



# ALASKA'S LOCAL GOVERNMENT

State Commitments, Local Roles and Responsibilities

*Alaska's municipal governments are incredibly diverse and face unique challenges. They are united in common purpose, to deliver essential services in the public interest.*







## Alaska Municipal League

### AML Mission:

To strengthen Alaska's local governments.

The Alaska Municipal League (AML) has been working to strengthen Alaska local government since 1959. Today's AML looks very different than it has in prior years – the AML board has responded to AML member needs by increasing the number of services that AML staff and partners deliver.

AML is truly a member organization, an inter-local association comprised of and directed by our member local governments. AML's daily operations center on the support we offer members, and increasingly includes helping members work through issues that they may be experiencing, either in relation to the state or stakeholders in their community. AML staff serve as a hub that connects members with the appropriate contact or resource to assist in resolution of challenges that may arise.

## Policy Principles

- Support the Alaska Constitution's mandate "to provide for maximum local self-government."
- Support policies that reduce tax burdens on local government and reimburse for State-mandated exemptions.
- Support State revenue-sharing as an investment in and support for municipal governance.
- Support adequate State funding for basic public services and infrastructure, such as: education, public safety, health, emergency services, and transportation that is necessary for strong and vibrant communities.
- Oppose unfunded and underfunded State or Federal legislative and administrative mandates.
- Oppose any efforts to reduce local revenues and local revenue authorities.
- Oppose State or Federal policies that shift responsibilities to local governments without a negotiated agreement that includes adequate and full annual funding.

## Local Government Associations /AML Affiliates

- Alaska Conference of Mayors <http://www.akml.org/alaska-conference-of-mayors/>
- Alaska Association of Municipal Clerks <http://www.alaskaclerks.org/>
- Alaska Government Finance Officers Association <http://www.agfoa.com/>
- Alaska Municipal Management Association <http://www.alaskamanagers.org/>
- Alaska Municipal Attorneys Association <http://www.alaskamunicipalattorneys.org/>
- Alaska Association of Assessing Officers
- Alaska Association of Harbormasters & Port Administrators <http://www.alaskaharbors.org/>
- Alaska Fire Chiefs Association <http://www.alaskastatefirefighters.org/>
- Alaska Association of Police Chiefs <http://www.aacop.org/>
- American Planning Association – Alaska Chapter <http://www.planning.org/chapters/alaska/>

## Purpose of Primer

The Alaska Municipal League publishes the local government primer in order to educate policy makers, State and Federal officials, and the public about Alaska's system of municipal governance. Decisions made by Congress and the State Legislature have a direct impact on local government interests and ultimately on the well-being of citizens. It is critical to understand the roles and responsibilities of local governments, and the differences not only between them but between them and other levels of government.

## Introduction to Local Government

### Constitutional Basics –

#### Maximum Local Self-Government

The delegates to the state's Constitutional Convention wanted to avoid overlapping local government jurisdictions and ensure local control. A guiding principle was that they did not want to force a particular form of government on any community or region of the state. At the same time, delegates placed an emphasis on maximizing local self-government, which is the purpose of Article 10 of the Constitution.

The Constitution articulates a system of local government that would be flexible enough to allow local decision-making, while providing ways in which greater regional cooperation might occur. Thus, while the Constitution does not mandate the incorporation of local or regional governments, it requires the establishment of organized and unorganized boroughs that are consistent with geography, economies and common interests.

The Constitution also mandates that an agency be included within the executive branch to advise and assist local governments.

### Statutory Authorities – Title 29

Title 29 is State law that describes the classification, roles, responsibilities and other aspects of local government in Alaska. Classifications occur both for boroughs (home rule, first, and second class) and cities (home rule, first, and second class).

All local governments have certain fundamental duties such as conducting elections, holding regular meetings of the governing body, and taxation. Beyond that, the duties of a municipality in Alaska vary greatly based on their classification, inclusion or not in a borough, population size and geographic area.

Title 29 is prescriptive in its delegation of powers to first- and second-class cities and boroughs. Home rule cities and boroughs have all legislative powers that their residents have agreed to, except for those prohibited by law.

While a home rule municipality adopts a charter, subject to voter approval, a general law municipality is often unchartered (a general law city or borough may adopt a charter) and its powers are granted by state law. There are two active classes of general law cities and boroughs – first and second class. The difference between the two classes of cities include taxing authority, responsibility for schools, and the powers and duties of the mayor. The differences between the two classes of boroughs are the manner in which they adopt additional powers.



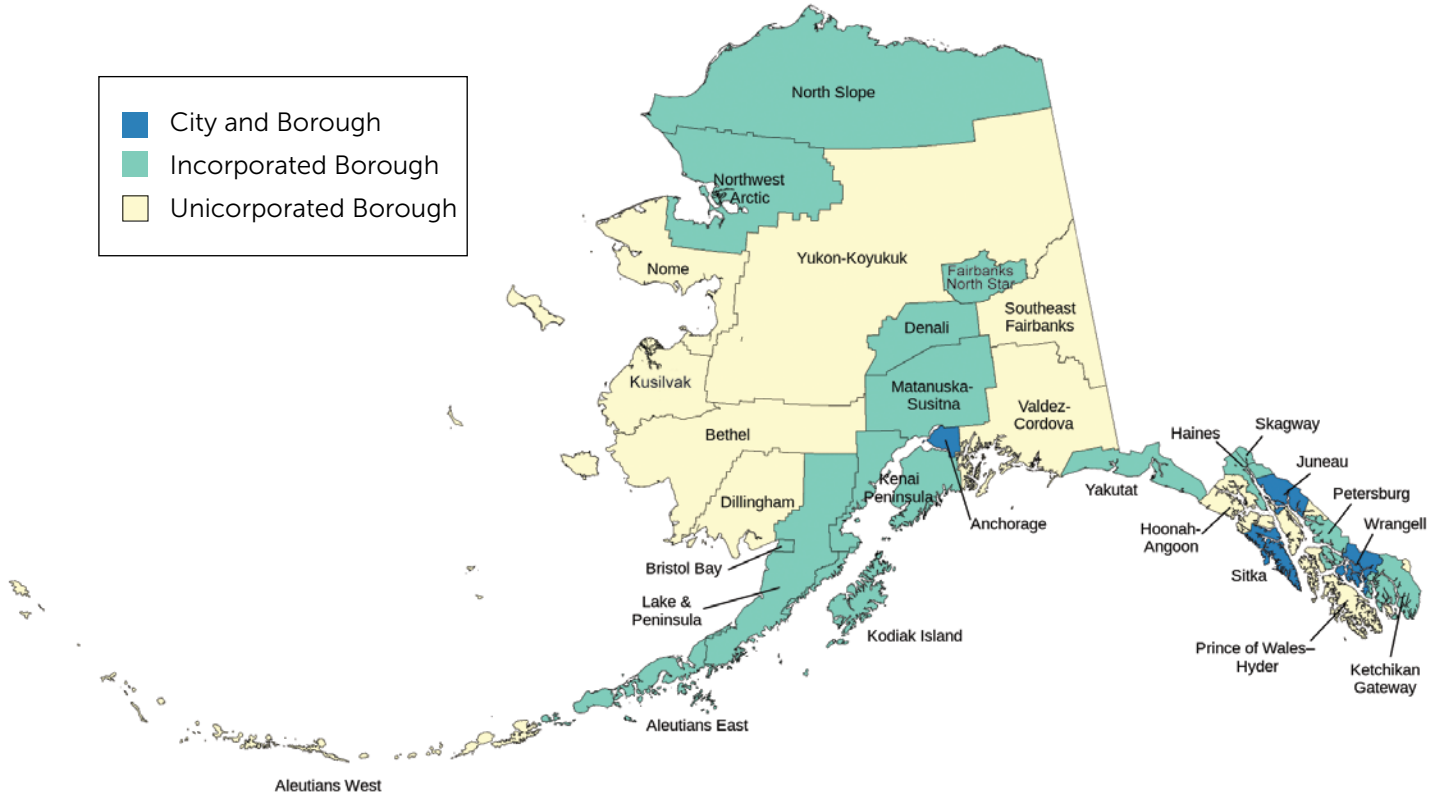
**Table 1: Economic and Social Impact of Municipal Government in Alaska**

Alaska has 165 municipalities; 145 cities, 19 boroughs, and one federally incorporated reservation. In all, 97% of Alaskans live within an organized municipality.
Fifteen of the nineteen organized boroughs levy a property tax, and some cities levy a property tax (12 within organized boroughs, 9 within the unorganized borough). Total property tax revenue in FY21 was \$1,567,363,481.
The majority of municipalities have implemented a sales tax. Nine boroughs and 95 cities have a sales tax, with a total revenue of \$239,994,278 in FY21.
Additional taxes include alcohol and tobacco, raw fish, car rental, and hotel and bed taxes, amounting to \$122,981,311 in FY21.
Municipal governments also receive revenue sharing and PILT funds from the State and Federal government, as well as grant funding from a variety of sources.
In FY21, the total expenditures by local governments in Alaska was \$2,362,933,130.
Municipalities contribute over 22% of direct education expenditures, totaling \$502,890,917 in FY21. Municipalities contributed an additional \$244 million more that year than required.
Municipalities employ approximately 39,000 Alaskans.
Alaska has the nation's five largest county-equivalents (boroughs). Our largest is equal to the next six largest non-Alaskan counties. Our smallest is bigger than three US states.
In Alaska, municipalities are filling in where gaps appear in federal and state engagement and investment. The services provided by local governments run the gamut from public safety and emergency response to transportation and fisheries management.
The contributions of our municipal government can also be thought of in terms of area served – with more than half the state organized, local government is serving an area of 252,333 square miles. That's almost 100,000 more than Alaska State land ownership.
The North Slope Borough has more emergency response assets in the Arctic than the State of Alaska and the U.S. Federal government combined.
Alaska's municipal ports are some of the busiest in the nation, capturing six of the top ten spots in annual commercial fishery landings.
There are 37 municipal-owned public power utilities.
Municipalities operate 47 public libraries in Alaska.
Municipalities own and operate over 30 swimming pools across the state.
Municipalities provide many services that support the visitor industry, and in turn receive revenue through sales and bed taxes, moorage fees, and other sources. During the COVID-19 pandemic, local governments in Alaska lost nearly \$80 million in revenue from the visitor industry.

## Boroughs and Unified Municipalities

Organized boroughs are also municipal corporations and political subdivisions of the state. There are four classifications of organized boroughs:

- Unified Home Rule (3) – may exercise all legislative powers not prohibited by law or charter
- Non-Unified Home Rule (8) - may exercise all legislative powers not prohibited by law or charter
- First Class (1) – may exercise any power not prohibited by law on non-area wide basis
- Second Class (7) – must gain voter approval for authority to exercise non-area wide powers



### Powers and Duties

Organized boroughs may provide services on three levels: areawide (throughout the borough), non-area-wide (that part of the borough that is outside of cities), and service areas (size and make-up vary).

All organized boroughs have three mandatory powers: education, planning and land use regulation, and property assessment and taxation. Additionally, borough powers often include (see classification table for more information):

- Transportation and solid waste
- Water and air pollution control
- Emergency management
- Housing and economic development

### The Unorganized Borough

The unorganized borough is not a municipal corporation or political subdivision of the State. This classification was intended to decentralize state services and foster local participation in administration within regions not ready (voters rejected it) or suited for organized borough status (namely, those without a tax base). The Alaska Constitution assigns the legislature all powers an assembly would have in the administration of the unorganized borough. The legislature is required to provide the mandatory borough services within the unorganized borough; education is delivered by the state through Regional Educational Attendance Areas (REAs).

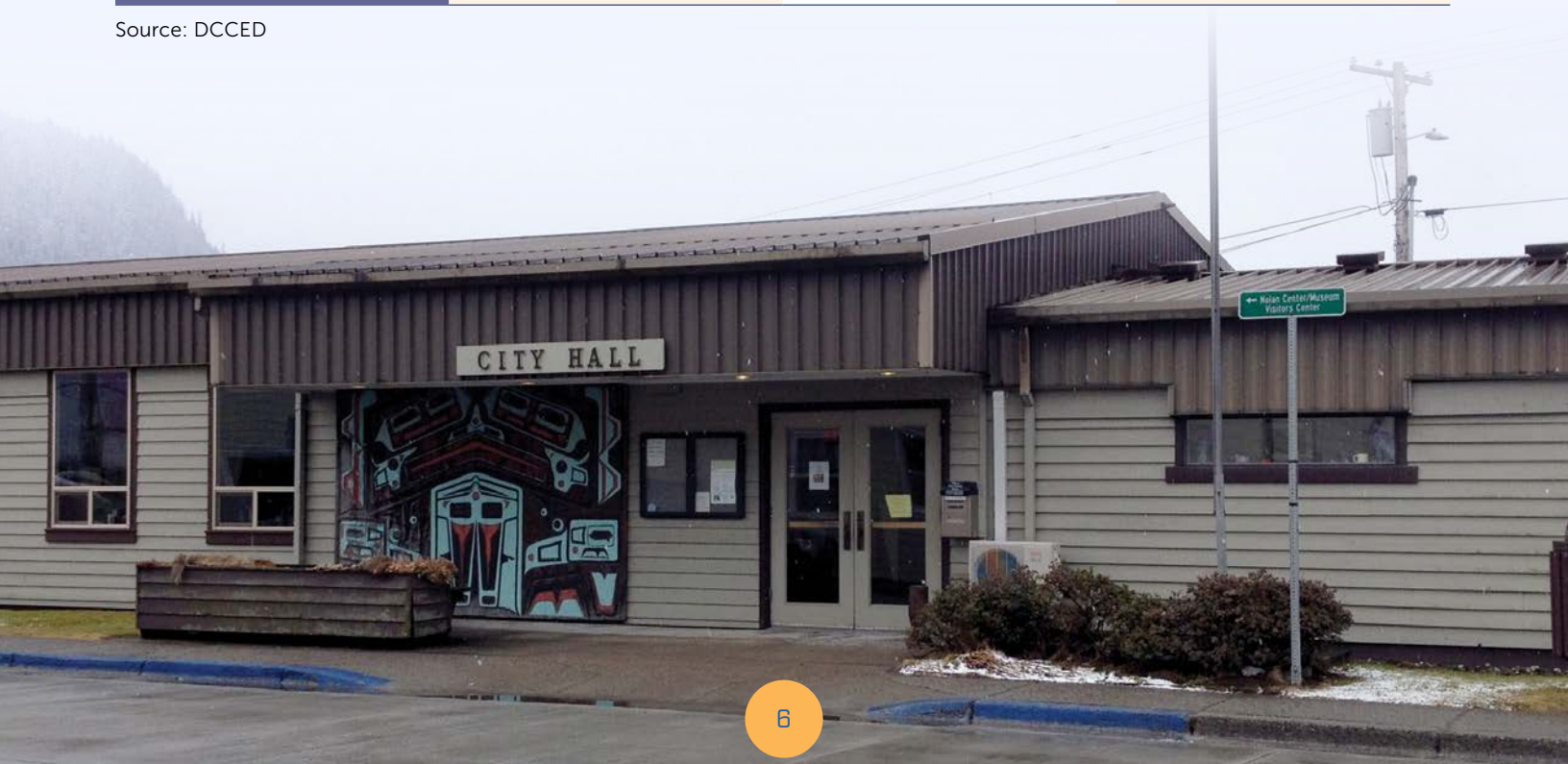
**Table 2: Powers and Duties of Boroughs**

<b>Power</b>	<b>Unified Municipality &amp; Home Rule Borough</b>	<b>First Class Borough</b>	<b>Second Class Borough</b>
<b>Public Education</b>	The borough or unified municipality must provide the service areawide in accordance with AS 14	Same as for a home rule borough	Same as for a home rule borough
<b>Planning, Platting &amp; Land Use Regulation</b>	The borough or unified municipality must exercise the powers areawide, but not necessarily in accordance with AS 29.40	The borough must exercise the powers areawide; in accordance with AS 29.40; the borough may allow cities to assume such powers within their boundaries	Same as for a first class borough
<b>Provide Transportation systems, water &amp; air pollution control, animal regulation</b>	Determined by charter or ordinance	May be exercised on an areawide, nonareawide or service area based by ordinance	May be exercised on an areawide or nonareawide basis by ordinance; approval from voters or property owners required for service area powers
<b>License Day Care Facilities</b>	Determined by charter or ordinance	May be exercised on an areawide, nonareawide or service area basis by ordinance	May be exercised on an areawide basis by ordinance; voter approval required for exercise on a nonareawide or service area basis
<b>Regulate Fireworks, provide solid &amp; septic waste disposal, housing rehabilitation, economic development, roads &amp; trails, EMS communications, regulate motor vehicles and development projects</b>	Determined by charter or ordinance	May be exercised areawide upon approval of areawide voters or by transfer of powers from all cities; may be exercised by ordinance on a nonareawide or service area basis	May be exercised areawide upon approval of areawide voters; or by transfer of powers from all cities; may be exercised by ordinance on a nonareawide basis; may be exercised on a service area basis with voter approval
<b>Hazardous Substance Control</b>	Determined by charter or ordinance	Same as above	Same as above
<b>Other Powers Not Prohibited</b>	Determined by charter or ordinance	Same as above	May be exercised areawide upon approval of areawide voters; or by transfer of powers from all cities and approval of nonareawide voters; may be exercised nonareawide upon approval of non-areawide voters; may be exercised on a service area basis with voter approval



Power	Unified Municipality & Home Rule Borough	First Class Borough	Second Class Borough
Property Tax	Limited to 30 mills except where a higher levy is necessary to avoid default on debt; voter approval to levy property taxes is required authority established by some charters	Same as home rule except there is no charter; still, some general law boroughs have more limited taxing by local action	Same as for a first class borough
Sales Tax	The rate of levy may be limited by charter; voter approval required to levy sales tax	No limit exists on the rate of levy; however, voter approval is required to levy sales taxes	Same as for a first class borough
Assembly composition and apportionment	Flexible; determined according to AS 29.20.060 rule borough	Same as for a home	May be exercised on an areawide or nonareawide basis by ordinance; approval from voters or property owners required for service area powers
Election and term of Mayor	Established by charter or ordinance AS 29.20.120	Elected at large for a 3-year term, unless a different term not to exceed 4 years is provided by ordinance	
Veto Power of the Mayor	Established by charter or ordinance	May vote to break a tie vote only if the borough has a manager form of government	
Ability to attain Home Rule status	Already has home rule status	Voters may adopt home rule charter	Would require adoption of home rule charter

Source: DCCED





## Cities

A city can be within an organized borough or within the unorganized borough. All cities are municipal corporations and political subdivisions of the state. Typically, cities do not include large geographical regions or unpopulated areas. Classifications of cities include:

- Home Rule – 400+ permanent residents; legislative powers not prohibited by law or charter
- First Class – 400+ permanent residents; state law defines powers, duties and functions
- Second Class – 25+ permanent residents; state law defines powers, duties and functions

### Powers and Duties

Important city powers described under Title 29 include (see classification table for more information):

- Public education (Unorganized Borough)
- Planning, platting, land use (Unorganized Borough)
- Property and sales tax authority
- Composition of council
- Election and term of officers
- Eminent domain

### Home Rule

Cordova • Fairbanks • Kenai • Ketchikan • Kodiak • Nenana • North Pole • Palmer • Seward • Soldotna • Valdez

### First Class

Craig • Dillingham • Galena • Homer • Hoonah • Hydaburg • Kake • King Cove • Klawock • Nome • Pelican  
• Saint Mary's • Sand Point • Seldovia • Tanana • Unalaska • Utqiagvik • Wasilla

### Second Class

Adak • Akhiok • Akiak • Akutan • Alakanuk • Aleknagik • Allakaket • Ambler • Anaktuvuk Pass • Anderson • Angoon • Aniak  
• Anvik • Atka • Atkasuk • Bethel • Bettles • Brevig Mission • Buckland • Chefnak • Chevak • Chignik • Chuathbaluk  
• Clark's Point • Coffman Cove • Cold Bay • Deering • Delta Junction • Diomede • Eagle • Eek • Egegik • Ekwook • Elim  
• Emmonak • False Pass • Fort Yukon • Gambell • Golovin • Goodnews Bay • Grayling • Gustavus • Holy Cross • Hooper  
Bay • Houston • Hughes • Huslia • Kachemak • Kaktovik • Kaltag • Kasaan • Kiana • Kivalina • Kobuk • Kotlik • Kotzebue  
• Koyuk • Koyukuk • Kupreanof • Kwethluk • Larsen Bay • Lower Kalskag • Manokotak • Marshall • McGrath • Mekoryuk  
• Mountain Village • Napakiak • Napaskiak • New Stuyahok • Newhalen • Nightmute • Nikolai • Nondalton • Noorvik  
• Nuiqsut • Nulato • Nunam Iqua • Nunapitchuk • Old Harbor • Ouzinkie • Pilot Point • Pilot Station • Platinum • Point  
Hope • Port Alexander • Port Heiden • Port Lions • Quinhagak • Ruby • Russian Mission • Saint George • Saint Michael  
• Saint Paul • Savoonga • Saxman • Scammon Bay • Selawik • Shageluk • Shaktoolik • Shishmaref • Shungnak • Stebbins  
• Teller • Tenakee Springs • Thorne Bay • Togiak • Toksook Bay • Unalakleet • Upper Kalskag • Wainwright • Wales  
• Whale Pass • White Mountain • Whittier

### Organized Under Federal Law

Metlakatla Indian Community

**Table 3: Powers and Duties of Cities**

Power	Home Rule City	First Class City	Second Class City	References
Public Education	City in unorganized borough must provide service in accordance with AS 14; city not permitted to do so within organized boroughs	Same as Home Rule City	City not allowed to provide service under any circumstances	AS 29.35.260(b)
Planning, Platting & Land Use Regulation	Cities in unorganized boroughs must exercise the powers; if in an organized borough, it may be permitted by borough to exercise the powers	Same as for a Home Rule City, except exercised in accordance with AS 29.40 (governance by assembly)	The City is not required to exercise powers, but may be permitted in the manner described for First Class Boroughs	AS 29.35.260(c) AS 29.35.260(c)
Property Tax	City may tax up to 30 mills, except where a higher levy is necessary to avoid default on debt; some home rule municipal charters require voter approval to authorize the levy of property taxes	The City may tax up to 30 mills except where a higher levy is necessary to avoid default on debt; voter approval is not required by statute, however, some general law municipal governments have more restrictive limitations imposed at the local level	The City may tax up to 20 mills, except where a higher levy is required to avoid default; voter approval is required	AS 29.45.550 AS 29.45.590
Sales Tax	The rate of levy may be limited by charter; requirements for voter approval may also be set by charter.	There is no limit on the rate of levy sales taxes; however, voter approval is required	Same as for a First Class City	AS 29.45.700
Other Powers	Possess all legislative powers not prohibited by law or charter	May exercise other powers not prohibited by law	May exercise other powers not prohibited by law	Art. X, S 11, AK Const., AS 29.35.250
City Council Composition	Determined by charter or ordinance	Six members selected at large, except the council may provide for election other than at-large	Seven members elected at large, except the council may provide for election other than at-large	AS 29.20.130
Election and Term of Mayor	Determined by charter or ordinance	Elected at large for a 3-year term, unless a different term not to exceed four years is provided by ordinance	Elected from the City Council for a 1-year term, unless a longer term is provided by ordinance; mayor is selected by council (or by voters upon adoption of ordinance)	AS 29.20.230

Power	Home Rule City	First Class City	Second Class City	References
Vote by Mayor	Determined by charter or ordinance	May vote to break a tie vote on the City Council	Votes on all matters	AS 29.20.250
Veto Power of Mayor	Determined by charter or ordinance except veto is not permitted on ordinance prohibiting possession of alcohol	Has veto power with the same exception noted for Home Rule Cities	Has no veto power	AS 29.20.270
Power of Eminent Domain	Permitted by statute	Permitted by statute	Permitted, but requires voter approval	AS 29.35.030
Ability to Attain Already has home Home Rule Status	Already has home rule status	Voters may adopt Home Rule Charter	May not adopt Home Rule Charter without first reclassifying to a First Class City	AS 29.10.010

Source: DCCED





## Issues that Impact Alaska's Municipalities

### Municipal Governance (Title 29)

State statutes regarding municipal governance should reflect the Constitution's intent to maximize local self-governance, understood to mean strengthening the capacity and effectiveness of local governments. Further, decision-making at the local level is most responsive to Alaskans' interests. To this end, AML:

- Supports increased capacity within and professionalization of State tax assessment.
- Supports improvements to records retention, public records access, and public notice.
- Supports issuance of a municipal impact fiscal note within proposed legislation.

### Community Assistance and Revenue Sharing

Revenue sharing was originally conceived as a way in which to share state resource wealth with local government, thereby ensuring that all areas of the state have basic public services and reasonably equitable and stable local tax rates. While Alaska has had a revenue sharing program since 1969, it has had numerous changes over the years, including in 2017 to rename the program Community Assistance. Funding has been inconsistent over the years but is a priority for Alaska's municipalities. To ensure its continued inclusion in the budget, AML:

- Supports a baseline floor of \$60 million annually, and encourage a long-term, sustainable solution.
- Supports a method to waive debt, forgive loans, or otherwise bolster "stressed" communities whose revenue sharing funds are withheld.



### PERS/TRS Changes

In recognition of the State's responsibility for the majority of the unfunded pension and health benefit liability, in 2008 the State amended its statutes regarding employer contributions to PERS and TRS, placing a cap on employer contributions at 22% of payroll and TRS contributions at 12.56% of payroll, with the State accepting responsibility for any costs in excess of this amount (the "on behalf" payment). The unfunded liability, and the state's "on behalf" payment, remains contentious, and a budget line item that is frequently focused on by State officials and legislators. Understanding the history of PERS – and the State's responsibility – is important in this context. For municipalities, many have become "prisoners of PERS" – unable to leave without a costly termination study and still the unfunded liability to address. Uncertainty related to the PERS pool of participants as well as investment returns is a real concern for most municipalities. AML:

- Supports amendments to termination studies and penalties for leaving PERS/TRS.
- Supports the development of a pathway to decrease overall unfunded liability.
- Opposes any cost shift of the State "on behalf" payment over 22%.

### Fiscal Policy

Municipal fiscal health is often a direct reflection of state fiscal health. If the state reduces its overall budget or revenue sharing, or shifts costs or responsibilities to municipalities, local governments either must draw from savings, raise local taxes, or become unable to deliver essential public services. Therefore, it is imperative that the state approach its fiscal policy with the utmost concern for impacts to the economy and political subdivisions of the state. If there is no capital budget, then infrastructure and economic development suffers. Reductions in the state's budget cannot come at the expense of local government, and AML:

- Supports agency and programmatic efficiency and right-sizing but opposes cost-shifting to municipalities and eliminating essential services.
- Supports the development of a broad-based tax or other mechanisms to increase state revenue.

### Public Safety and Emergency Response

Municipal governments play an essential role in delivering public safety to Alaskans. The majority of first responders are municipal employees and volunteers, and municipalities spend more on public safety than the state. The partnership between the federal, state and local governments must be strategic and responsive to threats to public safety, emergency response and the long-term well-being of Alaskans. AML encourages the state to:

- Increase officer recruitment and retention.
- Support and strengthen the VPSO program.
- Decrease access to and impacts from opioids.

### Economic Development

Local governments are often at the heart of economic development in a community, providing an employee base as well as programmatic and infrastructure investments. Many municipalities have economic development arms, as well, which foster economic activity and support innovation and entrepreneurship. AML:

- Supports increased investment in diversification and small business development.
- Supports increased investment in training and workforce development.
- Supports state responsiveness to local economic development planning.

### Education

The state's constitution requires the legislature to establish and maintain a system of public schools. However, state statute assigns to local government the shared responsibility to contribute to that maintenance. Municipal investment makes up 25% of school funding in Alaska, without which many school districts would struggle to operate. AML:

- Supports early childhood education, career and technical education, and preparing, attracting and retaining qualified educators.
- Supports accountability and assessment that meets federal requirements and maximizes local control.
- Opposes any reduction in school funding and support investment in infrastructure and deferred maintenance.



### Fisheries

Alaska's port and harbors represent critical transportation links and economic drivers for the state, as well as public safety assets. The state transferred ownership of the majority of these facilities to municipalities, who have assumed the operational costs but for whom the maintenance and improvements are challenging. At the same time, Alaska's coastal communities are dependent on an active and well-managed commercial fishery. AML:

- Supports appropriately funded DF&G and increased investment in fisheries research and outreach.
- Supports continued investment in port and harbor infrastructure.
- Supports an active role in federal fisheries management, and clean water, as well as transboundary negotiations.

### Energy

The high costs of heat and power in most of Alaska presents a burdensome transactional cost to doing business or providing public services. While Power Cost Equalization (PCE) is a reliable effort to stabilize and bring down costs for residents, there remains an incredible challenge to increase affordable energy in Alaska. Most local governments have identified the cost of energy as a primary detrimental influence affecting quality of life and economic expansion within their communities. AML:

- Supports vetting of and investing in energy projects, processes and programs that decrease energy costs

### Transportation

Alaska's transportation infrastructure is pivotal to the state's economy and facilitates access to markets, supplies, and most of all, resources. Improving and investing in Alaska's air, marine, and ground transportation system will enhance the global competitiveness of Alaska business and economic opportunities for its people. Alaska needs new transportation infrastructure development to provide access to resources, reduce barriers for communities to participate in the economy, allow for safe and efficient transportation for all Alaskans, and to dramatically improve Alaskan's quality of life statewide. It is equally important to ensure the maintenance of our existing infrastructure. AML:

- Supports the establishment of an Alaska Transportation Fund that can be used to match or supplement federal funding and invest in multi-modal transportation infrastructure.

### Minerals

Alaska's size and complex geology provide immense opportunity for a wide variety of minerals to occur, including coal, gold, copper, silver, molybdenum, zinc, and rare earth minerals. Unfortunately, size and geography present disadvantages, and include the

distances from markets, lack of road systems to move the material, and in some cases, the lack of technology to develop and process the mineral. All these factors raise the cost of production and make it harder for the industry to compete with other parts of the U.S. and the world. Municipal government benefit from mineral development in a variety of ways, but where there is mining, there is a healthy local government. AML:

- Supports responsible resource development and the reduction of investment barriers alongside improved environmental risk management.
- Opposes additional state tax on mineral development and supports robust local government property, or payment in lieu of, taxes.

### Water, Wastewater and Sanitation

The delivery of water, wastewater and sanitation are the responsibility of many municipalities, and while improvements have been made in much of the state, more than 30 rural communities have no centralized water or wastewater systems. These are essential functions of local government and are supplemented by state investment and efforts. AML:

- Supports increased State investment in maintenance and infrastructure upgrades.





## Federal Priorities

The federal government has created many laws and regulations under which Alaska's municipalities must operate. Though many of these laws are created with good purpose and may have good reasons behind their implementation, many become challenging for local government because of climate, distance and costs. Blanket nationwide laws, for instance, create additional expenses and work for municipalities.

Unfunded federal (or state) mandates are a threat to municipal governance in Alaska. Additional requirements of a municipality, when not reimbursed, result in a loss of capacity to deliver services to community members.

After federal logging restrictions, municipalities that had historically relied on the timber industry for their economies were provided with funds that helped them keep their schools open and their roads maintained (Secure Funding for Rural Schools Act). Every year Alaskans must make the case for SRS funding to continue through the U.S. Forest Service, roughly \$10 million annually.

At the same time, federal lands are tax-exempt, and Alaska municipalities lose a sizeable amount of potential revenue due to the loss of taxable land owned by the federal government. That revenue loss has been reimbursed to municipalities through a Payment in Lieu of Taxes (PILT) program operated through the Department of Interior, which is equal to state revenue sharing payments of \$30 million.

Alaska's municipalities have identified a number of priorities, including:

- Support full funding for and recalculation of small community population caps for PILT payments to Alaska municipalities.
- Support federal PILT payments, timber receipts, funding for Safe and Secure Rural Schools, and infrastructure investments.
- Oppose underfunding of Federal Assistance Programs including Medicaid, transportation, CDBG, SNAP, Medicare, Head Start, Title 1 Grants, WIC, CHIP, etc.

These programs represent important funding streams for municipalities, which supplement and augment state funding.

### Federal Advocacy

NACo - AML belongs to the National Association of Counties (NACo), which represents all 19 Alaska boroughs as it advocates for county interests in Washington, DC. AML and NACo lobby extensively on, especially, public lands issues, including PILT and SRS, as well as broader topics of economic development, emergency response and federal preemption (unfunded mandates).

NLC - AML belongs to the National League of Cities and contributes the perspectives of Alaska's 146 cities to national policy-making. AML and NLC lobby extensively on issues that include housing, opioid response, public safety, telecommunications, economic development and federal preemption.



## State – Municipal Fiscal Impact

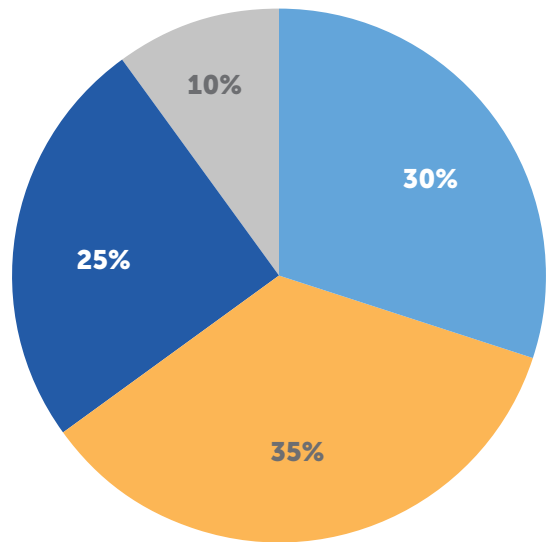
State and local government are intertwined and interdependent, dating back to statehood. The Alaska Statehood Act and the Alaska Constitution recognize that the state's unique size, geography, isolation, distance from markets, and low population necessitated State provision of public education, public safety, public health, public welfare, a unified court system, infrastructure, and more.

In describing the State's budgetary impact on municipalities, we're comparing State support for an expense to total community expenses, generally using FY21 numbers, often coming up with relative ratios. The way to think about these ratios is that if they are high, they squeeze out other choices that a community might make. If they are pushed higher because of State choices, that comes at the expense of other programs at the local level. The State could also make choices that decrease local costs, which would free up funding for other local priorities, or increased investment.

There are many State-funded programs that are in law, and the distribution to local governments based on a formula or commitment by the State in statute. These all include language in law that says the State "shall" do something, but that direction is undermined by the fact that many are also subject to appropriation. That leaves the State with a law that can be skirted based on the budget, which increases uncertainty. Alaskans expect laws to be followed, and local governments build their budgets based on that expectation. If the Legislature, or through a Governor's vetoes, fails to appropriate funding as directed in law, it increases distrust and creates instability in Alaska's communities.

The following fiscal impacts review includes a selection of higher priority areas where State decisions directly impact local governments. For a full review of State fiscal impacts and AML's fiscal policy approach visit [akfiscalfutures.com](http://akfiscalfutures.com).

Local government spending falls into a few categories:



- **Public Safety:** police, fire, and emergency response
- **Schools:** required contribution, respond to district needs, 75% of schools
- **Utilities:** roads, landfills, water and sewer
- **Quality of Life:** libraries, museums, rec centers, parks, playgrounds

- State funding – or its loss – often comes at the expense of infrastructure improvements, followed by reductions to programs in the above categories. Larger local governments have larger tax bases and more choices. Smaller local governments . . . don't. Relatively small amounts of State funding literally keep the lights on.

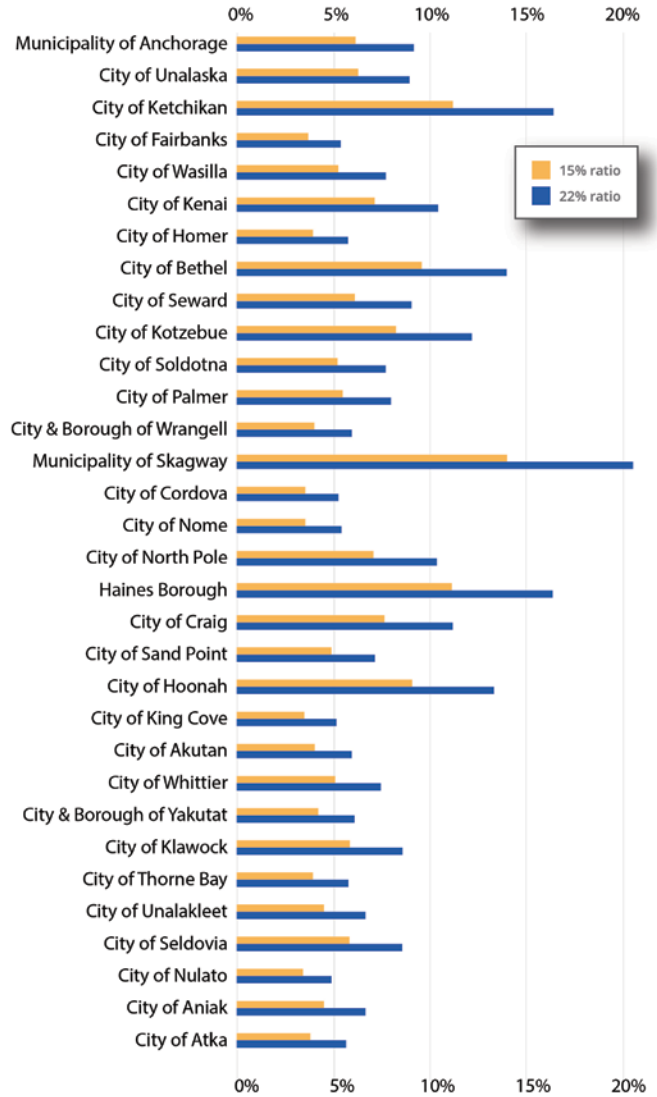
These programs are the building blocks of the inter-governmental partnership between the State and its political subdivisions.

**PERS – the State-managed pension system**

- 64 communities are locked into participation in the State’s pension system. Many others are as well, including schools, housing authorities, the university, and AHFC.
- For many, it costs more to get out than it does to stay in, even as current costs are unsustainable for many.
- The way that was managed in the past resulted in an agreement that the local rate would never go beyond 22%, and the State would pick up the difference up to the actual rate (actuarily determined).
- One of the reasons for the high costs is that the system has an “unfunded liability” that results in a past service cost being applied to every employee. That is the majority of the total annual rate.
- Communities then have little control over retirement benefits they can offer employees, nor control over what they are spending.
- Nationally, pension payments average 4.6% of total local government budgets.

Takeaway

- Local governments make up only 18% of PERS as a percentage of total payroll.
- PERS is higher than 4.6% of budget for 47 of 64 communities. It is higher than 10% for 20 communities.
- Eliminating the need for the past service cost would push that to less than 10% for all communities, and fully half would be under national average.
- The current rate is \$61 million higher than it would be if the need for past service cost were eliminated. In other words, taxpayers in 64 communities pay \$61 million more because of the State’s underfunded pension system.
- If the State couldn’t make its payment, it would add \$48 million to local taxpayers to make up the deficit.
- Smaller communities have a harder time managing PERS or lowering those costs. For example, Eliminating a “class” may trigger extra costs; for small communities, that may mean a single employee; for larger, they could reduce their staff significantly before eliminating a class.
- Even if they make reductions to their staff, local governments still must pay toward the State’s unfunded liability.
- The current pension system impacts recruitment and retention – while local governments pay 22%, the majority of that does not end up as employee benefits, and even less for new employees.





**Community Assistance**

- This is a 40-year-old program that recognizes the State’s tax base is greater than that at a local level, and funds local provision of essential services that would otherwise fall to the State.
- Today it sends about 16% of what it did in 1985. Adjusted for inflation, it should be 964% higher than it is now.
- When community assistance was unfunded in the 2000s, 14 communities ceased operations. Many others added or increased their sales taxes.
- The graph to the right shows what percentage of local budgets are funded by Community Assistance.



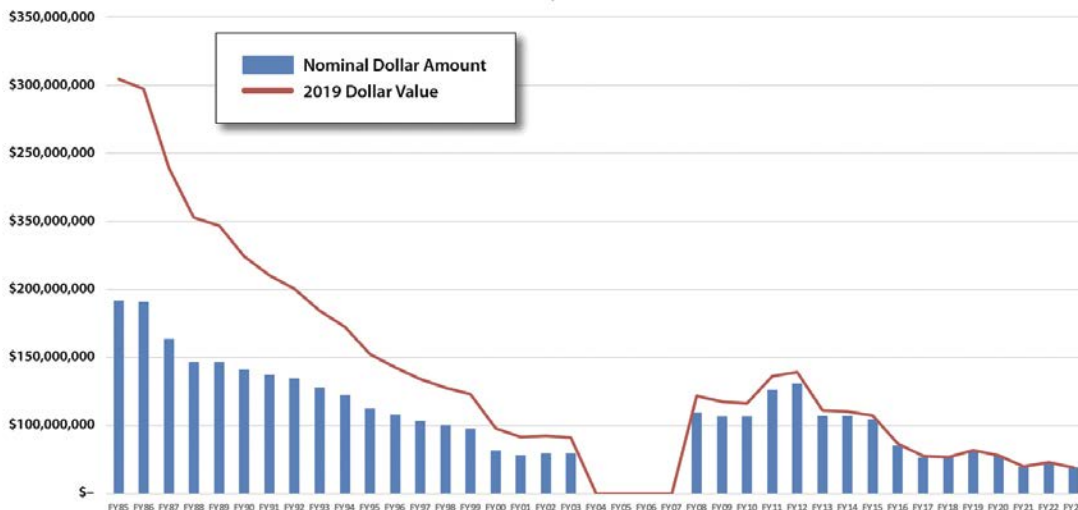
- It doesn't sound like much, though as a percentage of budget it was significant still for some. But:
  - \$1,000 is equal to filling 17 potholes.
  - \$10,000 is equal to annual support by some for the local Chamber of Commerce.
  - \$100,000 is equal to four days of plowing snow on the weekend in a large community.

Takeaways

- For those 15 communities for whom Community Assistance is more than 40% of their budget, if it went away, we could assume they would cease operations.
- For those 65 communities for whom it is between 10 and 40% of their budget, it would mean significant staff or program reductions.
- What does that look like?
  - Unable to afford village police officers or provide housing for VPSOs or Troopers.
  - Closing of washeteria, or unable to afford bulk fuel purchase for power.
  - Landfill operations and/or airport plowing cease.
- The difference that communities experienced recently, with Community Assistance reduced by a third: for 93 that meant less than a \$10,000 reduction; for 57 more that was between \$10,000 and \$100,000 reduction.

Community Assistance Over Time

- A good example of a statewide operating cost is the intergovernmental transfer of State resource revenue to political subdivisions of the State, which are performing services that would otherwise be provided by the State.
- Initially structured as revenue sharing tied to police, fire, roads, etc., the program has evolved over time, with negotiated – sometimes – reductions when the State couldn't afford to maintain its previous level of funding. Local governments came to the table and compromised at lower levels so that other priorities could be maintained.
- Of course, these State expenditures aren't tied to inflation at all. The value of today's distribution, instead of \$30 million, should be \$300 million. That's the difference inflation and reductions have made over time, while local governments continue to make up the difference.

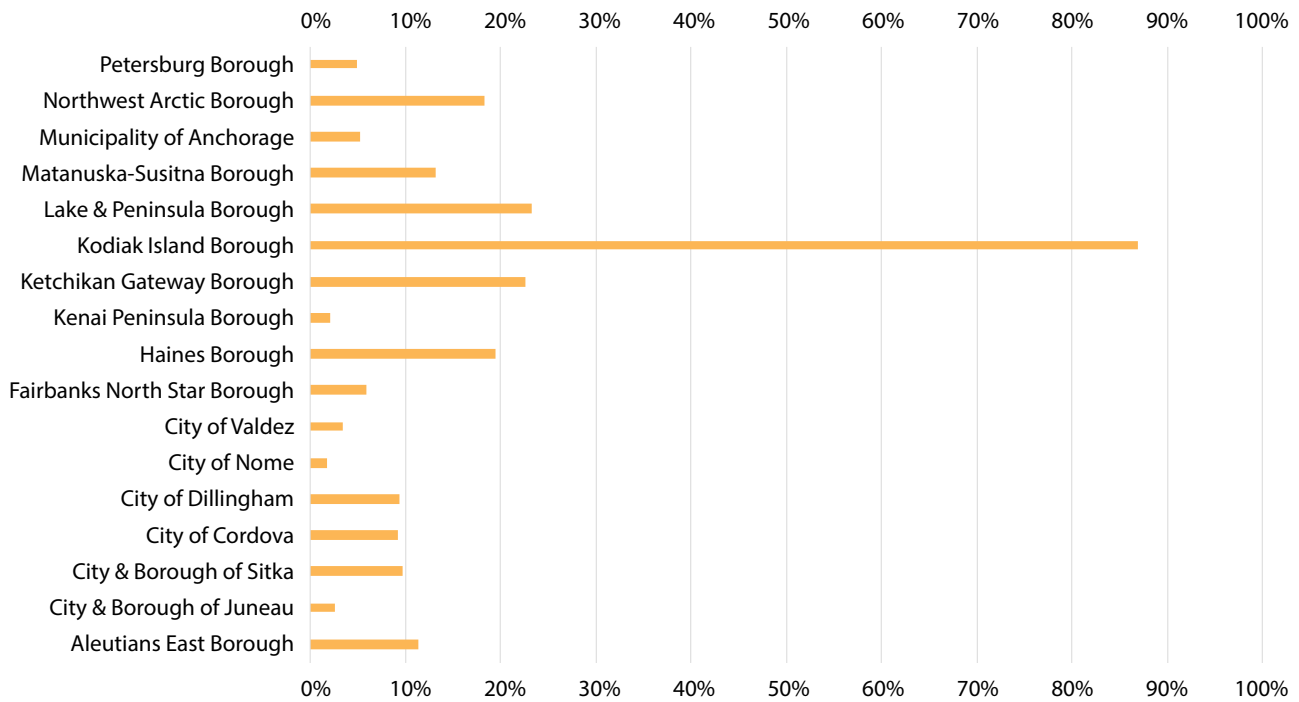


**School Bond Debt Reimbursement**

- One of the State’s primary, Constitutional obligations is to establish and maintain a system of public education.
- 75% of all schools are owned and maintained by local governments.
- While the State has a grant program for construction and maintenance of schools not owned by local governments, it has relied on the School Bond Debt Reimbursement for many of the state’s school facilities.
- The program commits to local governments that if they bond for a project, the State will reimburse 60 to 70% of the bond payment each year.
- That’s been called into question these last few years, with that payment either vetoed or funded at 50%, which shifts the cost to the local government.

Takeaways

- Local governments have already paid for the school bond debt.
- Their portion is already 30-40% – out of a total debt left of \$900 million, local taxpayers are paying \$350 million.
- Shifting the State’s reimbursement commitment means the State is asking taxpayers to cover their portion, another \$550 million.
- State spending on rural schools is tied to levels of school bond debt reimbursement.
- If the State doesn’t reimburse at all, it requires 86% of Kodiak Island Borough’s budget, and about 20% of the budgets in Ketchikan Gateway Borough, Northwest Arctic Borough, Haines Borough, and Lake and Peninsula Borough.
- Even a 50% reduction is equivalent to 5% of the budget or more for ten local governments.
- The 50% reduction is equal to what it costs to conduct a math/reading assessment in four school districts, or to two in-service days for teachers.



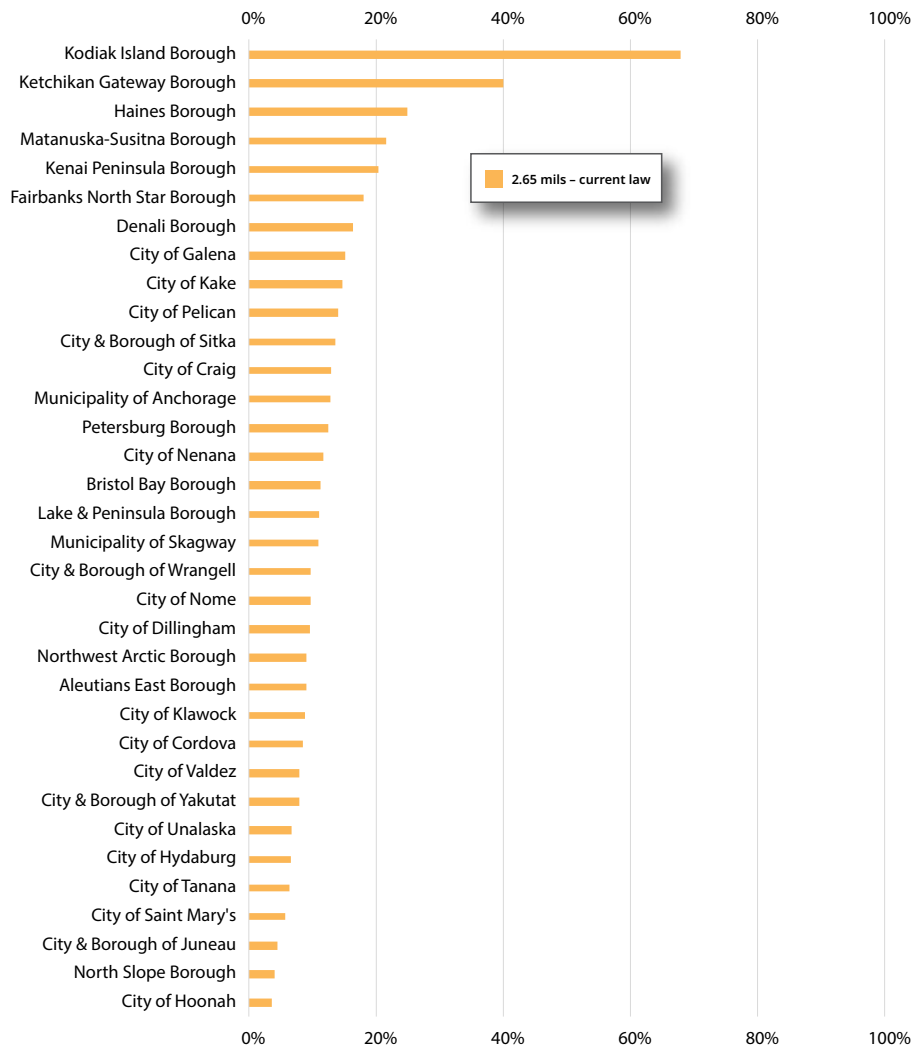
**Minimum Required Local Contribution**

- While it's the State's obligation to maintain public education, it requires certain local governments to contribute a local share.
- This is currently 2.65 mills (0.265% of the total assessed property value); and used to be 4 mills (0.4% of the total assessed property value).
- All boroughs and home rule and first class cities in the unorganized borough must give a local contribution to education.
- Many give well beyond the minimum, though there is also a maximum, known as the cap.
- Four local governments give more than the State's contribution.

- Those 36 represent the majority of the State's 54 school districts.
- For a majority of these, the State tax represents more than 10% of their budget.
- Local governments give much more, of course, and many others provide other forms of support for schools like housing, maintenance agreements, and student activities.
- This minimum contribution – a total of \$260 million in taxpayer funding – is equivalent to 10% of the total tax collected by all local governments.
- For Ketchikan Gateway Borough and Kodiak Island Borough, this contribution is 40% and 68% of their total budgets, respectively.
- If the tax reverted back to 4 mills, which it used to be, it would require an additional \$70 million – for the Kodiak Island Borough it would equal 99% of its current budget.

Takeaways

- This is a State-mandated property tax, dedicated to pay for education.
- For these 36 local governments subject to the required local contribution, this contribution is significant.



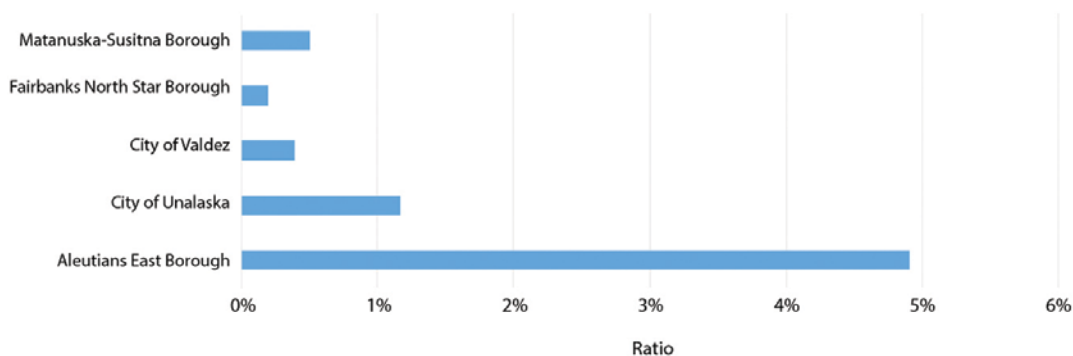
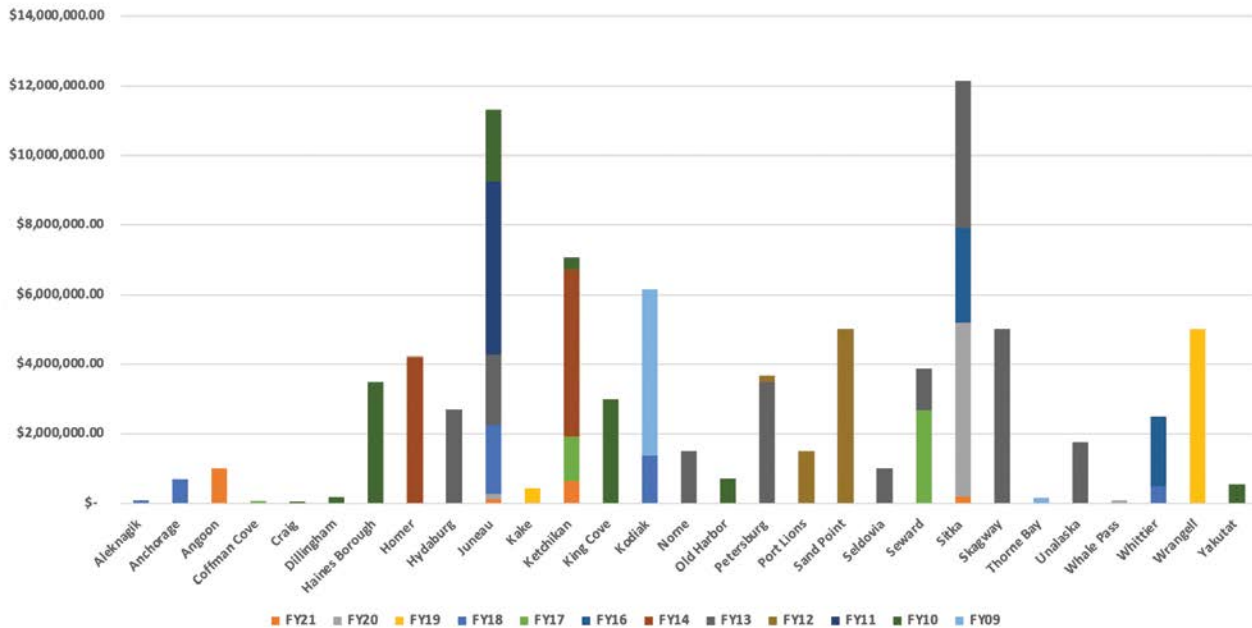


### Harbor Matching Grants, Project Reimbursement

- Over the course of the 1990s the State transferred almost all of its port and harbor assets to local government.
- Many of these were in desperate need of repair.
- The State made commitments to fund those improvements, as part of the transfer process.
- The Harbor Matching Grants program matches 50/50 community investments.
- There were a few projects that communities bonded for, which the State committed to reimbursing.

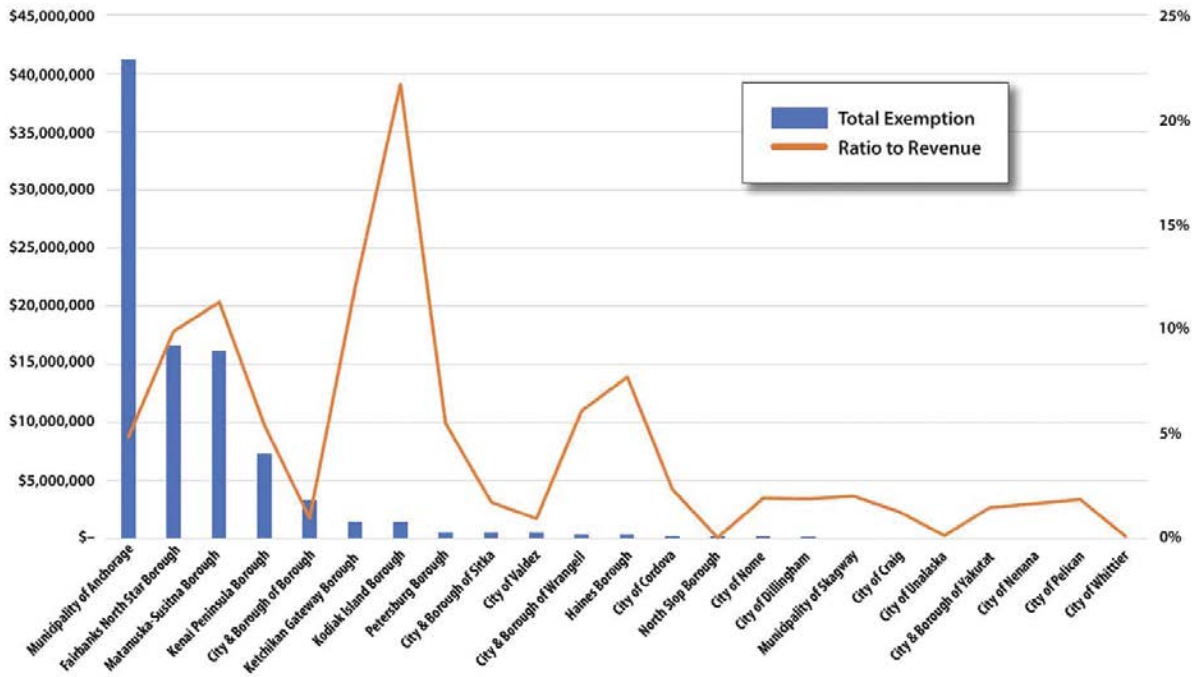
#### Takeaways

- Alaska has more coastline than the entire US, and the State has no active role in maintaining ports and harbors.
- Alaska's seafood industry created \$5.6 billion in total annual economic activity for Alaska; the cruise industry and the visitors they serve account for \$3.0 billion of the state's economy.
- These two sectors contribute 15% to the state's GDP, and are dependent on local government infrastructure and services.
- The reimbursement program – a commitment by the State in place since 2002 – receives less attention than school bond debt, but when neither are funded, they combine to be 15% of the Aleutians East Borough's budget (2/3 of which is education spending!).
- Over the 10-year period of harbor matching grants, Juneau and Sitka have contributed \$20 million to improved harbors in their communities.
- In total, local governments have matched the State's \$84 million with an equal or more likely greater (as part of their general harbor maintenance budgets) contribution.



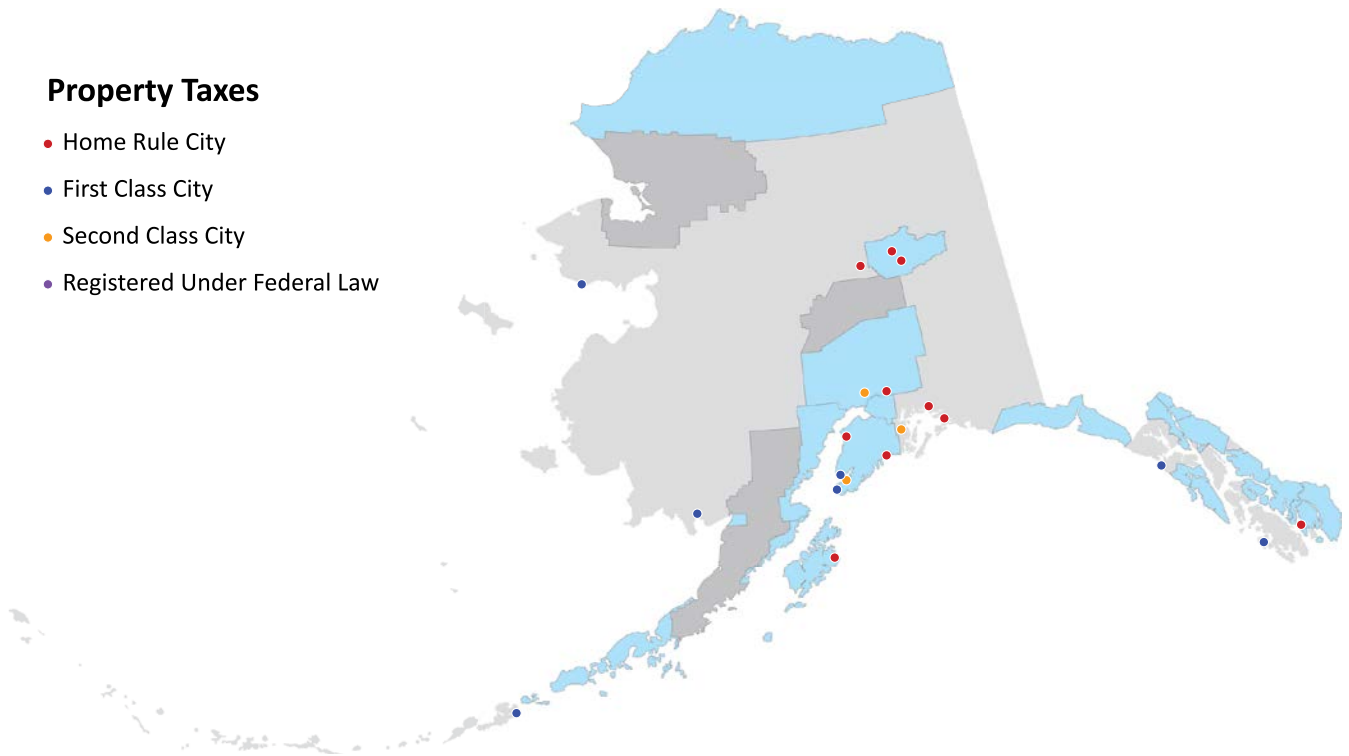
**Mandatory Exemption**

- State law exempts real property owned and occupied by residents 65 or older or disabled veterans or widows over age 60.
- The exemption applies to the first \$150,000 of assessed value. It’s an exemption that is broad in its applicability, though best practice would change this to needs-based.
- The State has not funded the reimbursement since 1997, though it is required by statute to do so.
- The effect of the unreimbursed exemption is that the property tax must be higher to make up the difference, and it falls to other taxpayers to make up the difference.



**Property Taxes**

- Home Rule City
- First Class City
- Second Class City
- Registered Under Federal Law



**School Construction and Major Maintenance**

- Alaska has roughly 1,000 schools – nearly half are 40 years or older, the average replacement age for facilities. Of the total, 757 municipally owned and maintained schools.
- Construction and major maintenance are critical components of the State's Constitutional obligation to establish and maintain a system of public education. The way the State approaches this has been through two programs – school bond debt reimbursement and a grant program.
- Both require a 30-40% match from municipalities with school districts, and a minimal amount from other districts, called REAAs (Regional Education Attainment Areas), which are the responsibility of the State.
- Of the grant programs, the State requires school districts to submit priority lists of needs each year. On average, the State funds 8% of this need. In recent years, the State has shifted its reimbursement of school bond debt back to local governments. There remains roughly \$1.6 billion in need according to priority lists, and about \$800 million left in school bond debt.
- Industry standards indicate that 2% of building value is needed annually to meet capital renewal needs of existing buildings, and suggest an additional 1% of replacement value, for deferred maintenance. For Alaska's 1,000 schools, this annual amount would be \$283 million. Over the past decade, average annual funding through the grant program has been just \$69.5 million, including both the State and local share. Through debt reimbursement, an additional \$65.7 million annually is added, for a total annual amount of \$135.2 million – helpful, but less than half of the true need.

Fiscal Year/List	Number of Projects	Total Eligible State Share	Number of Projects Funded	Amount Funded
FY2011 Construction	35	\$411,643,149	3	\$128,500,000
FY2011 Maintenance	130	\$272,421,065	8	\$24,786,959
FY2012 Construction	32	\$313,999,772	3	\$61,910,901
FY2012 Maintenance	117	\$275,132,938	15	\$25,854,691
FY2013 Construction	27	\$276,691,304	2	\$60,973,515
FY2013 Maintenance	120	\$267,017,375	13	\$17,979,185
FY2014 Construction	24	\$284,133,432	3	\$60,619,572
FY2014 Maintenance	111	\$253,682,082	13	\$22,991,057
FY2015 Construction	17	\$274,150,436	2	\$43,279,791
FY2015 Maintenance	102	\$183,505,181	0	\$0
FY2016 Construction	18	\$230,920,120	1	\$43,237,400
FY2016 Maintenance	102	\$172,195,526	4	\$2,623,689
FY2017 Construction	17	\$206,267,345	4	\$73,735,471
FY2017 Maintenance	98	\$181,570,096	0	\$0
FY2018 Construction	15	\$123,294,419	3	\$46,305,477
FY2018 Maintenance	107	\$164,887,094	16	\$0
FY2019 Construction	11	\$179,214,343	7	\$42,527,459
FY2019 Maintenance	84	\$142,892,281	17	\$27,653,300
FY2020 Construction	11	\$190,353,374	2	\$20,082,467
FY2020 Maintenance	72	\$112,247,626	1	\$7,365,723
FY20201 Construction	14	\$142,797,809	0	\$0
FY2021 Maintenance	102	\$148,986,253	1	\$34,277



**The purpose of the Alaska Municipal League is as follows:**

- To safeguard the interests, rights, and privileges of Alaskan municipalities as they may be affected by Federal and State governmental actions.
- To secure cooperation among municipalities of the State in a thorough study of local problems and in the application of efficient methods of local government.
- To provide means whereby municipal officials may interchange ideas, experiences, and obtain expert advice.

**The objectives of the Alaska Municipal League are as follows:**

- To perpetuate and develop the League as an agency for the cooperation of municipalities in the state of Alaska for the practical study of municipal affairs.
- To promote application of the best methods in all branches of municipal service by holding at least one conference annually for the discussion of problems of administration.
- To gather and circulate information and experience concerning the most approved methods of municipal administration.
- To secure general and municipal legislation at the state and federal levels which will be beneficial to the municipalities and inhabitants thereof, and to oppose legislation injurious thereto.
- To engage in the study and preparation of uniform ordinances, resolutions, and practices; and to do any and all other things necessary and proper for the benefit of the municipalities of Alaska.
- To develop appropriate membership services and programs that strengthen Alaskan local governments' ability to govern their own affairs and improve the well-being and quality of life of their constituents.

For more information contact AML:  
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