

**Joint Legislative Education Task Force
Public Testimony
7/11/07**

**Offered by
Bob Shefchik
Fairbanks North Star Borough
907-459-1305 bshefchik@co.fairbanks.ak.us**

Good Afternoon:

Thank you for the opportunity to testify before you today. I appreciate the challenge before you and thank each of you for your willingness to undertake this task.

Introduction

- My name is Bob Shefchik. I'm presently the Chief of Staff at the FNSB. Additionally, I spent 20 years working for the Fairbanks Public Schools – in the Business Office, finishing up at the CFO of the FNSBSD. Thus, I am here to provide the perspective of a large municipality responsible for levying the local taxes to support K-12 education – and combine that with my experience within the school system developing the budgets necessary to support that effort.
- The list of items that the Task Force is looking for input on is substantive. I will primarily speak to the issue of local effort requirements. Some testimony will also be presented on the treatment of impact aid within the formula and on the relationship between the area cost differentials and the school size tables.
- I will not waste anyone's time describing the need for school funding or the problems caused by lack of funding at the school level. I have provided a great deal of back-up material to support the comments and suggestions that I am offering. That material is being submitted as part of my written testimony.

Local Effort Requirements

Most of the discussion on local effort has surrounded two main areas: Minimum Local Contribution (the deduct) and Maximum Local Contribution (the cap). I will focus on these two areas, plus provide data on actual local contributions of municipalities. Most of the data I will provide focuses on the five largest municipal school districts (Anchorage, Mat-Su, Fairbanks, Kenai, and Juneau). Kodiak is also included in a number of the charts because of their comparable position to Fairbanks and Anchorage regarding Impact Aid for military installations.

Minimum Contribution (the deduct):

As you are all aware, the formula establishes a minimum local contribution to education for organized municipalities. This acts as a deduct from what otherwise would be a portion of the state funding entitlements of the local schools. A change went into effect in 2001 that reduced that deduct by 50% of the value of increasing valuations. This change is has been characterized as a mechanism

2. The article makes the statement, "...the winner in terms of mill rate is the Matanuska-Susitna Borough, where taxpayers in FY08 will contribute only 2.8 mills for their schools." This is clearly incorrect – as Mat-Su contributed the equivalent of 8.8 mills for FY07.
3. The article makes the statement, "As the table shows, many districts now contribute less than the 4 mills the state's foundation formula nominally requires..." However, displayed is a chart of the required "deduct", not districts' contributions. A summary of mill equivalents of local contributions is provided (page 16) to demonstrate the data that disproves that statement.

Additional errors are highlighted and annotated in the packet. I bring this article up today because:

The issue is complex

The ABR generally does an accurate job of reporting – so these errors were widely distributed

I contacted the ABR, and got defensiveness and a small and qualified correction in the next issue

The amounts contributed by large municipalities and their annual increases are almost 180 degrees opposite from the rhetoric that surrounds the issue.

Impact on Municipalities

Provided on page 10 is a chart that projects the impact on local taxpayers should the change discussed at the end of last session be put into place. The change to a constant 3 mills will have an ongoing negative impact on local taxpayers that cumulatively could approach \$100 million in the next five years.

~~The FNSB requests that the committee not repeal the "local taxpayer equity in education provision."~~

Maximum Contribution ("the cap")

Frequently discussions on the adequacy of local contribution are focused on "the cap". The unspoken, and occasional spoken, implications of that focus are that if a municipality is not "contributing to the cap" – they are not doing their share. Thus, the conclusion presented is that funding should be steered to districts that are "at the cap." There are several reasons this is not accurate.

First:

The data on pages 8 and 9 referenced earlier, demonstrates that the large municipalities are all contributing well in excess of the minimum. Increases in contributions, contribution rates, and mill equivalents are not distributed so that only those "at the

cap” sort to the top of a list. Rather, it shows that mill equivalents are comparable, and that Anchorage has lead the pack in contributions – amount and rate of increase the past six years. (I feel compelled to point out - it is ironic that of the \$100M being pushed for DCF’s, none will go to Anchorage.)

Second:

This discussion, in my experience, is usually lead by either those “at the cap” or those REAA’s who contribute nothing other than impact aid.

Third:

The treatment of impact aid as “local contribution” of REAA’s in discussions of contributions – by the DEED, rural districts, and the ABR - while the **EXCLUSION** of impact aid as local contribution for Anchorage, Fairbanks, and Kodiak, is problematic at best.

~~The FNSB believes this is an area of the formula that should be looked at by the Task Force – with an effort to allow more of the impact aid to flow through to communities who pay taxes.~~

Finally:

Keep in mind that “the cap” is a construct of a state effort to meet a federal disparity test to collect as much of the impact aid as possible for use as a state funding source. (Nothing wrong with that as a goal from a state perspective.) However, it is not an adequate yardstick – except for rhetoric – for measuring local municipal contributions to education. Should you doubt this – ask Mr. Jeans to spend 60 minutes walking the committee through the disparity calculation. Once one sees how the districts are ranked from top to bottom (the chart will look upside down to most of you) and sees the large number of districts that are excluded – one rarely uses it as a measure of anything except Impact Aid formula disparity in the future.

Relationship of DCF’s and School Size Tables

Representative Hawker described the role of these two portions of the formula perfectly at your June 11th meeting. The DCF’s are intended to account for differences in the cost of education based on geography. The school size tables are intended to account for differences in the economies of scale.

Unquestionably, it is time to adjust the changes in area costs. This gets the most attention – as the ISER report dangles the promise of \$millions in redistribution. The problem is that ISER is based on a methodology that even the supporters of

implementing it do not generally concur with – that is the econometrically adjusted regional salary basis. Should one wholly support that, the implementation of ISER would be accompanied by a requirement that salaries be increased proportionate to the DCF adjustment. No one would support that – not even the districts asking for implementation. (In fact – the judge in the Moore case recently decided found that if districts had more money – they would hire more teacher and staff, not raise salaries.)

The dilemma that you have is – what data to use? If you use the ISER report, you are using the equivalent of a compass that you know is flawed. Should you follow it ½ way? Or will that lead you ½ way in the wrong direction. If you were lost, but you know there was a safe haven to the south – would you follow a compass that you knew was faulty when intuitively you knew that it was wrong to walk away from the midday sun?

My counsel here is to look at ISER – but the portion that does not include the social engineering. What that will give you is results based on actual energy and other school costs, but not imaginary salary costs.

The other – longer term problem is the school size tables. Rep. Roses focused in on that early the first day. The mechanism for determining the number of “adjusted students” needs to be reviewed. Primary among this review should be the adequacy of the school size tables. This project will take more time than you have – should be considered on your “long term” project list.

Conclusion

As I said when I began – you have undertaken a huge task. You may find, like Alexander the Great, you're required to slice through, rather than untie, the fabled Gordian Knot. In doing that – you'll need to act with expedience and the best data you have available.

To that end, I offer:

The FNSB (and large municipalities in general) do not support changing "the deduct" though the minimum local contribution. Our observation is that this portion of the formula is not broken – it is working as was intended – to reduce the gap between communities that are contributing greatly through their taxpayers and those that aren't. In the interest of fairness and local taxpayer equity, please don't repeal it. If you do indeed feel a fix is in order, then retain the section of law that protects growing municipalities.

Large municipalities have been doing their part – as has the state. The data on local contributions since 2001 back that statement up. Rhetoric to the contrary used to support more money for specific school districts diverts attention from the problems with the ISER methodology, nothing more.

The DCF's do need updated. The JLETF does not have time to re-commission another study. Rather – use what you have that you trust, and make your best judgment. In my mind – that would be rejecting the social engineering adjustment for salaries inherent in the ISER report.

Finally – recognize that all districts are doing their best to get by on the money they have. Anchorage, Mat Su, and Fairbanks could use additional school funding – just like Kenai, Sitka, and the REAA's. I just can't envision that up to \$50M (50% of ISER implementation) without any going to Anchorage – and only a small fraction to most large municipal districts) is the way to go. Funding needs exist throughout the state. Please recognize that throughout your deliberations.

Again, thank you for the work you have volunteered to do this summer. We all appreciate the seriousness of the task and the effort you're putting into the project.

I. Real Dollar Change in Local Contribution 2001-2007

This chart displays the “Budgeted Local” contribution as reported to DEED by the local school districts. It is sorted (in descending order) by amount of increase in local contribution since 2001. This demonstrated that: The 5 largest municipalities and Kodiak have made:

1. The largest dollar increases to education across that six year time period
2. 98% of the net total increase of all 54 districts across that six year time period.

The salient point of the chart is that those municipalities benefiting from the 2001 change in the required minimum contribution remain those paying the most toward education – in amount and increases since 2001.

II. Change in Local Contribution 2001-2007

This chart provides comparable information to Chart I – in that it uses the 2001-2007 budgeted local contributions as a basis for measuring changes in effort across time. However, rather than the real dollar increase in contribution (which tends to favor those with the largest budgets) Chart II displays the percent change in contribution across the past six year. Similar to Chart I, this analysis demonstrates the same six municipalities are at the top in percentage increase as well as real dollar increase to education.

III. Local Taxpayer Consequences 2009-2013

This chart looks at the potential impact on local taxpayers of the DEED 4/12/07 proposal to change the local required contribution deduct from current law to a flat 3 mills. Assessed valuations for the five large municipalities were projected five years into the future using the average increase across the past five years. The impact on these five municipalities approaches \$100 million across the next five years.

IV. Alaska Budget Report February 22, 2007

An annotated version of the 2/22/07 ABR article entitled, “ANALYSIS: growing disparity in state aid to school districts”, is provided. Highlighted in yellow are specific inaccurate and/or misleading statements. Handwritten annotations provide some correcting data for the reader.

V. Changes in Mill Equivalent for Local Contribution 2001-2007

This chart summarizes the DEED calculation of budgeted mill equivalents across the past six years. The mill equivalent data shows the six profiled school districts more distributed than the amount or percent increase data. It does, however, demonstrate that all six municipalities profiled remain in a competitive range for mill equivalent for local contribution.

**Real Dollar Change in Local Contribution
2001-2007**

CHART I

		2007 BUDGETED LOCAL	2006 BUDGETED LOCAL	2005 BUDGETED LOCAL	2004 BUDGETED LOCAL	2003 BUDGETED LOCAL	2002 BUDGETED LOCAL	2001 BUDGETED LOCAL	\$ increase 2001 to 2007	
ANCHORAGE	= AN	155,257,376	\$ 144,322,321	\$ 133,412,722	\$ 121,490,634	\$ 114,373,207	\$ 107,301,568	102,613,031	\$ 52,644,345	
MAT-SU	= MS	39,580,405	\$ 38,080,405	\$ 34,169,622	\$ 32,713,868	\$ 30,231,660	\$ 29,612,526	26,156,325	\$ 13,424,080	\$ 87,892,352
FAIRBANKS	= FB	40,022,700	\$ 38,022,700	\$ 36,545,700	\$ 34,545,700	\$ 33,545,700	\$ 32,545,700	32,045,700	\$ 7,977,000	98%
KENAI	= KE	36,761,137	\$ 34,973,682	\$ 33,748,909	\$ 31,630,745	\$ 30,618,860	\$ 30,189,118	29,628,226	\$ 7,132,911	percent of increase
JUNEAU	= JU	21,516,557	\$ 19,795,864	\$ 18,834,991	\$ 18,171,200	\$ 17,731,200	\$ 17,276,600	16,824,100	\$ 4,692,457	statewide since 2001
KODIAK	= KO	8,671,260	\$ 8,632,440	\$ 8,332,440	\$ 8,176,140	\$ 7,428,610	\$ 7,062,110	6,649,701	\$ 2,021,559	
KETCHIKAN	= KT	8,834,981	\$ 7,928,731	\$ 7,635,740	\$ 7,375,117	\$ 7,277,769	\$ 7,545,638	7,426,187	\$ 1,408,794	
VALDEZ /2	= VA	5,514,717	\$ 5,348,532	\$ 4,949,341	\$ 4,595,244	\$ 4,601,314	\$ 4,539,814	4,376,341	\$ 1,138,376	
NOME	= NO	1,676,850	\$ 1,420,577	\$ 1,420,577	\$ 1,420,577	\$ 1,219,712	\$ 1,198,373	1,034,427	\$ 642,423	
SITKA	= SI	5,167,940	\$ 5,017,417	\$ 4,787,297	\$ 4,783,837	\$ 4,731,881	\$ 4,593,952	4,601,409	\$ 566,531	
UNALASKA	= UN	2,590,001	\$ 2,430,050	\$ 2,270,386	\$ 2,190,139	\$ 2,175,965	\$ 2,068,879	2,064,486	\$ 525,515	
NORTHWEST ARC	= NW	3,541,589	\$ 3,541,589	\$ 3,215,493	\$ 3,215,493	\$ 3,215,493	\$ 3,215,493	3,224,486	\$ 317,103	
DENALI	= DE	1,350,000	\$ 1,250,000	\$ 1,250,000	\$ 1,276,650	\$ 1,220,856	\$ 1,153,194	1,070,462	\$ 279,538	
DILLINGHAM	= DI	1,125,000	\$ 1,010,000	\$ 1,000,000	\$ 1,100,000	\$ 1,000,000	\$ 1,128,494	942,500	\$ 182,500	
PETERSBURG	= PT	1,991,744	\$ 1,793,674	\$ 1,655,469	\$ 1,835,409	\$ 1,975,976	\$ 1,923,454	1,839,062	\$ 152,682	
SKAGWAY /2	= SK	942,115	\$ 868,778	\$ 841,452	\$ 850,579	\$ 868,558	\$ 896,547	816,294	\$ 125,821	
KLAWOCK	= KL	362,000	\$ 365,960	\$ 300,000	\$ 316,414	\$ 138,000	\$ 332,297	259,133	\$ 102,867	
CRAIG	= CG	785,956	\$ 777,341	\$ 959,486	\$ 1,101,603	\$ 1,046,603	\$ 903,925	686,166	\$ 99,790	
LAKE AND PENINS	= LP	935,394	\$ 869,253	\$ 869,253	\$ 858,435	\$ 1,054,600	\$ 841,324	837,164	\$ 98,230	
CORDOVA	= CO	1,398,036	\$ 1,366,000	\$ 1,366,000	\$ 1,333,000	\$ 1,254,000	\$ 1,050,000	1,300,000	\$ 98,036	
YAKUTAT	= YA	483,000	\$ 477,000	\$ 421,000	\$ 427,000	\$ 452,000	\$ 481,000	457,708	\$ 25,292	
HAINES	= HA	1,419,044	\$ 1,384,044	\$ 1,385,144	\$ 1,338,224	\$ 1,381,198	\$ 1,430,651	1,394,684	\$ 24,360	
NENANA	= NE	94,880	\$ 72,661	\$ 73,183	\$ 70,880	\$ 70,372	\$ 72,306	83,309	\$ 11,571	
PELICAN	= PL	51,857	\$ 52,820	\$ 52,121	\$ 46,251	\$ 48,989	\$ 50,487	49,161	\$ 2,696	
TS REAA		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
HYDABURG	= HY	65,000	\$ 65,000	\$ 117,000	\$ 117,000	\$ 169,768	\$ 65,000	65,000	\$ -	
SAINT MARY'S	= SM	19,786	\$ 18,789	\$ 18,789	\$ 19,000	\$ 18,446	\$ 19,000	25,000	\$ (5,214)	
KAKE	= KA	110,000	\$ 310,000	\$ 110,000	\$ 280,000	\$ 150,000	\$ 150,000	150,000	\$ (40,000)	
TANANA	= TA	22,692	\$ 22,692	\$ 76,020	\$ 22,973	\$ 74,148	\$ 74,148	74,148	\$ (51,456)	
HOONAH	= HO	459,400	\$ 459,400	\$ 493,400	\$ 491,865	\$ 459,400	\$ 500,000	536,001	\$ (76,601)	
ALEUTIANS EAST	= AE	\$800,000	\$ 1,124,000	\$ 1,100,000	\$ 900,000	\$ 820,000	\$ 700,000	960,301	\$ (160,301)	
BRISTOL BAY	= BB	873,811	\$ 926,331	\$ 921,579	\$ 1,217,947	\$ 1,093,016	\$ 1,197,866	1,196,607	\$ (322,796)	
GALENA	= GA	525,160	\$ 500,160	\$ 459,172	\$ 1,091,110	\$ 940,730	\$ 940,730	991,630	\$ (466,470)	
WRANGELL	= WR	801,352	\$ 801,352	\$ 892,072	\$ 834,436	\$ 804,352	\$ 714,352	1,293,476	\$ (492,124)	
NORTH SLOPE /2	= NS	23,979,343	\$ 23,733,050	\$ 23,546,248	\$ 22,991,968	\$ 24,491,968	\$ 25,991,968	26,078,673	\$ (2,099,330)	
TOTALS		\$367,731,083	\$ 347,762,613	\$ 327,230,606	\$ 308,829,438	\$ 296,684,351	\$ 287,766,514	277,750,898	\$ 89,930,185	

**Percent Change in Local Contribution
2001-2007**

CHART II

		2007 BUDGETED LOCAL	2006 BUDGETED LOCAL	2005 BUDGETED LOCAL	2004 BUDGETED LOCAL	2003 BUDGETED LOCAL	2002 BUDGETED LOCAL	2001 BUDGETED LOCAL	% incr 2001 to 2007	
NOME	= NO	1,676,850	\$ 1,420,577	\$ 1,420,577	\$ 1,420,577	\$ 1,219,712	\$ 1,198,373	1,034,427	62%	Anch & Mat SU
MAT-SU	= MS	39,580,405	\$ 38,080,405	\$ 34,169,622	\$ 32,713,868	\$ 30,231,660	\$ 29,612,526	26,156,325	51%	ted for 2nd statewide
ANCHORAGE	= AN	155,257,376	\$ 144,322,321	\$ 133,412,722	\$ 121,490,634	\$ 114,373,207	\$ 107,301,568	102,613,031	51%	since 2001 and
KLAWOCK	= KL	362,000	\$ 365,960	\$ 300,000	\$ 316,414	\$ 138,000	\$ 332,297	259,133	40%	all in top 11 out of 54
KODIAK	= KO	8,671,260	\$ 8,632,440	\$ 8,332,440	\$ 8,176,140	\$ 7,428,610	\$ 7,062,110	6,649,701	30%	districts and REAA's
JUNEAU	= JU	21,516,557	\$ 19,795,864	\$ 18,834,991	\$ 18,171,200	\$ 17,731,200	\$ 17,276,600	16,824,100	28%	
DENALI	= DE	1,350,000	\$ 1,250,000	\$ 1,250,000	\$ 1,276,650	\$ 1,220,856	\$ 1,153,194	1,070,462	26%	
VALDEZ /2	= VA	5,514,717	\$ 5,348,532	\$ 4,949,341	\$ 4,595,244	\$ 4,601,314	\$ 4,539,814	4,376,341	26%	
UNALASKA	= UN	2,590,001	\$ 2,430,050	\$ 2,270,386	\$ 2,190,139	\$ 2,175,965	\$ 2,068,879	2,064,486	25%	
FAIRBANKS	= FB	40,022,700	\$ 38,022,700	\$ 36,545,700	\$ 34,545,700	\$ 33,545,700	\$ 32,545,700	32,045,700	25%	
KENAI	= KE	36,761,137	\$ 34,973,682	\$ 33,748,909	\$ 31,630,745	\$ 30,618,860	\$ 30,189,118	29,628,226	24%	
DILLINGHAM	= DI	1,125,000	\$ 1,010,000	\$ 1,000,000	\$ 1,100,000	\$ 1,000,000	\$ 1,128,494	942,500	19%	
KETCHIKAN	= KT	8,834,981	\$ 7,928,731	\$ 7,635,740	\$ 7,375,117	\$ 7,277,769	\$ 7,545,638	7,426,187	19%	
SKAGWAY /2	= SK	942,115	\$ 868,778	\$ 841,452	\$ 850,579	\$ 868,558	\$ 896,547	816,294	15%	
CRAIG	= CG	785,956	\$ 777,341	\$ 959,486	\$ 1,101,603	\$ 1,046,603	\$ 903,925	686,166	15%	
NENANA	= NE	94,880	\$ 72,661	\$ 73,183	\$ 70,880	\$ 70,372	\$ 72,306	83,309	14%	
SITKA	= SI	5,167,940	\$ 5,017,417	\$ 4,787,297	\$ 4,783,837	\$ 4,731,881	\$ 4,593,952	4,601,409	12%	
LAKE AND PENINE	= LP	935,394	\$ 869,253	\$ 869,253	\$ 858,435	\$ 1,054,600	\$ 841,324	837,164	12%	
NORTHWEST ARC	= NW	3,541,589	\$ 3,541,589	\$ 3,215,493	\$ 3,215,493	\$ 3,215,493	\$ 3,215,493	3,224,486	10%	
PETERSBURG	= PT	1,991,744	\$ 1,793,674	\$ 1,655,469	\$ 1,835,409	\$ 1,975,976	\$ 1,923,454	1,839,062	8%	
CORDOVA	= CO	1,398,036	\$ 1,366,000	\$ 1,366,000	\$ 1,333,000	\$ 1,254,000	\$ 1,050,000	1,300,000	8%	
YAKUTAT	= YA	483,000	\$ 477,000	\$ 421,000	\$ 427,000	\$ 452,000	\$ 481,000	457,708	6%	
PELICAN	= PL	51,857	\$ 52,820	\$ 52,121	\$ 46,251	\$ 48,989	\$ 50,487	49,161	5%	
HAINES	= HA	1,419,044	\$ 1,384,044	\$ 1,385,144	\$ 1,338,224	\$ 1,381,198	\$ 1,430,651	1,394,684	2%	
HYDABURG	= HY	65,000	\$ 65,000	\$ 117,000	\$ 117,000	\$ 169,768	\$ 65,000	65,000	0%	
NORTH SLOPE /2	= NS	23,979,343	\$ 23,733,050	\$ 23,546,248	\$ 22,991,968	\$ 24,491,968	\$ 25,991,968	26,078,673	-8%	
HOONAH	= HO	459,400	\$ 459,400	\$ 493,400	\$ 491,865	\$ 459,400	\$ 500,000	536,001	-14%	
ALEUTIANS EAST	= AE	\$800,000	\$ 1,124,000	\$ 1,100,000	\$ 900,000	\$ 820,000	\$ 700,000	960,301	-17%	
SAINT MARY'S	= SM	19,786	\$ 18,789	\$ 18,789	\$ 19,000	\$ 18,446	\$ 19,000	25,000	-21%	
KAKE	= KA	110,000	\$ 310,000	\$ 110,000	\$ 280,000	\$ 150,000	\$ 150,000	150,000	-27%	
BRISTOL BAY	= BB	873,811	\$ 926,331	\$ 921,579	\$ 1,217,947	\$ 1,093,016	\$ 1,197,866	1,196,607	-27%	
WRANGELL	= WR	801,352	\$ 801,352	\$ 892,072	\$ 834,436	\$ 804,352	\$ 714,352	1,293,476	-38%	
GALENA	= GA	525,160	\$ 500,160	\$ 459,172	\$ 1,091,110	\$ 940,730	\$ 940,730	991,630	-47%	
TANANA	= TA	22,692	\$ 22,692	\$ 76,020	\$ 22,973	\$ 74,148	\$ 74,148	74,148	-69%	
19 REAA		\$0	\$0	\$0	\$0	\$0	\$0	\$0	n/a	
TOTALS		\$367,731,083	\$ 347,762,613	\$ 327,230,606	\$ 308,829,438	\$ 296,684,351	\$ 287,766,514	277,750,898	128%	

Local Taxpayer Consequences

CHART III

DEED 4/12/07 Proposed Increase to Deduct from State Aid for Schools

	1-Jan-06 Determined Total Full Value	1/1/2007 Projected ** Total Full Value	2008 Projected ** Total Full Value	2009 Projected ** Total Full Value	2010 Projected ** Total Full Value	2011 Projected ** Total Full Value
Municipality of Anchorage	28,833,782,720	31,591,734,037	34,613,483,398	37,924,263,085	41,551,718,849	45,526,140,757
Fairbanks North Star Borough	7,267,077,780	7,825,007,677	8,425,772,641	9,072,661,335	9,769,214,909	10,519,246,384
City & Borough of Juneau	4,249,188,100	4,603,995,306	4,988,428,914	5,404,962,729	5,856,277,117	6,345,276,256
Kenai Peninsula Borough	6,172,932,290	6,567,382,663	6,987,038,416	7,433,510,170	7,908,511,470	8,413,865,353
Matanuska-Susitna Borough	7,507,998,500	8,761,721,630	10,224,797,716	11,932,185,562	13,924,681,569	16,249,894,520

		FY 2009 Impact	FY 2010 Impact	FY 2011 Impact	FY 2012 Impact	FY 2013 Impact
Annual School Cost Shift Under Current Law						
Municipality of Anchorage	0.002	5,515,903	6,043,499	6,621,559	7,254,912	7,948,844
Fairbanks North Star Borough		1,115,860	1,201,530	1,293,777	1,393,107	1,500,063
City & Borough of Juneau		709,614	768,867	833,068	902,629	977,998
Kenai Peninsula Borough		788,901	839,312	892,944	950,003	1,010,708
Matanuska-Susitna Borough		2,507,446	2,926,152	3,414,776	3,984,992	4,650,426
		<u>10,637,724</u>	<u>11,779,360</u>	<u>13,056,124</u>	<u>14,485,642</u>	<u>16,088,039</u>

		FY 2009 Impact	FY 2010 Impact	FY 2011 Impact	FY 2012 Impact	FY 2013 Impact
Annual School Cost Shift Under Proposed Change						
Municipality of Anchorage	0.003	8,273,854	9,065,248	9,932,339	10,882,367	11,923,266
Fairbanks North Star Borough		1,673,790	1,802,295	1,940,666	2,089,661	2,250,094
City & Borough of Juneau		1,064,422	1,153,301	1,249,601	1,353,943	1,466,997
Kenai Peninsula Borough		1,183,351	1,258,967	1,339,415	1,425,004	1,516,062
Matanuska-Susitna Borough		3,761,169	4,389,228	5,122,164	5,977,488	6,975,639
		<u>12,195,416</u>	<u>13,279,811</u>	<u>14,462,022</u>	<u>15,750,975</u>	<u>17,156,419</u>

	Net Loss FY 2009	Net Loss FY 2010	Net Loss FY 2011	Net Loss FY 2012	Net Loss FY 2013	5 Year Impact (not including FY08 change)
Net Impact on Local Taxpayers (Cumulative Impact****)						
Municipality of Anchorage	(2,757,951)	(5,779,701)	(9,090,480)	(12,717,936)	(16,692,358)	(47,038,427)
Fairbanks North Star Borough	(557,930)	(1,158,695)	(1,805,584)	(2,502,137)	(3,252,169)	(9,276,514)
City & Borough of Juneau	(354,807)	(739,241)	(1,155,775)	(1,607,089)	(2,096,088)	(5,953,006)
Kenai Peninsula Borough	(394,450)	(814,106)	(1,260,578)	(1,736,579)	(2,240,933)	(6,445,647)
Matanuska-Susitna Borough	(1,253,723)	(2,716,799)	(4,424,187)	(6,416,683)	(8,741,896)	(23,563,288)
	<u>(5,318,862)</u>	<u>(11,208,542)</u>	<u>(17,736,603)</u>	<u>(24,979,425)</u>	<u>(33,023,444)</u>	<u>(92,266,876)</u>

* Source Alaska Taxable

** Projected based on average annual increase for each municipality for the past 5 years

*** Impacts based on 2 year lag in impact of valuation increase on school funding deducts. For 2009 Impact - calculation is (2007 Full Value - 2006 Full Value) * .002 [or *.003]. Same lag for future years.

**** Amounts shifted from state aid to municipal taxpayers in Year 1 are also required to be paid the following year PLUS the impacts of previous years. It is this compounding effect that is hard to see in single year calculations.

THIS IS THE TOTAL AMOUNT OF LOCAL TAXPAYER DOLLARS THAT WILL BE REQUIRED TO MAKE UP FOR THE DECREASED STATE REVENUE DUE TO DEED PROPOSED CHANGES

ALASKA BUDGET REPORT™

February 22, 2007

© ABR Company

Volume 17, No. 6

CONTENTS

OVERVIEW

Ready, set—and next week—go..... 1

EDUCATION

Committee substitute for Gov's bill boosts K-12 aid 1

ANALYSIS: growing disparity in state aid to school districts..... 4

“MURKOWSKI” TRANSITION REPORTS

DOR overcharged retirement funds, seeks GF bail-out..... 7

IV PFD disaster: “About the worst day of my life” 9

Tax dispute over ARCO sale could reap millions to CBR..... 10

State files notice to terminate TAPS settlement agreement..... 11

TAPS strategic reconfiguration late and over budget..... 12

AOGCC drafting statutory revisions 12

DEPARTMENT OVERVIEWS

Corrections: more inmates bound for Arizona 13

Public Safety: Help wanted—troopers and VPSOs 15

Fees make DMV a cash cow 17

REVENUE

House Finance grills Palin's pick for Revenue chief..... 19

Rebecca Braun, publisher and editor
Gregg Erickson, editor-at-large
Patty Ware, reporter

ABR Company, 319 Seward St. Suite 7, Juneau, AK 99801
Phone: 907.523.2122 Fax: 907.586.1987
E-mail: rbraun@alaska.com Website: www.akbudgetreport.com

The ALASKA BUDGET REPORT is a copyrighted publication of ABR COMPANY, published weekly when the Alaska Legislature is in session and irregularly during the interim. Copying and electronic reproduction strictly prohibited except by written license.

the base student allocation in the formula; to increase special education aid; and to increase aid for pupil transportation.

Palin's Legislative Director John Bitney testified briefly to thank the committee for hearing the bill. "The governor today reiterated her priority to try to work with the Legislature to achieve early funding.

The bill has a further referral to the House Finance Committee, but the HESS report has not been read across the House floor.

House Finance Co-chair Kevin Meyer opened his committee's consideration of education spending with a February 20 hearing on HB 1, which proposes a \$1 "placeholder" increase in the foundation formula's per-student allocation. Education advocates from across the state testified to the need for more money for education. Meyer held the bill in committee.

Asked about Wilson's bill, Meyer said he hasn't made up his mind about appropriating additional money to districts' retirement accounts. "We could go that route or we could just increase the foundation formula, and I guess my preference would have been to do it in the foundation formula so that next year you start at the higher base rate."

He said if Wilson wants both an increase in retirement fund aid and an increase to the foundation formula, that's probably "more than we can afford."

Bitney, Palin's legislative director, said the governor hopes for early passage of an education spending plan so districts can plan for next year. But he said key legislators have said their districts are prioritizing increased funding over early funding.

Bitney also acknowledged that lawmakers have a variety of concerns, including the district cost factors, retirement costs, funding for intensive-needs students and the subsidy for districts with growing property tax bases (see story below): "We've come to realize that before this is finalized these other things are going to have to be considered. ... That's probably going to mean more money than what we've put on the table."

ANALYSIS: growing disparity in state aid to school districts

A 2001 law that passed with little scrutiny has dramatically changed the allocation of state aid to school districts, favoring districts showing healthy economic growth.

The provision, engineered by Sen. Gary Wilken, who then chaired the Senate Finance Committee, requires the state to pick up half of the increase since 1999 in a district's required local contribution. Because the local contribution for most districts is set as a percentage of local property values, the change benefits districts with growing property values.

At a February 20 House Finance Committee hearing, School Finance Director Eddy Jeans offered an example to illustrate the impact of the subsidy on local property tax payers:

"To put it in real simple terms, if I had a \$100,000 home out in Bristol Bay ... I would have to contribute \$400 to support education. In Mat-Su, the calculation is the equivalent of \$280 on a \$100,000 home."

Bristol Bay - 2007 = \$660 MAT SU 2007 = \$280

When he introduced the measure as an amendment to a 2001 education spending bill, Wilken characterized the revision as a way to provide tax relief to residents of fast-growing communities [see **House Finance embraces Wilken's aid scheme, moves bill, ALASKA BUDGET REPORT**, May 7, 2001 and **SB 174: Wilken amendment adds urban tilt to aid reallocation**, April 21, 2001].

The subsidy has grown exponentially from \$3.6 million in FY 02, the first year it took effect, to a projected \$50.4 million in FY 08, according to the Department of Education and Early Development.

While the biggest winner in dollar terms is the Anchorage School District, the winner in terms of mill rate is the Matanuska-Susitna Borough, where taxpayers in FY 08 will contribute only 2.8 mills for their schools. The table below shows how the subsidy is allocated.

Districts' FY 08 effective mill rates for education and local-effort subsidy

District	Mill Equivalent	State subsidy (thousands)
Mat-Su Borough	2.8	\$9,056
Anchorage	3.1	\$26,346
Juneau Borough	3.2	\$3,511
Denali Borough	3.2	\$150
Fairbanks North Star Borough	3.3	\$5,106
Kenai Peninsula Borough	3.3	\$4,244
Sitka Borough	3.3	\$620
Hoonah	3.4	\$23
Haines Borough	3.5	\$150
Nome	3.5	\$122
Dillingham	3.5	\$86
Nenana	3.6	\$9
Kodiak Island Borough	3.7	\$395
Ketchikan Gateway Borough	3.7	\$338
Unalaska	3.7	\$146
Petersburg	3.7	\$73
Yakutat	3.7	\$18
Galena	3.8	\$5
Take	3.8	\$3
Saint Mary's	3.8	\$1
Aleutians East Borough	3.9	\$9
Klawock	3.9	\$5
Hydaburg	3.9	\$1
Northwest Arctic Borough*	4.0	\$9
Cordova*	4.0	\$1
Tanana	4.0	-
Bristol Bay Borough	4.0	-
Craig	4.0	-
Lake & Peninsula Borough	4.0	-
Pelican	4.0	-
Wrangell	4.0	-
		<u>\$50,425</u>

↓
MAT SU 2007
was 8.8 mills

*Mill rates in these communities have dropped but round to 4.0.
Source: Department of Education and Early Development

NOT TRUE
SEE DEED MILL EQUIVALENT CHART

14

As the table shows, many districts now contribute less than the 4 mills the state's foundation formula nominally requires for districts' local contribution or "local effort." Until 2001, the required local contribution from cities and boroughs was the lesser of:

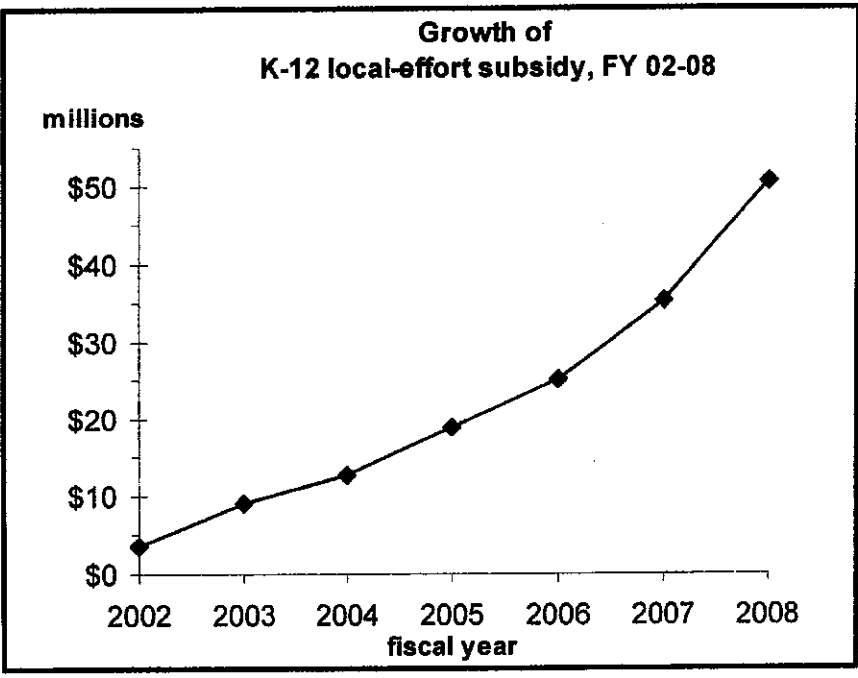
- 4 mills (0.4 percent) of the full and true value of the taxable real and personal property in the district, or
- 45 percent of the district's prior-year basic need.

The 2001 change requires municipalities with rising property tax values to pay 4 mills on only 50 percent of the cumulative increase since 1999.

Not included in the table on page 5 are the state's 19 regional education attendance areas (REAs), because federal impact aid substitutes for their local contribution. Also excluded are the three tax-rich districts that contribute under the 45 percent rule—the North Slope Borough, Valdez and Skagway.

Early on, no one challenged the policy basis for the 2001 subsidy because few people understood it, and in the first year the monetary impact was minor. But as it has grown, so have the stakes for districts. Deleting the provision now is likely a political impossibility: for starters, it would mean a \$26 million hit to the already-struggling Anchorage School District.

The chart below shows growth of the subsidy since its implementation.



In FY 08 the subsidy will cost the state more than two times the \$24 million the governor proposes to spend to partially implement new district cost factors.

The 1998 law changing the formula governing distribution of state education aid called for review of the placeholder district cost factors in the bill. Nine years and three studies later, those placeholders remain law as political wrangling has stymied efforts to more equitably match aid to local cost differences. Opponents of the change—those on the losing end of proposed redistributions—say the proposed factors are inaccurate and too costly to the state [see **H. Finance weighs K-12 aid; Chenault pushes reallocation**, *ALASKA BUDGET REPORT*, April 13, 2007 and **New school cost study would boost aid to rural districts**, March 3, 2005].

[For past stories on the local-effort subsidy, see **State K-12 aid grows for districts with rising property values**, *ALASKA BUDGET REPORT*, January 26, 2006 and **2001 education aid change shifts \$25 million in costs to state**, February 3, 2005.]

“MURKOWSKI” TRANSITION REPORTS

In November 2006, senior state officials submitted transition reports, one for each department, to John Bitney, who headed the incoming Palin administration’s transition office. Bitney parceled out these “Murkowski” transition reports to the Palin transition teams for each department (which later produced a set of “Palin” transition documents). What happened to them after that is not entirely clear, but based on interviews it does not appear that every incoming Palin official paid close attention to the reports from their predecessors.

The reports contain an interesting mix of:

- *Helpful directions* (Example: Unless they wish to personally sign every hiring, firing and salary change document, new commissioners need to sign an Appointing Authority Signatures form available on DOA’s Division of Finance web page);
- *Heads-up warnings* (Example: The incoming Health and Social Services commissioner should be alerted that the Cordova hospital is in dire straits and about to go belly-up);
- *Evenhanded policy briefings* (Example: The Department of Environmental Conservation provided a thoughtful set of organizational options for managing the permitting functions transferred under the Murkowski administration from the Department of Fish and Game’s Habitat Division to the Department of Natural Resources); and
- *No-holds barred advocacy* (Example: the Department of Transportation and Public Facilities’ plea to continue pouring money into Ketchikan’s Gravina Island “bridge to nowhere” project).

This newsletter requested copies of the departmental transition documents on December 8th. The Palin administration turned over copies a month later, but with large sections redacted. In response to this newsletter’s appeal of the redactions, Chief of Staff Mike Tibbles provided uncensored versions of most, but not all of the reports to this newsletter on Thursday of last week. The missing sections appeared to have been inadvertently omitted and Governor’s Office staff say they are forthcoming.

The stories below cover a few issues highlighted in Law’s and Revenue’s reports, with additional information gathered by this newsletter.

DOR overcharged retirement funds, seeks GF bail-out

The state’s troubled retirement funds are required by law to use the investment management services of the Alaska Department of Revenue, services that cost the funds \$39 million in the current fiscal year. That may be millions more than the funds should be paying, according to information DOR officials provided in November to the incoming Palin administration.

CHART V

Changes in Mill Equivalent for Local Contribution 2001-2007

	2007 BUDGETED MILL EQUIV.	2006 BUDGETED MILL EQUIV.	2005 BUDGETED MILL EQUIV.	2004 BUDGETED MILL EQUIV.	2003 BUDGETED MILL EQUIV.	2002 BUDGETED MILL EQUIV.	2001 BUDGETED MILL EQUIV.	PERCENT CHANGE 2001-2007	MILL EQUIV CHANGE 2001-2007
NOME = NO	8.10	7.10	7.00	7.10	6.10	5.70	5.40	50%	2.70
KLAWOCK = KL	11.80	11.90	9.70	9.80	4.30	10.50	8.00	48%	3.80
LAKE AND PENINS = LP	17.50	14.00	14.00	13.50	15.10	12.20	12.10	45%	5.40
DILLINGHAM = DI	7.90	6.70	7.00	7.50	6.50	7.60	6.40	23%	1.50
UNALASKA = UN	6.60	6.40	6.40	6.10	5.60	5.40	5.50	20%	1.10
KODIAK = KO	8.50	8.00	8.60	8.40	7.80	7.20	7.10	20%	1.40
CRAIG = CG	7.90	7.60	10.00	10.80	10.10	8.80	6.60	20%	1.30
BRISTOL BAY = BB	6.60	7.00	6.10	6.30	5.30	5.80	5.70	16%	0.90
ANCHORAGE = AN	7.60	7.50	7.20	7.00	6.70	6.50	6.60	15%	1.00
KETCHIKAN = KT	7.80	7.20	7.00	6.60	6.40	6.80	6.80	15%	1.00
VALDEZ /2 = VA	5.10	4.90	4.80	4.60	4.70	4.60	4.60	11%	0.50
DENALI = DE	9.60	8.90	8.90	9.30	8.90	9.50	8.70	10%	0.90
NORTHWEST ARC = NW	9.30	9.30	8.40	8.40	8.40	8.40	8.50	9%	0.80
JUNEAU = JU	7.20	7.10	6.90	6.80	6.60	6.60	6.70	7%	0.50
FAIRBANKS = FB	7.20	7.20	7.20	7.00	6.90	6.70	6.80	6%	0.40
CORDOVA = CO	8.20	7.70	7.80	7.80	7.20	6.00	7.90	4%	0.30
KENAI = KE	7.50	7.30	7.20	7.10	7.10	7.10	7.30	3%	0.20
NENANA = NE	4.70	4.00	4.00	4.00	4.00	4.30	4.60	2%	0.10
SITKA = SI	7.20	7.10	7.00	7.10	7.20	7.00	7.20	0%	-
PELICAN = PL	4.00	4.00	4.00	4.00	4.10	4.00	4.00	0%	-
HYDABURG = HY	7.90	7.90	14.30	14.20	20.30	8.00	7.90	0%	-
MAT-SU = MS	8.80	9.70	9.60	9.80	9.40	9.10	8.80	0%	-
PETERSBURG = PT	7.30	6.90	6.70	7.80	7.90	7.60	7.50	-3%	(0.20)
YAKUTAT = YA	10.00	9.70	8.70	8.50	9.90	10.80	10.30	-3%	(0.30)
NORTH SLOPE /2 = NS	2.30	2.20	2.20	2.10	2.30	2.40	2.40	-4%	(0.10)
HAINES = HA	6.40	6.60	6.60	6.50	6.70	7.00	7.00	-9%	(0.60)
TOTALS	8.21	8.34	8.34	9.36	9.03	8.83	9.04	-9%	(0.83)
ALEUTIANS EAST = AE	8.30	11.70	11.40	9.70	8.80	7.20	9.90	-16%	(1.60)
SKAGWAY /2 = SK	4.60	4.70	4.40	4.90	5.20	5.10	5.50	-16%	(0.90)
SAINT MARY'S = SM	4.20	4.00	4.00	4.30	4.00	4.20	5.60	-25%	(1.40)
KAKE = KA	5.90	16.60	5.90	15.40	8.40	8.50	8.30	-29%	(2.40)
HOONAH = HO	15.00	15.00	16.10	15.80	14.60	20.00	21.20	-29%	(6.20)
WRANGELL = WR	5.40	5.40	6.10	5.60	5.10	4.70	8.70	-38%	(3.30)
GALENA = GA	28.70	27.40	25.10	60.30	52.30	52.10	55.10	-48%	(26.40)
TANANA = TA	4.00	4.00	13.40	4.00	13.00	12.80	12.70	-69%	(8.70)