

REGIONAL GOVERNMENT OPTIONS STUDY
DELTA-FT. GREELY REGIONAL EDUCATIONAL ATTENDANCE
AREA

PREPARED FOR
CITY OF DELTA JUNCTION

REGIONAL GOVERNMENT OPTIONS STUDY COMMITTEE

Steve Fields, Chair; Lou Heinbockel, Barbara Craig,
Mike Schultz, Tana Wood, Patrick Schlichting,
Pete Fellman, Anne Mauer, Mike Murphy,
Fred Sheen, Paul Knopp

AUTHOR
Lamar Cotten

ACKNOWLEDGMENTS

The City of Delta Junction, the committee and the consultant would like to thank the following individuals for their assistance during the study:

Dan Bockhorst, Alaska Department of Community and Economic Development, Division of Community Advocacy

Eddie Jeans, Alaska Department of Education & Early Development, Division of School Finance and Facilities Section

Randall Hoffbeck, Petroleum Property Assessor, Department of Revenue, Tax Division

Steve Van Sant, State Assessor, Department of Community and Economic Development, Division of Community Advocacy

Arlan J. Deyong, Resource Manager I, Department of Natural Resources, Division of Mining, Land & Water

David Zimmerman, Financial Director City of Delta Junction

Dennis Dooley, Planning Director, City of Delta Junction

Pete Hallgren, City Administrator, City of Delta Junction and Project Editor

Roy Gilbertson, Mayor, City of Delta Junction

Suzie Kemp, Businesswoman, Delta Junction City Council member

Karl Hanneman, TeckCominco Alaska Regional Manager

Dan Beck, Superintendent, Delta-Ft. Greely School District

Table of Contents

	Page
Acknowledgments.....	ii
Table of Contents.....	iii
Executive Summary.....	iv
Chapter 1 Why is formation of a Borough under review?	
1.1 Internal Issues.....	1.1
Chapter 1.2 External Issues.....	1.2
Chapter 2-History of Local Government in Alaska	
2.1 Background.....	3
Chapter 3 Standards for Incorporation	
3.1 Constitutional Background.....	
3.2 Statutes Standards for Incorporation.....	
3.3 Alaska Administrative Code Regulation.....	
Chapter 4 Regional Profile	
4.1 Location	
4.2 Transportation System	
4.3 Physical Setting	
4.4 Natural Resources	
4.5 Land Status	
4.6 Trans-Alaska Pipeline	
4.7 Socio-Economic	
4.8 Population Trends	
4.9 Racial Make-up	
4.10 2000 Populations of Organized Borough and Unorganized Model Boroughs	
4.11 Estimated Average Household Income	
4.12 Estimated Percentage of Unemployment	
4.13 Estimated Percentage of Adults Not Working	
4.14 Estimated Percentage of Poverty	
4.15 Estimated Average Value of Owner-Occupied Housing	
4.16 Sub-Area Breakdown of Income, Poverty and Unemployment and Housing	
Chapter 5 Borough Structure Options	
5.1 Second Class Borough	
5.2 First Class Borough	
5.3 Home Rule	
5.4 Unified Home Rule Municipality	
Chapter 6 School Operational Cost	
6.1 Existing School District Budget	
6.2 State Funding of Local Schools	
6.3 Proposed Borough School District Budget Calculations	
6.4 Estimated Federal Funding Levels	
6.5 The Four Year Phase In Program	

6.6 Transition Issues

Chapter 7 Borough Operational and Finance Issues

- 7.1 Assembly Districts
- 7.2 What Constitutes a Resident
- 7.3 The Decline in the Value of TAPS Property
- 7.4 The Decline in State Support for Local Government

Chapter 8 Borough Expenditures

- 8.1 Borough Assembly
- 8.2 Borough Mayor/Administrator/Manager's Office
- 8.3 Department of Law
- 8.4 Department of Administration and Finance
- 8.5 Department of Planning and Community Affairs
- 8.6 Assessor's Department
- 8.7 City Assets
- 8.8 City Liabilities
- 8.9 Annual Expenses

Chapter 9 Borough Revenues-State and Federal Sources

- 9.1 State/Federal Shared Revenues

Chapter 10 Borough Revenues-Local Taxes

- 10.1 Property Tax
- 10.2 Agricultural Lands
- 10.3 Senior and Disabled Veterans Home Exemptions
- 10.4 Sales Tax
- 10.5 General Sales Tax
- 10.6 Power Tax
- 10.7 Accommodation Tax
- 10.8 Employment Tax
- 10.9 Mineral and Forest Severance Tax
- 10.10 Payment in Lieu of Taxes
- 10.11 Summary of Tax Options
- 10.12 Discussion

Chapter 11 Projected Budget Expenditure and Revenues

- 11.1 Projected Budget Revenues-External and Internal
- 11.2 Scenario 1
- 11.3 Scenario 2
- 11.4 Scenario 3
- 11.5 Scenario 4
- 11.6 Scenario 5
- 11.7 Scenario 6
- 11.8 Discussion

Executive Summary

Chapter 1: Background/Why the formation of a borough is under review

In 2001, the City of Delta Junction received a state of Alaska grant for a regional government study of the Delta/Fort Greely Regional Educational Attendance Area (REAA). The study area covers approximately 6,228 square miles and encompasses the communities of Healy Lake, City of Delta Junction, White Stone farms, Ft. Greely, and the Deltana area, with a population of roughly 3,600 permanent residents.

With respect to local government the area is unique, even by Alaska standards. The city of Delta Junction only includes about 800 residents and currently does not impose any local taxes. The City provides local services through state and federal grants and modest local user fees. Education is provided by the state through the region's REAA, with no requirement for local contributions. Statewide, roughly 97% of Alaskans live within a municipal government and 93% make some type of local contribution for educational services.

Both internal and external issues are forcing the region to review the option of local government. Internal issues include:

- ◆ The development of the ground-based Missile Defense System and other related federal government projects;
- ◆ The possible opening of the Pogo Mine; and
- ◆ The influx of Slavic families to the region.

In short, the area is growing and with growth comes a demand for new or expanded services.

External issues include:

- ◆ The decline in overall state spending, particularly for municipal governments;
- ◆ A series of efforts by urban legislators to require rural Alaskans to pay some or more for government services.

Chapter 2: History of Local Government in Alaska

- ◆ Local government in Alaska has changed radically over the last 100 years. In territorial times, creation of regional governments was allowed only with the express approval of Congress. Prior to statehood, local governments were comprised of cities, school districts and utility districts.
- ◆ The state constitution established a local government system with only two forms of local government: cities and boroughs. Bristol Bay Borough was the first borough to be incorporated in 1963.

- ◆ Alaskans' reluctance to embrace a regional form of government led to the Mandatory Borough Act of 1963. The law required eight, generally urban, areas, to organize as boroughs. They included Anchorage, Kodiak, Fairbanks, Juneau, Sitka, Ketchikan, Matanuska-Susitna area, and Kenai Peninsula. Haines later incorporated in 1968.
- ◆ From 1972 through 1992 other areas incorporated without state prodding, including the North Slope Borough, Northwest Arctic Borough, Aleutians East Borough, Lake and Peninsula Borough, Denali Borough and the Yakutat Borough.
- ◆ The rapid growth of state government and its ability to provide services and funds in turn meant the growth of local government. The expansion of local government was further enhanced by the passage of the Alaska Native Claims Settlement Act (ANCSA) in 1971.
- ◆ Reduced state assistance including the elimination of Municipal Revenue Sharing, and the SAFE Communities and municipal capital matching grants programs has posed a tough challenge to local governments today. Additionally, the downsizing of the timber and fishing industry has left some communities scrambling for ways to make financial ends meet.
- ◆ Fewer revenue options often mean those without political power or the local wherewithal to meet local needs suffer the most. Consequently, some areas of the unorganized borough could see major economic strains or change or discontinuation in the level of local services.

Chapter 3: Standards of Incorporation

The state of Alaska provides the means for citizens to assume local governmental control over their affairs through incorporation of cities and boroughs. These provisions include:

- ◆ Alaska state constitutional provisions-Article X:
 - Section 1 – Maximum local self-government with a minimum local government units....
 - Section 2 – All local government powers shall be vested in boroughs and cities....
 - Section 3 – The entire state shall be divided into boroughs, organized and unorganized....
 - Section 12 – A local boundary commission shall be established by law....
- ◆ Alaska Title 29-Standards for Incorporation that speaks to the following regional characteristics:
 - Social, cultural and economic integration of an area;
 - Its ability to support organized borough government;
 - The relation between the borders of the proposed borough and natural geography; and
 - The regional transportation system's ability to allow for the development of integrated local government.
- ◆ Alaska Administrative Code covering such areas as:
 - Community interest;
 - Population;
 - Resources;
 - Boundaries; and
 - Best interest of the state.

Chapter 4: Regional Profile

Key community characteristics are vital in determining whether a borough would meet state standards for incorporation and successfully operate. Such information includes:

- ◆ Location;
- ◆ Transportation;
- ◆ Physical Setting/Natural Resources;
- ◆ Land Status;
- ◆ Trans-Alaska Pipeline (TAPS);
- ◆ Economy; and
- ◆ Socio-economic make up of the residents.

Of particular relevance to the operation of a borough is:

- ◆ a new borough is entitled to 10% of the vacant, unreserved and unappropriated state lands within the study area boundaries. This would currently mean the transfer of 16,735 acres to a new regional government in the study area;
- ◆ a current estimated value of TAPS at \$210.7 million. State oil and gas officials estimate that the pipeline will decrease in value 10% in 2005 and 3-5% annually thereafter; and
- ◆ data for the area from the 2000 census showed generally low housing values and income levels compared to other regions of the state. However, it is assumed that with the recent increase in military construction projects, income levels and housing values have risen in the last 24 months.

Chapter 5: Borough Structure Options

In Alaska, there are both general law and home rule boroughs. General law boroughs (first and second class boroughs) are the most restrictive in terms of operational flexibility. They may provide only services and powers that are explicitly allowed for in state statute. Home rule boroughs (home rule and unified home rule boroughs) have the most flexibility in providing services. Home rule boroughs are formed through the development and approval of a home rule charter, similar to a local constitution, that spells out what powers and services the local government may provide. A home rule government may provide any services or assume any power unless explicitly prohibited in state statute.

Currently there are 16 boroughs in Alaska. Seven are second class boroughs, six are home rule boroughs, and three are unified home rule boroughs.

Chapter 6: School Operational Cost

The largest expenditure for all boroughs is the operation of its schools. Under state law, local governments with educational powers must contribute the equivalency of between four and nine mills of taxable real and personal property.

Regarding the study area, this could mean a required contribution of between \$400,000 for property values of \$100,000,000 and \$1,600,000 for property values of \$400,000,000.

A key policy decision for the region will be when and how it assumes educational powers. A new borough has two years to assume all school districts' assets and liabilities. In the case of the study area, if a borough was organized in FY2005, it would not have to assume educational responsibilities until FY2007.

The required local contribution level is zero in the first year, two mills in the second year, three mills in third year and four mills in the fourth year and years thereafter.

Chapter 7: Borough Operational and Finance Issues

There are a number of policy issues that new rural boroughs will face. Four such issues are:

Establishment of Assembly Districts. There are a number of options to consider for assembly seats including (1) at large, (2) district residents, vote at large, (3) district residents, vote by district and (4) combination at large and & districts.

Who constitutes resident. Residents could be defined as year-round residents only or seasonal workers as well. Many rural boroughs experience populations swings due to seasonal employment such as mining, construction and fish processing. It's important for a new borough to establish clear guidelines for when a person becomes a local resident and can participate in local elections.

Decline in the value of TAPS property. Unless there is a dramatic change in events, TAPS property will continue to decline in value. If the area is reliant upon property taxes from TAPS for operational or capital funding, it needs to accommodate the decreasing value of the pipeline and associated property in its funding forecast.

Decline in state support for local government. The state continues to provide less funding to local governments, groups and individuals than in the past. This year the state revenue sharing program, SAFE communities, and matching capital grant programs were eliminated. Communities that rely heavily on state money for operational and capital funding need to make decisive changes in how they operate.

Chapter 8: Borough Expenditures

Following are cost estimates for non-educational borough services in the first three years of operation:

TOTAL BUDGET ESTIMATES (Cost in Thousands)			
Department	FY05	FY06	FY07
Assembly	118.2	124.8	129.2
Borough Mayor/Administrator/Manager	210.45	227.95	225.5
Law	55.0	55.0	55.0
Administration and Finance	90.95	93.75	95.1
Planning & Public Works	178.10	183.35	187.0
Sub-Total	652.7	684.85	691.8
Assessors Office	110.0	44.0	44.0
Additional Services Currently provided by the City	200.0	210.0	220.
Total	962.7	938.85	955.8

Additionally, it is estimated that services currently provided by the city, beyond the minimal borough services, will cost an additional \$200,000 annually.

These are general estimates and the assembly would need to make any final budget determinations.

Chapter 9: Borough Revenues-State and Federal Assistance

New boroughs receive a \$600,000 organizational grant over a three year period. Additionally, it is estimated that the regional government will be eligible to receive an annual payment in lieu of taxes (PILT) of approximately \$267,000. With the elimination of revenue sharing, the capital matching grant program and the SAFE community program, a new regional government will not be able to rely on the traditional state pass-through programs.

Chapter 10: Borough/Local Taxes

This section reviews tax structure options that the region could use to meet financial obligations to provide basic services. Below is a summary of tax options and approximate revenue they would produce:

TABLE— (REVENUES IN THOUSANDS \$)	
Tax Classification	Approximate Taxes Generated Annually
Property Tax (5 mills)	
Oil and Gas \$210 million and Other Properties \$100 million (\$310 million)	\$1,550.0
ComincoTeck-Pogo Mine (initial value of \$200 million)	\$1,000.0
Other non-property taxes	
General Sales Tax @ 3% (\$18 million of sales and uses)	\$540.0
Power tax only on \$2.8 million of power sales@25%	\$700.0
Power tax on \$2.8 million of power sales @ 50%	\$1,400
Accommodation tax on \$1 million @ 3%	\$30.0
Employment Tax @ \$100/worker x 1,000	\$100.0
Mineral and Severance Tax @ \$1.00/ounce x 500,000 ounces	\$500.0
Payment in Lieu of Taxes on the \$200 million property value x 4 mills	\$800.0

Please note that ComincoTeck-Pogo Mine is expected to come on line in 2006. This report assumes an increase in non-oil and gas property values of 3% annually. It assumes a decrease in oil and gas property values of 10% in 2005 and 4% for the years thereafter. The Pogo mine has a current projected life of 11 years. Its property values will decline at about \$16.3 million per year with an end value of \$20 million in 2017.

Chapter 11: Projected Budget Expenditures and Revenues

Listed below is a summary of projected borough expenditures for the years FY2005-2011 including educational services:

Service/FYear	2005	2006	2007	2008	2009	2010	2011
Minimal Boroughs Services*	762.7	728.8	735.8	750.0	770.0	790.0	810.0
City services and facilities**	200.0	210.0	220.0	242.0	265.0	290.0	300.0
Total Expenditure (non-education)	962.7	938.8	955.8	992.0	1035.0	1,080.	1,110
Educational Services	0.00	0.00	7,127	7,127	7,127	7,127	7,127
Total Expenditures	962.7	938.8	8082.8	8,119	8,162	8,207	8,237

*This assumes the borough would be incorporated in calendar year 2004 (July 1, 2004 = FY 2005) and would not assume educational powers until July 1, 2006 (FY2007). It assumes the borough would have an Assessor's office.

**This includes current as well as projected maintenance and operation cost of new facilities.

Given these costs, the following six revenue scenarios were developed to determine which tax system would best accommodate borough needs:

- (1) Assumes the total regional real and personal property values in FY2005 will include \$210 million worth of oil and gas properties and \$100 million of non-oil and gas properties for a total of \$310 million. Starting in FY2007, properties in the Pogo Mining district will be valued at \$200 million for a total of \$487 million. It assumes a five mills tax on real property.
- (2) Assumes the Pogo mine is not constructed in the foreseeable future but does include oil and gas properties for a total of \$310 million in FY2005. It assumes a five mills tax on real property.
- (3) Assumes the Pogo mine is not constructed. If the area does not institute a property tax, oil and gas properties would not be included in the region's total property valuations, resulting in local taxable property of \$100 million in FY2005. It assumes a 3% general sales tax and a 25% power tax.
- (4) Assumes Pogo Mine is operational in 2006, but that the oil and gas properties are not counted in the foundation formula if there is no local property tax. The total property values would be \$310 million in FY 2005. It assumes a 3% general sales tax and a 25% power tax.
- (5) Assumes Pogo Mine is developed, oil and gas properties are not counted toward the local contribution for education without a property tax. Local non-oil and gas values are \$100 million in FY 2005. It assumes a 3% general sales tax and a \$2/ounce severance tax on 500,000 ounces of gold.
- (6) Assumes Pogo Mine is developed, oil and gas properties are not counted toward local contribution for education without a property tax. Local non-oil and gas values are estimated at \$100 million in FY 2005. It assumes a flat fee on \$200/per each parcel of private property.

Each scenario reflects a decline of TAPS properties in 2005 of 10% and 4% for each year thereafter. The Pogo Mine project assumes a value of \$200 million in FY2007 with a decline in value of \$16.3 million annually for 11 years. At year FY2018, it's assumed that the mine assets would still retain a taxable value of \$20 million. Lastly, it's assumed that non-oil and gas properties will increase by 3% annually.

Chapter 1: Why is formation of a Borough under review?

This section summarizes key internal and external issues that have forced the discussion of local government in the region to center stage.

1.1 Internal Issues

With the announcement of the realignment of Ft. Greely in March 1995, the Delta Region has been in a state of flux. Since that time three major events have forced the area to look at the issue of regional government.

1. The development of the Ground-based Missile Defense System (GMD). This major Department of Defense project will mean an influx of outside construction workers for the next two to four years. Moreover, it's estimated that the new missile site will employ over 300 full-time operation staff. Although it's not presently clear whether family members will accompany such employees, it's assumed that over time a sizable percentage of employee families will reside in the community as well.
2. The construction and operation of the Pogo mining district by ComincoTeck is projected to result in an increase of 270-300 new jobs in the area. In turn, ComincoTeck has suggested that roughly 135 workers and families may move to the region.
3. The influx of Slavic families to the region is projected to continue for the foreseeable future. Current estimates conservatively project between 15-18 new families each year. 44% of the grade school students in the local school are of Slavic descent. Approximately 1,000 members of the overall current regional population also fall into this category.

In short, the region is growing and with it are demands for basic services such as education and community infrastructure. The projected pace of growth may compound the issue further since the City of Delta has no tax structure in place and the Delta Greely-School District can not issue debt nor collect taxes. Consequently, during this time of change, the region is relying solely on external funds to meet critical needs.

1.2 External Issues

Over the last 20 years, all Alaska communities have relied heavily on state funding for both operating and capital needs. This is particularly true for communities in the unorganized borough where most educational services and major capital projects are funded by the state. The Delta Junction region is even more reliant on the state than most areas for outside funding. It is one of few areas (about 3% of the state population) where the majority of the residents are without even local government, and there are no local taxes.

In light of the unresolved state fiscal crisis and a general resentment by some urban legislators toward some rural areas for not paying for public services, the issue of borough formation is

again on the political front burner. Over the last 10 years there have been a series of efforts to either entice or force borough organization on rural Alaskans. In early 2003, the Local Boundary Commission (LBC) finished an exhaustive analysis of eight areas in rural Alaska and concluded that seven areas including the Upper Tanana Basin Model Borough (Delta-Ft. Greely REAA and the Alaska Gateway REAA) meet the standards of borough incorporation.

This was followed by SCR (Senate Committee Resolution) 12 that, if passed, would have asked the LBC to analyze four model boroughs, including the Upper Tanana Model Borough to see whether they should organize and report back to the 2004 legislature with its findings and recommendations. If neither legislative body objects to the findings within 45 days, areas recommended for incorporation would in effect be mandated to become boroughs.

Although the eventual outcome of these recent efforts is uncertain, it is clear that the issue will not fade from the political landscape. Instead, it will continue to confront those areas in the unorganized borough that are deemed financially capable of operating a regional government.

Chapter 2: History of Local Government in Alaska

2.1 Background

Before statehood, Alaska lacked a logical system of regional government. The only real sub-state government consisted of cities and utilities and school districts. Under pressure from the business community, the Organic Act of 1912 prohibited the territory from creating a county system unless it had Congressional approval. Developers feared regional government would regulate and tax their activities. Additionally, the number of temporary residents discouraged any strong movement or valid need to form a regional government.

Consequently, at the time of the state constitutional convention in 1955-56, there existed a vacuum of government at the regional level. The authors of the state constitution saw this as an opportunity to construct a new and innovative regional system of government. They wished to avoid problems with the county system which, over the years had outgrown its usefulness. It seemed that the real lesson to be learned from other states and countries was what not to do. It was evident that Alaska needed a unique system of regional government, one that would take into consideration its dispersed and sparsely populated areas and small urban centers. The authors were also mindful of Alaska's future. The territory's vast natural resource potential would likely be developed and a clear need existed for a regional government structure to prepare it for the coming changes.

A major drawback of other sub-state systems was the proliferation of government units with overlapping jurisdiction which too often resulted in confusion, inefficiency, and duplication of services. To avoid this problem, the writers of the state constitution hoped to devise a sub-state level of government which would "...provide for maximum local self-government with a minimum of local government units and to prevent duplication of tax-levying jurisdictions..." (Alaska State Constitution, Article X, Section One). The system was to have only two local governing bodies, cities and boroughs. Other local entities (such as school districts) could exist but were to be merely instruments of a city or borough and were not granted taxing authority. The city governments were to remain as the urban form of government while the borough was to be the regional body. Although the constitution mandated that the state sub-divide into boroughs, it did not set a particular time frame. Two important pieces of legislation, however, did force the issue in the early 1960's.

The first was the Borough Act of 1961 which mandated that all special service districts be integrated within organized cities or boroughs by July 1, 1963. The act also set up the mechanism for boroughs to organize and held them responsible for three area-wide powers: education, planning and zoning, and property tax assessment and collection. The act had two major weaknesses. First, it was assumed that people would willingly relinquish various service districts for an untried form of government. This simply proved not to be the case. Residents did not see much value to regional government except to handle education.

Second, the standards for incorporation were too flexible. The only area that organized (Bristol Bay Borough), in a sense violated the spirit of the constitution, since it contains but a small fraction of a large homogenous region. In reaction to these events, the state legislature passed the Mandatory Borough Act of 1963. The act required the formation of eight regions containing

public utility and independent school districts into organized boroughs by January 1, 1964. Regions had the option to organize themselves or wait for the state to accomplish the task. Four boroughs (Ketchikan, Sitka, Juneau, and Kodiak Islands areas) did select the local option while four were forced to incorporate (Anchorage, Fairbanks, Kenai Peninsula, and Matanuska-Susitna Valley areas). In response to the peoples' fear of regional government, the new boroughs (with the exception of Juneau) were intentionally weak and lacked a number of possible area-wide powers.

An early issue that emerged from borough formation was the conflict with cities concerning powers and responsibilities. The problem stemmed from annexation issues, service district disputes, urban domination of borough activities, planning and zoning, and duplication of services.

One of the results of the conflict was the 1967 legislative act which allowed a borough and all cities within it to unify into a single unit of government. In response to this measure, unification occurred in the more urban boroughs such as Juneau (1970), Sitka (1971) and Anchorage (1975). The concept lacked appeal with the more rural boroughs such as the Matanuska-Susitna, Kenai Peninsula and Kodiak Island Borough as well as the urban boroughs in Fairbanks and Ketchikan. Unification, according to its advocates, has eliminated some duplication of services and confusion that results from having two governments and has resolved some of the conflicts and tension between levels of government. Differences between urban and rural residents, the question of service district responsibilities and other difficulties, however, still remain.

Since the Mandatory Act of 1964 seven areas have incorporated as boroughs. They are the Haines Borough (1968-2002), North Slope Borough (1971), Northwest Arctic Borough (1986), Aleutians East Borough (1987), Lake and Peninsula Borough (1989), Denali Borough (1990) and Yakutat Borough (1992).

The remaining unorganized borough, with a few exceptions (such as those areas along the TAPS and bottom fishing communities), often lacks the need, a financial base, and stable population to support such a government. Outside of a few cities in the southeast and east central part of the state, the unorganized borough consisted primarily of small Native villages with strong legal ties to the federal, not state, government. The state legislature, at least in theory, serves as its assembly. It may establish, alter or abolish service areas for schools, utilities, land use regulation, fire protection, and other public services in the region. Although the state has established regional education districts, it has never successfully implemented a comprehensive policy for other services in the area. There have been a number of attempts to establish some form of regional government, but none of them have proven to be successful.

Since the early 1970's, three factors have had a profound impact on the unorganized borough. They are oil development and the resulting wealth for state government, Native power, and the state's current financial crisis. These factors will continue to impact the region.

Since the late 1970's, oil development has contributed immense wealth to the state and municipalities. With the discovery of oil in the North Slope region, Alaska became one of the richest states, per capita, in the union. The principle source of this new wealth has not only been the oil itself but also the Trans-Alaska Pipeline System (TAPS). This expensive piece of property is taxed both by the state and certain municipalities. This has resulted in the elimination of the state income tax and a stronger reliance in the unorganized borough on state funds for operating and capital expenses. Moreover, key incentives for borough incorporation were eliminated and many disincentives to organize were, in effect, put in place.

In 1971, Alaska Natives (Eskimos, Aleuts and Indians) [in 1971] settled a 100-year dispute with the federal government over ownership of the state. They were given \$962.5 million and 44 million acres of land in exchange for the extinguishment of their claims to the land. The Alaska Natives Claims Settlement Act (ANCSA) elevated Native people from poverty and near destitution to potentially one of the strongest economic and political forces in the state. Through the formation of regional corporations, ANCSA established the first truly recognized geopolitical boundaries in the unorganized borough. The boundaries are now used, for example, for the Regional Education Attendance Areas (REAAS).

To make the issue more complicated, the state now faces a true financial crisis and is struggling with how to meet basic service needs without reinstating state taxes, using permanent fund revenues or substantially reducing state spending. Fewer revenue options often mean those without political power or the local wherewithal to meet local needs suffer the most. Consequently, some areas of the unorganized borough could see major economic strains or change or discontinuation in the level of local services.

Chapter 3: Standards for Incorporation

Introduction

Unlike most other states, Alaska law allows people to assume local governmental control over their affairs only through the incorporation of a city and/or borough government. Furthermore, the Alaska Department of Community and Economic Development and the Alaska Local Boundary Commission are required to evaluate petitions requesting the formation of any city or borough government. The evaluation determines if a region meets the “standards for incorporation” – broad social, economic, and geographic requirements contained in state law and the Alaska Administrative Code.

This chapter summarizes:

- ◆ Alaska State Constitutional provisions as they affect the formation of borough governments and standards for incorporation;
- ◆ The provisions of state law which set forth standards for incorporating new boroughs; and
- ◆ Alaska Administrative Code regulations adopted by the Local Boundary Commission regarding borough incorporation.

3.1 Constitutional Background

The matter of local government is addressed in Article X of the State Constitution. Regarding the question of regional government incorporation and “standards for incorporation,” Article X provides:

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 the duplication of tax levying jurisdictions. A liberal construction shall be given to the powers of local government units.

Section 2

This section provides that all local government powers shall be vested in boroughs and cities. Furthermore, the State may only delegate taxing powers to organized boroughs and cities.

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.

Section 12

This section calls for the establishment of a local boundary commission. The commission may consider any proposed local government boundary change.

3.2 Statute Standards for Incorporation

In response to its mandate from the constitution, the Legislature adopted standards for incorporation in AS 29.05.030. This law provides:

AS 29.05.030. Incorporation of a borough. An area may incorporate as an organized borough if it conforms to the following standards:

- (1) the population of the area is interrelated and integrated as to its social, cultural and economic activities, and is large and stable enough to support organized borough government;
- (2) the boundaries of the proposed borough conform generally to natural geography and include all areas necessary for full development of municipal services;
- (3) the economy of the area includes the human and financial resources capable of providing municipal services; evaluation of an area's economy includes land use, property values, total economic base, total personal income, resource and commercial development, anticipated functions, expenses, and income of the proposed borough;
- (4) land, water, and air transportation facilities allow the communication and exchange necessary for the development of integrated borough government.

Note that these incorporation standards provide guidelines on the social, economic, transportation, and communication characteristics that must be met by an area petitioning for incorporation. As in the constitution, these incorporation standards are not detailed; there are no specific requirements for the number of residents or acres of land a new borough must contain. Instead, the incorporation standards simply indicate the types of social, economic, and geographic characteristics that must be considered in the formation of a new borough.

Minimum conformance to the incorporation standards appears to make an area eligible for incorporation. In a case involving the incorporation of the North Slope Borough, the Alaska Supreme Court stated that the broad constitutional mandate on local government upholds the creation of a borough if the requirements for incorporation have been minimally met. This would indicate that the broadest possible interpretation of the standards for incorporation will be applied to any petition to form a new borough government.

The Department of Community and Economic Development (DCED) reviews the question of whether a proposed borough conforms to the state's standards for incorporation. The department's report is, in turn, submitted to the Local Boundary Commission for action.

To summarize, the four standards for incorporation speak to the following regional characteristics:

- ◆ the social, cultural and economic integration of an area;
- ◆ its ability to support organized borough government;
- ◆ the relationship between the boundaries of the proposed borough and natural geography;
- ◆ the areas necessary for development of local services;

- ◆ the regional transportation system's ability to allow for the development of integrated local government.

3.3 Alaska Administrative Code Regulation

In addition, the Local Boundary Commission has adopted regulations which address the relevant sections of Article X of the state constitution and state statutes in more detail.

For each relevant section, the specific standard has been applied to the study area.

3 AAC 110.045. Community of interests

(a) The social, cultural, and economic characteristics and activities of the people in a proposed borough must be interrelated and integrated. In this regard, the commission may consider relevant factors, including:

- (1) compatibility of urban and rural areas within the proposed borough;

The area is generally rural in nature. It is composed of four distinct communities and adjacent area. There is no real urban portion of the study area.

- (2) compatibility of economic lifestyles, and industrial or commercial activities;

The area's economic lifestyles are both compatible and interrelated. The area is a mixture of military construction and operational activities, agricultural development and tourism. Mining development may also be a component of the economy starting in 2004. Success for these industries has been achieved and will continue to be achieved without detrimental success of the other industries. The principal industries rely in large part on a mixture of skilled craft and technically educated personnel.

- (3) existence throughout the proposed borough of customary and simple transportation and communication patterns; and

The region is connected by both a paved and unpaved highway system coupled with air service from the Delta airstrip and Allen Army Airfield. Charter air service is provided from Delta to Healy Lake. The communication patterns include a local weekly newspaper, a regional radio station and local access to television and community emergency communications through a communication center at Donnelly Dome.

- (4) extent and accommodation of spoken language differences throughout the proposed borough.

English is the primary language for the study area. However, roughly 1,000 residents are of Slavic descent and many of those residents speak Russian as well. This cultural feature is unique to the study area and not present with other rural areas in the broader area of eastern Alaska.

(b) Absent a specific and persuasive demonstration to the contrary, the commission will presume that a sufficient level of interrelationship cannot exist unless there are at least two communities in the proposed borough.

The area has four distinct communities: The City of Delta Junction, Fort Greely, White Stone farming commune and the village of Healy Lake.

(c) The communications media and the land, water, and air transportation facilities throughout the proposed borough must allow for the level of communications and exchange necessary to develop an integrated borough government. In this regard, the commission may consider relevant factors, including:

(1) transportation schedules and costs;

The primary mode of transportation for 98% of the residents is the various road systems.

(2) geographical and climatic impediments;

There are no insurmountable geographical or climatic impediments for transportation or communication systems in the region.

(3) telephonic and teleconferencing facilities; and

The area has adequate telephonic and teleconferencing facilities to meet both formal and informal meeting needs.

(4) electronic media for use by the public.

There is a regional radio station that allows public access for dissemination of public information.

(d) Absent a specific and persuasive showing to the contrary, the commission will presume that communications and exchange patterns are insufficient unless all communities within a proposed borough are connected to the seat of the proposed borough by a public roadway, regularly scheduled airline flights on at least a weekly basis, regular ferry service on at least a weekly basis, a charter flight service based in the proposed borough, or sufficient electronic media communications.

All of these services are adequately provided for or exist in the study area.

3 AAC 110.050. Population

(a) The population of a proposed borough must be sufficiently large and stable to support the proposed borough government. In this regard, the commission may consider relevant factors, including:

- (1) total census enumerations;
- (2) durations of residency;
- (3) historical population patterns;
- (4) seasonal population changes; and
- (5) age distributions.

The 2000 census clearly demonstrates a sufficiently large and stable population to support a borough government. The overall year-round population is roughly 3,600 residents. According to the census, a sizable portion of the population has lived in the area well over 10 to 20 years. The area has experienced steady growth in the last 24 months and, according to an independent demographic study (Information Insights, 2003), the area will continue to grow over 3% annually for the next 10 years.

(b) Absent a specific and persuasive showing to the contrary, the commission will presume that the population is not large enough and stable enough to support the proposed borough government unless at least 1,000 permanent residents live in the proposed borough.

There are over 1,000 residents in the study area.

3 AAC 110.055. Resources

The economy of a proposed borough must include the human and financial resources necessary to provide essential borough services on an efficient, cost-effective level. In this regard, the commission

(a) will consider:

- (1) the reasonably anticipated functions of the proposed borough;

A regional government in the area would be expected to provide the three mandatory powers: education, taxation and planning, along with the existing city services of library, cemetery, limited road service and fire and rescue services.

- (2) the reasonably anticipated expenses of the proposed borough;

Possible borough expenses mentioned later in this study. Expenses reflect historical costs for such activities currently provided in the area.

- (3) the ability of the proposed borough to generate and collect local revenue, and the reasonably anticipated income of the proposed borough;

This study includes a series of revenue models that reflect the ability of the region to generate and collect local revenue.

- (4) the feasibility and plausibility of the anticipated operating and capital budgets through the third full fiscal year of operation;

This study reflects the long term strength and likelihood of budget revenues beyond the first three years of operation.

- (5) the economic base of the proposed borough;

The borough economic base is a combination of military construction and operational activities, agriculture, tourism, government and potentially mining.

- (6) property valuations for the proposed borough;

The property values of the area are approximately \$320 million. They may increase by \$200 million with the development of the Pogo mining operation.

- (7) land use for the proposed borough;

Land use is a mixture of residential, commercial, industrial, military, state and other federal land uses.

- (8) existing and reasonably anticipated industrial, commercial, and resource development for the proposed borough; and

The principal industrial development in the study area will be the Pogo Mining project and the Ground-based Mid-course Development (GMD) at Fort Greely.

- (9) personal income of residents of the proposed borough; and

According the 2000 census data and more recent Alaska Department of Labor data, the area income levels exceed many of the existing borough and "model boroughs".

- (b) may consider other relevant factors, including

- (1) the need for and availability of employable skilled and unskilled persons to serve the proposed borough; and

There is a both a need and an availability of employable skilled and unskilled persons to serve the proposed borough.

- (2) a reasonably predictable level of commitment and interest of the population in sustaining a borough government.

Local government has been in existence in the region for over 40 years. The area REAA has successfully provided educational services since the mid-1970's.

3 AAC 110.060. Boundaries

(a) The boundaries of a proposed borough must conform generally to natural geography, and must include all land and water necessary to provide the full development of essential borough services on an efficient, cost-effective level. In this regard, the commission may consider relevant factors, including:

(1) land use and ownership patterns;

Land is owned by private parties, state of Alaska and the federal government.

(2) ethnicity and cultures;

The area is predominantly Caucasians. There are approximately 1,000 residents of Slavic descent.

(3) population density patterns;

The area consists of four communities and adjacent rural areas. The highest density pattern is within the city of Delta Junction and Fort Greely.

(4) existing and reasonably anticipated transportation patterns and facilities;

The area transportation patterns and facilities consist of paved and unpaved roads, airstrips and the Allen Army Airfield.

(5) natural geographical features and environmental factors; and

The region generally conforms to the natural geographical features of the area.

(6) extraterritorial powers of boroughs.

Given the size of the study area and the spatial relationship of the residents, it's unlikely that the area would need nor seek extraterritorial powers.

(b) Absent a specific and persuasive showing to the contrary, the commission will not approve a proposed borough with boundaries extending beyond any model borough boundaries.

The study area is within the model boundaries of the Upper Tanana Model Borough. However, given the socio-economic and cultural changes of the study area in last ten years and the projected changes in the years ahead, the two sub-areas should not be considered as one potential borough. Instead, the model borough should be divided into two separate model boroughs.

(c) The proposed borough boundaries must conform to existing Regional Educational Attendance Area boundaries unless the commission determines, after consultation with the Commissioner of the Department of Education and Early Development, that a territory of different size is better suited to the public interest with a better balance of the standards for incorporation of a borough.

The study area does conform to the Delta/Ft. Greely REAA.

(d) Absent a specific and persuasive showing to the contrary, the commission will presume that territory proposed for incorporation that is non-contiguous or that contains enclaves does not include all land and water necessary to allow for the full development of essential borough services on an efficient, cost-effective level.

This question is not applicable to the study area.

(e) If a petition for incorporation of a proposed borough describes boundaries overlapping the boundaries of an existing organized borough, the petition for incorporation must also address and comply with all standards and procedures for detachment of the overlapping region from the existing organized borough. The commission will consider and treat that petition for incorporation as also being a detachment petition.

This question is not applicable to the study area.

3 AAC 110.065. Best interests of state

In determining whether incorporation of a borough is in the best interests of the state under AS 29.05.100, the commission may consider relevant factors, including whether incorporation:

- (a) promotes maximum local self-government;
- (b) promotes a minimum number of local government units;

A borough in the study area would mean one sub-government body would provide basic local government services.

- (c) will relieve state government of the responsibility of providing local services; and

The establishment of a borough will mean a local contribution to the provision of education in the study area.

- (d) is reasonably likely to expose the state government to unusual and substantial risks as the prospective successor to the borough in the event of the borough's dissolution.

There is no evidences of such risk to the state.

Chapter 4: Regional Profile

This chapter presents information on the social, cultural and economic aspects of the Delta-Greely Region. It relies on the 2000 census for key indicators such as housing, income levels and employment, and general description of the area from previous studies.

1. Location
2. Transportation system
3. Physical Setting/Natural Resources
4. Land Status
5. Trans-Alaska Pipeline
6. Economy
7. Socio-Economic make-up of the residents

This information is critical in determining whether the region meets legal standards for borough incorporation that are mentioned in the preceding chapter.

4.1 Location

The Delta-Greely School District is located approximately 300 road miles northeast of Anchorage and directly southeast of the Fairbanks North Star Borough. The study area encompasses an estimated 6,228 square miles. The region is comprised of four communities and a military installation. They are Deltana, White Stone, Delta Junction, Healy Lake, and Fort Greely, respectively. Only Healy Lake is not accessed by either the Richardson or Alaska Highways. Please note that current discussions on a future borough have suggested that Healy Lake would become part of the Alaska Gateway REAA. However, for the purpose of this report, the community is included in the borough study area.

4.2 Transportation System

Access to communities in this region is by air, land and water. Delta Junction has a 2,000 foot airstrip which accommodates small aircraft. Additionally Allen Army Airfield (AAA) has a cross-wind facility that is slated for future (2004-2005) expansion for Ground-based Mid Course Defense System (GMD) related activities. There will be limited public use of AAA for such services as medical emergencies and fire suppression related functions. The community is located at the cross roads of the Alaska and the Richardson Highways. Healy Lake is not road accessible. It does have a landing strip and generally has access by river boat in the summer months. There are current discussions at both the state and federal level to link the area to Fairbanks by a rail system. The project has been promoted, in part, to assist the GMD system at Ft. Greely and promote stronger economic links with other interior communities.

4.3 Physical Setting

Delta Junction, the area's hub, is located in the Tanana Sub-region of the Yukon River System. Fort Greely occupies territory south of Delta junction. The farming community of Big Delta/Deltana rests approximately nine and one-half miles north of Delta Junction. The Native

Village of Healy Lake is situated on the northeast shoreline of Healy Lake which, in turn is on a tributary of the Tanana River in the eastern portion of the Delta-Greely Region. The White Stone Community is located on the west side of the Delta River.

This area is punctuated by the Tanana River running from its eastern border towards the north. This river is joined by the Delta River in the vicinity of Delta Junction. Glacial deposits and alluvium predominate the Delta Area creating broad, nearly level tracts of land. The southern half of the region is dominated by the Macomb Plateau and the glacial fields and mountains of the Alaska Range.

4.4 Natural Resources

In the Delta Junction Area there are known minor deposits and claims of silver, gold, tungsten, tin, molybdenum, zinc and coal. The Pogo mining district, in the northwest corner of the study area, is the site of a promising underground mining project. ComincoTeck of Vancouver, British Columbia has spent over \$70 million to date in its investigations on long term feasibility of the site. The project EIS has suggested that the company is poised to spend another \$250 million to bring the mine to operational status. The estimated project life of the mine is 11 years. However, many industry experts speculate that the adjacent mining district and further research may result in expanded activities beyond that time period. Gravel is considered the region's other most exploitable mineral resource.

Agriculture continues to be another promising economic resource. The area's grain and livestock farms are some of the most productive in the state. It has been observed that some of Alaska's best agricultural land is being used for the Delta Barley Project.

The area is also high in scenic and recreation potential. Fishing, hunting, hiking, river tours and winter sports are important recreational attractions. There is a major chum salmon spawning area at the confluence of the Delta and Tanana Rivers. The areas northeast of Delta junction and north of Healy Lake afford excellent hunting opportunities. This has resulted in limited growth of outdoor tourist related businesses in the region. However, this industry may face some challenges with the build up by the military on its lands.

4.5 Land Status

Land status within the city limits of Delta Junction appears to be consistent with that throughout cities in the state. Land owners include the State of Alaska, University of Alaska, the Federal Government, private landholders and the city itself.

The Fort Greely military withdrawal, located outside the city boundaries, contains approximately 1,058 square miles of territory. The remainder of the region has state selected and/or owned lands, Native selected lands and privately owned parcels.

Alaska Statute (AS 29.65.030) provides that "the general grant land entitlement of a municipality (borough)... is 10% of the total (state) acreage of vacant, unappropriated, unreserved (VUU) land within the boundaries of that municipality." Land entitlements have ranged from 353,210 acres for the Matanuska-Susitna Borough to 2,800 acres of land for the Haines Borough. According to Department of Natural Resources there are 167,353 acres of VUU lands within the Delta-Ft. Greely REAA. (See included two maps). Consequently, this would mean a new borough would receive an entitlement of **16,735 acres**.

4.6 Trans-Alaska Pipeline

According to the Department of Revenue Tax Division the area has approximately 83 miles of TAPS pipeline along with two Pump Stations, #9 and #10. The current value of the pipeline is approximately \$1.9 million per mile. Additionally, a pump station is valued at \$53 million. Pump Station #10 is currently not operating and therefore is determined to have no value.

Consequently the current oil and gas property values for the area are \$157.7 million (83 miles x \$1.9 million) for the pipeline and \$53 million for Pump Station #9, for a total of \$210.7 million. This value determination will remain at this level through 2004. Please note [the] Table _- _ which reflects the steady decline in ANS Oil Production from 1977 through 2000 and Table _ that in turn shows the concurrent decline in value of the TAPS. According to Department of Revenue officials, future TAPS property values are difficult to determine. However, one likely scenario is for a 10% decline in value in 2005 (FY 2006). This would be followed by a decrease in value of 3-5% annually.

Table -

ANS OIL PRODUCTION --1977 Through 2000

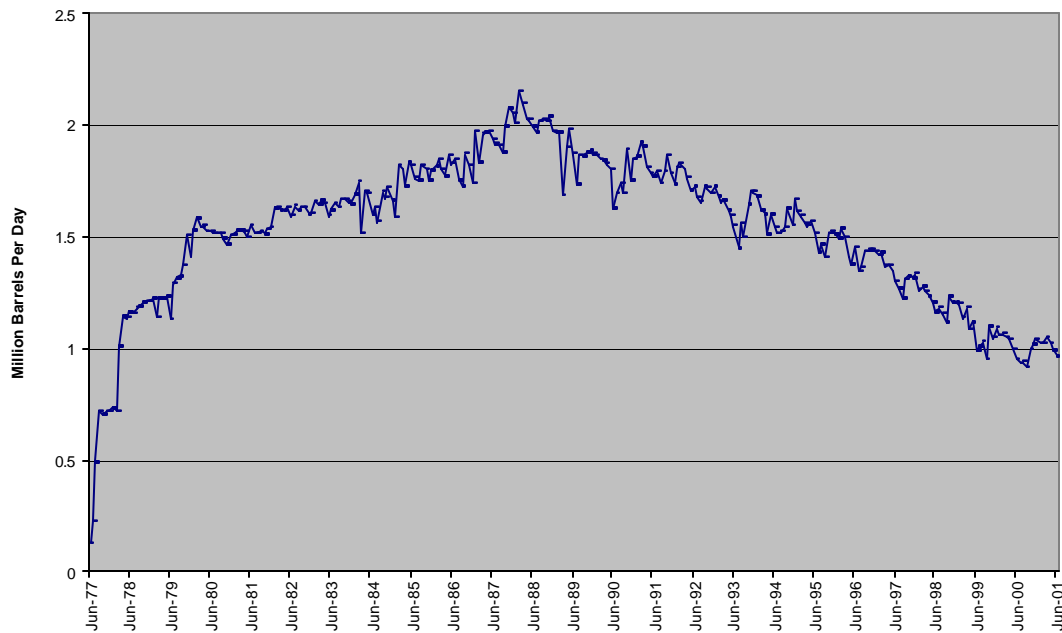
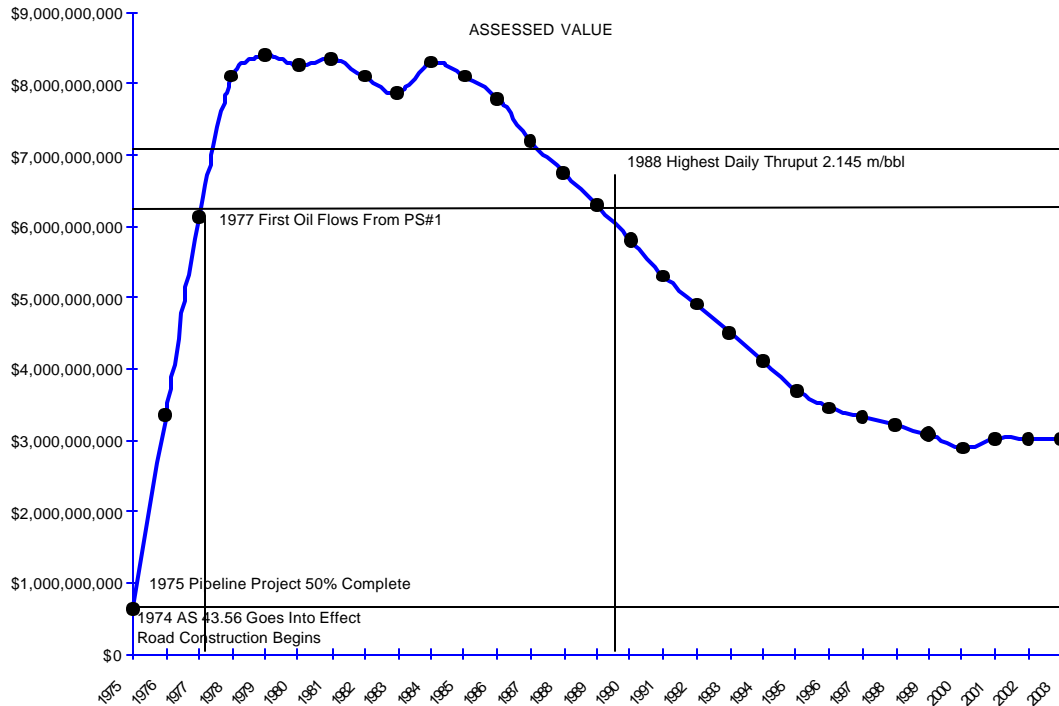


Table --



4.7 Socio-Economic

The study area has seen major socio-economic changes over the past five to ten years. Since the 2000 census, changes have occurred in housing values, and individual and household income. Unfortunately, little solid data has been compiled for that time period. To make the issue even more complex, the region will continue to see major changes in these areas for the next three to five years. Nonetheless, the existing data is a relevant snapshot of the region.

Historically, the economy of the region has been focused on interior land transportation and the direct and indirect industries linking roadway communities. This includes light tourism, RV parking, grocers, restaurateurs, hotel/motel operators, and gas station owners.

Since the end of World War II, the economy has shifted to federal construction and operations projects, principally focused on activities at Fort Greely. The mission of Fort Greely has changed from primarily a cold weather testing facility to a vital part of the nation's missile defense system. The planned complex is scheduled to be completed in Fall 2004.

Additionally, after a major financial investment by both the state and private sector, the area continues as one of the few viable agriculture areas in the state.

The other primary source of jobs and income may be the development and operation of the ComincoTeck mine in the Pogo mining district. Current projections predict a construction phase work force of 500 with approximately 300 workers during the operational phase. Non-military government jobs also play an important role in the local economy. These include the REAA school district, the city and non-profit service groups.

4.8 Population Trends

Population trends reflect a steady growth of the area. The exception is Ft. Greely, which, at the time of the census, was in the early stages of realignment and downsizing. Nonetheless, the area witnessed an overall growth of 30% (2,898-3,657) from 1990-2000.

Locality	1980 Population	1990 Population	Absolute Change 1980- 1990	Relative change 1980- 1990	2000 Population	Absolute Change 1990- 2000	Relative Change 1990- 2000
Big Delta	285	400	115	40%	749	349	87%
Delta Junction	945	652	-293	-31%	840	188	29%
Deltana					1,570		
Fort Greely	1,635	1,299	-336	-21%	461	-838	-65%
Healy Lake	33	47	14	42%	37	-10	-21%
Totals	2,898	2,398	-500	30%	3,657	-311	30%

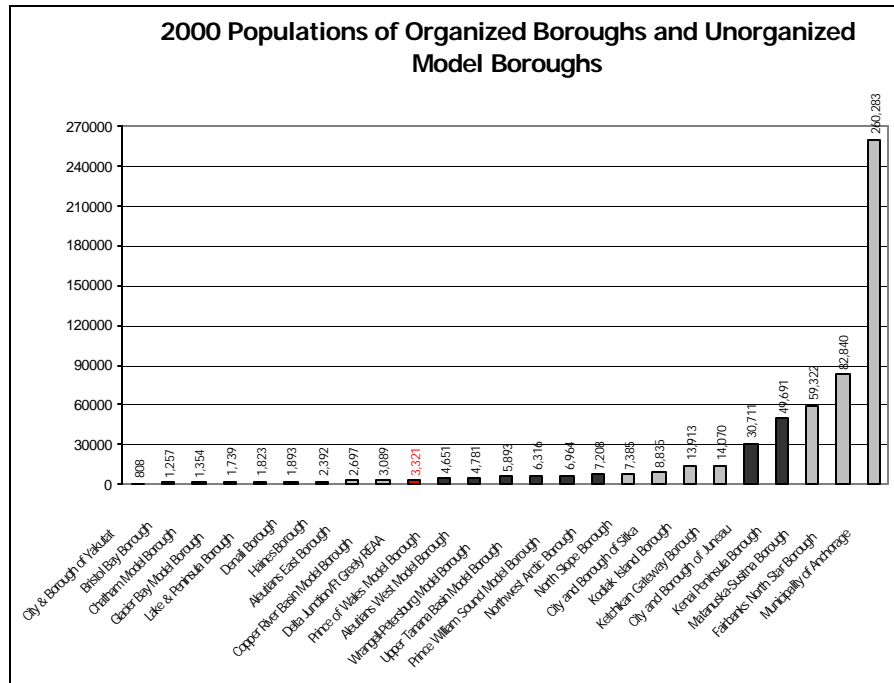
4.9 Racial Makeup

Unlike other rural areas in the Interior, the Delta-Ft. Greely REAA area is predominately white. This contrasts with the neighboring Alaska Gateway REAA which is composed of roughly 25% Alaska Natives.

Locality	Total	White	American Indian/Alaska Native
Big Delta	749	715	11
Delta Junction	840	768	34
Deltana	1570	1438	14
Fort Greely	461	303	6
Healy Lake	37	10	27
Totals	3,657	3,234	92

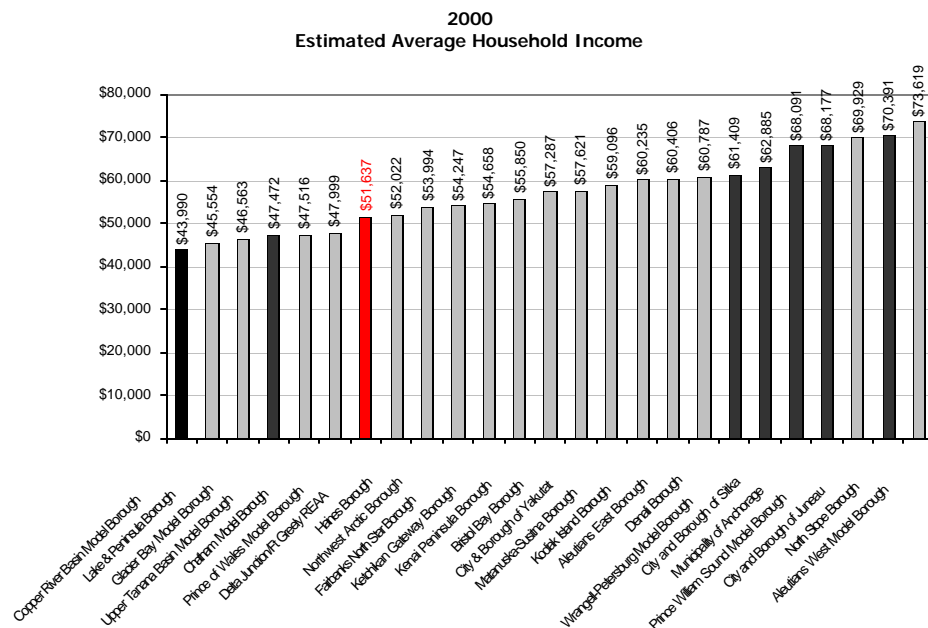
4.10 2000 Populations of Organized Borough and Unorganized Model Boroughs

The study area is the 10th largest area in size. The study area population is larger than six existing boroughs.



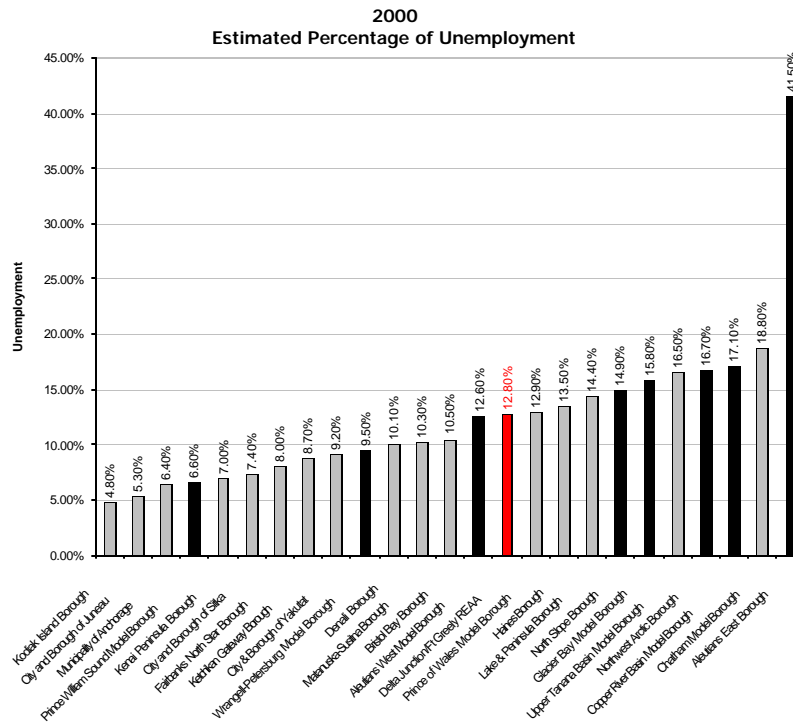
4.11 Estimated Average Household Income

The area has an estimated average household income of \$51,637 ranking 19th out of the 25 areas listed in the following table. The Upper Tanana Basin Model Borough ranks 22nd. However, given current high construction wages related to military construction, and construction of the mine starting in the fall of 2003, it's safe to say that income levels in the study area will be higher than previous year through 2006. Furthermore, with the addition of approximately 1000 new operational and indirect jobs [for the community] by 2006, it can be assumed that the drop in income level will not return to the 2000 level.



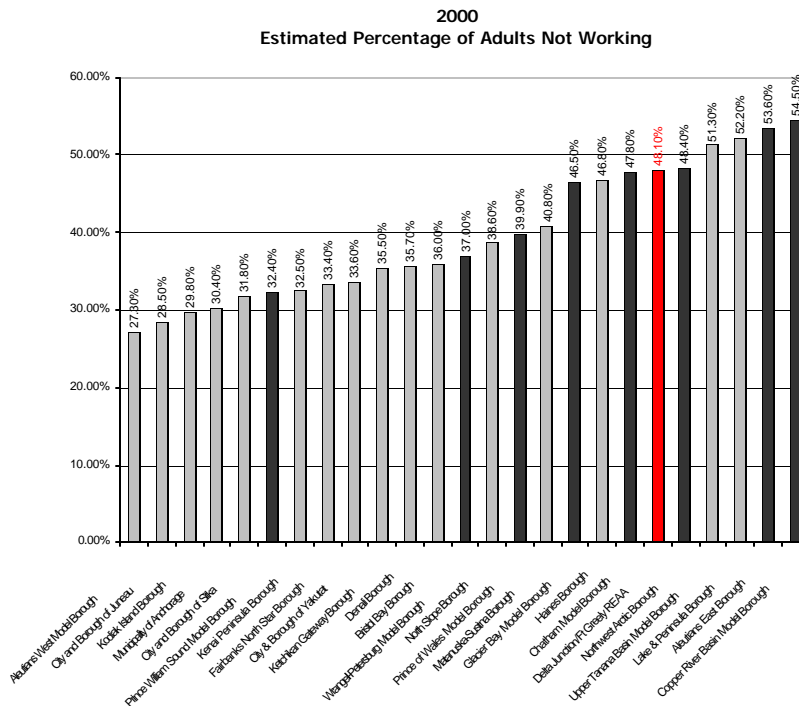
4.12 Estimated Percentage of Unemployment

The study area ranks 15th in estimated percentage of unemployment. As indicated on this table this is lower than five existing boroughs and the Upper Tanana Basin Model Borough area. It's assumed that this rate has dropped in the last 12 months. However, this statistic may be misleading. For example, unemployment is commonly defined as the number of individuals who receive unemployment assistance or are seeking work. If one does not fit either category but is still unemployed they may not be counted as unemployed.



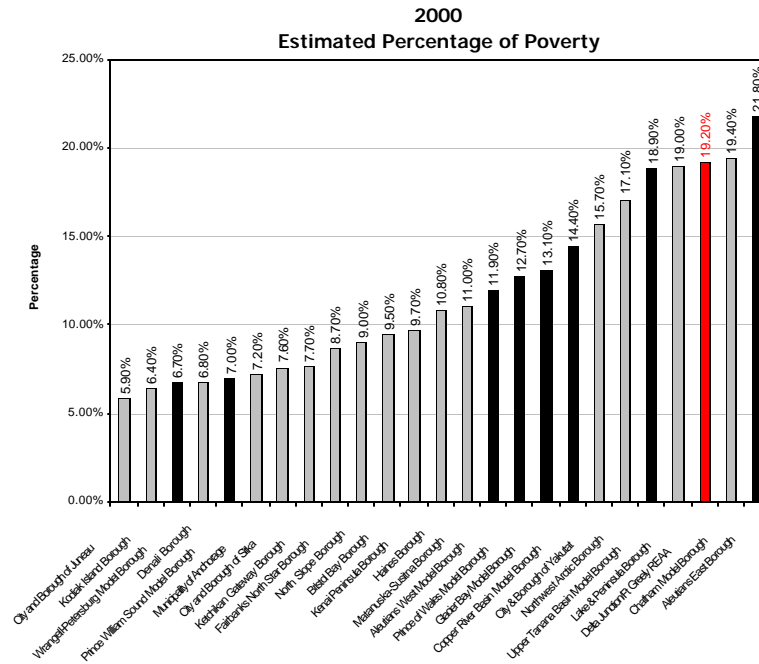
4.13 Estimated Percentage of Adults Not Working

The Delta Ft. Greely REAA rate of adults not working is 48.10%. This rate is the sixth highest of the 25 study areas. In the Table below, the Upper Tanana Basin Model Borough ranks fourth. One possible basis for this ranking is the large Slavic population with a number of family members not working out of the home. Another factor is the drop in job opportunities associated with downsizing [of the] Ft. Greely in the early 2000 period.



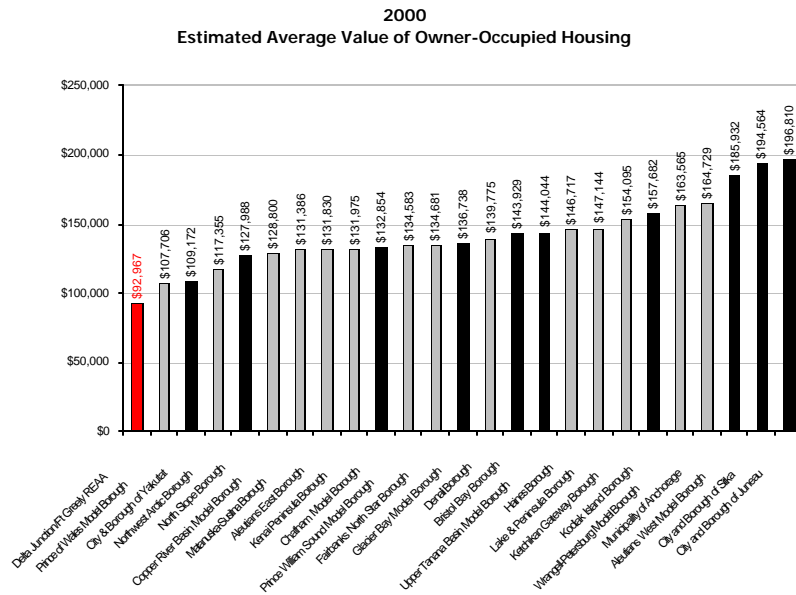
4.14 Estimated Percentage of Poverty

This table shows the Delta Junction-Fort Greely REAA as having the third highest level of poverty. In fact it has a higher level of poverty (as defined by federal guidelines) than the combined population of Delta Junction and the Alaska Gateway REAA. With the recent increase in employment opportunities, these poverty levels may be somewhat dated. Anecdotal information indicates a sizable percentage of the poverty levels may stem from the influx of Slavic families to the area and the number of people who live a quasi-subsistence life style with a mixture of a cash and non-cash economy.



4.15 Estimated Average Value of Owner-Occupied Housing

The study area is dead last (25th) of the 25 areas listed for Estimated Average Value of Owner-Occupied Housing. This statistic is probably the product of a number of factors ranging from the downsizing of Ft. Greely, to over building in the TAPS construction era and the erratic development period during the state agricultural project. Secondly, some residents speculate that the quality of housing is at times substandard and therefore pulls down the overall average. Lastly, others have suggested that the lack of building codes often results in home financing restrictions and may therefore play a roll in the low average values.



4.16 Sub-Area breakdown of Income, Poverty, Unemployment and Housing

This table reflects the various indicators within the four sub-area census areas – Big Delta, Delta Junction, Deltana, and Fort Greely.

INCOME	POP IN HOUSEHOLDS	TOTAL HOUSEHOLDS (OCC HU)		MEDIAN HH INCOME	AGGREGATE			
		HOUSEHOLDS			HOUSEHOLD INCOME	PER CAPITA INCOME	AVG (MEAN) HH INCOME	
Big Delta	524	165		\$49,000	\$9,725,000	\$18,559	\$58,939	
Delta Junction	840	312		\$43,500	\$15,811,200	\$18,823	\$50,677	
Deltana	1,547	539		\$50,066	\$28,366,100	\$18,336	\$52,627	
Fort Greely	410	126		\$33,750	\$5,066,700	\$12,358	\$40,212	
OVERALL	3,321	1,142		N/A	\$58,969,000	\$17,756	\$51,637	
POVERTY	2000 POP IN		PCT POVERTY					
	POPULATION	POVERTY		HOUSEHOLDS				
Big Delta	749	197	37.6%					
Delta Junction	840	163	19.4%					
Deltana	1,570	234	15.1%					
Fort Greely	461	45	11.0%					
OVERALL	3,620	639	19.2%					
UNEMPLOYMENT	POP 16 OVER	NOT IN LABOR FORCE		UNEMPLOYED	PCT UNEMPLOYED	PCT ADULTS NOT WORKING		
		POPULATION						
Big Delta	525	254	67	24.7%	61.1%			
Delta Junction	585	239	40	11.6%	47.7%			
Deltana	1,133	466	84	12.6%	48.5%			
Fort Greely	298	71	2	0.9%	24.5%			
OVERALL	2,541	1,030	193	12.8%	48.1%			
HOUSING	TOTAL HOUSING UNITS (HU)		OWNER OCC HU	AGGREGATE HOUSING VALUE	MEDIAN VALUE OWNED HU	AVG (MEAN) HOUSING VALUE		
	HOUSING UNITS	OCCUPIED HU						
Big Delta	232	165	137	\$26,420,000	\$94,400	\$192,847		
Delta Junction	422	312	177	\$33,622,500	\$92,800	\$189,958		
Deltana	669	539	457	\$66,427,500	\$91,700	\$145,356		
Fort Greely	354	126	0	N/A	N/A	Army owns all		
OVERALL	1,677	1,142	771	\$126,470,000		\$164,034		

As noted in all categories, Ft Greely generally has lower incomes, levels of poverty, and unemployment than the other sub-areas. The median value of owner occupied housing is nearly identical (in the low \$90,000 range). The average mean housing value (this was not broken out for the other areas) was at \$164,034. As noted on this table the mean value of owned housing is derived from the total number of units[-1323] (1,677 minus Fort Greely = 1,323), 58% of which are owner occupied (771 divided by 1,323) times the overall average (mean) housing value of \$164,034.

Chapter 5: Borough Structure Options

Background

One of the first decisions residents must make about a borough is how it should be structured and operated. Alaska law currently allows for four types of boroughs. They are:

- ◆ Second Class Borough;
- ◆ First Class Borough;
- ◆ Home Rule Borough; and
- ◆ Unified City/Borough.

This section reviews key characteristics of the four classifications of boroughs. It discusses the experience of other boroughs, particularly rural ones, and how they operate. A unified city/borough form of government is not discussed since it is not an option for the study area.

POWER	AREAWIDE			NON-AREAWIDE			SERVICE AREA			
	Home Rule	First Class	Second Class	Home Rule	First Class	Second Class	Home Rule	First Class	Second Class	Third Class
Education	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
Taxation of Property	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
Taxation of Sales	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
Plan, Plat., Land Use Reg.	◆	◆	◆	NA	◆	◆	◆	◆	◆	◆
Transportation Systems	◆	◆	◆	NA	◆	◆	◆	◆	◆	◆
Water Pollution Control	◆	◆	◆	NA	◆	◆	◆	◆	◆	◆
Air Pollution Control	◆	◆	◆	NA	◆	◆	◆	◆	◆	◆
Regulation of Animals	◆	◆	◆	NA	◆	◆	◆	◆	◆	◆
License Day Care Facilities	◆	◆	◆	NA	◆	◆	◆	◆	◆	◆
Regulate Fireworks	◆	◆	◆	NA	◆	◆	◆	◆	◆	◆
Solid Waste	◆	◆	◆	NA	◆	◆	◆	◆	◆	◆
Housing Rehab	◆	◆	◆	NA	◆	◆	◆	◆	◆	◆
Economic Development	◆	◆	◆	NA	◆	◆	◆	◆	◆	◆
Roads & Trails	◆	◆	◆	NA	◆	◆	◆	◆	◆	◆
EMS Communications	◆	◆	◆	NA	◆	◆	◆	◆	◆	◆
Regulate Motor Vehicles	◆	◆	◆	NA	◆	◆	◆	◆	◆	◆
Development Projects	◆	◆	◆	NA	◆	◆	◆	◆	◆	◆
Hazardous Substance Control	◆	◆	◆	NA	◆	◆	◆	◆	◆	◆
Other Powers Not Prohibited	◆	◆	◆	NA	◆	◆	◆	◆	◆	◆

- ◆ A mandatory power which must be exercised in the manner set out in statute.
- ◆ A mandatory power, however, certain discretion is permitted regarding the manner in which the power is exercised.
- ◆ May be exercised in the manner set out in the home rule charter.
- ◆ May be exercised by ordinance.
- * May be exercised upon non-areawide voter approval.
- ★ May be exercised upon approval of the voters areawide or by transfer of power from all cities within the borough.
- ☆ May be exercised upon approval of the voters areawide, or transfer from all cities and approval of the voters non-areawide.
- ◆ May be exercised upon approval of voters in service area or by all property owners in service area.
- NA Not available
- May be exercised upon approval of voters in service area, DNR for certain state lands.

Source: Department of Community and Economic Development

5.1 Second Class Borough

There are 16 boroughs in Alaska. Seven are second class boroughs. With the exception of Aleutians East Borough, all the second class boroughs were incorporated nearly 40 years ago. Most were established under the 1964 Mandatory Borough Act. Except for the Bristol Bay Borough, these boroughs are, by Alaska standards, more urban in nature. The two rural boroughs, Aleutians East and Bristol Bay, operate differently from the other second class boroughs and each other.

The Bristol Bay Borough, for example, has no incorporated cities within its boundaries. It is the sole provider of most local government services. These include police, solid waste, library, harbor, roads, wharves, education, taxation, telecommunications, cemeteries, planning, and, on a limited service area level, sewer service.

The Aleutians East Borough, on the other hand, has five incorporated and active cities within its boundaries. The cities provide many key services such as roads, planning, taxation, port operations, and utilities. The borough has assumed the powers of education, taxation, planning for those areas outside of the cities, limited health powers, economic development (fisheries development & enhancement), and port, harbor, and airport development.

The principal distinction of a second class borough is that it provides for a more slow and constrained form of government. A key example is that of assuming powers such as service areas. With a first class borough, and possibly a home rule borough, it only takes a majority vote by the assembly. (A home rule borough could, through its charter, impose even tougher voter requirements for creation of a service area, such as requiring a two-thirds majority vote. A second class borough requires a vote of the residents to assume such powers. Put another way, second class boroughs are required to go to the voters for any major change in services or powers. The assembly alone is not allowed to make those decisions.

5.2 First Class Borough

Currently there are no first class boroughs. A first class borough is somewhat like a second class one. The key distinction is that a first class borough assembly has the ability to assume certain powers without voter approval. For example, non-area wide (areas of a borough outside its cities) powers may be assumed by assembly ordinance. There is no obvious reason for the lack of first class boroughs. However, older boroughs may have never attempted to change their status due to strong anti-government sentiment in many areas and the perception that such a change means more government control and less voter control. Secondly, five of the last six boroughs formed are home rule, since this allows greater flexibility to meet the needs of sparsely populated areas. Consequently, there has been little interest in forming a first class borough.

5.3 Home Rule

A home rule (or charter) borough has the most flexibility and allows for more creative measures that are prohibited under a general law government. There are six home rule boroughs, all in rural Alaska. There are three unified home rule boroughs and they are in the more urban areas. The six rural boroughs – Yakutat, Lake and Peninsula, North Slope, Denali, Haines and Northwest Arctic – all had different motivations for adopting a home rule charter. However, it is clear that a key reason for forming a home rule borough was the ability to retain local control with laws tailored to their unique circumstances and issues. A home rule charter may specify how the borough takes on areawide and non-areawide powers. Some home rule boroughs, for example, provide that a vote of the people is required before a property tax is levied as opposed to the assembly deciding such an issue.

5.4 Unified Home Rule Municipality

There are three unified home rule municipalities. The only real difference between this form of government and a home rule borough is that a unified home rule municipality results from the unification of two or more existing local governments. In addition, no new local governments may be formed within its boundaries.

Chapter 6: School Operational Cost

6.1 Existing School District Budget

Background

The Delta-Greely School District is required to develop an annual operating budget. The REAA school board must approve the budget before expenditures are made. Current status of the school budget is shown on the next page.

Last year's (2002-2003) school operating budget allows for total expenditures of \$5,882,069 with a projected unreserved ending fund balance of \$344,489. The total instructional expenditures equal \$4,168,545, which is 74% of the select expenditure codes totaling \$5,607,070. The source of the budget is primarily the state (\$5,573,102) along with \$174,920 from federal sources. There is no requirement for local contributions nor are there any listed.

6.2 State Funding of Local Schools

The State of Alaska has always played a prominent role in the provision of education. Its chief role over the years has been providing funding, both to municipalities and to REAAs.

Funding is provided through foundation program entitlements. The program is based on a fairly complicated formula that entails, in the case of municipalities, local contributions, federal aid (mainly PL 81-874) and a host of other factors.

6.3 Proposed Borough School District Budget Calculations

The following charts show two options for the financial computations of the funding requirements which a prospective borough would need to generate to operate a school system. The figures are based on Department of Education calculations. Fine tuning and further discussion would need to occur prior to the actual establishment of the final budget. The formula reflects the current REAA area. Key points to remember are:

- ◆ The basic need for the borough would be the same as the current school district. It will not increase nor decrease.
- ◆ The local effort at a 4 mill level would vary if TAPS properties are included (as current law requires) or without TAPS properties.
- ◆ The basis year of 1999 is used by DOEED for analysis purposes. Further analysis would be essential when and if the study area organized as a borough.

**Alaska Department of Education and Early Development - School Finance
FY2003 School Operating Fund Budget Summary**

Delta/Greely School District
District Name

Unreserved Beginning Fund Balance: July 1, 2002 \$344,489

Revenue

010 City/Borough Appropriations	(1)	<u>\$0</u>
030 Earnings on Investments	(2)	<u>25,000</u>
040 Other Local Revenues	(3)	<u>17,000</u>
041 Tuition from Students	(4)	<u>0</u>
042 Tuition - Other Districts	(5)	<u>0</u>
047 E-Rate Program	(6)	<u>92,047</u>
050 State Sources	(7)	<u>5,573,102</u>
100 Federal Sources - Direct	(8)	<u>144,343</u>
150 Federal Sources - Through the State	(9)	<u>30,577</u>
190 Federal Sources - Other Agencies	(10)	<u>0</u>
250 Transfers From Other Funds	(11)	<u>0</u>
Total Revenue		<u>\$5,882,069</u>

Expenditures

100 Instruction	(12)	<u>\$3,345,236</u>
200 Special Education Instruction	(13)	<u>401,583</u>
220 Special Education Support Services	(14)	<u>91,103</u>
300 Support Services - Students	(15)	<u>61,462</u>
350 Support Services - Instruction	(16)	<u>82,345</u>
400 School Administration	(17)	<u>186,816</u>
450 School Administration Support Services	(18)	<u>140,454</u>
510 District Administration	(19)	<u>255,321</u>
550 District Administration Support Services	(20)	<u>119,089</u>
600 Operations and Maintenance of Plant	(21)	<u>768,388</u>
700 Student Activities	(22)	<u>155,273</u>
780 Community Services	(23)	<u>0</u>
900 Other Financing Uses	(24)	<u>274,999</u>
Total Expenditures		<u>\$5,882,069</u>

Unreserved Ending Fund Balance: June 30, 2003 \$344,489 **

(Unreserved Fund Ending Balance = Beginning fund balance + Revenues - Expenditures)

** Must be greater than or equal to :

**Minimum Expenditure for Instruction Calculation
AS14.17.520 & 4 AAC 09.115**

Total Instructional Expenditures (Functions 100-400) (a) \$4,168,545

Total Expenditure Codes (Functions 100-780) (b) \$5,607,070

Total Instructional Expenditures (a) divided by Total Expenditures (b) 74%

FY 1999 Funding Scenario

Delta / Greely

	Current Total	1st Year zero Mills	2nd Year .002 Mills	3rd Year .003 Mills	4th Year .004 Mills
Basic Need	6,603,913	6,603,913	6,603,913	6,603,913	6,603,913
Local Effort (LE)	-	432,000	432,000	432,000	432,000
Deductible 874	336,049	336,049	336,049	336,049	236,041
Quality Schools	26,818	26,818	26,818	26,818	26,818
<i>State Aid</i>	6,294,682	5,862,682	5,862,682	5,862,682	5,962,690
Funding Floor	409,905	409,905	409,905	409,905	409,905
Entitlement	6,704,587	6,272,587	6,272,587	6,272,587	6,372,595
LE State Pays		432,000	216,000	108,000	-
TOTAL STATE SUPPORT		6,704,587	6,488,587	6,380,587	6,372,595
REVENUE	Existing District	1st year	2nd year	3rd year	Final year
Total State Support	6,704,587	6,704,587	6,488,587	6,380,587	6,372,595
Local Contribution	-	-	216,000	324,000	617,143
Total 874	422,759	422,759	422,759	422,759	422,759
Total Revenue	7,127,346	7,127,346	7,127,346	7,127,346	7,412,497

NOTE: Final fiscal year assumes impact aid percentage at 70%

Local Effort (LE): Local Effort is set at .004 mills and will not change as it also apart of the calculation to help pay for Basic Need.

Deductible 874: In the first 3 years the Impact Aid will have the 90% deduction until the Borough is paying the complete .004 mills. At which time there will be an additional adjustment so the Borough will retain more 874 money.

Quality Schools: Is a constant once the ADM adjustment has been done then Quality Schools can be determined.

State Aid: *Again State Aid is derived from taking Basic Need and deducting the 874 funds and the Local Effort.*

Funding Floor: Is based on those districts with a remaining Floor in FY 2001 .

Entitlement: Is derived from totaling up the Floor + State Aid & any amount of Local Effort the State has to cover in the transition to become a Borough.

LE State Pays: Is based on the amount the State pays of Local Effort (LE) to cover the .004 mills while the District transitions into Borough in accordance with AS 14.17.410(e).

TOTAL STATE SUPPORT: Is Entitlement plus Local Effort (LE) the State pays during these first 3-4 years.

Total State Support: This total is derived from the money the State will need to pay in order for the district to reach Basic Need. This would mean while the new district is transitioning into Local Effort, the State will have to cover it or what remains.

Local Contribution: Each year the new district will transition into paying the Local Effort. AS 14.17.410(e) 1st year 1 or no mills, 2nd year 2 mills, 3rd year 3 mills and finally in the 4th year the complete 4 mills

Total 874: Impact Aid as received in total before any deductions have been determined.

NOTE:

* When running ADM's ~ the number of correspondence & intensives were accounted for using FY'99 information.

* While consolidating several districts into one organized borough, I took into account the appropriate calculations for adjustment.

FY 1999 Funding Scenario

Delta / Greely

			<i>Final</i>	
	Delta/Greely	Current Total	Delta Greely	Difference
Basic Need	6,603,913	6,603,913	6,603,913	-
Local Effort (LE)	-	-	432,000	432,000
Deductible 874	336,049	336,049	236,041	(100,008)
Quality Schools	26,818	26,818	26,818	-
<i>State Aid</i>	-	6,294,682	5,962,690	(331,992)
Funding Floor	409,905	409,905	409,905	-
Entitlement	-	6,704,587	6,372,595	(331,992)

Delta/Greely CALCULATIONS:

For purposes of this analysis the above information was derived from FY'99 Foundation numbers, with the exception of the Floor. It was taken from the FY'01 Foundation information.

Basic Need: The "Current Total" adds the above individual/affected district.

Local Effort: The "Current Total" is adding the Local Effort together. Whereas the new Local Effort was derived from taking the total Full Value of \$108,000,000 by .004 mills.

Deductible 874: Is the deductible Impact aid for the FY 99 year.

Quality Schools: "Current Total" is totalling up all the districts Quality Schools. Whereas the Final Borough is based on the revised adjusted ADM.

State Aid: State Aid is a calculation. It takes Basic Need and deducts out the Local Effort, Impact Aid 874, and then adds in the Quality Schools.

Funding Floor Is based on the current FY01 funding floor.

NOTE:

~The Budgeted Local Contribution is a 'guesstimate' of what we believed to be a fair amount for a school district to start with as a new Borough.

~To come up with the District Cost Factor I used the Delta Greely Cost Factor.

Communities Involved:

~ Delta Junction, Fort Greely, Healy Lake

FY 1999 Funding Scenario

Delta / Greely

			<i>Final</i>	
	Delta/Greely	Current Total	Delta Greely	Difference
Basic Need	6,603,913	6,603,913	6,603,913	-
Local Effort (LE)	-	-	1,274,800	1,274,800
Deductible 874	336,049	336,049	236,041	(100,008)
Quality Schools	26,818	26,818	26,818	-
<i>State Aid</i>	-	6,294,682	5,119,890	(1,174,792)
Funding Floor	409,905	409,905	409,905	-
Entitlement	-	6,704,587	5,529,795	(1,174,792)

Delta/Greely CALCULATIONS:

For purposes of this analysis the above information was derived from FY'99 Foundation numbers, with the exception of the Floor. It was taken from the FY'01 Foundation information.

Basic Need: The "Current Total" adds the above individual/affected district.

Local Effort: The "Current Total" is adding the Local Effort together. Whereas the new Local Effort was derived from taking the total Full Value of \$318,700,000 by .004 mills.

Deductible 874: Is the deductible Impact aid for the FY 99 year.

Quality Schools: "Current Total" is totalling up all the districts Quality Schools. Whereas the Final Borough is based on the revised adjusted ADM.

State Aid: State Aid is a calculation. It takes Basic Need and deducts out the Local Effort, Impact Aid 874, and then adds in the Quality Schools.

Funding Floor Is based on the current FY01 funding floor.

NOTE:

~The Budgeted Local Contribution is a 'guesstimate' of what we believed to be a fair amount for a school district to start with as a new Borough.

~To come up with the District Cost Factor I used the Delta Greely Cost Factor.

Communities Involved:

~ Delta Junction, Fort Greely, Healy Lake

FY 1999 Funding Scenario

Delta / Greely

	Current Total	1st Year zero Mills	2nd Year .002 Mills	3rd Year .003 Mills	4th Year .004 Mills
Basic Need	6,603,913	6,603,913	6,603,913	6,603,913	6,603,913
Local Effort (LE)	-	1,274,800	1,274,800	1,274,800	1,274,800
Deductible 874	336,049	336,049	336,049	336,049	236,041
Quality Schools	26,818	26,818	26,818	26,818	26,818
<i>State Aid</i>	6,294,682	5,019,882	5,019,882	5,019,882	5,119,890
Funding Floor	409,905	409,905	409,905	409,905	409,905
Entitlement	6,704,587	5,429,787	5,429,787	5,429,787	5,529,795
LE State Pays		1,274,800	637,400	318,700	-
TOTAL STATE SUPPORT		6,704,587	6,067,187	5,748,487	5,529,795

REVENUE	Existing District	1st year	2nd year	3rd year	Final year
Total State Support	6,704,587	6,704,587	6,067,187	5,748,487	5,529,795
Local Contribution	-	-	637,400	956,100	1,821,143
Total 874	422,759	422,759	422,759	422,759	422,759
Total Revenue	7,127,346	7,127,346	7,127,346	7,127,346	7,773,697

NOTE: Final fiscal year assumes impact aid percentage at 70%

- Basic Need:** Basic need is a constant and does not change through out this calculation toward becoming a Borough.
- Local Effort (LE):** Local Effort is set at .004 mills and will not change as it also apart of the calculation to help pay for Basic Need.
- Deductible 874:** In the first 3 years the Impact Aid will have the 90% deduction until the Borough is paying the complete .004 mills. At which time there will be an additional adjustment so the Borough will retain more 874 money.
- Quality Schools:** Is a constant once the ADM adjustment has been done then Quality Schools can be determined.
- State Aid:** *Again State Aid is derived from taking Basic Need and deducting the 874 funds and the Local Effort.*
- Funding Floor:** Is based on those districts with a remaining Floor in FY 2001 .
- Entitlement:** Is derived from totaling up the Floor + State Aid & any amount of Local Effort the State has to cover in the transition to become a Borough.
- LE State Pays:** Is based on the amount the State pays of Local Effort (LE) to cover the .004 mills while the District transitions into Borough in accordance with AS 14.17.410(e).
- TOTAL STATE SUPPC** Is Entitlement plus Local Effort (LE) the State pays during these first 3-4 years.
- Total State Support:** This total is derived from the money the State will need to pay in order for the district to reach Basic Need. This would mean while the new district is transitioning into Local Effort, the State will have to cover it or what remains.
- Local Contribution:** Each year the new district will transition into paying the Local Effort. AS 14.17.410(e) 1st year 1 or no mills, 2nd year 2 mills, 3rd year 3 mills and finally in the 4th year the complete 4 mills
- Total 874:** Impact Aid as received in total before any deductions have been determined.

NOTE:

- * When running ADM's ~ the number of correspondence & intensives were accounted for using FY'99 information.
- * While consolidating several districts into one organized borough, I took into account the appropriate calculations for adjustment.

6.4 Estimated Federal Funding Levels

The federal government is a key player in the funding of school districts through PL 874. The allocation of federal funds is based on the number of parents and students who reside and/or work on federally impacted property. Key points of the PL 874 funds are:

- ◆ After the statutory deduction of 90%, the amount the area would receive is \$422,759 in either scenario. This is subject to change if the military allows family to live on Ft. Greely.
- ◆ This amount is then subtracted from the district's basic need in determining the level of state aid.

The total amount the proposed borough would receive would be no different than the REAA unless the area contributes more. Under table --, the 874 funds remain the same if a borough contributes the 4 mil amount (\$422,759). However, if the borough contributes roughly 5.6 mills, the state funding increases roughly one dollar for every two dollars that the borough contributes over the 4 mill requirement.

6.5 The Four Year Phase in Program

A.S. 14.17.025(f) allows a borough school district to phase in the local 4 mill requirement over a four-year period. The required local contribution during the second year of operation must be at least 2 mills, 3 mills in the third year and 4 mills the fourth year. Once a borough contributes 4 mills, it must contribute at least 4 mills thereafter. If the area had \$100 million of taxable property (this assumes oil and gas properties are not counted towards the area's obligation) the area would need to pay the following amounts:

1. First Year

The first year of borough operation would not require a local contribution for the operation of the school system.

2. Second Year

In the second year the borough must contribute at least 2 mills. The new borough would be required to contribute approximately \$200,000.

3. Third Year

In the third year the borough must contribute at least 3 mills. This amounts to \$300,000. The fourth mill will be provided by the state.

4. Fourth Year

The borough would be required to contribute the total amount of \$400,000. Under current state law the borough would continue to contribute at least four mills.

Moreover, as noted in the previous tables, if in the third, fourth and future years the borough contributes roughly 1.6 mills (\$185,148) over its required amount, it will receive approximately an extra \$100,000 from the state for educational services.

Discussion

The formula is driven by a number of components. Key points to remember include:

- ◆ Property valuation is very important. The state currently does not conduct an "on the ground" property assessment of value for REAAs. Instead it use a fairly general model of comparisons of know values for similar areas. One of the first steps the state would be required to complete is more accurate assessment of full and true value of real and personal property.
- ◆ A borough's basic need is still driven in large part by the number of students enrolled in the district. Given the future projected growth for the district, the formula would in turn mean more state dollars to the district.
- ◆ An increase of military dependents should mean more 874 funds to the district.
- ◆ The amount that the region would need to contribute would increase if oil and gas properties were included and no exemption were made in calculating local effort.

6.6 Transition Issues

Background

The transition from an REAA school district to a borough school district can be the most difficult of many confusing issues for a prospective borough. A prospective borough should not assume that the law, the state (principally Department of Education) or others will have solutions to all the questions that arise or a precise road map to follow. Nevertheless, state statutes do provide the framework for the transition. State statutes A.S.29.05.130 Integration of Special Districts and Service Areas and A.S.29.05.140 Transition cover key aspects of consolidations of two school districts.

A.S. 29.05.130 Integration of Special District and Service Areas

Key points of this section include:

1. A service area shall be integrated into the borough within two years after incorporation.

Practically speaking, an area should not wait until the last minute. The assumption of the power of education requires borough assembly action. It is assumed that the new assembly and school district board would coordinate such a process.

2. Upon integration (assumption) of powers the borough shall assume all rights, powers, duties, assets and liabilities of the former service area.

This means the following:

- Transfer of all real and personal property currently owned by the REAA. This includes all existing school facilities and the lands, if any, owned by the state currently used by the REAA for educational purposes in the region. Normally, this should be described on a plat/ownership document. If the state is leasing the property, the new borough would assume such a lease.

- Acceptance of employment contracts. A new borough would be required to honor the existing contractual relationship of tenure between teachers and the school district. Other multi-year contractual arrangements would be honored as well. It would not preclude the new school district, however, from restructuring or adjusting the differences in the two salary schedules for future operations.
- Assumption of surplus funds. The borough would assume any surplus funds from the school district.
- Assume any long term leases, debts or other obligations of both entities. If there are, in fact, any such obligations, the new borough would assume them. This would include ongoing purchase or construction project contracts.

A.S.29.05.140 Transition

Key points include:

1. Ordinances, rules, resolutions, procedures and orders in effect before the transfer remain in effect until superseded by the action of the new municipality.

Simply stated, it means the borough needs to have its rules and policies in place when it takes over. In some rural boroughs, a borough school board election was held prior to the assumption of education powers. The objective was to establish the necessary guidelines and rules, and initiate the hiring of staff. These activities were funded by the borough's state transition funds. This provided for a smooth and orderly transfer and allowed the new school district to actually assume responsibility on the date of transfer. In the case of the study area, this may not be necessary since the area covers the same population as the existing REAA.

2. Borough responsibilities to provide for an orderly transfer.

The new borough would give written notice before it assumes rights, power, duties, assets, and liabilities of educational powers. It must consult with the REAA officials to ensure an orderly transfer although it does not necessarily need the REAA's agreement or consent. Furthermore, it is not required that the borough wait for the election of a new school board before it assumes powers.

3. Debts, contracts and transfer of assets by existing REAA.

The REAA can not issue debt, make a contract or transfer assets once borough incorporation has occurred, even if it were prior to borough assumption of powers. This means that since the borough will be taking on education powers, the existing school districts can not, for example:

- sell equipment;
- extend or pay more for contracts, whether they are in effect at the time of assumption of education powers or not; or
- issue debt for a school purchase.

Other rural boroughs have passed a resolution outlining school district purchases needing borough approval. Routine purchases such as food, fuel and maintenance were not included.

4. Timing of Transfer

State law requires the borough to assume all powers within two years after incorporation. If a borough was formed in the fall of 2004 it would assume educational powers either in the summer of 2005 or 2006. If the borough assumes the power and the responsibilities on July 1, 2005, it would mean that in its first year of operation, FY2006, there would be no required local contribution. If it waited until July 1, 2006, there would be no contribution in FY2007. If the area decided to organize halfway through a fiscal year, the remaining portion of that fiscal year would serve as its first and only year of no required contribution. This approach would deny the area a substantial savings since in the next fiscal year it would be required to contribute two mills or its equivalency. (Remember, even though the system is described in the context of property valuation, funds may come from other tax sources).

Chapter 7: Borough Operational and Finance Issues

Background

There are a number of policy-related questions that new rural boroughs will face, two of which must be raised even before there is an election. They include:

- Establishment of Assembly Districts.
- Who constitutes a resident - year-round residents only or seasonal workers as well.
- Decline in the value of TAPS property.
- Decline in state support for local government.

7.1 Assembly Districts

Background

The composition of the assembly is a critical issue in the establishment of a new borough. How an assembly functions will in large part determine the success of the borough. The assembly seats are determined by a districting plan approved by the voters.

Districting Plan Options

There are no size limits for an assembly. Existing borough assemblies range in size from five to eleven members. Most have seven members. According to A.S. 29.20.070, assembly members can be elected in four ways:

1. At Large

This means, in effect, only one district. Assembly members are elected at-large by all voters in the borough. Candidates would run either for individual seats within the one district or by a number of seats in which the candidates receiving the most votes would win seats.

2. District Resident, Vote at Large

This means an at-large election but with a requirement that a candidate live in a particular district (community). This would ensure wide community participation, but still allow the study area as a whole to determine assembly members. This could mean more than one community in one district.

3. District Resident, Vote by District

This means election of assembly members by districts. Voters would elect assembly members similar to the way state legislators are elected. It would guarantee districts (of one to several communities) and/or assembly members. This could mean more than one community in one district.

4. Combined at large & district

This means election by a mixture of district and at large assembly seats. This could result in a variety of assembly member seat configurations. It could mean a set number of seats for the core area of the region, with the rest of the seats being elected, in effect, at large.

7.2 What Constitutes a Resident

In many rural Alaskan communities, population swings are common as people come and go because of seasonal employment. This is particularly true in communities with major construction projects, mining operations and fish processing. Workers generally reside in group housing and/or barrack style living. Most workers leave after a project or contract has been completed. Clearly such workers are not residents. Nonetheless, there have been instances where temporary workers attempted to maintain residency for a variety of reasons. This has resulted in closer review of workers' residency status, both in the context of voter registration requirements and the method of determining assembly seats.

The broader issue of residency is continues to be argued in the court system, particularly in the context of special benefit programs such as the permanent fund and longevity bonus, and employment rights and responsibilities. In the case of local elections and assembly districts, some rural boroughs have policies that may be useful. Many require a one year residency to run for an assembly seat. This ensures that long term residents have a strong say in the make-up of the assembly. The right to vote is allowed after 30 days of residency. This generally follows state law. However, in counting temporary workers for districting of seats, some boroughs only recognize those that are truly local residents. Many rural boroughs do not believe that someone who lives temporarily in a borough but has a home in Washington and an out of state driver's license is a local resident. Consequently, even though the local community may count these people for revenue sharing purposes, many rural boroughs do not count them for the make-up of assembly seats.

7.3 Decline in the Value of TAPS property

The Trans-Alaska Pipeline System (TAPS) property may have direct implications for a borough in the study area for two reasons. One, if area residents impose a property tax on themselves, TAPS property would be included. If under current law the area chose not to impose a property tax, TAPS property value would be still included in determining the amount of local (borough) effort for school funding. If, on the other hand, the legislature allowed the region not to require the TAPS property to be counted in the determination of the local effort with the understanding it could not tax TAPS property under that condition, the issue of TAPS valuation may become less relevant.

Secondly, the issue of TAPS's value, and more importantly as noted on the table on page 65 the decline in value, may be problematic if the area becomes overly dependent on property tax revenues for general government operations or it issues revenue or long term general obligation bonds based in part on property tax on the value of TAPS.

Consequently, the area needs to clearly understand the implications of current law and the declining value of the TAPS property.

7.4 Decline in State Support for Local Government

The state of Alaska is far from broke. Many observers characterize the current fiscal situation as a challenge not a crisis. Regardless of how one describes the matter, the state has conveyed fewer funds to communities since the mid 1980's and spends less money now per capita than it did in 1979. In 2003 governor vetoed all municipal assistance, SAFE communities funds and capital matching grants. Its safe to assume that more cut will occur unless a state tax is instituted. This trend will probably continue for the foreseeable future. Consequently, local governments need to budget conservatively and be realistic about non-local revenues to support their operations.

Chapter 8: Borough Expenditures

This section describes in general terms the expected cost of a bare bones borough for three years starting in FY05 (2004). It assumes the power of education would not be acquired until FY2007. It does not include any competitively awarded grants. It assumes assembly members and planning commission members will not receive meeting fees. It assumes the City of Delta Junction will be consolidated into the borough and its assets will be transferred to the borough. It assumes the new borough would not be required to purchase new furniture nor computers or other office equipment. Instead it would use existing city properties.

8.1 Borough Assembly

A newly elected borough assembly will face a heavy workload during the first year following incorporation. Housekeeping and organizational chores will demand priority attention. These tasks include, but are not limited to:

- organizing the assembly;
- establishing personnel rules and regulations;
- working with the City of Delta Junction on issues such as the transfer of assets and liabilities;
- approving contracts;
- adopting a budget;
- setting pay schedules for borough employees; and
- approving appointments for various borough administrative posts.

Initially, the assembly will be required to hold its meetings in a public space such as the Delta Junction city hall or the school district offices. It is assumed that the Assembly would not meet elsewhere in the borough. During this period, there will be no space rental fees nor will assembly members be paid meeting per diem. Assembly costs also assume the following:

TABLE ASSEMBLY BUDGET Cost in Thousands			
Budget Category	FY 05	FY 06	FY 07
Borough Clerk	45.0	47.0	48.0
Benefits 25%	11.25	11.75	12.0
Contractual Services	10.0	10.0	10.0
Travel	4.0	3.0	3.0
Per Diem	1.0	1.0	1.0
Dues and Subscriptions	.5	1.0	1.5
Bonding and Insurance	4.0	4.0	4.0
Printing and Publications	5.0	5.0	7.0
Telephone and Postage	2.0	2.0	2.0
Audit	25.0	25.0	25.0
Other Expenses			
Elections	2.0	2.0	2.0
Office Equipment	0.0	0.0	0.0
Office Supplies	1.5	2.0	2.0
Subtotal	107.5	113.5	117.5
Contingency 10%	10.7	11.3	11.7
TOTAL	118.2	124.8	129.2

8.2 Borough Mayor/Administrator/ Manager's Office

A decision by the voters will determine whether the mayor is also the chief executive officer or whether he only oversees meetings. If the latter is the case, then the borough would either have an administrator who reports to the mayor or a manager who reports directly to the assembly. The following budget would cover the cost of any one of these options.

Initially, this individual will be deluged with important organizational chores and housekeeping tasks. Among these are:

- establishing administrative procedures and regulations;
- recruiting key staff department heads;
- developing working relationships with state and federal agencies and officials;
- initiating borough programs and policies;
- drafting and submitting capital improvements and operations budgets; and
- providing administrative input into the assembly meetings.

TABLE			
MAYOR/MANAGER/ADMINISTRATOR'S (CHIEF EXECUTIVE)			
(Cost in Thousands)			
Budget Category	FY05	FY06	FY07
Personal services			
Chief Executive	80.0	84.0	87.0
Secretary/Assistant	35.0	37.0	39.0
Benefits 25%	28.75	30.25	31.5
Contractual Services	10.0	10.0	10.0
Travel	15.0	15.0	15.0
Per Diem	7.0	7.0	7.0
Dues and Subscriptions	.5	1.0	1.5
Bonding and Insurance	4.0	4.0	4.0
Printing and Publications	3.0	3.0	3.0
Telephone and Postage	6.0	6.0	6.0
Other Expenses			
Office Equipment	0.0	0.0	0.0
Office Supplies	2.0	1.0	1.0
Subtotal	191.35	207.25	205.0
Contingency 10%	19.1	20.7	20.5
TOTAL	210.45	227.95	225.5

8.3 Department of Law

The Department of Law will provide legal counsel to the borough assembly and mayor on all legal matters. Initially, important housekeeping ordinances will have to be drafted and a codified system for the ordinances must be established. Proposed contracts and legislative proposals will need review.

The budget assumes that a contract attorney will be used for the foreseeable future. This is fairly typical of small municipal governments including rural boroughs. Continued contract attorney fees have also been provided since it is likely the borough will require specialized legal assistance as it explores a variety of legal and policy issues.

TABLE DEPARTMENT OF LAW (Cost in Thousands)			
Budget Category	FY05	FY06	FY07
Personal Services			
Contract Attorney	50.0	50.0	50.0
Sub-Total	50.0	50.0	50.0
Contingency 10%	5.0	5.0	5.0
Total	55.0	55.0	55.0

8.4 Department of Administration and Finance

The administrative functions of the new borough would be carried out by this department. After incorporation, it is this department that would:

- establish and set up borough bookkeeping and accounting systems;
- establish personnel rules and regulations;
- prepare and submit federal and state grant funding applications;
- set up and administer a system for sales and use tax collection and revenue enforcement;
- set up payroll and accounts payable systems;
- obtain the necessary insurance and bonding coverage;
- develop and implement a computerized data processing system; and
- hire and train staff.

TABLE DEPARTMENT OF ADMINISTRATION AND FINANCE (Cost in Thousands)			
Budget Category	FY05	FY06	FY07
Personal Services			
Director/Finance Officer	55.0	57.0	58.0
Benefits (25%)	13.75	14.25	14.5
Consulting Fees	10.0	10.0	10.0
Travel	2.0	2.0	2.0
Per Diem	1.0	1.0	1.0
Telephone/Postage	.5	.5	.5
Office Equipment	0.0	0.0	0.0
Office Supplies	.5	.5	.5
Sub Total	82.75	85.25	86.5
Contingency 10%	8.2	8.5	8.6
Total	90.95	93.75	95.1

8.5 Department of Planning and Community Affairs

This department will be responsible for long range land use planning, economic development, natural resource protection, and public works. Like the other borough departments, this department will consist of a small professional full-time staff that would be augmented by consulting assistance as required. It is also assumed that the current City of Delta Junction public works position would work at the direction of the Planning Director. The specific scope of responsibility for the public works staff could reflect both voter direction (e.g., limited road maintenance responsibilities) and assembly action.

The borough's planning responsibilities will be directed and monitored by an appointed citizens' advisory group, the borough planning commission. The borough planning commission advises the borough assembly on all planning related matters. It is assumed the commission will have five members and that they will not receive a meeting fee.

TABLE DEPARTMENT OF PLANNING AND COMMUNITY AFFAIRS (Cost in Thousands)			
Budget Category	FY05	FY06	FY07
Personal Services			
Planner	60.0	62.0	63.0
Public Works Staff	55.0	57.0	58.0
Benefits 25%	28.75	29.75	30.0
Contract Services	10.0	10.0	10.0
Travel	5.0	5.0	5.0
Dues and Subscriptions	1.0	1.0	1.0
Telephone and Postage	1.0	1.0	1.0
Office Equipment	3.0	2.0	2.0
Office Supplies	0.0	0.0	0.0
Subtotal	161.75	166.75	170.0
Contingency 10%	16.4	16.6	17.0
Total	178.10	183.35	187.0

8.6 Assessor's Department

This department is optional. It is contingent upon the use of a property tax. Rural boroughs with a property tax often use contract employees. Moreover it is anticipated that consulting assistance will be used to set up the first tax roll and in subsequent three year updates.

Typically the assessor's department is responsible for identifying and appraising the value of all real and personal property within a borough when it levies taxes on such property. Early tasks will include departmental organization and staffing, borough property identification, mapping, and coding.

TABLE ASSESSORS DEPARTMENT (Cost in Thousands)			
Budget Category	FY05	FY06	FY07
Contract Assessor	100.00	40.00	40.0
Contingency	10.0	4.0	4.0
Total	110.0	44.0	44.0

Below is a summary of the budget estimate for the minimal level of services a new borough would provide.

TOTAL BUDGET ESTIMATES (Cost in Thousands)			
Department	FY05	FY06	FY07
Assembly	118.2	124.8	129.2
Borough Mayor/Administrator/Manager	210.45	227.95	225.5
Law	55.0	55.0	55.0
Administration and Finance	90.95	93.75	95.1
Planning & Public Works	178.10	183.35	187.0
Total	652.7	684.85	691.8
Assessors Office	110.0	44.0	44.0
Total	762.7	728.85	735.8

If a borough was established, it's assumed that by the same action, the City of Delta Junction would be absorbed into the new regional government. Such an assumption means that all current city assets and liabilities would be transferred to the new borough in an orderly and timely fashion.

8.7 City Assets

The city owns the following facilities and lands:

1. City Hall;
2. Community Center;
3. City Fire Department Station;
4. Visitor Center Building;
5. Cemetery;
6. Two landfills, one in use and one in the design stage;
7. An undetermined number of acres of undeveloped land acquired from the state under the municipal entitlement program;
8. Various pieces of heavy equipment;

9. Community Airfield;
10. Donnelly Dome communication complex; and
11. 29-30 miles of roads (this may include part of school road since actual ownership is unclear)
12. Hockey Recreation Building.

All such projects are owned free and clear by the city.

According to the 2002 audit such assets are valued as following:

1. Street and land development-\$6,000,000
2. Buildings-\$1,660,000
3. Equipment-\$700,000

Additionally, the city should have constructed by 2004/2005:

1. A new permitted landfill with 140+ acres for expansion
2. A new public library
3. Expanded fire station
4. Expanded or new recreational center

Additionally, the city has office equipment for a four person staff including computers, copiers and desks. Lastly, the city has approximately \$500,000 in its savings account.

8.8 City Liabilities

1. \$1 million debt to Allvest, Inc.
2. Lease of City Park lands from the Mental Health Trust Authority. Lease expires in 2023.

8.9 City Annual Expenses

1. Insurance. \$43,000. Building/facility property and general liability insurance (\$24,000); auto insurance for fire truck (\$7,350); property (\$9,290); equipment (road grader, front end loader) (\$1,740)
 2. Fuel oil all facility \$15,000
 3. Electricity \$15,000
 4. 9[-]11 services \$9,000
 5. Library Services Personnel \$51,678 (wages); \$15,882 (benefits); total \$67,560
 6. Maintenance man \$18,200 (wages); \$3,170 (benefits); total \$21,370.
 7. Janitorial cost \$4,425
- Total \$160,000

Please note there are no current projected maintenance costs for the new facilities. However, it can be assumed that user fees will cover the landfill cost. The other facilities will incur additional maintenance and operational cost not covered by user fees. It's assumed for this report that those additional costs (labor, insurance, fuel and power) will total approximately \$40,000 annually.

Total City operational costs therefore are estimated at \$200,000.

Consequently, the total cost of a new borough, not including educational services, would be as follows:

TOTAL BUDGET ESTIMATES (Cost in Thousands)			
Department	FY05	FY06	FY07
Assembly	118.2	124.8	129.2
Borough Mayor/Administrator/Manager	210.45	227.95	225.5
Law	55.0	55.0	55.0
Administration and Finance	90.95	93.75	95.1
Planning & Public Works	178.10	183.35	187.0
Sub-Total	652.7	684.85	691.8
Assessors Office	110.0	44.0	44.0
Additional Services Currently provided by the City	200.0	210.0	220.
Total	962.7	938.85	955.8

Chapter 9: Borough Revenues-State and Federal Sources

This chapter identifies sources of non-local revenue which would be available to a borough in the study area. Specific estimates are also provided.

9.1 State/Federal Shared Revenues

Organizational Grants

The State of Alaska provides each new borough an organizational grant of \$600,000. During the first year \$300,000 is provided, \$200,000 the second year, and \$100,000 the third year. Assuming the borough incorporates in FY2005 (Fall 2004), the grants would likely be received as follows:

2004	\$300,000
2005	\$200,000
2006	<u>\$100,000</u>
Total	\$600,000

SAFE Communities (formerly known as Municipal Assistance)

SAFE Communities funds would total **\$0.00**. This program was eliminated in June 2003. It's highly unlikely to be reintroduced in the future.

State Revenue Sharing

This program generally provides for a minimum entitlement of \$25,000, plus a geographic cost-of-living adjustment (COLA). However, with the decline in state assistance, the program was eliminated in June 2003 and the area is projected to receive **\$0.00**.

PILT Payment in Lieu of Taxes

PILT is a federal revenue sharing program designed in part to compensate communities with non-taxable federal lands within their boundaries. In the case of the unorganized borough, the formula involves federal lands within select census districts. The City of Delta Junction currently receives a PILT grant of approximately \$320,000 annually largely because there is only one other city (Eagle) in the census district. According to state officials, the Delta-Ft Greely REAA would receive **\$267,167**.

Electric Cooperative Tax (AS 10.25.570)

The State currently shares 100% of the electric cooperative tax with the City of Delta Junction. This amounts to approximately \$4,500 annually. Based on the study area's larger population and electric use, it's estimated that a new borough would receive **\$15,000**.

TOTAL NON-LOCAL REVENUE (\$ Thousands)			
Source	FY 05	FY06	FY07
Organizational Grant	300.0	200.0	100.0
SAFE	0.0	0.0	0.0
Revenue Sharing	0.0	0.0	0.0
PILT	267.0	250.0	250.0
Electric Coop	15.0	15.0	15.0
School Foundation*	0.0	0.0	6704.0
Total	582.0	465.0	7069.0

*Assumes school powers are not assumed until 2007

Chapter 10: Borough Revenues-Local Taxes

Background

This section reviews potential tax structure options that could be used to meet financial obligations for basic services. They include:

- a. Property Tax (including Oil and Gas properties);
- b. Sales Tax;
- c. Other sales taxes on select items or services;
 - Power tax;
 - Accommodation (bed) tax;
- d. Employment tax;
- e. Mineral/timber severance tax;
- f. Payment in lieu of tax.

Obviously the tax structure and levels vary from one municipality to another. As state funds and local needs have increased and decreased over the years, many boroughs have adjusted their tax structures. Currently the existing 16 boroughs and select cities collect the following types of taxes:

1. **Aleutians East Borough** - 2% tax on the processing and sale of fish products. This is commonly called the raw fish tax. (Total Assessed Property \$92.9 million)
2. **Municipality of Anchorage** - property tax currently at 18.79 mills; 8% accommodations Tax, Tobacco Tax, Car tax. (Total Assessed Property \$17.1 billion)
3. **Bristol Bay Borough** - 3% raw fish tax, 10% accommodation Tax (May-Oct); 13 mill property tax. (Total Assessed Property \$151.9)
4. **Denali Borough** - 7% accommodations Tax; Severance Tax \$.05/yard. (Total Assessed Property \$152.8 million)
5. **Fairbanks North Star Borough** - 16.849 mills property tax; 8% accommodation tax. (Total Assessed Property \$4.1 billion)
6. **Haines Borough** - 6.23 mills (12.08 mills downtown) property tax; 1.5% (5.5% in downtown) sales tax; Accommodations Tax 4%; Tour tax 4% (Total Assessed Property \$180 million)
7. **City & Borough of Juneau** - 11.07 mills property tax; 5% sales tax; 7% accommodations tax; 3% liquor tax; 6% tobacco tax. (Total Assessed Property \$2.5 billion)
8. **Kenai Peninsula Borough** - sales tax 2%; property tax 6.5 mills. (Total Assessed Property \$4 billion)
9. **Ketchikan Gateway Borough** - property tax 7.5 mills; sales tax 2%; 4% accommodations tax. (Total Assessed Property \$958 million)
10. **Kodiak Island Borough** - property tax 9.25 mills; 5% accommodation tax; 0.925% severance tax on seafood, timber and minerals. (Total Assessed Property \$760 million)

11. **Lake and Peninsula Borough** - 2% raw fish tax; 6% accommodations tax. (Total Assessed Property \$63.7 million)
12. **Matanuska-Susitna Borough** - property tax 13.133 mills; 5% accommodation tax. (Total Assessed Property \$3.2 billion)
13. **North Slope Borough** - property tax 18.51 mills. (Total Assessed Property \$10.8 billion)
14. **Northwest Arctic Borough** - no taxes. Instead it receives a payment in lieu of taxes that it negotiates annually with Cominco (Red Dog Mine). The regional Native corporation owns half of the mining investment so consequently, the majority of local residents (and shareholders of the NANA Corporation) indirectly pay for borough service.
15. **City & Borough of Sitka** - property tax 6 mills; 5% sales tax 6%; accommodations tax; 2 cents/gallon fuel tax. (Total Assessed Property \$608 million)
16. **City & Borough of Yakutat** - sales tax 4%; property tax 9.0 mills; 1% salmon tax; 4% accommodations; 4% vehicle rental. (Total Assessed Property \$35 million)

Additionally, listed below are the tax rates for a few select first class cities in the unorganized borough. Note: there is no legal distinction in terms of powers and services between a first class city in the unorganized borough and a borough.

1. **City of Petersburg** - property tax 10.17 mills; 4% accommodations tax (Total Assessed Property \$182 million)
2. **City of Valdez** - property tax 20 mills; 6% accommodations tax (Total Assessed Property \$968 million)
3. **City of Wrangell** - property tax 10 mills; 7% sales tax; \$4/night accommodations tax (Total Assessed Property \$100 million)
4. **City of Unalaska** - property tax 11.78 mills; 5% accommodation tax; 2% raw fish tax; sales tax 3% (Total Assessed Property \$334 million)
5. **City of Nome** - property tax 12 mills; 4% accommodations tax; sales tax 4% (Total Assessed Property \$170 million)

10.1 Property Tax

Under state law cities and boroughs may enact a property tax not greater than 30 mills (3%) on real and personal property. Property taxes have been an integral part of local tax systems in urban areas more than rural areas. The North Slope Borough (NSB) and the Bristol Bay Borough (BBB) are the only rural boroughs with a property tax system in place. NSB takes advantage of the \$10.5 billion worth of oil and gas properties that it can tax for both operating and capital needs. BBB taxes fish processing plants and fishing boats along with other non-Native townsite or allotment properties.

According to the State Assessor there is roughly \$108 million of non-oil and gas real and personal property values in the study area. However, since this a general estimate that may have changed over the last three years this study will use \$100 million to represent the taxable non-oil and gas real and personal property of the study area. There is also approximately \$210.7 million of oil and gas properties as defined by Alaska Statute 43.56 in the study area. Please note the budget analysis reflects a decline in TAPS property values of 10% starting in 2005 (FY 2006) and 4% for

each year thereafter. The non-oil and gas properties are estimated to increase in value by 3% annually. The total of \$310.0 million for FY 2005 taxable property is only an estimate. If the area became a borough, the state would conduct a more rigorous assessment of non-oil and gas properties. Given the history of major property changes in the area since the mid-1970's and the recent and projected economic development, it's fair to say that the current property valuation is in flux.

Secondly, what at this time can be only conjecture, is the eventual value of the ComincoTeck investment in the Pogo mining area. The project EIS suggests an investment of \$250 million. However, the estimate only shows a conservative project value of \$200 million. Secondly, it is noted that such a value would not be in place until 2006.

Value/FYear	2005	2006	2007	2008	2009	2010	2011	2012	2013
Oil and Gas Properties	210	189	181	174	167	160	154	147	142
Non-oil and gas properties	100	103	106	109	112.5	116	119	122.9	126.6
Pogo Mine	----	---	200	183.7	167.4	151.1	134.8	118.5	102.2
Total	310	292	487	466.7	446.9	427.1	407.8	388.4	370.8

The current development scenario for the mine reflects a project life of 11 years. Consequently, for study purposes the mine property values reflect a straight line decrease from FY2007 to 2018 for a project end value of \$20 million. This would be subject to change if the life of the mine is extended beyond that date.

10.2 Agricultural lands

Under state statutes (A.S. 29.45.060 - Farm or Agricultural land) farmlands shall be assessed at full and true value for farm use and may not be assessed as if subdivided or used for some other non-farm purpose. However, If the land is sold, leased or otherwise disposed of for uses incompatible with farm use or converted to a use incompatible with farm use by the owner, the owner is liable to pay an amount equal to the additional taxes at the current mill levy together with 8% interest for the preceding seven years as though the land had not been assessed for farm uses. Payment by the owner shall be made to the state (who in turn would normally reimburse the local municipality) to the extent of its reimbursement for revenue loss for the proceeding seven years. The balance of the payment would be made to the municipality. Put another way, if the land stays as farmland, then it will assessed as farmland. If it is taken out of that status and sold for subdivision development, then the land will be treated as such for tax purposes for the seven preceding years.

10.3 Senior and Disabled Veterans Home Exemptions

Per AS 29.45.030 (e-i) the first \$150,000 in value of a home owned by an Alaskan resident who is either over 65 years of age or a disabled veteran shall be exempt from municipal property tax. Originally the state of Alaska would cover the municipal "loss" of such tax revenues. However, since 1986 the state gradually reduced its funding of this program until 1996 when it completely discontinued such assistance. The total value of municipal residential property exempted from local property tax is currently about \$2 billion. The amount of actual taxes exempted is approximately \$32 million. It's difficult to determine how this program would effect the study area. However, according to 2000 census data, 16.2% of the region's homes are owned by residents over the age of 65. Although home values are described in general groups, a rough estimate shows about \$6.7 million of local homes are owned and occupied by senior residents. There is no data on disabled veterans for the area.

10.4 Sales Taxes

A sales tax is the most common tax structure used by smaller Alaskan communities. It's viewed by many as relatively fair since few if any residents are exempted from contributing some level of revenue to local government. However, it is characterized by others as regressive since people of less wealth will pay a higher percentage of their income in sales taxes than those of more wealth.

The system generally covers both sales (goods and commodities, e.g., food, building materials, energy) and services (from mechanical repair, to medical services to meals). The state places no limit on a municipal sales tax. The tax is traditionally on the purchaser of the goods or services but collected by the provider. In many communities, both in Alaska and other states, it's simply part of doing business. Local governments commonly require local vendors to hold business licenses in order to operate within their boundaries. The local vendor is required to provide monthly or quarterly taxes to the local government.

One of the most controversial aspects of sales tax is the issue of exemptions. Many communities, for example, exempt medicine, real estate or the cost of many items (e.g., cars and machinery over \$1,000 or \$2,000). Others will exempt electricity or fuel oil. Some boroughs will have taxes on only one item or event (e.g., fish sales and use tax or accommodation taxes). For discussion purposes, the issue of sales taxes is broken into three separate categories: an overall tax on all sales, a separate look at power (electricity) taxes, and an accommodation (motels/vehicle parks) tax.

10.5 General Sales Tax

Since no public records have been kept, estimates of potential sales tax revenues depend on a general knowledge of the local economy. Based on informal interviews with some local businesses, the following are estimates for total sales and services not including real estate:

1. Local stores for general goods such as food, clothing and alcohol would generate \$4 million.
2. Lumber, both rough, finished and furniture products, is estimated at \$3 million.

3. Fuel products, both for home heating and vehicles is \$1.2 million.
4. Services such as builders, repairmen and service providers would generate \$3 million.
5. Agriculture products such as dairy and meats along with hay and other grains is \$3 million.
6. Motels and vehicle parking facilities would be \$1 million.
7. Power tax. This would be a tax on the sale of electricity to both residential and commercial users. It does not include an estimate of power usage for Alyeska facilities nor the ComincoTeck project, both of which may purchase power at some time in the future. At this time there are approximately 1,000 customers in the study area. According to GVEA, they purchased around \$2.8 million of power in 2002.

Total Sales Estimate **\$18.0 million**. If the borough implemented a tax on the total amount of sales and services, the following income would be produced:

Table --		
Sales Tax Level	1%	3%
\$18 million (All Sales)	\$180,000	\$540,000
\$1 million Accommodation Tax	\$10,000	\$30,000
\$2.8 million Power Tax	\$28,000	\$84,000
\$2.8 million Power Tax (25%)	\$700,000	
\$2.8 million Power Tax (50%)	\$1,400,000	

10.6 Power Tax

The sale of power is taxable under state law. The collection of the tax would be GVEA's responsibility but legally they could not charge an administrative fee for such duties. The strength of the tax is its link to a common commodity and, although somewhat regressive in nature, nearly all local residents would contribute revenues for local services. The only possible exemption to such a tax would be a ceiling on the total taxable power. Such ceilings or exemptions could be for residential, commercial or industrial. Power tax revenues could dramatically increase if ComincoTeck or Alyeska did in fact agree to long term power agreements.

GVEA representatives contacted for this study were, not surprisingly, opposed to any tax on power sales. They viewed such a tax as a nuisance as well as having an adverse impact on public relations with their customers. GVEA staff expressed concern that customers would blame the power company, not the voters for the increased charges on their billing statement.

Again, a 25% power tax on \$2.8 million in sales would produce \$700,000.

10.7 Accommodation Tax

A number of communities have instituted an accommodation tax on tourist related activities. These range from hotels and lodges, to tours, to seasonal sales taxes, to car rental taxes. Not surprisingly such taxes are most common in areas that attract a high volume of visitors or high-end customers that are attracted to the lodge industry. Since Delta is not noted for either category, such a tax would not produce a substantial amount of revenue for a borough. Again, it's estimated that such a tax could produce around \$100,000 annually.

10.8 Employment Tax

An employment tax was used in the past to fund education. The "head tax" of \$10.00 was automatically deducted from the first paycheck of the year. All employed persons in the state were taxed. The tax was eliminated in early 1980's as oil money gushed into the state political and economic system. Like sales taxes, it has proponents and opponents. On the one hand, everyone pays something. On the other hand, everyone pays the same rate whether they earn \$1,000 or \$100,000 annually. If such a tax was implemented at \$100/per employed person with roughly 1,000 job holders in the region, this would produce \$100,000 annually.

10.9 Mineral and Forest Severance Tax

Two communities have implemented a severance tax: (1) Kodiak Island Borough which taxes forest products, minerals (gravel) and fish at the same rate it taxes property; and (2) Denali Borough which taxes the Usibelli coal operation at 5 cents/per ton. ComincoTeck's Pogo operation is still in the planning stages. The draft Environmental Impact Statement for the project suggests that approximately 500,000 ounces of gold per year would be produced over the projected 11-year life of the project. The value of gold fluctuates daily (current value is roughly \$350.00/ounce) and the long-term prices are highly unpredictable. However, if the borough charged a flat \$1/per ounce of gold and 500,000 ounces were produced annually, this would produce \$500,000 annually. If the borough charged a percentage of the gold value and 500,000 ounces were produced annually, the amount would of course fluctuate based on market conditions. The amount of taxes generated from stumpage fees and gravel would be minimal.

10.10 Payment in Lieu of Taxes

As noted earlier, the Northwest Arctic Borough (NWAB) and Cominco (Red Dog) have established a unique relationship to avoid both the establishment of a severance tax on the Red Dog mining project and a general property tax for the entire borough. The Red Dog project is a joint business venture between the NANA Regional Corporation and Cominco. The payment in lieu of taxes is periodically renegotiated to meet borough financial needs. The vast majority of NWAB residents are NANA shareholders and therefore have a vested interest in both the borough's operation and the mine's profitability.

It's unlikely that such an arrangement would ever be established between the region and ComincoTeck or for that matter any other major property owner. However, in the off chance that such an arrangement could be structured, and ComincoTeck agreed to pay approximately

the equivalent of 4 mills on \$200,000,000 (estimated value of facility) this would be worth \$800,000.

10.11 Summary of Tax Options

Summarized below are the various tax options with projected revenues.

TABLE (REVENUES IN THOUSANDS \$)	
Tax Classification	Approximate Taxes Generated Annually
Property Tax (5 mills)	
Oil and Gas \$210 million and Other Properties \$100 million (\$310million)	\$1,550.0
ComincoTeck-Pogo Mine (initial value of \$200 million)*	\$1,000.0
Other non-property taxes	
General Sales Tax @ 3% (\$18 million of sales and uses)	\$540.0
Power tax only on \$2.8 million of power sales@25%	\$700.0
Power tax on \$2.8 million of power sales @ 50%	\$1,400
Accommodation tax on \$1 million @ 3%	\$30.0
Employment Tax @ \$100/worker x 1,000	\$100.0
Mineral and Severance Tax @ \$1.00/ounce x 500,000 ounces	\$500.0
Payment in Lieu of Taxes on the \$200 million property value x 4 mills	\$800.0

*ComincoTeck-Pogo Mine is expected to come on line in 2006. This report assumes an increase in non-oil and gas properties of 3%. It assumes a decrease in oil and gas properties of 10% in 2005 and 4% for the years thereafter. The Pogo mine has a current projected life of 11 years. Its property values will decline at about \$16.3 million per year with an end value of \$20 million in 2017.

10.12 Discussion

The area has a somewhat limited menu of tax structure options. Unlike the state it can not establish an income tax. Property tax provides the largest amount of revenue because of industrial (mining and oil and gas) properties in the region. The downside of a property tax is implementation and appeal and assessment issues. Secondly, it's assumed that the majority of industrial properties will lose value in the long term.

A sales tax is fairly easy to implement. However, only a sizable power tax (near double-digit rates) on electricity sold in the region would produce anything close to possible property tax rates.

Other taxes such as a severance tax have promise, but alone might be viewed as punitive and would be shouldered by only one sector of the economy.

Chapter 11: Projected Budget Expenditures and Revenues

Listed below is the projected budget summary for minimal borough services and annual cost of current city services and facilities. (Cost in thousands)

Service/FYear	2005	2006	2007	2008	2009	2010	2011
Minimal Boroughs Services*	762.7	728.8	735.8	750.0	770.0	790.0	810.0
City services and facilities**	200.0	210.0	220.0	242.0	265.0	290.0	300.0
Total Expenditure (non-education)	962.7	938.8	955.8	992.0	1035.0	1,080.	1,110.
Educational Services	0.00	0.00	7,127	7,127	7,127	7,127	7,127
Total Expenditures	962.7	938.8	8082.8	8,119	8,162	8,207	8,237

*This assumes the borough would be incorporated in calendar year 2004 (July 1, 2004 = FY 2005) and would not assume educational powers until July 1, 2006 (FY2007). It assumes the borough would have an Assessor's office.

**This includes current as well as projected maintenance and operation cost of new facilities.

11.1 Projected Budget Revenues - External and Internal

Listed below are six projected budget revenue scenarios:

1. Assumes the total regional real and personal property values in FY2005 will include \$210 million worth of oil and gas properties and \$100 million of non-oil and gas properties for a total of \$310 million. Starting in FY2007, properties in the Pogo Mining district will be valued at \$200 million. It assumes a five mills tax on real property.
2. Assumes the Pogo mine is not constructed in the foreseeable future but does include oil and gas properties for a total of \$310 million in FY2005. It assumes a five mills tax on real property.
3. Assumes the Pogo mine is not constructed and, if the area does not institute a property tax, oil and gas properties are not included in the region's total property valuations which results in local taxable property of \$100 million in FY2005. It assumes a 3% general sales tax and a 25% power tax.
4. Assumes Pogo Mine is operational in 2006, but that the oil and gas properties are not counted in the foundation formula if there is no local property tax. The total property values would be \$310 million in FY 2005. It assumes a 3% general sales tax and a 25% power tax.
5. Assumes Pogo Mine is developed, Oil/Gas Properties are not counted toward the local contribution for education without a property tax. Local non-oil and gas values are \$100 million

in FY 2005 and are projected to increase in value at a rate of 3% annually. It assumes a 3% general sales tax and a \$2/ounce severance tax on 500,000 ounces of gold.

6. Assumes Pogo Mine is developed, Oil and Gas Properties are not counted toward local contribution for education without a property tax. Local non-oil and gas values are estimated at \$100 million in FY 2005 and are projected to increase in value at a rate of 3% annually. It assumes a flat fee on \$200/per each parcel of private property.

Each scenario reflects a decline of TAPS property values of 10% in 2005 and 4% for each year thereafter. The Pogo Mine project assumes a value of \$200 million in FY2007 and a decline in value of \$16.3 million annually for 11 years. At year FY2018, it's assumed that the mine assets would still retain a taxable value of \$20 million. If at a later date the mine's life expectancy is extended then the mine's values would be altered accordingly. Lastly, it's assumed that non-oil and gas properties will increase by 3% annually.

11.2 Scenario 1

In the first year (2005) non-oil and gas properties are valued at \$100 million with an increase in value of 3% annually, oil and gas properties valued at \$210 million with a decrease in value of 10% in FY2006 and a 4% decrease for each year after. Pogo Mine is valued at \$200 million starting in FY2007 and will decline by \$16.3 million each year until FY2018.

(Revenues in \$ thousands)

Revenues/FY	2005*	2006*	2007**	2008	2009	2010	2011
Total Expenditures Borough Administration	962.7	938.8	955.8	992.0	1,035	1,080	1,110
Non local revenues	582.0	465.0	365.0	265.0	265.0	265.0	265.0
Needed Revenues for Borough Administration	380.7	473.8	590.8	727	770	815	845
Total Education Cost			7,127	7,127	7,127	7,127	7,127
Scenario (1) School Foundation Funding (state contribution)	0	0	7,127	6,193.6	5,787	5,419	5,496
Scenario (1) School Foundation Funding- Needed Revenues (local contribution)	0	0	0	933.4	1,340	1,708	1,631
Property Values	310,000	292,000	487,000	466,700	446,900	427,100	407,800
Revenues Produced from a five mill tax	1,550	1,460	2,507	2,435	2,234	2,135	2,039
Scenario (1) surplus/ (Deficit) from five mill rate	1,169.3	986.2	1,916.2	774.6	124	(388)	(437)
Surplus Funds Accumulated	1,169.3	2,155.5	4,071.7	4846.3	4,970.3	4,582.3	4,145.3

*Pogo Mine Project not part of the Borough property tax rolls. **First year borough operates school district.

11-3 Scenario 2

This scenario assumes that Pogo Mine does not come on line. Other properties are valued at \$310 million in FY 2005. Values change as indicated in Scenario 1.

(Revenues in \$ thousands)

Revenues/FY	2005	2006	2007**	2008	2009	2010	2011
Total Expenditures Borough Administration	962.7	938.8	955.8	992.0	1,035	1080	1,110
Non local revenues	582	465	365	265	265	265	265
Needed Revenues for Borough Administration	380.7	473.8	590.8	727	770	815	845
Total Cost of Education	0	0	7,127	7,127	7,127	7,127	7,127
Scenario (2) School Foundation Funding (state contribution)	0	0	7,127	6,561	6,288.5	6,023	6,035
Scenario (2) School Foundation Funding (local contribution)	0	0	0	566	838.5	1,104	1,092
Property Values	310,000	292,000	287,000	283,000	279,500	276,000	273,000
Revenue Produced from a five mill tax	1,550	1,460	1,435	1,415	1,397	1,380	1,365
Scenario (2) surplus/ (Deficit) from five mill rate	1,169.3	986.2	844.2	122	(211.5)	(539)	(572)
Surplus Funds Accumulated	1,169.3	2,155.5	2,999.7	3,121.7	2,910.2	2,371.2	1799.2

*Pogo Mine Project not part of the Borough property tax rolls

**First year borough operates school district.

11.4 Scenario 3

Pogo Mine is not developed, Oil and gas properties are not counted toward local contribution for education without a property tax. Local non-oil and gas values are estimated at \$100 million and increase in value 3% annually.

(Revenues in \$ thousands)

Revenues/FY	2005	2006	2007*	2008	2009	2010	2011
Total Expenditures Borough Administration	962.7	938.8	955.8	992.0	1,035	1,080	1,110
Non local revenues	582.0	465.0	365.0	265.0	265.0	265.0	265.0
Needed Revenues for Borough Administration	380.7	473.8	590.8	727	770	815	845
Total Education Cost			7,127	7,127	7,127	7,127	7,127
Scenario (3) School Foundation Funding (state contribution)	0	0	7,127	6,909	6751.5	6,663	6,651
Scenario (3) School Foundation Funding (local contribution)	0	0	0	218	375.5	464	476
Property Values	100,000	103,000	106,000	109,000	112,500	116,000	119,000
Revenues produced from a three percent sales tax	540	540	540	540	540	540	540
Revenues produced from a 25% power tax	700	700	700	700	700	700	700
Revenues produced from a three percent sales tax and a 25% power tax	1,240	1,240	1,240	1,240	1,240	1,240	1,240
Scenario (3) surplus/ (deficit)	859.3	766.2	649.2	295	94.5	(39)	(81)
Surplus Funds Accumulated	859.3	1,625.5	2,274.7	2,569.7	2,664.2	2,625.2	2,544.2

*First year borough operates school district.

11.5 Scenario 4

This assumes that Pogo Mine is developed, Oil and gas properties are not counted toward local contribution for education without a property tax. Local non-oil and gas values are estimated at \$100 million in FY 2005 and are projected to increase in value at a rate of 3% annually.

(Revenues in \$ thousands)

Revenues/FY	2005**	2006**	2007*	2008	2009	2010	2011
Total Expenditures Borough Administration	962.7	938.8	955.8	992.0	1,035	1,080	1,110
Non local revenues	582.0	465.0	365.0	265.0	265.0	265.0	265.0
Needed Revenues for Borough Administration	380.7	473.8	590.8	727	770	815	845
Total Education Cost			7,127	7,127	7,127	7,127	7,127
Scenario (4) School Foundation Funding (state contribution)	0	0	7,127	6541.6	6257.2	6,058.6	7,117
Scenario (4) School Foundation Funding (local contribution)	0	0	0	585.4	869.8	1,068.4	915.2
Property Values	100,000	103,000	306,000	292,700	289,900	267,100	228,800
Revenues produced from a three percent sales tax and a 25% power tax	1,240	1,240	1,240	1,240	1,240	1,240	1,240
Scenario (4) surplus/ (deficit)	859.3	767	649.2	(72.4)	(400)	(643)	(520.2)
Surplus Funds Accumulated	859.3	1,623.3	2,272.5	2,200	1,800	1,157.1	697.4

**Pogo Mine Project not part of the Borough property tax rolls. *First year borough operates school district

11.6 Scenario 5

This scenario assumes Pogo Mine is developed, Oil and gas properties are not counted toward the local contribution for education without a property tax. Local non-oil and gas values are \$100 million in FY 2005 and are projected to increase in value at a rate of 3% annually.

(Revenues in \$ thousands)

Revenues/FY	2005**	2006**	2007*	2008	2009	2010	2011
Total Expenditures Borough Administration	962.7	938.8	955.8	992.0	1,035	1,080	1,110
Non local revenues	582.0	465.0	365.0	265.0	265.0	265.0	265.0
Needed Revenues for Borough Administration	380.7	473.8	590.8	727	770	815	845
Total Education Cost			7,127	7,127	7,127	7,127	7,127
Scenario (5) School Foundation Funding (state contribution)	0	0	7,127	6541.6	6257.2	6,058.6	6,111.8
Scenario (5) School Foundation Funding (local contribution)	0	0	0	585.4	869.8	1,068.4	1,015.2
Property Values	100,000	103,000	306,000	292,700	289,900	267,100	253,800
Revenues produced from a three percent sales tax	540	540	540	540	540	540	540
\$2/ounce x 500,000 ounces of gold	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0
Total Tax amount of two revenues	1,540.0	1,540.0	1540.0	1,540.0	1,540.0	1,540.0	1,540.0
Scenario (5) surplus/(deficit)	1,159.3	1,066.2	949.2	227.6	(99.8)	(343.4)	(320.4)
Surplus Funds Accumulated	1,159.3	2,225.5	3,174.7	3,402.3	3,302.5	2,959.1	2,638.7

*First year borough operates school district. **Pogo Mine is not on tax rolls.

11.7 Scenario 6

This scenario assumes that Pogo Mine is developed, Oil and gas properties are not counted toward local contribution for education without a property tax. Local non-oil and gas values are estimated at \$100 million in FY 2005 and are projected to increase in value at a rate of 3% annually.

(Revenues in \$ thousands)

Revenues/FY	2005**	2006**	2007*	2008	2009	2010	2011
Total Expenditures Borough Administration	962.7	938.8	955.8	992.0	1,035	1,080	1,110
Non local revenues	582.0	465.0	365.0	265.0	265.0	265.0	265.0
Needed Revenues for Borough Administration	380.7	473.8	590.8	727	770	815	845
Total Education Cost			7,127	7,127	7,127	7,127	7,127
Scenario (6) School Foundation Funding (state contribution)	0	0	7,127	6,541.6	6,257.2	6,058.6	6,111.8
Scenario (6) School Foundation Funding (local contribution)	0	0	0	585.4	869.8	1,068.4	1,015.2
Property Values	100,000	103,000	306,000	292,700	289,900	267,100	253,800
Revenues produced from a three percent sales tax	540	540	540	540	540	540	540
2,500 parcels of land x \$200.00	500	500	500	500	500	500	500
Total Tax amount of two revenues	1,040	1,040	1,040	1,040	1,040	1,040	1,040
Scenario (6) surplus/ (deficit)	659.3	566.2	449.2	272.4	(600)	(843.4)	(820.3)
Surplus Funds Accumulated	659.3	1225.5	1674.7	1,947.1	1,347.1	503.7	(316.6)

*First year borough operates school district. **Pogo Mine is not on tax rolls.

11.8 Discussion

Mandatory powers of a borough are planning, taxation and education. The vast majority of expenditures for nearly all boroughs and 1st class and home rule cities in the unorganized borough are for educational services. State law stipulates that a borough must contribute, at a minimum, a 4-mill equivalency of all real and personal property within its boundaries for educational services, regardless of what tax collection method is used. Such a system obviously favors boroughs with low property valuations but strong alternative methods to raise needed revenues. This is certainly the case with Aleutians East Borough and Lake and Peninsula Borough which have relatively low property valuations and an established fish sales and use tax system that is in part paid by non-local residents. Other areas have fairly high property values and, outside of a property tax, few realistic options of raising needed revenues. This is certainly the case in the North Slope Borough and to a lesser extent the Fairbanks North Star Borough. In fact, all "Pipeline Boroughs", those municipalities with oil and gas properties, rely on a property tax to meet their education and other service needs. If an area has high property values on a per capita basis and wants to avoid a property tax, its other tax structures need to produce adequate funds.

Depending on which scenario is used for the study area, the ability to avoid a property tax without a sizable power tax or a special severance tax on mining and forest products, appears unattainable.

On the other hand, high industry valuations (mining and oil and gas properties) mean that on a per capita basis an increase in property tax will produce substantially more revenues than without such properties. For example, if the study area property values were only \$108 million (the current best guess by the state assessor) for non-oil and gas properties, the area would need to raise \$432,000 annually (4 mills x \$108,000,000) for educational responsibilities. A homeowner property worth \$100,000 would mean an annual tax bill of \$400.00. If the taxpayers approved an increase to 7 mills to cover other services this would produce an additional \$300,000.

If, however, the area property values were listed at \$525,000,000 (oil and gas and local properties at \$325,000,000, and mining representing \$200,000,000 without any value increases or decreases) and borough taxpayers chose to pay 7 mills, this would produce \$1,575,000 with the additional 3 mills and would mean that the \$100,000 homeowner would still only pay an additional \$300/annually (3 mills). Consequently, higher valuations cut both ways. For an area that strongly opposes property taxes and has few other opportunities to raise revenues, it will find itself with few other viable or politically palatable options.