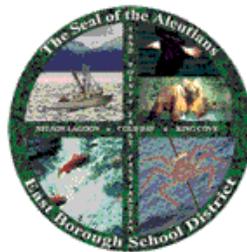
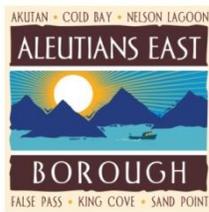


## In the Loop



Bringing the Aleutians East Borough, the AEB School District and Eastern Aleutian Tribes together by sharing common goals.

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### **Alaska House of Representatives Vote to Restore Half the Funding for the School Debt Reimbursement Program**

On Wednesday, April 10<sup>th</sup>, the Alaska House of Representatives voted in favor of restoring 50% of the funding for the school debt reimbursement program. This followed an earlier vote (on April 3<sup>rd</sup>) from the House Finance Committee, in which members voted against funding the school bond debt reimbursement and rural school construction. The budget still has a way to go and would need to pass in the Senate and have the governor's signature before becoming law.

Eliminating this program was one of Governor Dunleavy's bills introduced to save the state approximately \$140 million annually. Following the committee vote on April 3<sup>rd</sup> (against funding the program), Alaska Municipal League Executive Director Nils Andreassen issued a press release condemning the committee action.

“The Governor has been successful in convincing many that their constitutional obligations matter less when it comes to funding schools,” he said. “At the same time, the Governor’s pledge of “no new taxes” applies only at the state level.”

Andreassen said the cuts would be felt disproportionately by rural Alaska. He added that instead of reducing the size of state government, the governor, and the House Finance Committee, proposed shifting state obligations to others. In some municipalities, that most likely would lead to increased and new taxes at the local level to make up for the shortfall.

Last month, the majority of those testifying at a hearing in front of the Senate Education Committee spoke out against the Senate version of the bill, SB64.

Aleutians East Borough Mayor Alvin Osterback testified that the AEB’s total outstanding school bond debt is just over \$7.5 million.



King Cove School (pictured above). Aleutians East Borough Mayor Alvin Osterback testified that SB64 would require the Borough to pick up the state’s share, which would increase the Borough’s annual cost by nearly half a million dollars.

“Senate Bill 64 would require us to pick up the state’s share, which would increase the Borough’s annual cost by nearly half a million dollars,” Mayor Osterback said. “The changes outlined in Senate Bill 64 would shift the burden onto small municipal governments like ours. The package of reductions proposed by the Governor would be devastating and threatens the viability of the AEB.”

Anchorage School District Superintendent Dr. Deena Bishop testified that the agreement between the state and its school districts, which was approved by its voters, was done in good faith.

“The present bill will remove trust from our government and impact future contracting business in our state,” she said. Alaska is seeking new investments. The Governor shares that Alaska is open for business, I don’t believe this is so.”

Bishop said discontinuing payments on former contracts agreed upon by the state does not solve the state’s spending.

“We are not fooled,” she said. “While the state may share it has reduced its overall spending, it truly has taken its bills and given them to someone else. Just because you can do something, it doesn’t mean that you should.”

Northwest Arctic Borough Mayor Lucy Nelson testified that any change in the state's obligation poses a significant financial burden on local communities.

"It would have a drastic impact on Borough finances," she said. "Currently, our total liability for the school bond debt is 81 percent, so it's a huge burden. This has not been planned for and would have a huge impact on our residents."

Former MatSu Assembly and School Board member Jim Culver said this bill would have a huge impact on the MatSu Borough.

"The Borough runs a reserve fund balance of about 25 million dollars," he said. "So this would almost totally exhaust the fund balance in one year with a 20 million dollar hit."

Haines Borough Manager Debra Schnabel echoed some of the remarks made by others. She added that the Haines Borough currently has a tax cap at 10 mills, which does not include the school bond debt retirement. She said if the Haines Borough were to assume the \$904,000 that the state currently reimburses, that would require approximately 4 additional mills into their property tax structure.

"So seven more years of taxing our community at 14 mills would be devastating to our community," she said.

Schnabel said she anticipates that it would be impossible for many people to continue living in Haines with that high of a property tax.

"In many ways," she said, "I think the (Governor's) entire budget proposal is really asking all of us, as Alaskans, to consider that living in Alaska may not be a part of our future."

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## **Community Leaders Provide Testimony on Adverse Impacts from Governor's Shared Fish Tax Bill**

Nearly two dozen community leaders testified before the Senate Community and Regional Affairs Committee last month, expressing their opposition to Governor Dunleavy's bill that would repeal the shared commercial fisheries business and landing taxes. For years, the taxes have been shared with coastal communities, using a 50/50 formula. However, the Governor's bill would repeal the fish tax revenue sharing program and keep those funds in the state coffers to shore up the state's budget deficit.

The Alaska Municipal League (AML) said roughly one-third of all local governments in Alaska would be impacted by this legislation. The shared fish taxes contribute toward general funds and are used for a variety of services.

“The shared fish taxes are used to ensure sustainable communities,” said Nils Andreassen, AML Executive Director. “Just in the top 15

municipalities, the impact ranges from almost a half million dollars to more than eight million dollars. These (revenues) are essential to maximizing local self-government, which is a constitutional mandate.”

Anne Bailey, Administrator for the Aleutians East Borough, testified that the shared fisheries business tax program represents 28% of the Borough’s operating budget and comes to about \$2.2 million.



**AEB Administrator Anne Bailey testified that the shared fisheries business tax program represents 28% of the Borough’s operating budget.**

“They are significant general fund revenues that municipalities rely on as part of their tax base to provide borough and municipal services benefitting residents and the fishing industry,” Bailey said. “Those services include education, boat harbors, docks, road maintenance, fire protection, police, emergency medical services, electricity and water.”

Bailey said Senate Bill 63 would shift more costs for services onto boroughs and municipalities while at the same time, reducing the general fund revenue.

Sand Point City Administrator Jordan Keeler said the shared fish tax comprised 15 – 25% of the city’s general fund revenues over the past decade. He said these funds, combined with the city’s own 2% raw fish tax and 4% sales tax, make up the vast majority of the community’s general funds, which are used for core city services.

“To lose these funds would place serious pressure on the budget,” he said. “Simply cutting 15 – 25% of the budget does not work. We cannot cut 15% of the price of fuel for our grader. We cannot



**AML Executive Director Nils Andreassen told the Senate Community and Regional Affairs Committee that roughly one-third of all local governments in Alaska would be impacted by the Governor’s bill to repeal the shared fish taxes.**

cut 20% of our health insurance costs. We cannot cut 25% of our staff and continue to provide city services at an acceptable level.”

Keeler said the city’s raw fish tax or local sales tax would have to nearly double to make up for the loss of these funds. However, he added that any increase must be approved by the voters, which isn’t guaranteed and wouldn’t be effective until this fall.



**Sand Point City Administrator Jordan Keeler said SB 63 would have a serious impact on the City and its ability to serve the residents if the legislation were to pass.**

“Nor is it guaranteed that increasing our local taxes would result in making up the shortfall, since the amount of raw fish tax collected varies each year,” he said. “With ever rising costs, Senate Bill 63 would have a serious impact on the city and our ability to serve our residents.”

King Cove City Administrator Gary Hennigh, who has worked for the community for nearly three decades, said fisheries are the revenue cornerstone of the city’s economy.

“The city has experienced almost non-stop changes in our financial situation, due to the never-ending changes in our fisheries,” he said, “but I can now unequivocally say that the prospects of SB 63 becoming law is the most daunting of any of these fishery-related revenue changes during my time.”

The shared fish taxes make up about 23% of King Cove’s FY19 general fund budget. Over the last 20 – 25 years, the city has taken on significant debt for a number of community projects, including its two hydro projects, a new water system, rebuilding the old state harbor, which was transferred to the city, and a new, soon-to-be-built landfill/incineration project and sewer lift station replacement.

“This is a big, big deal to us, and it really threatens the very long-term survival of our community,” said Hennigh.

Akutan Mayor Joe Bereskin said the shared fisheries business tax and resource landing tax make made up about 36 percent of the City’s revenues in 2018. He said the fish tax revenue-sharing program has allowed Akutan to develop projects that were completely paid for with city funds or leveraged against a share of capital improvement grants. These projects include the ferry dock improvements, a new airfield, installation and operation of a new incinerator, major electrical generation improvements, hydroelectric generation, geothermal potential research and investigation, and a water dam impoundment project. Another important project is the city’s new boat harbor.

“This new service will be severely limited, or perhaps ended, without the shared fisheries business tax and the shared fisheries resource landing tax,” he said.

Pat Branson, mayor of the City of Kodiak, said her community faces a dire threat from the Governor’s proposed budget to grab the shared fisheries tax.

“This tax amounts to \$859,000 of the City’s budget or 4.5% of the general fund revenue,” she said.

“Those funds are used to maintain infrastructure, which supports our and the state’s economic engine, the seafood industry,” she said.

Branson added that because this budget affects every municipality in Alaska, more research should go into the ramifications of this proposed budget.

“It should have the in-depth research analysis before finding a quick-fix of making major cuts as being a solution to a long-term problem of the state budget deficit,” she said. “Local municipalities and even household budgets are not approached in this manner without dangerous effects. This budget approach lacks the understanding and awareness of the realities of living in a resource economy in a geographically remote location.”

Bristol Bay Borough Assembly president Mary Swain said the loss of the shared revenue fish tax would place an unbearable burden on local residents.

“That could force the assembly to eliminate vital services or raise taxes on the fishing industry and on the processing industry,” she said. “Alternately, the Borough would consider reducing operations and some of the services we’re currently operating, including sewer and landfill.”

Jon Erickson, Yakutat City and Borough Manager, said he appreciates the state’s commitment to have a sustainable budget.

“But the problem is, by doing that, it’s making Yakutat unsustainable,” he said.

Erickson said if the bill passes, the loss in revenue would probably close the community’s only fish plant. He said the recipe to kill the economy in Yakutat includes clawing back the shared fish tax, weakening the PCE and stopping the ferry service.

“What part of shutting down rural Alaska equates to Alaska’s open for business?” he asked.

Cordova Mayor Clay Koplín said if SB63 is passed, the city would be in survival mode and would no longer be in a position to invest in a growing fishery.

“That’s going to be bad for Cordova and bad for the 40 percent of our fleet that lives in other communities throughout Alaska,” he said. “It’s going to be bad for all the shipping, infrastructure and operating support that we get from communities all over the state. So when you put all of this



in context, what we’re basically doing is saying, maybe Alaska is open for business, as long as you don’t want to live here.”

During the House Fisheries Committee hearing earlier this month, several legislators spoke out against the governor’s bill. Rep. Bryce Edgmon, Speaker of the House, said communities such as Unalaska, would lose a

full third of their revenue if the shared fish taxes are repealed.

“This is a community that has to provide water, wastewater, life and safety, fire protection, law enforcement and a whole host of services in an industrial center,” Edgmon said. “That’s just one community of many that’s going to find itself with a huge hole in their budget, all in one fell swoop.”

Department of Revenue Commissioner Bruce Tangeman said the administration’s perspective is that all revenue streams need to be brought to the table.

“In my view, the thinking (of this bill) is absolutely flawed,” Speaker Edgmon said. “It runs counter to the governor’s mantra that we’re opening Alaska for business. Knowing that if we cripple these communities and their ability to provide these services, who comes in and provides these services or where does the money come from? That question, to me, remains hanging out there like a dark black cloud.”

Rep. Louise Stutes, who is the Chair of the Committee, asked Tangeman whether the administration has had any discussion with any of the affected communities prior to making this decision.

Tangeman said he didn’t know the answer to that question and wasn’t part of the budget process.

“The committee would like a response to that – if there was any kind of dialogue whatsoever, as



Rep. Bryce Edgmon said he believes the Governor’s bill to repeal the shared fish taxes is flawed.

to the effect,” said Stutes. “I’m going to mimic the speaker in suggesting that this precludes Alaska being open for business.”



Rep. Louise Stutes said the bill to repeal shared fish taxes is “simply robbing Peter to pay Paul.”

Rep. Geran Tarr said she is disappointed by the lack of follow-through on some of the governor’s proposals, such as this one.

“It would just absolutely devastate small communities,” she said. “It seems like a real failure of leadership on the part of the third floor to put proposals out like this without any way to back them up as to what the impacts would be.”

Stutes said fishing communities depend on their portion of the shared fish tax to provide the infrastructure and services for the fishing industry that the state depends on.

“I’ve heard no justification for why the state should be entitled to the municipal share,” she said. “There’s no benefit to the residents of the state. In fact, it hurts residents. It’s simply robbing Peter to pay Paul.”

“I’m going to not only oppose this measure, but oppose it with vigor and everything I’ve got,” Rep. Edgmon said.

Yesterday (April 12<sup>th</sup>), the House passed an alternative budget, deciding against implementing most of the governor’s proposed reductions and leaving the shared fisheries tax program intact. The bill was sent to the Senate for consideration.

**For more information, visit the links below:**

<https://www.adn.com/politics/alaska-legislature/2019/04/11/alaska-house-passes-alternative-budget-rejecting-some-dunleavy-cuts-and-dodges-pfd-vote/>

<http://akhouse.org/?p=6533>

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