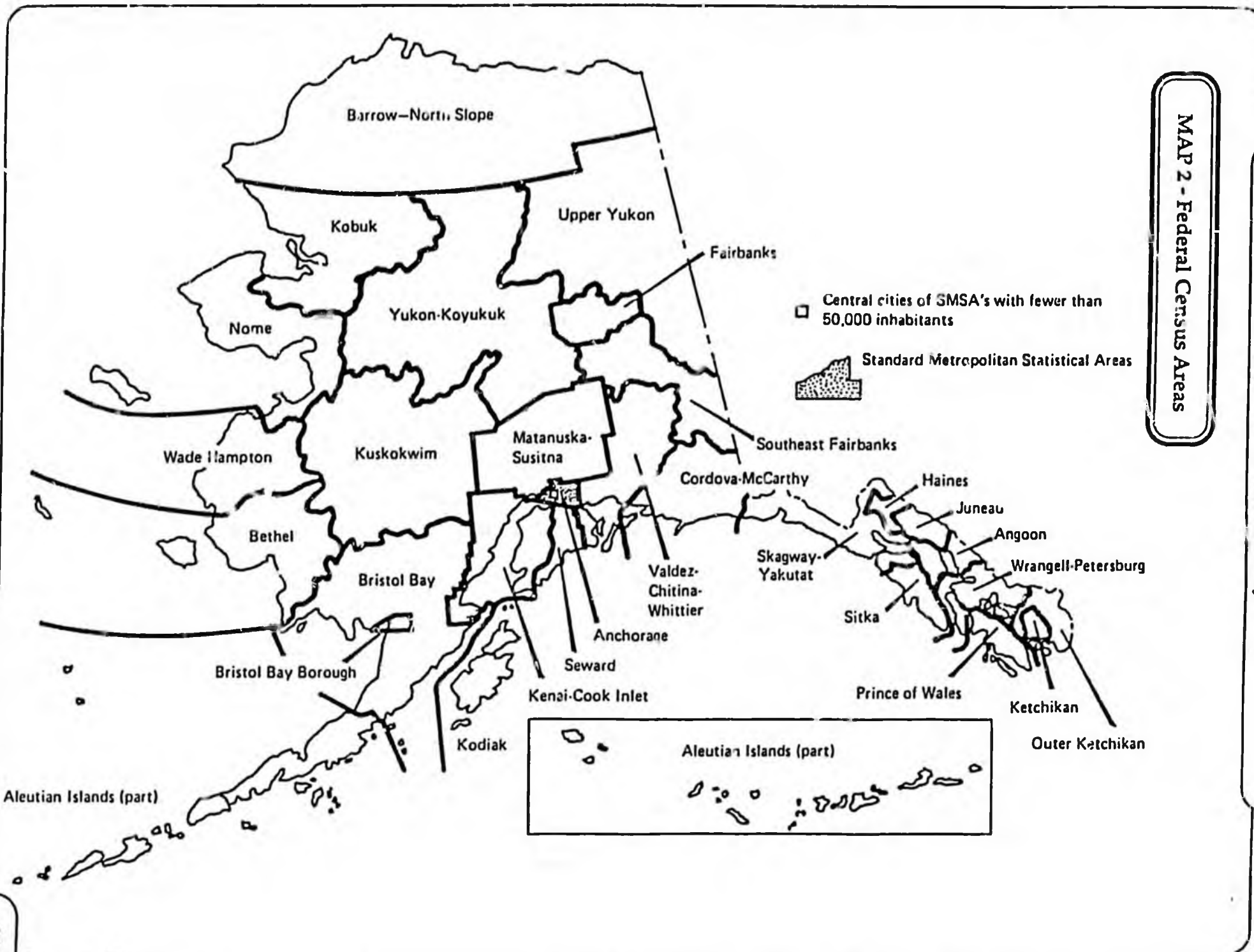


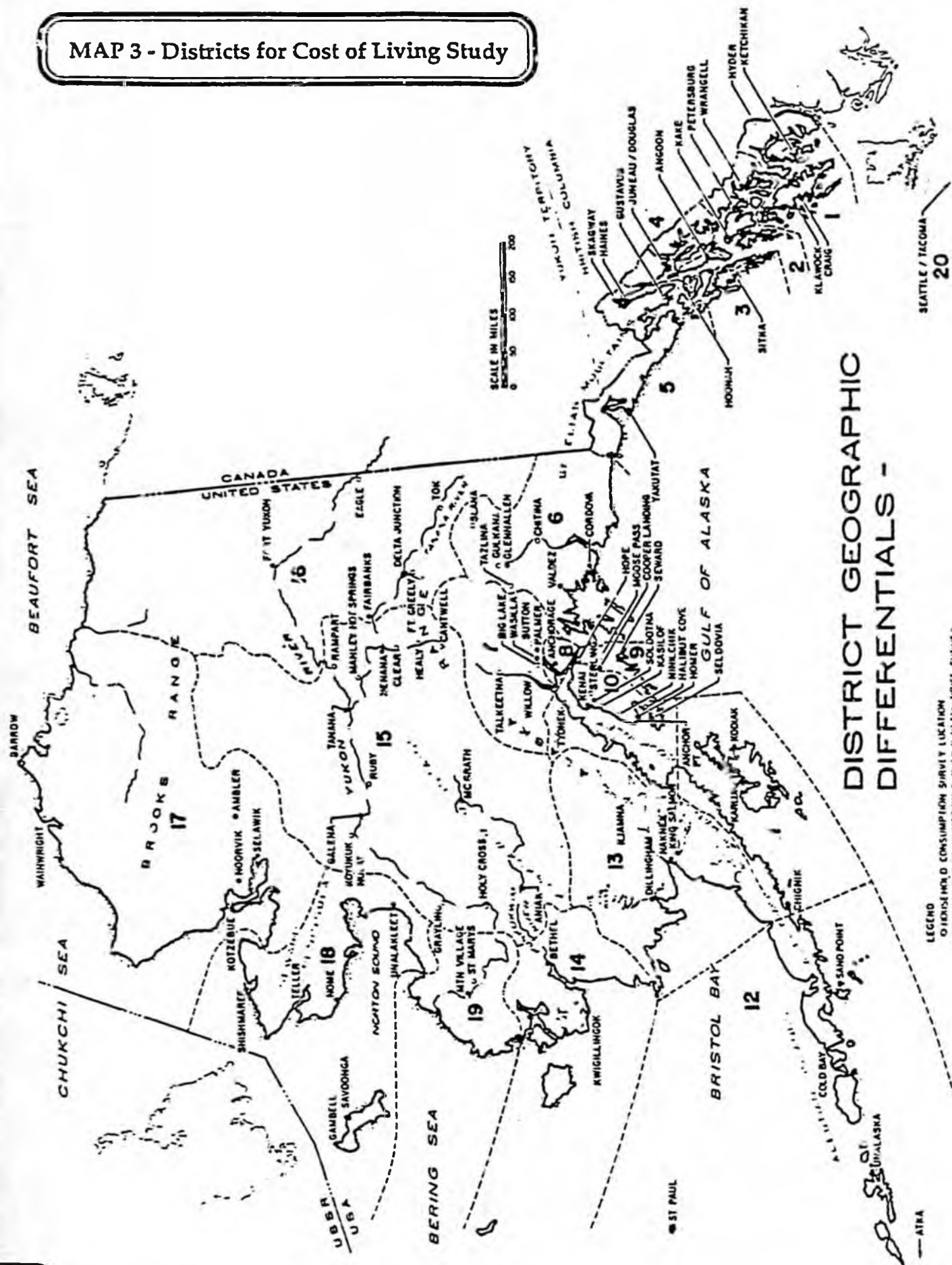
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5598 HOUSE COMMUNITY & REGIONAL AFFAIRS

MAP 2 - Federal Census Areas



MAP 3 - Districts for Cost of Living Study



DISTRICT GEOGRAPHIC DIFFERENTIALS -

LEGEND
○ CONSUMPTION SURVEY LOCATION
● HOUSEHOLD CONSUMPTION SURVEY LOCATION

RECEIVED



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

P.O. Box 7, State Capitol
Juneau, Alaska 99811-3100
Mail Stop 3100
(907) 465-3991

November 8, 1988

MEMORANDUM

TO: Representative Peter Goll

FROM: Karen Oakley *ko*
Legislative Analyst

RE: Options for Regional Garbage Collection and Disposal Services in
the Unorganized Borough
Research Request 89.090

You asked this agency to investigate options, other than borough formation, for providing garbage collection and disposal services on a regional basis within the unorganized borough. Specifically, you asked:

- What structure will permit the collective operation of a solid waste facility by several incorporated communities?; and
- What structure will mandate that unincorporated communities use and help pay for the operation of a regional solid waste facility?

In this memorandum, I first provide background information on the Prince of Wales Island garbage situation which motivated your questions. General information about the regulation of garbage collection and disposal in Alaska is then presented. The final section of the memorandum discusses options for regional solid waste management in the unorganized borough.

In summary, I found that the only entity that can mandate that the public use and pay for garbage collection and disposal services is a municipally-owned public utility. The only means to create a garbage utility with the power to mandate use of its services within a region of the unorganized borough, other than forming a borough, is for the legislature to establish, or provide a mechanism for establishing, special service areas, such as those that have been established for education and coastal management.

Background

Solid waste disposal is an issue of immediate concern to the 3,600 residents of the ten or so communities on Prince of Wales Island, a large island in southern Southeast Alaska located within the unorganized borough.¹ The primary dump for the communities of Craig and Klawock has been on fire for several months, and the Department of Environmental Conservation has issued a Notice of Violation to the City of Klawock, the current operator of the dump. In discussing the options for correcting the problems of the Craig-Klawock dump, Prince of Wales Island residents have decided to take a regional approach. Because Prince of Wales Island has little topsoil, conventional landfills are not the most desirable solid waste disposal option. All of the island's communities could benefit from construction of a centralized disposal facility. At present, an incinerator/landfill operation appears to be the most viable alternative. Most of the communities are connected by roads, originally built to support logging, so transport of garbage from each community to a centralized disposal facility is feasible.

Although Prince of Wales Island residents desire a regional solution to their garbage disposal problem, the majority of residents do not desire to form a borough at the present time. Thus, you have asked what entities, other than a borough, could provide the regional garbage collection and disposal services that Prince of Wales Island residents desire.

Regulation of Garbage Collection and Disposal in Alaska Generally

In Alaska, garbage collection and disposal services are subject to economic regulation.² Like water, sewer, electricity, telephone, natural gas, and cable television services, garbage collection and disposal services may be provided only by public utilities certificated by the Alaska Public Utilities Commission (APUC). Pursuant to AS 42.05.720(4) a garbage "public utility" includes:

. . . every corporation (whether public, cooperative, or otherwise), company, individual, or association of individuals, their lessees, trustees, or receivers appointed by a court, that owns, operates, manages or controls any plant, pipeline or system for . . . furnishing collection and disposal service of garbage, refuse, trash or other waste material . . .

¹Prince of Wales Island communities include the first class cities of Craig, Klawock and Hydaburg, the second class cities of Kasaan and Thorne Bay, and the unincorporated communities of Coffman Cove, Hollis, Point Baker, Naukati, Whale Pass and Laboucher Bay.

²This section addresses the economic regulation of garbage collection and disposal services. Solid waste disposal is also subject to environmental regulation pursuant to AS 46.03 and various federal laws.

Under AS 42.05.711(i), a garbage utility with annual gross revenues of \$200,000 or less is exempt from the rate regulation powers of the APUC unless 25 percent of the subscribers or subscribers representing 25 percent of the gross revenue of the utility petition the APUC for regulation.

Under AS 29.35.050, municipalities may (by ordinance) provide systems for the collection and disposal of solid waste for the entire municipality or for portions of the municipality. In addition, the municipality may require all persons in the municipality to use and pay for the collection and disposal system. Under AS 42.05.711(b), public utilities owned and operated by a political subdivision of the state that are not in competition with any other utility, are exempt from rate regulation by the APUC unless they choose to be so regulated.

All garbage utilities, whether or not they are owned by a municipality and regardless of their annual gross revenues, must be certificated by the APUC under the provisions of AS 42.05.221 - 42.05.281. To obtain APUC certification, the utility must demonstrate they are fit, willing and able to provide the utility service and that the services are required for the convenience and necessity of the public. Relevant portions of Title 42.05 and Title 29 are found in Attachments A and B, respectively.

Options for Regional Garbage Collection and Disposal Services in the Unorganized Borough

Under existing state law, Prince of Wales Island residents have several options, other than forming a borough, for obtaining regional garbage collection and disposal services for their communities. As defined under AS 42.05, a "public utility" can take several forms, including a private company, a municipality, and an association of individuals. Whatever its form, the public utility must be able to demonstrate that it is "fit, willing and able" to provide the proposed service. Thus, Prince of Wales Island residents could form a private garbage utility company or they could entice an existing private garbage utility to their area. Alternatively, Prince of Wales Island residents could form an "association" and seek certification as a public utility. While all of these options are possible under existing law, none would allow the resultant utility to mandate the use of the collection and disposal service by all residents or communities within the region. The only type of utility that has the power to mandate that the public use (and pay for) its services is a public utility that is owned and operated by a municipality. Thus, to create a public utility that is not part of a municipality but which has the power to mandate the use of its services will require statutory changes.

The most obvious method for creating this type of public garbage utility within a region of the unorganized borough is for the legislature to provide (through statute) for the creation of special service areas. Under Article X, Section 6 of the Alaska Constitution, the legislature

shall provide for the performance of services it deems necessary or advisable in unorganized boroughs, allowing for maximum local participation and responsibility. It may exercise any power or function in an unorganized borough which the assembly may exercise in an organized borough.

The assembly of a borough has the power to establish special service areas, and the legislature, acting as the assembly for the unorganized borough, has previously provided for the creation of education and coastal management service areas in the unorganized borough. Thus, the legislature has the power to also establish service areas within the unorganized borough for garbage collection and disposal. The legislature could also require all persons in the special service areas to use and pay fees for the use of the garbage system. In contrast to the two existing types of service areas in the unorganized borough, which rely entirely on state and federal funds, service areas for garbage collection and disposal would presumably rely on local revenues, specifically user fees.

In creating the special service areas for education and coastal management in the unorganized borough, the legislature took two different approaches.³ In providing for education, the legislature defined the boundaries of each service area in statute and mandated the provision of educational services by the service areas. In providing for coastal management, the legislature provided a mechanism by which residents of the unorganized borough could petition to establish a coastal resource service area within the bounds of each educational service area.

The approach taken towards providing service areas for coastal management appears to be the most applicable to the problem of regional garbage collection and disposal in the unorganized borough. Because most unorganized borough communities are isolated from one another, regional solid waste management solutions are not universally feasible or appropriate. Thus, mandating the formation of garbage service areas within the entire unorganized borough does not appear desirable or necessary. Providing a mechanism whereby those regions desiring a garbage service area could petition for the creation of a garbage service area does appear to be an option for solving the problem faced by Prince of Wales Island residents.

³Copies of the relevant statutes, AS 14.08 (Education in the Unorganized Borough) and AS 46.40.110 - AS 46.40.180 (Coastal Management Programs in the Unorganized Borough), are Attachments C and D, respectively.

Representative Goll
November 8, 1988
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According to Tamara Cook, Director of the legislature's Division of Legal Services, a law creating service areas in the unorganized borough for garbage collection and disposal would have to provide for the creation of such service areas generally. A law creating a "Prince of Wales Island Garbage Service Area" would almost certainly be found to conflict with Article II, Section 19 of the Alaska Constitution which prohibits local or special acts. According to Glenn Miller of the Department of Environmental Conservation (DEC), the communities along the Alaska and Glenn Highways near Tok are experiencing a "garbage crisis" similar to the situation on Prince of Wales Island.⁴ A law providing a mechanism for creating garbage service areas in the unorganized borough would therefore be immediately applicable to at least two regions of the unorganized borough. Presumably, an act creating a mechanism for establishing garbage service areas, in contrast to an act establishing one or two garbage service areas, would not violate the local or special acts clause.

* * *

I hope you find this information useful. If you need any additional information, please let us know.

Attachments

⁴For more information about the situation in Election District 17, you may wish to contact Glenn Miller of the DEC at 465-2666 or David Stancliff of Representative Dick Shultz's office in Tok at 383-2345.

THE
CONSTITUTION
of the
STATE OF
ALASKA



LEGISLATIVE INFORMATION OFFICE
3111 "C" STREET, SUITE 150
ANCHORAGE, ALASKA 99503

ARTICLE X

LOCAL GOVERNMENT

Purpose and Construction

SECTION 1. The purpose of this article is to provide for maximum local self-government with a minimum of local government units, and to prevent duplication of tax-levying jurisdictions. A liberal construction shall be given to the powers of local government units.

Local Government Powers

SECTION 2. All local government powers shall be vested in boroughs and cities. The State may delegate taxing powers to organized boroughs and cities only.

Boroughs

SECTION 3. The entire State shall be divided into boroughs, organized or unorganized. They shall be established in a manner and according to standards provided by law. The standards shall include population, geography, economy, transportation, and other factors. Each borough shall embrace an area and population with common interests to the maximum degree possible. The legislature shall classify boroughs and prescribe their powers and functions. Methods by which boroughs may be organized, incorporated, merged, consolidated, reclassified, or dissolved shall be prescribed by law.

Assembly

SECTION 4. The governing body of the organized borough shall be the assembly, and its composition shall be established by law or charter.

(The amendment to this section was approved by the voters of the state August 22, 1972 and became effective October 14, 1972. It deleted the second and third sentences which specified city and non-city representation on the borough assembly.)

Service Areas

SECTION 5. Service areas to provide special services within an organized borough may be established, altered, or abolished by the assembly, sub-

ject to the provisions of law or charter. A new service area shall not be established if, consistent with the purposes of this article, the new service can be provided by an existing service area, by incorporation as a city, or by annexation to a city. The assembly may authorize the levying of taxes, charges, or assessments within a service area to finance the special services.

**Unorganized
Boroughs**

SECTION 6. The legislature shall provide for the performance of services it deems necessary or advisable in unorganized boroughs, allowing for maximum local participation and responsibility. It may exercise any power or function in an unorganized borough which the assembly may exercise in an organized borough.

Cities

SECTION 7. Cities shall be incorporated in a manner prescribed by law, and shall be a part of the borough in which they are located. Cities shall have the powers and functions conferred by law or charter. They may be merged, consolidated, classified, reclassified, or dissolved in the manner provided by law.

Council

SECTION 8. The governing body of a city shall be the council.

Charters

SECTION 9. The qualified voters of any borough of the first class or city of the first class may adopt, amend, or repeal a home rule charter in a manner provided by law. In the absence of such legislation, the governing body of a borough or city of the first class shall provide the procedure for the preparation and adoption or rejection of the charter. All charters, or parts or amendments of charters, shall be submitted to the qualified voters of the borough or city, and shall become effective if approved by a majority of those who vote on the specific question.

Extended
Home Rule
Home Rule
Powers

SECTION 10. The legislature may extend home rule to other boroughs and cities.

SECTION 11. A home rule borough or city may exercise all legislative powers not prohibited by law or by charter.

Boundaries

SECTION 12. A local boundary commission or board shall be established by law in the executive branch of the state government. The commission or board may consider any proposed local government boundary change. It may present proposed changes to the legislature during the first ten days of any regular session. The change shall become effective forty-five days after presentation or at the end of the session, whichever is earlier, unless disapproved by a resolution concurred in by a majority of the members of each house. The commission or board, subject to law, may establish procedures whereby boundaries may be adjusted by local action.

Agreements:
Transfer of
Powers

SECTION 13. Agreements, including those for cooperative or joint administration of any functions or powers, may be made by any local government with any other local government, with the State, or with the United States, unless otherwise provided by law or charter. A city may transfer to the borough in which it is located any of its powers or functions unless prohibited by law or charter, and may in like manner revoke the transfer.

Local
Government
Agency

SECTION 14. An agency shall be established by law in the executive branch of the state government to advise and assist local governments. It shall review their activities; collect and publish local government information, and perform other duties prescribed by law.

Special
Service
Districts

SECTION 15. Special service districts existing at the time a borough is organized shall be integrated with the government of the borough as provided by law.

(13) 2d SSMB 1

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

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

House Research Agency Report 88-A

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Karen Oakley
House Research Agency
Alaska State Legislature
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CORRECTION

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

(B) 2d SSHB 1

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

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

House Research Agency Report 88-A

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

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INTRODUCTION

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

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

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

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

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

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

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

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

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

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

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

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

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

EXECUTIVE SUMMARY

CHAPTER ONE: THE UNORGANIZED BOROUGH

Political Status and Location

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

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

Population

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

Communities

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

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

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

Economy

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

Education

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

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

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

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

CHAPTER TWO: HOUSE BILL 1

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

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

The Third Class Borough

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

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

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

Previous Similar Legislation and Legislative Study

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

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

Configuration of School Districts Under House Bill 1

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

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

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

Boroughs formed from single REAAs were:

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

Boroughs formed by combining districts were:

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

CHAPTER THREE: LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

Required Local Contributions Under the Foundation Aid Program

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

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

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

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

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

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

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

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

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

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

Changes in Foundation Aid to the Proposed Boroughs

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

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

School Debt Service Requirements

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

SCHOOL CONSTRUCTION BONDED INDEBTEDNESS OF CITY SCHOOL DISTRICTS

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

Potential Savings From Consolidating School Districts

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

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

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

Effects on State Revenues

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

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

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

Effects on State Expenditures

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ten boroughs would need to levy additional taxes for education:

- Six boroughs must tax to meet their required local contribution but do not need to raise additional funds. These boroughs include three pipeline boroughs--Yukon-Koyukuk, Delta/Greely, and Copper River--which must each raise \$1.5 to \$3 million to meet their local contribution, and three other boroughs--Southwest Region, Railbelt and Chatham--which each need to raise less than \$200,000.
- Three boroughs do not need to tax to meet their required local contribution but must tax to cover the portion of the reduction in Foundation aid not offset by additional entitlements and consolidation savings. These boroughs include the Iditarod and Kuspuk boroughs, which would need to raise less than \$35,000 to maintain education funding, and the Lower Kuskowkim borough which would need to raise \$650,000.
- One borough--the Yukon Flats borough--would need to raise \$1.9 million to fulfill its local contribution requirement and an additional \$11,500 to maintain education funding (pages 69-72).

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

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

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

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

CORRECTION

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

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

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

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

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

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

Conclusions

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

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

CHAPTER ONE
THE UNORGANIZED BOROUGH

POLITICAL STATUS

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

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

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

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

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

¹Alaska Constitution, Article X, Section 1.

THE UNORGANIZED BOROUGH

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

LOCATION

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

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

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

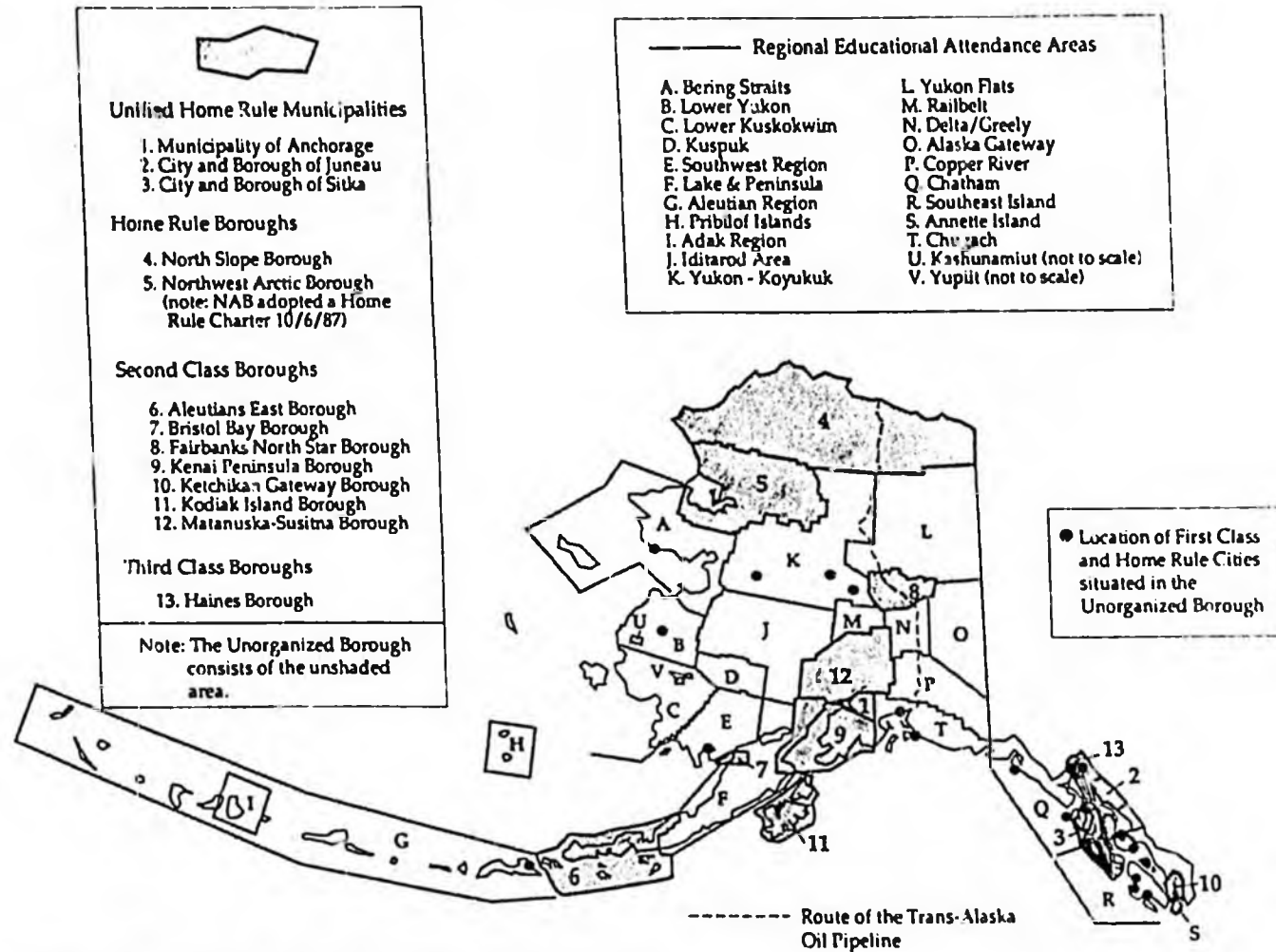
POPULATION

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

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

FIGURE 1.1

LOCATION OF THE ALASKA UNORGANIZED BOROUGH IN 1988



Source: Alaska Department of Community & Regional Affairs

THE UNORGANIZED BOROUGH

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

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

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

COMMUNITIES

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

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

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

TABLE 1.1

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

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

Source: Alaska Department of Labor.

THE UNORGANIZED BOROUGH

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

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

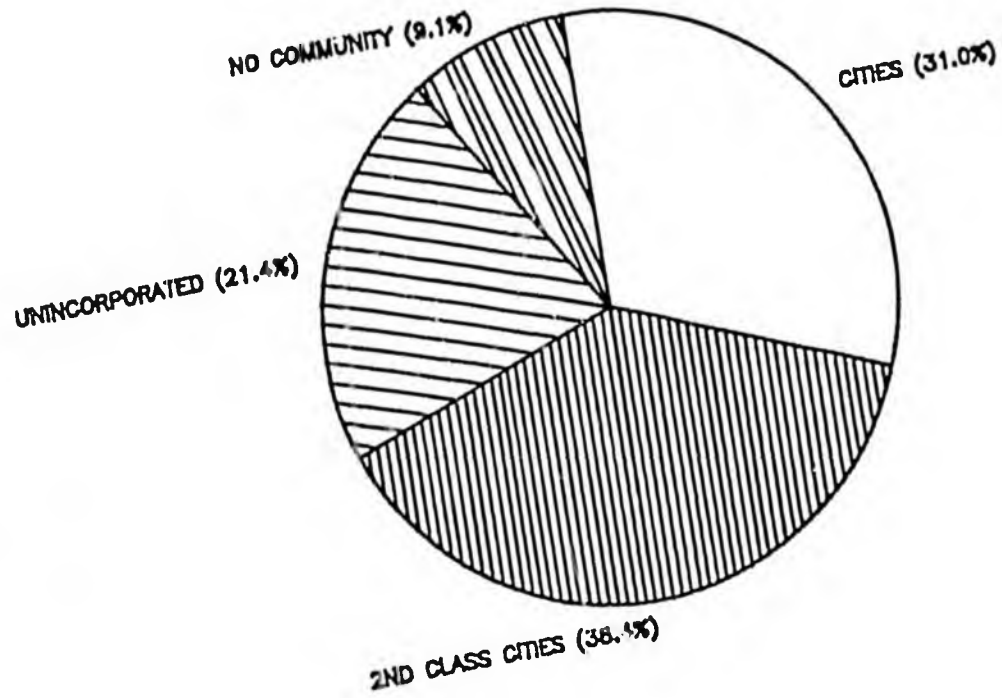
The above discussion categorized communities by how they are recognized under the State municipal code. These communities may also be categorized by how they are recognized under federal law. Some 77 villages in the unorganized borough are recognized under the Indian Reorganization Act. One community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

ECONOMY

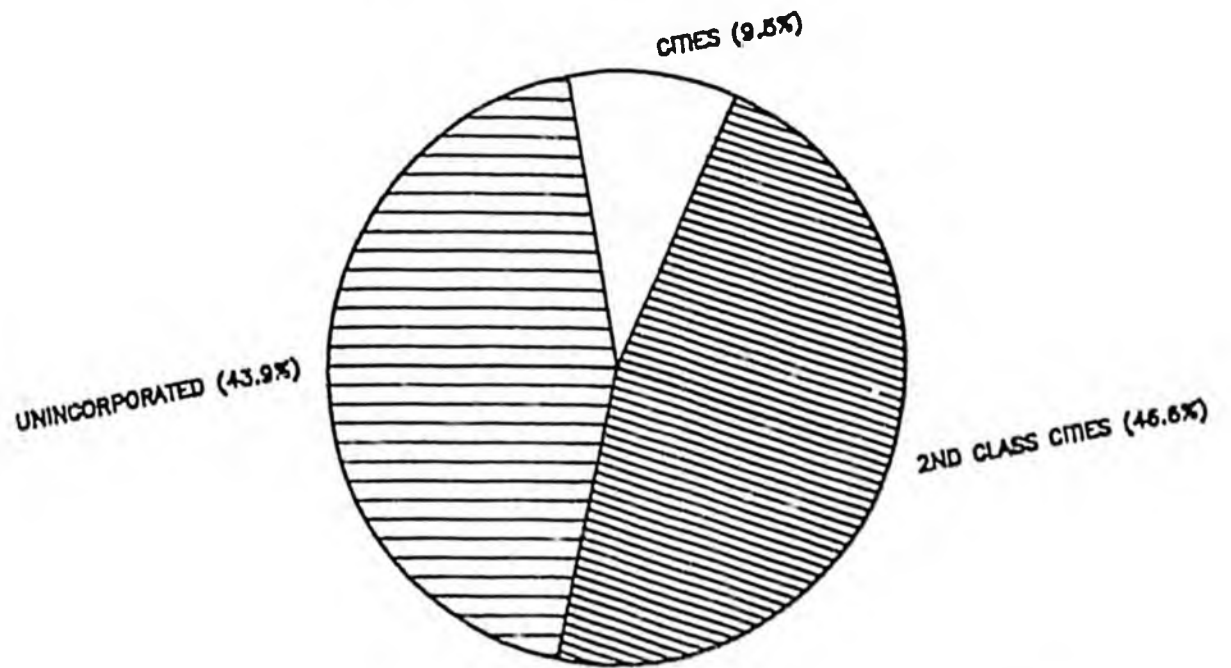
A detailed description of the economy of the unorganized borough is beyond the scope of this introductory chapter, but a general description is provided. The unorganized borough encompasses a large area that crosses regional boundaries and therefore does not, on its own, comprise an easily defined economic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

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

FIGURE 1.2
UNORGANIZED BOROUGH RESIDENTS LIVING IN
COMMUNITIES OF VARIOUS TYPES



PERCENT OF UNORGANIZED BOROUGH
COMMUNITIES OF VARIOUS TYPES



THE UNORGANIZED BOROUGH

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

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

EDUCATION

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

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

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

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

CHAPTER TWO

HOUSE BILL 1

This chapter is devoted to a discussion of House Bill 1.⁴ First, House Bill 1 is explained. Because HB 1 would create up to 21 new third class boroughs, and because the third class borough is a rare creature-- there is only one in the state--and thus relatively little known, a brief history and explanation of the third class borough is provided. To put HB 1 into perspective, previous similar legislation is recalled. Analysis of education costs and potential revenues of the individual boroughs that would be created under HB 1 required some assumptions about how Rural Educational Attendance Areas and city districts would be combined; consolidation of REAAs and city districts into the 17 proposed boroughs whose education costs and potential revenues are evaluated in the following chapters is described.

HOUSE BILL 1

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

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

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

.....

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

HOUSE BILL 1

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

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

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

Section 3 directs the Division of Legal Services of the Legislative Affairs Agency to prepare a bill entitled "An Act relating to the unorganized borough, school districts, and third class boroughs." This act would make the changes necessary to implement Sections 1 and 2 of HB 1.⁵

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

THE THIRD CLASS BOROUGH

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

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

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

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

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

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

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

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

HOUSE BILL 1

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

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

PREVIOUS SIMILAR LEGISLATION AND LEGISLATIVE STUDY

House Bill 1 is directly analogous to the Mandatory Borough Act enacted in 1963.⁹ The Borough Act of 1961 had allowed for formation of boroughs under local option. After two years, only a single borough--the tiny Bristol Bay Borough--had formed, and it was obvious that local initiative was not working. The need for local areawide governments was increasing, however. There was an increasing demand for local services, particularly in the areas outside of cities, an increasing demand for local control of essentially local functions, a need to equalize tax burdens, and a need to integrate the special service districts--like the Haines Independent School District--into constitutional forms of local government. These needs provided the impetus for passage of the Mandatory Borough Act.

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

⁸Alaska Statute 29.05.031.

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

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

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

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

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

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

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

HOUSE BILL 1

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

CONFIGURATION OF SCHOOL DISTRICTS UNDER HOUSE BILL 1

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

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

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

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

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

TABLE 2.1
 CONFIGURATION OF RURAL EDUCATIONAL ATTENDANCE AREAS (REAA)S AND CITY SCHOOL DISTRICTS
 INTO THIRD CLASS BOROUGHS UNDER HOUSE BILL 1 AS USED IN THIS REPORT

.....
 Boroughs formed from single REAA

Boroughs formed by combining REAA with city districts or with other REAA

	This REAA:	Will absorb these city districts:	and these REAA:

Alaska Gateway	Aleutian Region	Unalaska	Adak, Pribilof
Copper River	Bering Strait	Nome	
Delta/Greely	Chatham	Yakutat, Pelican, Hoonah, Skagway	
Iditarod	Chugach	Cordova, Valdez	
Kuspuk	Lower Kuskokwim		Yupiit
Lake and Peninsula	Lower Yukon	St. Mary's	Kashunamiut
Railbelt	Southeast Island	ake, Petersburg, Wrangell, Klawock, Craig, Hydaburg	Annette Island
Yukon Flats	Southwest Region	Dillingham	
	Yukon-Koyukuk	Tanana, Galena, Nenana	

.....
 NOTES:

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

HOUSE BILL 1

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

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

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

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

WESTERN ALASKA BOROUGHs

BERING STRAIT			LOWER YUKON			LOWER KUSKOKWIM			IDITAROD			KUSPUK		
Type	Name	Population	Type	Name	Population	Type	Name	Population	Type	Name	Population	Type	Name	Population
FCC	Nome	3,191	FCC	St. Mary's	458	SCC	Akiachak	459	SCC	Anvik	83	SCC	Aniak	481
SCC	Brevig Mission	164	SCC	Chevak	532		Akiak	289		Grayling	225		Chuathbaluk	124
	Dionede	158		Enmonak	613		Atmautluak	234		Holy Cross	238		Lower Kalskag	281
	Elin	237		Fortuna Ledge	281		Bethel	4,006		McGrath	509		Upper Kalskag	154
	Gambell	494		Hooper Bay	686		Chefornak	277		Nikolai	122	UNIN	Crooked Creek	126
	Golovin	131		Kotlik	409		Eek	257		Shageluk	144		Red Devil	42
	Koyuk	202		Mountain Village	682		Goodnews Bay	241	UNIN	Lime Village	48		Sleetmute	130
	Saint Michael	287		Pilot Station	425		Kwethluk	546		Takotna	54		Stoney River	92
	Savoonga	487		Russian Mission	231		Mekoryuk	152		Telida	38		Balance	64
	Shaktolik	163		Scammon Bay	304		Napakiak	299		Balance	102			
	Shishmaref	410		Sheldon Point	124		Napaskiak	303						
	Stebbins	372	UNIN	Pitkas Point	106		Newtok	207						
	Teller	247		Balance	184		Nightmute	153						
	Unalakleet	759					Nunapitchuk	356						
	Wales	143					Platinum	65						
	White Mountain	164					Quinhagak	453						
UNIN	Perkinsville	45					Tooksook Bay	362						
	Balance	122					Tuluksak	321						
							Tununak	318						
						UNIN	Kipnuk	408						
							Kongiginak	291						
							Kwigillinock	244						
							Oscarville	63						
							Tuntutuliak	293						
							Balance	338						
TOTAL POPULATION		7,776			5,035			11,340			1,563			1,494

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

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

TABLE 2.2 (Continued)

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

INTERIOR ALASKA-PIPELINE BOROUGHs

YUKON-KOYUKUK			YUKON FLATS			DELTA/GREELY			COPPER RIVER			CHUGACH		
Type	Name	Population	Type	Name	Population	Type	Name	Population	Type	Name	Population	Type	Name	Population
FCC	Galena	947	SCC	Fort Yukon	678	SCC	Delta Junction	1,299	UNIN	Chistochina	64	HRC	Cordova	1,901
	Nenana	544								Chitina	40		Valdez	3,271
	Tanana	425	UNIN	Arctic Village	132	UNIN	Big Delta	388		Copper Center	229	SCC	Whittier	344
SCC	Allakaket	188		Beaver	80		Fort Greely	1,672		Gakona	82			
	Bettles/Evansville	86		Birch Creek	29		Healy Lake	37		Glennallen	499			
	Hughes	92		Central	42		Balance	1,353		Gulkana	98	UNIN	Eyak	44
	Huslia	272		Chalkyitsik	94					Kenny Lake	37		Tatitlek	112
	Kaltag	278		Circle	94					Lower Tonsina	38		Balance	409
	Koyukuk	143		Rampart	59					Paxson	33			
	Nulato	368		Steven's Village	97					Slana	57			
	Ruby	241		Tatalina	13					Tazlina	38			
				Venetie	237					Tonsina	130			
UNIN	Campion Station	12		Balance	41					Balance	1,569			
	Indian Mountain	17												
	Manley Hot Springs	88												
	Minto	209												
	Balance	813												
TOTAL POPULATION		4,719			1,596			4,749			2,914			6,081

TABLE 2.2 (Continued)

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

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

NOTES:

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

FCC=First Class City

HRC=Home Rule City

SCC=Second Class City

UNIN=Unincorporated Community

Balance=Population residing outside any community

CHAPTER THREE

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

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

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

In summary:

- The total full value of the proposed boroughs is \$7.4 billion. Fifty-one percent of this value is derived from the TransAlaska Oil Pipeline, 36 percent from cities, and 13 percent from non-oil and gas property in REAAs.
- Required local contributions of the proposed boroughs would total \$18.7 million, of which \$12.3 million would be derived from the REAAs.
- The amount of Foundation aid received by the proposed boroughs would be \$13.5 million less than would be received by the districts forming the boroughs under the status quo. For most of the proposed boroughs, the reductions are on the order of one to four percent, but for the pipeline boroughs, the reductions are much greater--on the order of 40 percent.

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

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

REQUIRED LOCAL CONTRIBUTIONS UNDER THE PUBLIC SCHOOL FOUNDATION PROGRAM

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

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

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

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

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

Current Foundation Program Formula

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

Foundation aid is equal to the basic need of the district minus required local contributions and minus 90 percent of the federal aid received by the district under Public Law 81-874.

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

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

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

Under Public Law 81-874, the federal government pays school districts for the potential loss of tax revenue created by the presence of federal land and personnel within the district.

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

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

In meeting the local contribution requirement, school districts may include the following types of revenue: tax appropriations, investment earnings, the value of in-kind services, State tuition payments, and ten percent of their PL 81-874 funds.

The full and true value of taxable real and personal property is determined by the Department of Community and Regional Affairs in consultation with the assessor for each district. The Alaska Municipal Code (Title 29) gives municipalities wide latitude in determining both the rate at which property will be taxed and what forms of property will be taxed. The full value determination made by the Department of Community and Regional Affairs is based on the value of all real and personal property that could be taxed under State law, without regard to what property is actually taxed by the municipality. Full and true value is the estimated price that the property would bring in an open market and under the then prevailing market conditions in a sale between a willing buyer and a willing seller both conversant with the property and with prevailing general price levels.

Full Property Values in the Proposed Boroughs

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

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

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

Table 3.1 also compares the property values of the proposed boroughs to the values of the existing boroughs. In total, property in existing boroughs is valued at \$48.4 billion--over six times the value in the proposed boroughs. Most existing boroughs have taxable values of a billion dollars or more. The five proposed boroughs through which the TransAlaska Oil Pipeline passes have taxable values in the billion dollar range, but the taxable values of the other proposed boroughs are much less, ranging from \$20 million (Kuspuk) to \$359 million (Southeast Island).

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

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

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

PROPOSED BOROUGHs				EXISTING BOROUGHs			
BOROUGH	FULL TAXABLE VALUE	STUDENT POPULATION	FULL VALUE PER STUDENT	BOROUGH	FULL TAXABLE VALUE	STUDENT POPULATION	FULL VALUE PER STUDENT
WESTERN/NORTHWEST							
Bering Strait	\$240,477,297	2,006	\$119,879	North Slope	\$13,570,786,300	1,152	\$11,785,312
Lower Yukon	89,378,063	1,587	56,319	Northwest Arctic	235,045,200	1,547	151,897
Lower Kuskowkim	321,017,461	2,859	112,283				
Iditarod	23,481,360	384	61,149				
Kuspuk	19,839,960	350	56,686				
SOUTHWEST							
Southwest Region	157,571,260	933	168,887	Aleutians East	102,890,443	317	324,576
Lake and Peninsula	30,546,520	354	86,290	Bristol Bay	101,541,000	219	464,081
Aleutians West	117,748,037	951	123,815	Kodiak	552,447,400	2,253	245,216
INTERIOR PIPELINE							
Yukon-Koyukuk	934,498,200	984	949,693	Fairbanks	4,726,913,900	12,895	366,570
Yukon Flats	1,035,432,040	372	2,783,419				
Delta/Greely	813,113,635	1,019	797,953				
Copper River	1,198,725,880	561	2,136,766				
Chugach	1,843,290,222	1,257	1,466,420				
INTERIOR/SOUTHCENTRAL HIGHWAYS							
Railbelt	30,176,160	366	82,449	Anchorage	19,343,356,800	39,748	486,650
Alaska Gateway	45,527,741	511	89,095	Mat-Su	2,716,755,900	8,668	313,427
				Kerni	3,905,341,700	8,178	477,525
SOUTHEAST							
Chatham	131,333,718	934	140,614	Haines	97,621,600	352	277,492
Southeast Island	358,683,415	2,633	136,226	Juneau	1,638,992,300	4,609	366,447
				Ketchikan	904,384,100	2,474	365,585
				Sitka	441,175,000	1,590	277,469

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

NOTES:

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

TABLE 3.2

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

PROPOSED BOROUGH	FULL TAXABLE VALUE	STUDENT POPULATION	FULL TAXABLE VALUE PER STUDENT	PERCENT OF TOTAL BOROUGH	
				VALUE	STUDENTS
ALEUTIANS WEST					
CITY	\$95,564,500	159	\$601,035	81	17
REAA	22,143,537	792	28,010	19	83
BERING STRAIT					
CITY	151,635,000	782	193,907	63	39
REAA	88,842,297	1,224	72,584	37	61
CHATHAM					
CITY	121,398,200	582	208,588	92	62
REAA	9,935,518	352	28,226	8	38
CHUGACH					
CITY	1,817,309,000	1,127	1,612,519	99	90
REAA	25,981,222	130	199,856	1	10
LOWER YUKON					
CITY	4,451,200	101	44,071	5	6
REAA	84,926,863	1,486	57,151	95	94
SOUTHEAST ISLAND					
CITY	312,697,800	1,791	174,594	87	68
REAA	45,985,615	842	54,615	13	32
SOUTHWEST REGION					
CITY	107,515,700	461	233,223	68	49
REAA	50,055,560	472	106,050	32	51
YUKON-KOYUKUK					
CITY	49,961,600	371	134,667	5	38
REAA	84,536,600	613	1,442,963	95	62
SUBTOTAL--CITY DISTRICTS					
	\$2,660,533,000	5,374	\$495,075	69	69
SUBTOTAL--REAS					
	\$1,212,447,212	5,911	\$205,117	31	31
TOTAL--CITY/REAA BOROUGHS					
	\$3,872,980,212	11,285	\$343,197		

NOTES

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

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

Required Local Contributions of the Proposed Boroughs

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

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

Revenues from a four mill property tax in the proposed boroughs would raise a total of \$29.6 million. The difference between the required contribution and full property tax capacity is accounted for by those boroughs whose potential tax revenues exceed 35 percent of their basic need. For most boroughs, the revenue from a four mill property tax is considerably less than 35 percent of their basic need. Only four boroughs--all pipeline boroughs--have potential tax revenues greater than 35 percent of their basic need. For these four boroughs, the required local contribution equals 35 percent of their basic need.

Comparison of Required Contributions to Current Local Contributions

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

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

TABLE 3.3

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

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

NOTES:

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

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

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

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

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

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

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

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

NOTES:

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

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

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

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

CHANGES IN FOUNDATION AID TO THE PROPOSED BOROUGHES

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

Under HB 1, the amount of Foundation aid--given FY 88 basic need--to the proposed boroughs would be approximately \$13.5 million less than would be received by the districts forming the boroughs under the status quo. For most of the proposed boroughs, the reductions in Foundation aid are on the order of one to four percent, however, for the "pipeline" boroughs, the declines are much greater--on the order of 40 percent.¹⁷ For the pipeline boroughs, the relatively large reduction in Foundation aid stems from their high property values. For the other boroughs, their property tax capacity is low relative to their need and subtracting the amount they could raise under a four mill tax does not substantially alter their Foundation aid.

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

TABLE 3.5
ESTIMATED FOUNDATION AID TO THE PROPOSED BOROUGHES

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

NOTES:

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

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

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

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

SCHOOL DEBT SERVICE REQUIREMENTS

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

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

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

¹⁹1963 Attorney General Opinion No. 29.

TABLE 3.6
SCHOOL CONSTRUCTION BONDED INDEBTEDNESS OF CITY SCHOOL DISTRICTS IN 1987

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

Source: Alaska Department of Education

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

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

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

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

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

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

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

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

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

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

POTENTIAL SAVINGS FROM CONSOLIDATING SCHOOL DISTRICTS

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

LOCAL EDUCATION COSTS UNDER ORGANIZED STATUS

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

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

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

Table 3.8 also shows the potential savings as a percentage of FY 87 expenditures. For most of the proposed boroughs, the potential savings represent from one to two percent of their expenditures. However, for the two proposed boroughs in Southeast and for the Yukon-Koyukuk, Aleutians West, and Chugach boroughs, the potential savings are greater--representing from four to nine percent of current expenditures. These districts each combine two or more city districts with one or more REAAs.

TABLE 3.7
ALASKA SCHOOL DISTRICTS RANKED BY PERCENT OF TOTAL FY 87 EXPENDITURES FOR ADMINISTRATION

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

TABLE 3.7 (Continued)

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

DISTRICT	TOTAL EXPENDITURES	GENERAL SUPPORT EXPENDITURES	GENERAL	NUMBER OF STUDENTS	GENERAL SUPPORT PER STUDENT
			SUPPORT AS A PERCENTAGE OF TOTAL		
10 TO 14 PERCENT (Continued)					
PRIBILOF	\$2,021,980	\$237,778	12	156	\$1,528
KENAI	54,969,386	6,376,434	12	8,144	783
JUNEAU	24,448,751	2,821,357	12	4,599	613
LOWER YUKON	15,442,898	1,737,055	11	1,314	1,322
COPPER RIVER	4,709,904	521,874	11	561	931
TANANA	2,183,817	241,045	11	81	2,976
KETCHIKAN	13,631,337	1,450,038	11	2,435	595
KUSPUK	5,428,170	569,919	10	351	1,624
LOWER KUSKOKWIM	30,134,277	3,129,911	10	2,564	1,221
NOME	6,255,560	644,964	10	782	825
SOUTHWEST REGION	6,608,486	681,284	10	472	1,443
YUKON FL	5,419,556	550,151	10	372	1,479
BRISTOL BAY	2,856,267	286,466	10	233	1,229
LAKE AND PENINSULA	5,726,746	573,516	10	354	1,618
FAIRBANKS	75,952,589	7,387,305	10	13,117	563
SOUTHEAST ISLAND	4,796,114	463,420	10	419	1,105
NORTHWEST ARCTIC	14,983,243	1,435,103	10	1,550	926
9 PERCENT OR LESS					
DILLINGHAM	4,503,868	425,046	9	462	921
BERING STRAIT	15,568,951	1,414,119	9	1,224	1,156
YUKON-KOYUKUK	7,671,235	682,101	9	613	1,113
VALDEZ	7,131,665	558,817	8	695	804
WRANGELL	2,968,790	211,612	7	494	428

NOTES:

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

Source: Alaska Department of Education

TABLE 3.8

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

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

NOTES:

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