



Severing a 60 Year Partnership

Big Picture – Budget and Implications

- Those municipalities that contribute the greatest to the state's GDP, experience the brunt of cuts and cost-shifting
- Indirect costs to municipalities are the more significant challenge
- These cuts do not reduce state government, they eliminate the state's support for institutions that are fundamental to quality of life and economic health

Total Costs to 24 Highest-Value Municipalities

Based on only five variables

\$774,822,158

Cost-shifting as % of Tax Revenue = 49.02%

School Bond Debt Reimbursement \$105,000,000

Background: State had committed to paying 70% of all school bond debt, with 30% match by communities, but with clause that held municipalities liable for 100%. There's a current moratorium, but this represents past obligations.

Challenge: The total debt accrued equals \$961,000,000.

Options:

1. Absorb through current or added revenues
2. Examine legal options based on past payments by State creating condition of confidence
3. Not paying affects credit rating

Impact:

- Other priorities removed from budgets
- Taxes increase

Action: AML opposes

Affects this year:

• Aleutians East Borough	\$654,762
• Municipality of Anchorage	\$43,153,298
• City of Cordova	\$962,072
• City of Dillingham	\$744,230
• Fairbanks North Star Borough	\$10,064,193
• Haines Borough	\$904,190
• City of Hoonah	\$14,350
• City and Borough of Juneau	\$8,551,446
• Kenai Peninsula Borough	\$2,845,713
• Ketchikan Gateway Borough	\$2,774,671
• Kodiak Island Borough	\$5,745,835
• Lake and Peninsula Borough	\$962,352
• Mat-Su Borough	\$19,954,904
• City of Nome	\$221,202
• North Slope Borough	\$75,119
• Northwest Arctic Borough	\$4,080,264
• Petersburg Borough	\$466,050
• City and Borough of Sitka	\$2,458,721
• City of Unalaska	\$670,819
• City of Valdez	\$1,686,718
• City and Borough of Wrangell	\$168,035

Education \$332,421,200

Background: The BSA was reduced by \$1,100 per student, in a proposed \$280M reduction of education funding. Also eliminated was last year's \$30M addition.

Challenge: Beyond impacts to schools and students, local governments will need to evaluate their local contribution.

Options:

1. Work with the legislature to address different approaches to education
2. Remove maximum local contribution cap or suggest other alternatives
3. Partner with districts to flat out oppose

Impact:

- Local taxes increase to offset state cuts and contribute to schools
- Increased class sizes, fewer teachers, reduced administration, maintenance backlog increases

Examples of cuts to education formula:

Aleutians East	\$1,055,141
Anchorage	\$74,364,715
Cordova	\$959,309
Dillingham	\$1,450,528
Fairbanks	\$26,766,900
Haines	\$521,391
Juneau	\$8,406,516
Kenai	\$18,256,328
Ketchikan	\$5,674,708
Kodiak	\$5,803,116
Lake and Pen	\$2,078,416
Mat-Su	\$38,542,561
Nome	\$1,889,891
North Slope	\$3,963,927
Northwest Arctic	\$8,379,818
Petersburg	\$1,387,439
Sitka	\$2,893,763
Unalaska	\$1,007,733
Valdez	\$1,169,462
Wrangell	\$880,991

Based on 22.9% reduction to FY19 #s

Fisheries Business Tax

Fisheries Resource Landing Tax

\$25,900,000
\$6,300,000

Background: State reimburses local governments collection of these taxes.

Challenge: This represents 22% of Bristol Bay's budget, or 27% of Aleutians East. The two together represent 24% of Unalaska's budget

Impact:

- Dramatic loss of services to economic actors in region
- Threats to public service delivery and infrastructure

Action: AML opposes rescission (claw back) and preemption (prohibiting collection).

Business Tax - top

Lake and Peninsula Borough	\$256,767
Wrangell	\$314,455
Juneau	\$389,022
Dillingham	\$398,350
Ketchikan	\$404,971
Ketchikan Gateway Borough	\$404,971
Seward	\$440,958
Sand Point	\$458,805
King Cove	\$499,257
Kenai Peninsula Borough	\$771,171
Petersburg	\$877,158
Saint Paul	\$892,296
Kodiak	\$926,525
Sitka	\$953,324
Kodiak Island Borough	\$1,022,586
Akutan	\$1,090,445
Cordova	\$1,160,157
Aleutians East Borough	\$2,093,687
Bristol Bay Borough	\$2,705,606
Unalaska	\$3,649,322

Business Tax - bottom

Pilot Point	\$31
Houston	\$60
Wasilla	\$67
Akhiok	\$99
Fairbanks North Star Borough	\$101
North Pole	\$101
Matanuska-Susitna Borough	\$127

Landing Tax

Sand Point	\$102
Seward	\$2,071
Kenai Peninsula Borough	\$4,469
Akutan	\$4,916
Aleutians East Borough	\$5,017
Petersburg	\$5,766
Kodiak	\$9,587
Saint Paul	\$9,833
Kodiak Island Borough	\$12,985
Atka	\$23,950
Togiak	\$35,339
Yakutat	\$39,078
Adak	\$74,247
Unalaska	\$4,291,531

Petroleum Property Tax

Background: State exempts oil and gas property from municipal taxation, but credits that funding back to municipalities. Change removes funding from municipalities, as State preempts collection.

Challenge: This represents 97% and 80% of North Slope Borough and City of Valdez budgets, respectively.

Options:

1. Work with legislature to ensure this bill does not move forward
 1. Could they still just not pay it?
2. Collaborate with industry to push back

Impact:

- Savings offset abrupt closure, but both see drastic reductions
- Current services, powers and program revert to the State

Action: AML opposes rescission (claw back) and preemption (prohibiting collection).

\$439,500,000

Affects this year:

• Municipality of Anchorage	\$2,000,000
• Fairbanks North Star Borough	\$11,800,000
• Kenai Peninsula Borough	\$15,000,000
• Mat-Su Borough	\$100,000
• North Slope Borough	\$372,100,000
• City of Valdez	\$38,400,000
• City of Cordova	\$100,000

Local contribution is calculated utilizing “the full and true value of the taxable real and personal property in the district as of January 1 of the second preceding fiscal year”. If the assessed value of AS 43.56 property is no longer taxable at the local level, not only will districts lose funding as a reduction in the state foundation formula but both the required and maximum local contribution will be reduced. Because there is a two-year, taxable value look back, the City or Borough would be required to contribute for two-years on an amount including the current taxable value of AS 43.56 but without the tax revenue from those assets to pay for the required contributions.

Community Assistance

\$30,000,000

Background: In place since 1968, this is a redistribution of state resource wealth for equitable use by local governments to provide essential services and keep local tax rates low.

Challenge: This is a necessary resource for approximately 30% of communities that don't have a tax base.

Options:

1. Absorb through current revenues – difficult with addition of other cost-shifting
2. Increase taxes – 25% of local governments did this in the 2000s, when revenue sharing went away under Murkowski
3. Close – this represents more than 70% of 14 local government budgets, and they will no longer be able to operate

Impact:

- Local government services revert to the state
- Local governments divest of powers
- Local governments increase taxes

Affects every single community, with ranges from:

- Small cities - \$75-80,000
- Medium cities - \$80-95,000
- Large cities - \$115-250,000
- Boroughs - \$300-900,000
- Largest boroughs - \$1.4-6.1 M

\$30M will be paid out this year, but removed from all future budgets.

An additional \$20M will be paid out as 50% of Alcohol Tax.

“Open for business” but closing doors

Municipality	SchoolBond	PetPropTax	FishBus	FishLand	EducCuts	Total cuts	FY17TaxRev	Cuts%ofTaxRev
Aleutians East Borough	\$654,762		\$2,093,687	\$5,017	\$1,055,141	\$3,808,607	\$ 4,714,403	80.79%
Bristol Bay Borough			\$2,705,606		\$234,134	\$2,939,740	\$ 7,139,215	41.18%
City & Borough of Juneau	\$8,551,446		\$389,022		\$8,406,516	\$17,346,984	\$ 100,925,169	17.19%
City & Borough of Sitka	\$2,458,721		\$953,324		\$2,893,763	\$6,305,808	\$ 18,676,883	33.76%
City & Borough of Wrangell	\$168,035		\$314,455		\$880,991	\$1,363,481	\$ 4,401,243	30.98%
City & Borough of Yakutat			\$218,773	\$39,078	\$213,866	\$471,717	\$ 100,925,169	0.47%
City of Akutan			\$1,090,445	\$4,916		\$1,095,361	\$ 3,337,019	32.82%
City of Cordova	\$962,072	\$100,000	\$1,160,157		\$959,309	\$3,181,538	\$ 5,789,958	54.95%
City of Dillingham	\$744,230		\$398,350		\$1,450,528	\$2,593,108	\$ 5,231,615	49.57%
City of Kodiak			\$926,525	\$9,587		\$936,112	\$ 12,182,890	7.68%
City of Nome	\$221,202		\$50,692		\$1,889,891	\$2,161,785	\$ 8,449,441	25.58%
City of Unalaska	\$670,819		\$3,649,322	\$4,291,531	\$1,007,733	\$9,619,405	\$ 22,216,120	43.30%
City of Valdez	\$1,686,718	\$38,400,000			\$1,169,462	\$41,256,180	\$ 44,088,866	93.58%
Fairbanks North Star Borough	\$10,064,193	\$11,800,000			\$26,766,900	\$48,631,093	\$ 113,690,918	42.77%
Haines Borough	\$904,190		\$128,174		\$521,391	\$1,553,755	\$ 5,954,861	26.09%
Kenai Peninsula Borough	\$2,845,713	\$15,000,000	\$771,171	\$4,469	\$18,256,328	\$36,877,681	\$ 97,026,067	38.01%
Ketchikan Gateway Borough	\$2,774,671		\$404,971		\$5,674,708	\$8,854,350	\$ 17,876,648	49.53%
Kodiak Island Borough	\$5,745,835		\$1,022,586	\$12,985	\$5,803,116	\$12,584,522	\$ 17,335,413	72.59%
Lake & Peninsula Borough	\$962,352		\$256,767		\$2,078,416	\$3,297,535	\$ 1,778,179	185.44%
Matanuska-Susitna Borough	\$19,954,904	\$100,000	\$127		\$38,542,561	\$58,597,592	\$ 134,158,246	43.68%
Municipality of Anchorage	\$43,153,298	\$2,400,000	\$92,250		\$74,364,715	\$120,010,263	\$ 595,642,854	20.15%
North Slope Borough	\$75,119	\$372,100,000			\$3,963,927	\$376,139,046	\$ 397,620,565	94.60%
Northwest Arctic Borough	\$4,080,264				\$8,379,818	\$12,460,082	\$ 597,764	
Petersburg Borough	\$466,050		\$877,158	\$5,766	\$1,387,439	\$2,736,413	\$ 6,402,255	42.74%

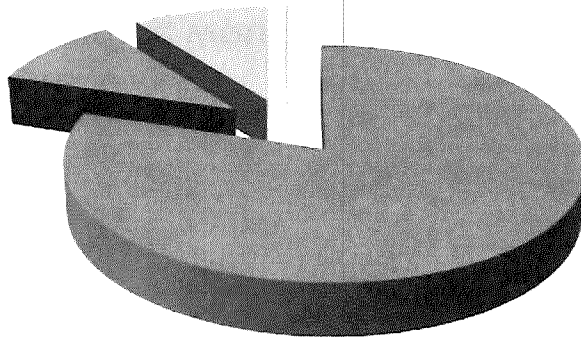
Additional Cuts

- University of Alaska would see a \$155 million cut
 - Fairbanks
 - Anchorage
 - Juneau
 - Kodiak
 - Nome
 - Sitka
- Health spending would be cut \$270 million
 - Bartlett Regional Hospital, Juneau
 - Central Peninsula, Soldotna
 - Cordova Community Medical Center
 - PeaceHealth Ketchikan Medical Center
 - Petersburg Medical Center
 - Sitka Community Hospital
 - Wrangell Medical Center

Alaska Marine Highway System

Alaska Marine Highway System Fund UNRESTRICTED OPERATING REVENUES

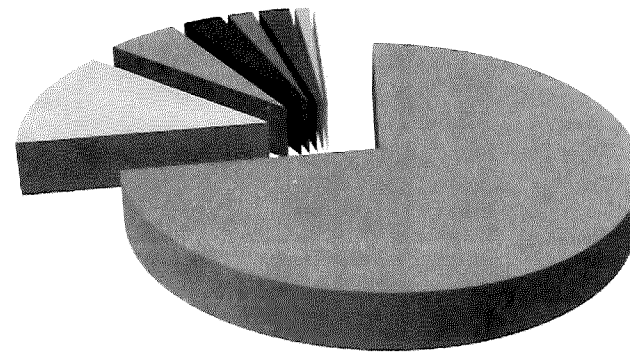
For the fiscal year ended June 30, 2018
\$47.3 MILLION



Ticket Sales	80.0%
State Room Sales	10.0%
Passenger Services Sales	10.0%
Other Unrestricted Revenue	0.0%

Alaska Marine Highway System Fund OPERATING EXPENDITURES

For the fiscal year ended June 30, 2018
\$142.0 MILLION



Marine Vessel Operations	72.0%	Operations Management	2.9%
Marine Fuel	13.3%	Overhaul	1.1%
Shore Operations	5.4%	Marine Engineering	1.9%
Reservations and Marketing	1.1%	Support Services	2.3%

Expected to end service in October; 65% cut and planned divestiture
State support of \$71,949,000 in FY18

SB 59: Repeal of HB528

\$32,450,199

Background: State commitment in 2003 to fund DOT port and harbor projects, and AEA projects, transferred by the State to municipalities but requiring substantial investment in capital maintenance and upgrades.

DOT

• Mat Su Borough – deep water port and road upgrade	FY20 \$712,513	Total \$4,972,002
• Aleutians East Borough/False Pass – small boat harbor	FY20 \$166,400	Total \$2,867,653
• City of Valdez – harbor	FY20 \$210,375	Total \$2,730,534
• Aleutians East Borough/Akutan – small boat harbor	FY20 \$215,308	Total \$3,604,242
• Fairbanks North Star Borough – Eielson AFB schools	FY20 \$333,193	Total \$4,737,896
• City of Unalaska – harbor improvement	FY20 \$365,695	Total \$6,624,136

AEA

• Kodiak Electric Association	FY20 \$943,676	
• Copper Valley Electric Association, Valdez	FY20 \$351,180	Total \$5,970,060

Total Impact \$32,450,199

Power Cost Equalization

Established in 1985

Provides economic assistance to communities and residents in areas where kWH costs are 3 to 5 times as high as the average of urban areas.

PCE was established at the same time that urban communities benefited from major state-subsidized energy projects such as the Four Dam Pool, Bradley Lake, and the Alaska Intertie.

Rural communities not on the road system that are dependent on diesel fuel do not benefit from the large subsidized energy projects, and PCE is a cost-effective alternative to provide comparable rate relief to rural residents.

\$1,016,263,132

City of Angoon	\$255,108.21
City of Quinhagak	\$265,129.47
City of Mountain Village	\$277,312.35
City of Saint Mary's	\$285,683.91
City of Chevak	\$288,114.53
City of Kake	\$298,322.13
City of Togiak	\$322,917.24
City of Selawik	\$339,059.89
City of Hooper Bay	\$342,048.11
City & Borough of Yakutat	\$351,731.65
City of Emmonak	\$357,551.25
City of Fort Yukon	\$411,483.51
City of Sand Point	\$420,266.88
City of Cordova	\$489,000.35
City of Hoonah	\$613,081.96
City of Unalaska	\$654,258.99
City of Nome	\$673,631.40
City of Dillingham	\$745,993.70
City of Kotzebue	\$942,900.04
City of Bethel	\$971,701.99

Department of Administration

- DoA – muni and school district admin hearing services \$75m, program receipts / Total \$175,000,000 in FY20
- DoA – reverse funding for Health Care Cost Reduction and Health Care reform / \$1 million
- p82 – DoA - In addition, the future liabilities for Other Post-Employment Benefits (OPEB) are reduced by an estimated \$520,000.0 to \$694,000.0 for the Public Employee Retirement System (PERS) and Teachers Retirement System (TRS). This in turn results in a reduction in the state assistance payment of \$40,000.0 to \$52,000.0 annually
- DOA – Public Broadcasting / zeroed out - \$3,496,100

Department of Commerce and Community Development

- 17.8% reduction to DCRA
- \$1 million general reduction via “efficiencies” – do less with less
- ABC board?
- AEA – PCE \$32,736,800 from GF (program plus distribution)
- Community Assistance missing, but statutorily obligated
 - \$20 million this year
 - \$13.3 million this year, \$8.9 million, \$5.9 million \$0 in FY24

Department of Military and Veterans Affairs

- Elimination of Local Emergency Planning Committee (\$300,000)
- Elimination of Alaska State Defense Force
- Reduction of Alaska Military Youth Academy by 27% (\$5.7M)

Department of Public Safety

- Reduction by 6% of Fire and Life Safety - \$313,700
- Reduction by 13% of Alaska State Troopers - \$21,343,300
- Reduction by 22% of Village Public Safety Officers - \$3,098,300
- Reduction by 33.8% of Police Standards Council - \$656,500
- Elimination of Civil Air Patrol

Department of Transportation & Public Facilities

- Elimination of Harbor Facility Grant Program - \$7,500,000

Department of Education and ~~Early Development~~

- \$30M reduction of one time additional foundation funding
- Elimination of early learning coordination (\$7.6M) and Pre-K grants (\$3.2M)
- Elimination of Alaska State Council on the Arts (\$3.8M)
- Mt. Edgecumbe reductions (\$1.1M)
- OWL eliminated (\$671,000)
- WWAMI eliminated (\$3.9M)

Department of Environmental Conservation

- Air Quality reduced by 4.4% (\$474,000)
- Water Quality reduced by 16.6% (\$3.7M)
- Spill Prevention and Response reduced by 5% (\$390,000)
- Elimination of Ocean Ranger program, created by ballot initiative in 2006
- Elimination of State dairy program

Not bad things

These programs remain
in the budget for now.

Approx. \$310,726,800

PCE	\$32,355,000
AMLR	\$4,263,100
PILT (\$10,428,200) and SRS (\$600,000 est)	
AEA Rural Energy Assistance	\$6,668,300
ASMI	\$20,360,300
Regional and Community Jails	\$7,000,000
Spill Prevention and Response	\$19,747,600
Fish and Game	Maintained
DEC Water	\$19,056,900
Public Assistance	Maintained
VPSO	\$10,977,400
Municipal Bond Bank	\$1,006,600
PERS on behalf payment	\$159,055,000
Fisheries taxes	\$3,100,000
Shared taxes and fees	
• Electric and telephone coop tax	\$4,600,000
• Liquor license fee	\$900,000
• Aviation fuel tax or surcharge	\$136,600
• Commercial vessel passenger tax	\$21,500,000

Communications

- Alaskans as citizens deserve their share of the state's resource wealth. Alaskans as taxpayers deserve public services that their wealth contributes to.
- Governor Dunleavy's proposal increases taxes and eliminates essential services.
- All cuts are not created equal.
- "Prudent behavior" by local governments rewarded by cost-shifting and burdens.
- Erosion of quality of life, loss of jobs, etc. = preparation for recession (i.e.; rainy day).
- Budget plan accepts status quo as good enough for Alaskans – no growth scenario.

Solutions – broad policy

“Anything you take off the table has to be replaced” – Mike Barnhill, OMB Policy

- Use of Earnings Reserve
- Implementation of broad-based tax
- Reduce or reallocate payout of PFD
 - Equitable distribution of PFD
- Decrease repayment of oil tax credits
- Reduce actual size of State government

The Governor has requested solutions

Improve local government ability to adapt to cost-shifting:

- Municipal severance tax
- Raise municipal tax cap, and maximum level of education contribution
- Reduce Title 29 compliance requirements and burdens
- School taxing authority, with municipal oversight
- 5% resource revenue sharing to form municipal-held community dividend
- Intergovernmental agreement to accept federal PILT and SRS funds within Unorganized Borough
- Impact Aid as part of local contribution – break the formula

AML willing to:

- DCRA grant management to AML - unfunded
- DCRA RUBA program to AML – federal funds
- LGS program to AML – 50% funding levels