discussed, the regional representatives that met at the February 3 meeting in Anchorage support the phased transition of fish tax revenues to resolve one of the disincentives affecting transition to a borough government. This transition is of particular concern to the Cities of King Cove and Akutan, which would lose a significant amount of their operating revenues from establishment of a borough. We believe this legislation will present opportunities for the cities to gradually adjust to decreased revenues and that it is the best way to ensure the region's residents that the Borough will comply with this phased transfer.

We will also explore opportunities for the Borough to address this phased transition of revenues in its incorporation petition to the Local Boundary Commission. However, we recommend legislation be introduced as the best way to guarantee that this transfer would occur for incorporation of the Aleutians East borough and potential other boroughs.

We hope we can work together to have this legislation submitted and adopted this legislature session.

Sincerely,


Wayne Marshall
City Manager, King Cove


Lamar J. Cotten
City Administrator, Sand Point

CITY OF KING COVE

P.O. Box 37 • King Cove, Alaska 99612 • (907) 497-2340

January 12, 1987

The Honorable Fred Zharoff
P.O. Box 405
Kodiak, Alaska 99615

RE: Establishing a Borough Government in the Aleutians East Region

Dear Senator Zharoff:

The six communities of the Aleutians East region, Akutan, Cold Bay, False Pass, King Cove, Nelson Lagoon and Sand Point, are pursuing possible formation of a borough government. On November 10, 1986, leaders from the above communities met to examine concerns facing the region and the merits of forming a borough as a way to address these concerns. The general consensus of the 27 persons that participated in this meeting was:

- o there are a number of serious financial, capital improvement project, political and other problems facing the region;
- o community leaders should meet again early in 1987 to make a more informed decision on establishing a Borough;
- o additional information must be gathered and examined before community leaders decide if the area should incorporate an Aleutians East Borough;
- o an Aleutians East Borough is probably the best way for residents to address many of the region's problems; and
- o incorporation of an Aleutians East Borough may soon be necessary.

This consensus reflects an awareness that the serious financial problems facing the State and Aleutians East communities will require the region to examine ways to raise additional local revenues to maintain service delivery.

In addressing forming a borough, community leaders identified concerns which may be impediments to establishing a Borough. Three of these concerns, which are identified below and

described in the attached topical papers, are ones which will require legislative assistance and action to accomplish. The region asks for your support and direction in helping to relieve the problems caused by these impediments.

The three concerns which require legislative attention include:

1) Effect of Establishing a Borough Government on Revenues for Education Services that the Region will Receive. The concern centers on the potential of significantly decreased revenues to the district for education if a Borough is established. The existing State School Foundation Funding Formula does not include provisions to address the merging of three school districts into a single district. The region needs assistance from you to work with the Departments of Education and Revenue, and fellow legislators to ensure the Borough School District receives a level of education funds equal to those which would have been provided to the Aleutians REAA and King Cove and Sand Point School Districts.

2) Shared Fish Tax Distribution - Borough/Cities: The concern centers on the loss of State Shared Fish Tax (Fishery Business Taxes) revenues to the region's four cities if a Borough is established. This occurs because the present law requires cities in the organized borough to equally share raw fish tax revenues they would receive with a borough, while a city in the unorganized borough receives a full share of these taxes. The region proposes the existing law be amended to allow a three year phase-out of the amount of revenue the cities will lose to a borough. This amendment is fully explained in the attached issue paper and will require legislative action.

3) Borough Formation Assistance Funds: The region needs approximately \$30,000 and assistance from the Department of Community and Regional Affairs (DCRA) to complete its efforts to form a Borough. To date, the region has used FY 85 Regional Strategy Funds from DCRA to fund its organizational efforts. These funds are now exhausted. The region would use the funds to conduct meetings of regional representatives, gather data, prepare its incorporation petition and publish public information. The region will need the funds to conduct these activities in March -December 1987.


These three issues, if they can be resolved, will lessen the impediments and provide incentives to establish a Borough. The region will keep you apprised of our efforts to pursue Borough formation and is available to further discuss the above three concerns with you. In addition you and your staff are invited to participate in the next meeting of community leaders, which is tentatively scheduled for the first week of February in Anchorage.

Also, enclosed for your review is information that has been produced on the Aleutians East Borough. This information includes:

- o Aleutians East Regional Government Study, March 1986 report;
- o Executive summary of the above report, March 1986;
- o Aleutians East Regional Government Study, Issues/Data Update paper, October 31, 1986, which was distributed to representatives that attended the November 10, 1986 meeting;
- o Aleutians East Borough - Why Is It Being Considered?, brochure, January 1987, which was distributed on January 9, 1987 to all box holders in the Aleutians East region.

We would appreciate the opportunity to discuss the region's concerns with you when you pass through Anchorage on your way to Juneau.

Sincerely,


Lamar J. Cotten
City Administrator


Wayne Marshall
City Manager

1689 'C' Street
Anchorage, Alaska 99501
276-2700

STATE FISHERIES BUSINESS (RAW FISH) TAX

DESCRIPTION OF PRESENT DISTRIBUTION SYSTEM FOR STATE FISHERIES BUSINESS TAX REVENUES: Existing State law provides that the State and cities in the Unorganized Borough equally share, 50%-50%, State Fisheries Business Tax revenues (for fish delivered within city boundaries). However, if a borough exists, the State receives its 50% share, but the borough and cities within the borough must equally share the other 50% of revenues. Thus, if an Aleutians East Borough is established, cities which presently receive 50% of State Fisheries Tax revenues see this amount decrease to 25% of the State tax, a loss of half of the cities' present fish tax revenues.

The cities of Akutan, King Cove and Sand Point, and to a lesser extent, Cold Bay, receive a large amount of their municipal revenues from State Fish Tax revenues. For example, the following represents revenues received for FY 86 and FY 87:

	<u>Akutan</u>	<u>King Cove</u>	<u>Sand Point</u>	<u>Cold Bay</u>
FY 86	\$121,000	\$410,000	\$ 88,000	(about)\$2,500
FY 87	\$356,000	\$327,000	\$114,000	(about)\$2,500

In short, the above cities received a total of \$621,500 in FY 86, and \$800,000 in FY 87.

DESCRIPTION OF CONCERN: In examining Borough formation, the present distribution method causes significant concern among the cities in the Aleutians East region. If a Borough is established, each city would immediately lose a significant amount of its local revenue base to the new Borough. This loss, when coupled with projected decreases in State Municipal Assistance (elimination of this program has been publicly discussed by Governor Cowper's administration), State Revenue Sharing and State School Foundation funds, will make it extremely difficult for these cities to absorb the loss of half of the State Fish Tax monies. This revenue loss is heightened because it occurs in one year; the year the borough is incorporated.

The City of King Cove's budget and revenues are used to illustrate the extent of loss. In FY 86, King Cove had general operating revenues of about \$1,000,000. Of these, \$411,000 or about 41%, were obtained from the 50% disbursement of State Shared Fish Tax revenues. If a borough existed in FY 86, King Cove would have lost about \$205,000 or 20% of its general operating revenue base to the borough.

Similarly, in FY 87, about 35% (\$327,000) of King Cove's revenues are from State Shared Fish Tax revenues; or a loss of about 18% of its operating funds if a borough existed. Akutan obtains an even greater percentage of its operating funds than King Cove from State Shared Fish Tax revenues, while Sand Point receives a lesser, but significant amount.

Collectively, the Aleutians East region cities view the present method for distributing State Shared Fish Tax revenues as a disincentive to establishing a borough. This revenue loss (if a borough is established), combined with the projected losses in other State assistance funds, and little, if any, decrease in services which the cities deliver, except for education, will cause severe shortfalls in City budgets. The cities need a way to mitigate these losses so they, like the State, can gradually adjust to reduced revenues. Specifically, the Aleutians East region cities need time to adjust to the elimination of half of the Fish Tax Revenues which they presently receive.

LEGISLATIVE ASSISTANCE NEEDED: Cities in the Aleutians East region as well as those in other coastal areas which may pursue borough formation, would benefit from a phased reduction in the amount of State Shared Fish Tax revenues, rather than an abrupt immediate reduction of half of these revenues. The intent of the phased reduction is to provide the cities with a transition period to adjust to permanent revenue losses, and to mitigate one of the disincentives for borough incorporation. Two options are recommended for legislative action to help accomplish this objective.

Option 1 - The State provides each City 75% of its full share for year one, 50% for year two, and 25% for year three, of the difference between 50% and 25% of State Shared Fish Tax revenues after a Borough is established. In addition, the Borough begins to receive its full 25% share of State revenues from the date the Borough is established.

The following illustrates how Option #1 would apply assuming a City were eligible to receive (if it had remained in the Unorganized Borough) \$400,000 in State Shared Fish Tax revenues for each of 3 years.

Year #1. City receives \$200,000, plus an additional appropriation of \$150,000 (75% of funds Borough would receive), and the Borough would receive \$200,000.

Year #2. City receives \$200,000, plus an additional appropriation of \$100,000 (50% of funds Borough would receive), and Borough would receive \$200,000.

Year #3. City receives \$200,000, plus an additional appropriation of \$50,000 (25% of funds Borough would receive) and Borough would receive \$200,000.

Year #4 and beyond. City receives \$200,000 and Borough receives \$200,000. No additional State funds are required.

Option #1 will enable cities to adjust to the permanent loss of these revenues over a three year period, rather than in one year. Also, this provides a Borough with the funds it needs to deliver services to borough residents. This approach would require the State to provide additional revenues for a period of three years to this region (and potentially others that may establish a Borough), but would not require a permanent commitment of State funds above and beyond present State Fish Tax formula dis'ributions. In return, the State would encourage Borough formation, a State goal, by removing one of the obstacles - immediate loss of revenues - to the Cities.

This approach is similar to the State's method of trying to reach a sustainable budget. The State is gradually reducing services/budget to a sustainable level, rather than making wholesale reductions in one year because of revenue shortfalls --- making the budget equal revenues received. This policy is being pursued even though it requires the infusion of one time sources of revenues or reserve or savings account funds into the State budget.

Option 2 - The State retains its 50% of revenues, and each city receives its 25% share, plus a graduated reduction of the borough's 25% share. The proposed distribution of a percentage of the Borough's State Shared Fish Tax revenue to the respective cities would be over 3 years. Each City would receive its respective share at the rate of 75% of Borough share -year 1, 50% of Borough share -year 2, and 25% of Borough share -year 3.

Using the same example as Option #1, \$400,000 per year in Fish Tax business done within city limits, Option #2 would result in the following:

Year #1. City would receive \$200,000, plus 75% of the Borough's allocation \$150,000, and the Borough would receive \$50,000.

Year #2. City would receive \$200,000, plus 50% of the Borough's allocation \$100,000, and the Borough would receive \$100,000.

Year #3. City would receive \$200,000, plus 25% of the Borough's allocation \$50,000, and the Borough would receive \$150,000.

Year #4 and beyond. City would receive \$200,000, but none of the borough share, and the borough would receive its full \$200,000 allocation.

This would allow cities to gradually wean themselves from reliance on fish tax revenues and mitigate one of the concerns with establishing a Borough -immediate loss of almost 20% of city revenues for at least 2 of the Aleutians East cities.

However, this approach, unlike option 1, may cause problems for Borough service delivery. The newly established borough will not receive its full share of Fish Tax revenues, and may not have adequate funds to operate. For example, in FY 87, the Aleutians East Borough (if it was established) would not have received approximately \$360,000, because the cities would retain these funds in year one using this option. In year two, this amount would decrease to about \$240,000, and in year three, would further decrease to about \$120,000, because of the graduated reduction. However, this method would not require the allocation of additional State funds, it would only require legislative action to adopt the change, and administrative action to implement it. The major disadvantage to this option from the region's perspective is the loss of funds to help the newly established borough become operational.

The communities which are considering borough formation in the Aleutians East recognize that either of these options may be difficult to achieve, but believe a phased reduction in State Shared Fish Tax revenues is needed to encourage borough formation.

SENATE COMMITTEE REPORT

FURTHER:

FINANCE

3/19/87

DATE TURNED INTO OFFICE 4/10/87

Mr. President:

C&RA

Committee considered

SB 162

fisheries business tax refunds to local government; efd.

and recommended:

replace with

or adopt _____

CS FOR

CS FOR

SB 162 (C&RA)

) same title

) new title

attached amendment(s) and

do pass

do not pass

no recommendation

individual recommendations

further referral to _____

letter of intent adopted _____

Committee attached or adopted fiscal note(s)

new

updated or

previous

zero

fiscal impact

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

Tim Kelly
[Signature]
[Signature]

Curtis Stungulinski Do Pass.
Chairman signature and recommendation

Committee Backup Attached

TO: MARTY

FROM: DAN

SUBJECT SB 162

The following offers two options for language which might be added to the referenced bill to allow flexibility in the implementation of the raw fish taxes. The suggested language would be inserted at the end of the first section of the bill (bottom of page two of the version which I have). In fact, both options could be included in the bill (in which case you should change the subsection designation of option 2 from "(e)" to "(f)". Frankly, I think option two is necessary.

OPTION I

e) In the event that the provisions of subsection (d) may cause financial infeasibilities for the newly formed borough, the city council of any city within the borough may agree, during any of the first four calendar years of the borough's existence, to transfer to the newly formed borough a portion of the city's annual entitlement to revenue collected from taxes levied under this chapter. The amount to which the city agrees to transfer to the borough may not reduce the entitlement of the city for any one year below that provided by AS 43.75.130(a)(2). The commissioner shall distribute funds to cities and boroughs in accordance with the provisions of any agreements reached under this subsection.

OPTION II

e) In the event that the provisions of subsection (d) may cause financial infeasibilities for a borough proposed to be formed under the provisions of AS 29.05, petitioners for incorporation of the borough may include in the petition, provisions for increased entitlements to the borough during any of the first four calendar years of its existence for revenue collected from taxes levied under this chapter. The increased entitlement may not exceed the entitlement of the borough for any one year beyond that provided by AS 43.75.130(a)(3). The commissioner shall pay the newly formed borough an entitlement in accordance with the provisions of the petition under which it was incorporated.

*50% flatter
30% Shoreland
30% various
developing
species
10% "shore
land"
Canner 4/17*

*Revenue
not C.P.A.*

*See by Phillips
Court Brief
614*

AMENDMENT TO SB 162

Section xx. AS 43.75.130 is amended by adding a new subsection to read:

(e) Notwithstanding the provisions of subsection 'd), a city within a borough subject to the provisions of subsection (d) may transfer ^{by ordinance} a portion of the funds received under subsection (d) to the borough.