



# Prince William Sound Borough Formation

Economic Feasibility, Phase 1

INFORMATION INSIGHTS | WINTERS & ASSOCIATES | COLD CLIMATE HOUSING RESEARCH CENTER

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## Executive Summary

This is Phase 1, Part 1 of an examination of the economic feasibility of a Prince William Sound (PWS) Borough following the boundaries of the Prince William Sound Model Borough with the inclusion of a proposed city of Girdwood and without the city of Valdez. This initial report identifies and quantifies the most significant cost and revenue drivers for the proposed borough, which will play a key role in determining the economic feasibility of a new government structure for the region.

This brief report accompanies the primary project deliverable which is an Excel spreadsheet model, referred to as the borough revenue and cost calculator (R&C calculator). The calculator provides the user with the tools to run various scenarios with different mill rates and sales and use tax rates to identify the pathways to economic feasibility. The R&C calculator also can be used to estimate the impact on taxpayers in Chenega, Cordova, Girdwood, Tatitlek, and Whittier, as well as possible cost reductions and mill rate adjustments for the three communities currently paying property taxes (Cordova, Girdwood, Whittier). The initial findings described in this report do not include the city of Valdez, although Valdez is included in the calculator to allow communities to assess the impacts of including Valdez in the new borough.

The PWS borough under consideration is assumed to have a seat of government in the city of Cordova and only provides the services required by state law: funding and operation of a newly formed Prince William Sound School District, serving as the taxing authority in the area within the proposed borough boundaries, and providing planning and land management. With these limited powers, this borough is assumed to have a staff of 6 to 8 and own no buildings or facilities other than those in the school district.

There are many variables to consider when determining how to structure revenue sources to pay for required or desired services in a new borough. There are several scenarios for which the R&C calculator shows the proposed borough to be economically feasible. The question of whether these scenarios are politically feasible is not addressed in this report. The study also does not look at broader economic impacts of borough formation.

### CONSIDERATIONS

**K-12 Education:** Generally, the single largest municipal expenditure is the cost of education. The State of Alaska requires municipalities to provide minimum funding of 2.65 mills of Full Value Determination for education annually. With the creation of the PWS Borough, there will be a shift of education funding from the State of Alaska to the borough. Currently, the State funds 100% of education costs for the Chugach Regional Educational Attendance Area (REAA). This will become the new borough's responsibility following the public school Foundation Funding Formula. The R&C calculator allows communities to determine how to pay for education on a borough-wide level through a mixture of property and sales and use taxes. Communities in a new borough that currently fund local schools—Girdwood and Cordova—will see a reduction in the local mill rate as the responsibility for education shifts to the borough.

**Revenues of the Newly Created Borough:** Taxes considered here are property and sales and use taxes. Initial results show the borough is economically feasible. This report does not recommend a specific areawide mill rate, because there are several ways for the borough to generate sufficient revenue to fund proposed services. Important decisions going forward include:

- *Variable sources of tax revenue* – The proposed PWS Borough has multiple options for raising enough revenue to support borough operations. On real and personal property taxes, the borough could choose to levy high mill rates (5+) with many optional exemptions, lower mill rates with few exemptions, or low mill rates with many optional exemptions. The taxable value of sales and use taxes, in some scenarios, is comparable to taxable value of property. This means these taxes could provide as much or more revenue than property taxes. The decisions on what tax mix is acceptable rests with the communities examining borough feasibility and later, if borough formation proceeds, with community representatives serving in borough leadership.
- *Oil & gas property* – Depending on its northern boundary, the proposed borough encompasses between 12 and 44 miles of the Trans-Alaska Pipeline System (TAPS). TAPS is taxed by the State of Alaska at a 20-mill rate. Tax revenue from stretches of pipeline outside incorporated areas are retained by the State. A PWS Borough could access a portion of this significant revenue, so the decision on where the northern boundary is set will have an important impact on whether to consider this revenue stream.

With these and other specific scenarios, the R&C calculator allows the user to see the importance of these decisions on borough revenue and resident taxpayers.

## **COSTS AND REVENUES EXAMINED IN PHASE 1**

This is an initial estimation of revenues and costs. The areas examined in this phase are detailed below.

**Full Value Determination (FVD)** – The full value of all property in the proposed borough is included in the R&C calculator. FVD estimates in the model range from certain (because they come from the State Assessor’s Office—in the case of Cordova and Whittier) to uncertain (in the case of Chenega, Tatitlek and the surrounding area). An accepted methodology for calculating these values was used and is detailed in the R&C calculator.

**Education** – The data needed to calculate basic student need, state aid entitlement, and local required contribution was gathered and entered in the R&C calculator. This includes average daily membership (and adjustments) and combined expenditures of all schools and school districts within the proposed borough. Existing school district debt is also included as a borough expense. Costs and funds noted but not included in the R&C calculator are a repair and replacement fund, expansion of the Girdwood school, continued state funding of the Chugach REAA for two years after borough formation, and cost reductions due to economies of scale.

**Local Taxes** – Actual revenues from 2018 and calculated revenues for real and personal property, sales, bed, alcohol, and tobacco taxes are included in the R&C calculator. Optional property exemptions for real and personal property are not included, though required exemptions have been removed from the taxable values used for real and personal property.

**Shared Fisheries Business Tax** – The current and potential changes to city and borough revenues from the state-assessed Fisheries Business Tax are calculated and included in the R&C calculator. Additional revenue from the Fisheries Business Tax due to borough formation are not examined in the calculator. The Department of Revenue is unable to share critical revenue data due to confidentiality restrictions.

**Community Assistance Program** – A base borough payment is included in the R&C calculator as is the option to pass through funds for lost CAP payments to unincorporated communities in the proposed borough.

**Payment in Lieu of Taxes** – The Federal Payment in Lieu of Taxes (PILT) Program provides payments to local governments that contain certain federally-owned lands known as "entitlement lands". Calculation of the PILT payment amount for the proposed borough is not yet available. The assumption is that PILT payments will not be reduced but will remain the same, and the new borough upon receiving the PILT payments will pass them on to the respective cities that receive payments as part of the unorganized borough. An amount for PILT has not been included in the R&C calculator.

**National Forest Receipts** – The National Forest Service has recently implemented a new timber system and is currently unable to provide current, verifiable information that could be used to calculate the amount the borough may be eligible to receive. Nor can the amount be estimated based on current payments to the cities in the proposed borough. For these reasons, no specific payment amount is included in the R&C calculator. However, amounts currently received by boroughs with similar national forest acreage are detailed in this report.

**Borough Formation Grant** - Grants of \$300,000 in year 1, \$200,000 in year 2, and \$100,000 in year 3 after borough formation are included in the R&C calculator.

**Land Entitlement** – An estimated 16,500 acres of vacant, unappropriated or unrestricted state land is in the proposed borough boundaries. Rough estimates of the value of this land range from \$79 to \$194 million. The costs of surveying and selling the land can in some cases exceed the value of land. The timeline for the entitlement process varies from borough to borough, but a PWS borough is unlikely to have completed the entitlement process and surveying in less than five years. Due to the timeline, the land entitlement value is not included in the R&C calculator.

**Borough Administration Costs** – Costs of borough start-up and operation are estimated based on rate sheets and quotes from vendors and current costs in the Cordova city budget for similar services and existing payroll amounts for Cordova. These estimates are included in the R&C calculator.

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## Result Scenarios

The R&C calculator is the deliverable for this project. The calculator uses actual and calculated taxable values to which tax rates are applied. Below are three scenarios that show economic feasibility for the proposed Prince William Sound Borough as seen in the R&C calculator. These are not recommendations nor are these the only ways for the proposed borough, at least as considered in this initial phase, to raise enough revenue to cover costs.

*Table 1: Result Scenarios*

Scenario	Net Revenue	Areawide Mill Rates			Miles of Pipeline	Tax Rates		Education - Local Contribution
		Real	Personal	Oil and Gas		Sales	Bed	
1	\$570,690	2	2	2	12	2	5	\$5,177,519
2	\$1,7196,572	3	0	3	12	2	5	\$5,177,519
3	\$1,914,470	2	0	2	12	3	5	\$5,177,519
4	\$423,010	2	2	2	44	2	5	\$5,799,599
5	\$1,276,092	3	0	3	44	2	5	\$5,799,599
6	\$1,766,790	2	0	2	44	3	5	\$5,799,599

**Scenario 1** – Low areawide property tax applied to all property, 12 miles of pipeline included in the borough boundaries, and low to medium tax rates on sales and public accommodations.

**Scenario 2** – Slightly higher tax on real property with all personal property exempted, 12 miles of pipeline included, and tax rates on sales and public accommodations kept the same.

**Scenario 3** – Lower areawide real property tax with all personal property exempted, 12 miles of pipeline included, and a 1% point increase in the sales tax.

**Scenario 4** – Low areawide property tax applied to all property, 44 miles of pipeline included in the borough boundaries, and low to medium tax rates on sales and public accommodations.

**Scenario 5** – Slightly higher tax on real property with all personal property exempted, 44 miles of pipeline included, and tax rates on sales and public accommodations kept the same.

**Scenario 6** – Lower areawide real property tax with all personal property exempted, 44 miles of pipeline included, and a 1% point increase in the sales tax.

Again, there are many other scenarios that could be considered – high tax rates with many exemptions and even lower property tax rates with high sales and public accommodations taxes.

# Property Owner Impact

The scenarios displayed for taxpayer impact are taken from the Taxpayer Impact tab in the R&C. The areawide borough mill rate is 2, and the taxpayer impact shows the amount each taxpayer would expect to pay based on \$100,000 of property, real and personal. The adjusted mill rate is provided for the three communities that currently pay property taxes. The mill rates for each community have been adjusted to reflect reduced city costs for education and/or administration with borough formation. Detail on these adjustments are in the Adjusted Mill Rate tab in the calculator. The R&C calculator does not consider any optional property tax exemptions.

The mill rates shown in this table are not recommended or certain, these are simply meant to give individual taxpayers an idea of how the borough’s areawide mill rate would affect them and the changes possible in city mill rates.

*Table 2: Taxpayer Impact*

Community	Borough Mill Rate	Adjusted City Mill Rate	Total Mill Rate on Taxpayer	Amount Taxpayer Pays per \$100,000 of Property	Original City Mill Rate
<b>Cordova</b>	2	0.94	2.94	\$294	11.81
<b>Chenega</b>	2	0	2	\$200	0
<b>Girdwood</b>	2	5.81	7.81	\$781	12.73
<b>Tatitlek</b>	2	0	2	\$200	0
<b>Whittier</b>	2	7.85	9.85	\$985	8

The largest private property owners in the proposed PWS Borough are the Alaska Native Regional and Village Corporations. The vast majority of property owned by these corporations is assumed to be exempt from state and borough taxation.

# Scope & Methodology

Information Insights is conducting this research under contract to the Cities of Cordova and Whittier and the Girdwood Governance Association. The scope of this report, Phase 1, Part 1, is to conduct an economic feasibility of the proposed Prince William Sound Borough that covers the boundaries in the model Prince William Sound Borough with the community of Girdwood and portions of the Municipality of Anchorage to the northwest of Whittier included and without the City of Valdez. Since this is intended to be a first cut at feasibility, the study focuses on the primary cost drivers and revenue sources for a borough, education and taxes. The most important information coming from this initial study is found in the scenarios under which the proposed borough would be economically feasible. Information Insights with Winters and Associates and the development expertise of Cold Climate Housing Research Center are providing this information through an interactive spreadsheet calculator, the borough revenue and cost (R&C) calculator.

This analysis is based on publicly available cost and valuation data collected from the State of Alaska, city budgets, and US Census as well as cost estimates from vendors and, when needed, interviews with representatives from regional and community businesses and organizations. When costs and revenues were not available, they were calculated as noted in the R&C calculator.

## Full Value Determination (FVD)

The full value of taxable property is determined by the State of Alaska Assessor's Office as required by Alaska law (AS 14.17.510). Full value determination (FVD) is based on the potential local property tax base of a school district. This includes both real and personal property. Oil and gas properties are included. The purpose of the FVD is to equalize tax effort among communities that are required to provide local funding for education.

This is important for the proposed PWS Borough because taxable property—real, personal and oil and gas—affect the local required effort, which is the amount the borough would be required to pay for education. The addition or removal of TAPS mileage or the city of Valdez increases potential borough revenues as well as the local required effort for education.

The State Assessor's Office calculates full value determinations for the incorporated cities of Whittier, Cordova, and Valdez. The FVD for remaining property in the Prince William Sound area including Girdwood and other portions of the Municipality of Anchorage have been estimated for this study. Since the FVD must include all taxable property, even property the proposed borough may exempt from taxation, the lands owned by Chugach Alaska Corporation, Chenega Bay Corporation, Eyak Corporation, and Tatitlek Corporation that are within the proposed borough boundaries were considered. The property of Alaska Native regional or village corporation is exempt from federal and state and municipal taxation unless it is developed or under lease (43 U.S.C. 1620(d)). In responses received from the Eyak and Tatitlek Corporations and further discussions with the Prince William Sound Economic Development District, this study identified very limited development and leasing on these lands. Indeed, the responses affirmed a dedication to preservation of the natural state. For this analysis, the taxable value of Alaska Native Regional and Village Corporations is assumed to be near zero.

More detail on FVD calculations and the required local effort of the proposed borough are in the R&C calculator in the FVD Tax Property tab.

## Education

Boroughs in Alaska have three mandatory powers – education, planning and zoning, and tax assessing/collecting. Generally, the largest single expenditure of municipalities is education. With the formation of a Prince William Sound Borough, a new borough-wide school district would have to be established. The school district would include schools from the Chugach School District (serving Chenega Bay, Tatitlek, and Whittier), the Cordova School District (Cordova Jr/Sr High School and Mount Eccles Elementary) and the Girdwood K-8 school. Currently, approximately 30 Girdwood high school students are bussed to South Anchorage High School. The formation of the new school district would require an

alternate solution for Girdwood high school students, such as a contractual arrangement with the Anchorage School District or the costlier option of constructing a high school in Girdwood.

The State of Alaska has two funding structures for education—one for city and borough school districts and another for Regional Education Attendance Areas (REAs). The Foundation Funding Formula is the mechanism for funding city and borough school districts. The formula drives how state funds are allocated to school districts and sets minimum and maximum local contributions from local government for education. It is driven by the number of students adjusted by several factors. The foundation formula recognizes the different circumstances that affect the cost of delivering education and attempts to equalize state support relative to the variation of wealth in communities. The current required minimum for city and borough school districts is 2.65 mills of the full value determination.

Regional Education Attendance Areas are not required to use local dollars as they are deemed to have no taxable property or personal property. The State provides 100% of education funding to REAs. Chugach School District is an REA and as such currently has no required financial contribution to schools in its district. If the PWS Borough is created, the financial responsibility for the schools in the REA will shift to the new borough, although the State will continue to fund these schools for the first two years after borough formation.

Total estimated expenditures for a PWS Borough school district including state aid entitlement through the foundation formula and local contributions (assuming 12 miles of pipeline) are shown in Table 3. Total expenditures are based on the 2018 expenditures of the Cordova School District, Chugach School District, and the Girdwood School. Detailed calculation of the foundation formula is found in the R&C calculator in the D- Ed tab.

*Table 3: Education Economics*

Funding Source	Subtotal	Total
<b>Total State Aid Entitlement</b>		\$7,202,368
<b>Total PWS Borough Contribution</b>		\$5,177,519
Minimum Borough Contribution	\$3,279,040	
Additional Borough Contribution	\$1,792,559	
<b>PWS School District Expenditures (FY2018)</b>		\$12,379,887

The State of Alaska provides other funding for school districts outside the foundation formula, including funding for student transportation to eligible schools on a per pupil bases. The State also assists local governments with capital projects through the school construction grant fund and the major maintenance grant fund. There is a significant backlog of requests for both; it can take years for a project to make its way up the priority list and get funded. The State also funds school debt reimbursement which typically covers 70% of annual school debt payments. All three programs are subject to state appropriation. The FY2020 Capital Improvement Projects Major Maintenance Grant fund lists the Tatitlek Community School as priority #3 for \$5,747,626. Priority #6 on the list is Chenega Bay Community School renovations for \$5,221,755. The formation of a new Prince William Sound Borough will not impact these projects high placement on the capital improvement priority list.

New boroughs assume any debt associated with schools. Cordova has \$10,955,000 of principal debt as of 12/31/2018. Annual debt service payments, after state school debt reimbursement are \$463,514. State school debt reimbursement has declined slightly since 2015 but has remained consistent overall.

*Table 4: Mill Rate Adjustment from Borough Assumption of Education*

<b>Community</b>	<b>Reduction in City Costs (Education)</b>	<b>Adjusted City Mill Rate</b>	<b>Property Tax Revenue</b>	<b>Net Change</b>	<b>Original City Mill Rate</b>
<b>Girdwood</b>	\$3,874,484	5.81	\$3,874,483	(\$2)	12.73

Note: Each community that currently pays for education will be able to reduce existing mill rates due to the reduction in city costs. The example for Girdwood shows how substantial the change could be.

Repair and replacement of school facilities represent additional costs to education. Many entities defer maintenance as a cost-saving measure, even though deferring maintenance can result in larger expenses in the long run. Deferred maintenance only grows in scope—and cost—the longer it is prolonged, and if deferred too long, repair may turn into replacement. Typically, a repair and replacement fund should be set up and annual contributions equal to 2-4% of the aggregate replacement value should be made. Replacement values for all schools in the proposed borough are not currently available, and the R&C calculator does not include repair and replacement costs for school facilities. These need to be estimated and added to borough expenses when the values become available.

*Table 5: School Facilities in Proposed PWS School District*

<b>Facility</b>	<b>Category</b>	<b>Gross Square Footage</b>	<b>Year Constructed</b>
Tatitlek Community School	Original	10,472	1984
Tatitlek Vocational Education Building	Original	2,000	1989
Tatitlek Generator Building	Original	2,500	1983
Whittier Community School	Original	9,191	1953
Whittier Community School	Addition	12,010	1985
Whittier Community School	Addition/Voc Ed	1,592	1993
Chenega Bay School	Original	7892	1990
Chenega Bay School Generator Room	Addition	1,000	
Cordova Jr/Sr High School	Original	46,221	1966
Cordova Jr/Sr High School	Addition	8,000	1979
Mount Eccles Elementary School	Original	22,355	1955
Mount Eccles Elementary School	Addition	14,070	1964
Mount Eccles Elementary School	Addition/Gym	9,584	2010
Cordova Innovative Learning	Original	1,725	2012

Facility	Category	Gross Square Footage	Year Constructed
Girdwood Elementary/Jr High	Original	21,343	1981
Girdwood Elementary/Jr High	Addition	7,783	1985
Girdwood Elementary/Jr High	Addition	28,591	2015

Source: Alaska Department of Education & Early Development, School Facility Database

## Revenue

As the borough revenue and cost calculator shows, there are several ways for this proposed borough to raise enough funds to operate. Below is a brief review of the revenue options considered in this analysis.

### REAL AND PERSONAL PROPERTY TAXES

In Alaska, property taxes are the primary revenue source for boroughs and, by extension, how most boroughs pay for the cost of education. The locally assessed value of borough residents' real and personal property (not the full and true value determined by the State of Alaska) is how borough tax revenues are calculated. Locally assessed value is typically lower due to lower market values attributed to property and the use of optional property exemptions.

The locally assessed taxable value of real and personal property (including oil and gas property) in the proposed borough totals \$1.17 or \$1.4 billion, depending on the miles of pipeline in the borough boundaries. This value excludes property that is not taxable as required by AS 29.45.030. It does not, however, apply any optional property exemptions. Should the borough decide to apply optional property tax exemptions, the tax burden on residents could be substantially reduced. As reported in the 2017 Alaska Taxable report, boroughs exempted 14.9% of their tax base on average.

The optional exemptions a borough may apply to real and personal property include: a \$50,000 reduction in the taxable value of a home; full taxable property value of a nonprofit organization used exclusively for community purposes; multiple types of hardship exemptions for property owners; economic development property; and many others. The full list of optional property exemptions is in AS 29.45.050.

There are also mandatory property exemptions laid out in AS 29.45.030. These required exemption values are not included in the taxable value used to estimate revenue in the R&C calculator. Required property exemptions include but are not limited to:

- **Government Property:** City, borough, federally-recognized tribe, state, and federal owned property, unless under private lease or contract.
- **ANCSA:** Alaska Native individual, group, village, or regional or village corporation property unless it is developed or under lease (43 U.S.C. 1620(d)).
- **Alaska Native Allotments** and Alaska Native land in restricted or trust status.

- **Natural Resources** in place including coal, ore bodies, mineral deposits, and other proven and unproven deposits of valuable materials laid down by natural processes, unharvested aquatic plants and animals, and timber.
- **Senior Citizen/Veteran:** First \$150,000 of the assessed value of the primary home of a resident who is 65 years of age or older; a disabled veteran; or the widow or widower of a person who qualified for an exemption under either of the above (senior or disabled veteran) who is at least 60 years of age.
- **Property used exclusively for nonprofit religious, charitable, cemetery, hospital, or educational purposes**
- **Household furniture and personal effects** of members of a household

Detail on how locally assessed property values were estimated may be found in the R&C calculator in the Local Tax – Data tab.

### *Impact on Cities and Communities*

After borough formation, the PWS Borough would take on taxing authority. Cities are still able to set city mill rates, but the borough is responsible for assessing value and collecting taxes. One hundred percent of the tax revenue collected by the borough on behalf of a city must be transferred to the city; no administrative fees may be collected.

As noted above, cities that currently pay for education will need to re-assess their mill rates. In the case of Cordova, the borough would take on the cost and operation of the school district. An example reduction of the mill rate to account for the reduced costs to the city is shown in the Community Impact section of the R&C calculator. The city is not required to reduce the mill rate by this amount. Instead, this is an example of one way the city may reduce taxes after removing the cost of education, if all other city costs stay the same.

### **OIL AND GAS PROPERTIES**

The State of Alaska levies a 20-mill tax on Trans-Alaska Pipeline System (TAPS) infrastructure and equipment. The State transfers the revenue from this tax to municipalities (cities and boroughs) that levy a property tax and within whose borders TAPS infrastructure is in place. This includes the pipeline and equipment. Within the proposed PWS Borough boundaries, there are 12 to 44 miles of pipeline (depending on the borough boundary) as well as taxable equipment stationed in Cordova and Whittier. If the proposed borough levies a property tax, the borough will be able to collect revenue from the State of Alaska equal to the borough's mill rate multiplied by the value of the pipeline and equipment within the borough boundaries.

The value of the oil and gas equipment stationed in Cordova and Whittier is determined by the State of Alaska and is currently set at \$8 billion. A lineal mileage value for TAPS developed by Sheinberg Associates and confirmed with Jim Greely, Jr., State Petroleum Property Assessor, is used here. The total value of TAPS is reduced by 16.5% to remove the value of the Valdez Marine Terminal. The remaining value is \$5.68 billion. Divided over the mileage (800 miles) of TAPS, this puts the value per mile at \$7.1 million.

The total taxable value of oil and gas property in the proposed borough in 2018 is shown in Table 6.

*Table 6: Oil & Gas Properties in Proposed Borough*

<b>Area</b>	<b>State Assessed Value (2018)</b>
<b>Cordova</b>	\$8,472,060
<b>Whittier</b>	\$1,839,810
<b>Borough North of Valdez (12 miles)</b>	\$85,200,000
<b>Borough North of Valdez (44 miles)</b>	\$337,073,332

Source: State Assessor's Office, Email communication, October 2018

Detail on depreciation is found in the FVD Tax Property tab in the R&C calculator.

### *Impact on Cities and Communities*

Cities in the PWS Borough will not see a change, unless they reduce mill rates. The State of Alaska would transfer funds to the borough that are currently retained by the State.

### **SALES AND USE TAXES**

There are four sales and use taxes considered in this analysis: sales, bed/public accommodation, alcohol, and tobacco taxes. AS 29.45.650- 29.45.710 authorizes sales and use taxes by a borough, covering sales, rents, and services that are provided within the borough.

As shown in Table 7, the cities of Cordova and Whittier currently levy a sales tax. The city of Cordova levies a public accommodation/bed tax as does the Municipality of Anchorage.

*Table 7: Current Sales & Use Taxes*

<b>Community</b>	<b>Sales Tax</b>	<b>Bed Tax</b>
<b>Cordova</b>	6%	6%
<b>Girdwood</b>	0%	12%
<b>Whittier</b>	5 <sup>1</sup> %	0%

1) Seasonal sales tax from April 1 to September 30.

Four year-round and areawide taxes are considered in the borough R&C calculator. One snapshot of taxable value and revenue from the taxes is shown in Table 8. The sales and use taxes take advantage of the considerable visitor traffic in the Prince William Sound Region, especially in Girdwood and Whittier. Indeed, under certain scenarios the taxable value and revenue from sales and use taxes is higher than revenue from property in the proposed borough.

*Table 8: Sales and Use Estimated Taxable Value*

<b>Community</b>	<b>Sales</b>	<b>Bed</b>	<b>Alcohol</b>	<b>Tobacco</b>
<b>Cordova</b>	\$50,829,317	\$3,995,640	\$2,609,804	\$863,102
<b>Girdwood</b>	\$103,990,387	\$18,493,871	\$3,107,946	\$1,027,846

<b>Whittier</b>	\$15,780,548	\$347,520	\$279,417	\$92,407
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A detailed description of how the taxable values for sales, bed, alcohol and tobacco taxes are calculated is in the Local Tax Data tab of the R&C calculator.

### *Impact on Cities and Communities*

No change to cities’ ability to set sales and use taxes will occur due to borough formation. As noted above, the borough takes on taxing authority and will collect revenue for the city for all taxes. Cities that currently have or plan to establish sales and use taxes will need to consider the effect of adding the borough sales and use taxes to existing or planned taxes. For the cities of Whittier and Cordova, for example, the sales tax rates in each city will be the city rate plus the borough rate.

Note that in 2005 Alaska law changed to allow a borough to exempt any source from the borough sales tax if it is taxed by a city within the borough. This is an option to prevent double taxing so that an item in the city does not cost more than the same item in an unincorporated area or in a city in the borough without sales tax. If a sales tax is levied in the proposed PWS Borough, an exemption would not be advised as there are very limited sales in areas outside the cities that are within in the proposed borough, assuming Girdwood incorporates as a city.

### **STATE ASSESSED TAXES – SHARED FISHERIES BUSINESS TAX**

The State of Alaska levies a Shared Fisheries Business Tax (As 29.60.450) on the fishing industry statewide. The Shared Fisheries Business Tax (raw fish tax) is levied on fisheries businesses and persons who process fishery resources in or export unprocessed fish resources from Alaska. Taxes are collected from fish processors and businesses that export unprocessed fish within state and municipal boundaries and is paid by shore based and floating processors.

The cities in the Prince William Sound Area receive revenue transfers from this tax from both the Department of Commerce and the Department of Revenue. This analysis examined if there is data showing additional revenue is available with the formation of a borough and how a borough would affect the transfers to cities in the region.

In terms of accessing additional revenue from the existing Business Fisheries Tax, a PWS Borough would be eligible for 50% of the revenue the State currently collects from fish processing on floating processors or land-based processors outside the municipal boundaries of Cordova, Valdez, and Whittier but within the proposed borough boundaries. In interviews with the Prince William Sound Aquaculture Corporation and Valdez Fisheries Development Association, it was confirmed that two to three floating processors locate in Prince William Sound during peak season. But there are no plans for additional land-based processors within existing cities or outside. This is due to a steady build-up of processing capacity over the past 10 years. The Department of Revenue was unable to share the amount of revenue collected from floating processors outside the cities in Prince William Sound due to confidentiality concerns. Therefore, an estimate on the amount of tax revenue that could be available to the PWS Borough is not available for this analysis. However, it is worth noting that these processors are currently taxed, and a portion of those taxes go to the cities in the Prince William Sound fish management area.

The existing transfer amounts from the State of Alaska to the cities in Prince William Sound are shown in 9.

*Table 9: State Transfers for Business Fisheries (Raw Fish) Tax – 2013 to 2018*

		2013	2014	2015	2016	2017	2018	2019 est.
<b>Cordova</b>	Rev			\$38,684	\$28,504	\$39,559	\$23,144	\$30,297
	Com	\$1,432,356	\$1,661,223	\$1,023,286	\$709,305	\$1,160,157		\$1,197,265
<b>Valdez</b>	Rev			\$38,684	\$28,504	\$39,559	\$23,144	\$30,297
	Com	\$354,769	\$621,634	\$230,134	\$290,247	\$200,438		\$339,444
<b>Whittier</b>	Rev			\$38,684	\$28,504	\$39,559	\$23,144	\$30,297
	Com	\$123,556	\$133,884	\$89,479	\$78,446	\$943		\$85,262

Source: Alaska Dept. of Commerce, DCRA, Community Aid & Accountability, <https://www.commerce.alaska.gov/web/dcra/communityaidaccountability.aspx>

The State of Alaska has two methods for allocating revenue from this tax. The Department of Revenue distributes revenue collected within municipal boundaries to the municipalities within which the revenue is collected (or fish is processed). For revenue collected in the unorganized borough, the Department of Commerce distributes the revenue to fish management areas (FMAs) throughout the state based on the pounds of fish processed in an FMA. Table 10 shows the allocation methods as it relates to the cities in the Prince William Sound region.

Table 10: State Transfer Allocation by Department

State Department	Collected in	Allocation Now	Change with Borough
Revenue	Municipal boundaries	50% of tax revenue collected by state within the PWS city boundary is transferred to that PWS city	25% of taxes collected are transferred to borough 25% of tax collected are transferred to PWS city in which processing occurred
Commerce	Unorganized borough	50% of tax revenue collected by state is distributed to 1) FMAs based on lbs of fish processed 2) Distributed equally among cities in PWS FMA	None

### Impact on Cities and Communities

Borough formation will affect the transfer of shared fisheries business tax revenue from the State to cities in Prince William Sound. For the Department of Revenue transfer, the State will split the amount transferred to Cordova and Whittier with the PWS Borough. The R&C Calculator has a “passthrough option” for this amount. The PWS Borough in an agreement with the cities of Cordova and Whittier could transfer that amount to the cities.

For the Department of Commerce transfer, it is unlikely that borough formation will have an impact. Currently the cities of Cordova, Valdez, and Whittier use the Alternative Method for distribution. This means the three municipalities have agreed upon a distribution method and allocate according to the relative effects of the fishing industry on each city. The PWS Borough with limited powers and responsibilities is under no obligation to request or apply for business fisheries tax revenue from the Department of Commerce. For this initial analysis, the assumption is that the PWS Borough will not apply for a portion of the funds transferred by the Department of Commerce, since fisheries would not impact borough operations.

### COMMUNITY ASSISTANCE PROGRAM

The Community Assistance Program (CAP), formerly the Community Revenue Sharing Fund, was established in 2008 in the State’s general fund for the purpose of making community revenue sharing payments. CAP provides boroughs, cities, and unincorporated communities funds for basic public services. CAP funds can be used for any public purpose determined to be a priority by the recipient (AS 29.60.850 - 29.60.879).

The base amount provided annually to boroughs through CAP is \$300,000 (AS 29.60.850). Payments are dependent on the fund balance. Due to appropriations over the last few years, the average base payment for boroughs has been closer to \$375,000. The base amount may be adjusted higher based on population. For this analysis, the base amount of \$300,000 is used as a conservative figure, though the fund balance and annual payments may be reduced in coming years.

### *Impact on Cities and Communities*

A PWS Borough CAP payment does not affect CAP payments to cities in the proposed borough. It will affect payments to Chenega and Tatitlek as unincorporated communities in an organized borough. There are three scenarios: 1) the PWS Borough pass a portion of the Borough CAP payment to Tatitlek and Chenega to replace lost payments from the State, 2) the PWS Borough applies on behalf of Tatitlek and Chenega, requiring additional service provision to the communities and offering a payment lower than currently received, and 3) the loss of the payment due to no action by the PWS Borough, Chenega, and Tatitlek. The R&C Calculator provides a passthrough option for CAP payments to show the small impact on borough revenue.

### **PAYMENT IN LIEU OF TAXES**

The Federal Payment in Lieu of Taxes (PILT) Program provides payments to local governments that contain certain federally-owned lands known as "entitlement lands". PILT payments are intended to help offset losses in property taxes due to nontaxable federal lands within municipal boundaries. The U.S. Department of Interior administers PILT payments to boroughs, and Alaska Department of Commerce administers federal PILT payments to cities within the unorganized borough. Specifics on the amount of PILT payments to the proposed borough are not yet available. Currently the assumption is being made that PILT payments will not be reduced but will remain the same, and the new borough would receive the PILT payments and pass them on to the respective cities currently receive PILT payments.

### **NATIONAL FOREST RECEIPTS**

National Forest Receipts (NFR) program was authorized under a 1908 federal law (16 USC 500) that shares income earned from activities within a national forest with the State for distribution to boroughs, cities and regional educational attendance areas (REAs) located within the national forest. With the passage of the "Secure Rural Schools and Community Self-Determination Act of 2000", the State of Alaska must choose annually to receive either the 25% payment under the 1908 National Forest Receipts or the Secure Rural Schools payment. The State of Alaska opts for the Secure Rural Schools payments. This payment is subject to re-authorization of the Secure Rural Schools Act by the U.S. Congress.

NFR payments are made to organized boroughs and to the unorganized borough. The State of Alaska transfers both but does not calculate payments to organized boroughs. The NFR payment calculation for an organized borough is based on the number of national forest acres in the borough along with adjustments based on income, and the borough's share of the State's share during a 14-year period. Additional changes to the payment are based on factors including the funding level each year, the allocation of payments within the State of Alaska, and funding requests for specific projects.

A calculated payment for the proposed PWS Borough is not available at this time. However, the proposed PWS Borough has an estimated 3,864,805 acres of Chugach National Forest within its boundaries. Other boroughs with Chugach National Forest acreage, Municipality of Anchorage and Kenai Peninsula Borough, receive payments averaging 33 cents an acre to 46 cents an acre. If funding amounts

continue as now, the proposed PWS Borough could be eligible to receive payments of \$1 million or more.

### *Impact on Cities and Communities*

The cities of Cordova and Whittier have received NFR payments in previous years of \$710,000 and \$33,000, respectively. As part of the unorganized borough, these payments are calculated based on average daily membership in the school district and miles of road maintained. With the formation of the borough, the PWS Borough would receive payments that must be used for schools or roads. There might be a possibility for the borough to transfer portions of the NFR payments to these cities for road maintenance but that is uncertain. Therefore, a simple passthrough as is used with CAP and Shared Fisheries Taxes is not included in the R&C calculator.

### **ORGANIZATION GRANTS**

Boroughs incorporated after 1985 are entitled to three grants for “the purpose of defraying the cost of transition to borough government and to provide for interim governmental operations...” (AS 29.05.190). The first grant of \$300,000 is disbursed after the certification of the election favoring incorporation. The second grant of \$200,000 and third grant of \$100,000 are disbursed at the beginning of the borough’s second and third fiscal year of the borough

### **LAND ENTITLEMENT**

A newly-formed borough is entitled to 10% of the vacant, unreserved, unappropriated (VUU) land within the boundaries of the borough from the incorporation date to two years afterwards (AS 29.65). Section AS 29.65.130 defines VUU land as "general grant land"

(A) means land patented or tentatively approved to the State from the United States under § 6(a) or (b) of the Alaska Statehood Act;

(B) does not include university land;

(10) "vacant, unappropriated, unreserved land" means general grant land as defined in (3) of this section, excluding minerals as required by § 6(i) of the Alaska Statehood Act, that

(A) has not been set aside by statute for one or more particular uses or purposes;

(B) has not been approved for patent to a municipality under this chapter or former AS 29.18.190 and 29.18.200;

(C) is unclassified or, if classified under AS 38.05.300, is classified for agricultural, grazing, material, public recreation, or settlement purposes, or is classified in accordance with an agreement between a municipality and the State providing for state management of land of the municipality; or

(D) was classified no earlier than September 1, 1983, as resource management and is still classified as resource management under AS 38.05.300.

### *Process*

The timeline for land entitlement is as follows: The Alaska Department of Commerce approves the borough boundary; the Department of Natural Resources (DNR) estimates this approval process takes three to four years. Once the borough’s boundaries are defined, DNR will certify the amount of VUU land available within 2 years and 6 months. The borough then has up to one year to select land for

withdrawal. For this reason, the land entitlement estimates are not included as revenue in the R&C calculator.

Since the proposed borough would include Girdwood and areas northwest of Whittier, which are part of the Municipality of Anchorage, any land owned by the Municipality of Anchorage would have to be addressed in the petition's transition plan. As a note, a municipality can own land outside its boundaries, and within another municipality's boundaries.

### *Acreage*

This analysis estimates 165,000 acres, or 15%, of the state land in the Prince William Sound area, is vacant, unappropriated or unrestricted. The proposed PWS Borough would be entitled to 16,500 acres. This does not include any VUU land in the portions of the Municipality of Anchorage that would be incorporated into the proposed borough. These figures are an estimate obtained using Alaska Geo-Spatial Data Clearinghouse (AGSDC) data, ArcGIS and DNR Mapper. The boundaries of the borough drawn in the ArcGIS software are approximate, and some of the layers used were last updated in 2006 and large parcels are missing acreage. These figures should be taken as rough estimates.

### *Value*

The 16,500 acres that the Prince William Sound Borough would be entitled to are estimated to be worth between \$79 - \$194 million. The lower limit was calculated by assuming that all the land is remote and difficult to build with an estimated value of \$5,000 per acre. The upper limit assumes that half of the land would be remote, and the other half would be within service reach of an electric utility and within 100 miles of a city, at an estimated value of \$18,500 per acre.

The estimated value is based on the assessed value of land sold by the Mental Health Trust in the Kenai Peninsula Borough.

### *Cost*

When land is approved for conveyance, the borough receives management authority. But patent on the land is not received until the land is surveyed to state standards. The cost of survey is the responsibility of the new borough (AS 29.65.070(a)). According to land management at the Kenai Peninsula Borough, surveys cost from \$15,000 to \$150,000 each depending on location, complexity, and size.

Note: The State's interpretation of municipal entitlement heavily leans on "area plans." The Prince William Sound Area Plan is an older plan from 1988, which underwent some revisions in 2007. This plan does not translate well into DNR's contemporary standards. The best way for a new borough to have a smooth municipal entitlement process is to have the Area Plan fully reflect the municipality's municipal entitlement selection. If DNR begins the process to update the PWS Area Plan, it would be critically important to have prominent representation in that process. DNR has indicated that while the Prince William Sound area plan is due to be revised, this will only be done after the revisions of an unspecified number of other plans have been completed.

## Administrative Costs

The proposed borough considered in the R&C calculator will be based in Cordova, have a staff of six to eight, and rent office space. With a small staff, additional services required by the borough are covered in annual contract costs. The administrative costs do not cover any of the expenditures associated with the school district such as payroll, insurance, and facility maintenance. The only school district-related expense is the travel cost for the school board since the existing school districts do not cover a geographic area as large as the proposed borough.

### START-UP COSTS

The start-up costs for this borough cover

- Office equipment and computer and software expenses – estimated at \$30,000;
- Appraisal of real and personal property in areas outside those currently taxed along with the development of a property database for all property in the borough – estimated at \$500,000 by an appraisal firm in Alaska familiar with the area and development of property roles for small boroughs; and
- Contract cost of setting up a planning commission and commissioning a comprehensive plan – estimated at \$150,000.

### OPERATION COSTS

The costs of operating the borough fit into the following categories

- **Payroll (wages and benefits) for 8 staff members.** The wages and benefits are estimated based on City of Cordova staffing costs.
- **Travel for assembly meetings and school board meetings.** This expense assumes at least 5 assembly or borough representatives will travel once a month for borough meetings. The same travel cost is used for the school board. If videoconferencing is used and found to be adequate, the borough would realize significant savings.
- **Office and insurance for a small borough office.** Office and meeting space will be rented in Cordova. This figure includes cost of telephone, internet and office furnishings. Insurance is for general liability, officers' liability, and non-owned auto based on an industry pool of municipalities.
- **Annual contract costs** for legal services, a lobbyist, IT services, and an appraisal firm for appraisal maintenance of property in the proposed borough.
- **Education debt service** assumed by the borough from the City of Cordova School District.