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SB 19, SB 20, & SB 21 – FY20 Governor’s Amended Operating, Capital, & Mental Health Budgets

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Wednesday, February 13 a [sponsor substitute](#) for [SB 20](#) was introduced in the senate.

As outlined in the [Component Summary](#) of the operating budget the sponsor substitute education appropriations are:

- \$942,446,700 for the foundation formula, a cut of \$279,440,500 from the statutory amount of 1,221,887,200, a 22.9 percent decrease
- \$0 of the \$30 million in one-time funding outside the BSA, bringing the total decrease of the statutory amount plus the one-time funding up to a total of a 23.3 percent decrease in foundation funding
- \$77,214,600 for pupil transportation, the fully-funded statutory amount
- No reductions to Boarding Home Grants, Youth in Detention or Special Schools funding
- \$245,031,300 for DEED Education Support and Administrative Services, with a cut of \$12,848,900, a reduction of 5 percent to this budget component (this component includes Executive Administration, Administrative Services, Information Services, School Finance & Facilities, Child Nutrition, Student &

School Achievement, State System of Support, Teacher Certification, Early Learning Coordination, and Pre-K Grants)

- \$0 of \$3,869,600 for the Alaska State Council on the Arts, zeroing out funding for this item
- \$252,700 for the Professional Teaching Practices Commission, a reduction of \$6,800, reducing the PTPC's budget by 2.6 percent
- \$11,366,300 for Mt. Edgecumbe Boarding school (reduced by \$609,600) and \$12,559,000 for MEHS Facilities Maintenance (reduced by \$548,200) for a total reduction of \$1,157,800, an 8.4 percent total reduction for MEHS
- \$11,392,100 for Libraries, Archives, & Museums, a reduction of \$2,056,000, or 15.3 percent of their budget; reductions are from zeroing out funding for Online with Libraries and Live Homework Help
- \$17,873,900 for the Alaska Postsecondary Education Commission, with a reduction of \$751,700 from Program Administration & Operations, and a zeroing out of the \$3,173,700 for the WWAMI Medical program, for a total reduction to ACPE's budget of 18 percent
- \$11,750,000 for the Alaska Performance Scholarship program, with no decrease in funding for that program
- \$11,742,800 for the Alaska Student Loan Corporation (loan servicing), an increase of \$583,800, or 5.2 percent
- The total budget for education funding is \$1,343,725,400, a reduction of \$332,421,200, for a total reduction to education funding of 19.8 percent
- 282 positions, a cut of 16 positions from the Dept. of Education & Early Development

As outlined in the [Capital Budget Detail](#):

- \$7,400,000 for the first project on the [Major Maintenance List](#), which would fund the Barnette Magnet School Renovation Phase IV in the Fairbanks North Star Borough School District

As outlined in [the bill](#):

- \$159,055,000 deposit into PERS
- \$141,129,000 deposit into TRS

As outlined in the [Mental Health Budget](#):

- \$427,800 for Student & School Achievement

Governor Dunleavy's cuts to FY20 foundation funding (the statutory amount plus the one-time funding of \$30 million) are in the same situation as his proposal in the FY19

supplemental budget to cut the \$20 million in one-time funding for FY19 - in other words, the money has already been appropriated and it is not available for veto, so the legislature would have to approve the cuts.

In addition, Governor Dunleavy is proposing to take away the ability of municipalities to tax oil and gas facilities (see SB 57, below). The North Slope Borough, the Fairbanks North Star Borough, the Kenai Peninsula Borough, the Mat-Su Borough, Valdez, and Cordova would lose a huge amount of funding - \$421 million total, which would go to the state, instead of municipalities.

Governor Dunleavy is also proposing funding of \$44,339,700 for the Alaska Marine Highway System, a cut of \$96,172,600, which equals a cut of 68.4 percent from the AMHS budget, which many school districts depend upon for student transportation.

Governor Dunleavy plans to introduce legislation to repeal all designated savings account funds, which include the Power Cost Equalization Fund, the Community Revenue Sharing Fund, the REAA fund, the Higher Education Investment Fund, and other similar funds, and transfer the money in those funds to the general fund. The Public School Trust Fund, the Mental Health Trust Fund, the Constitutional Budget Reserve, and the Permanent Fund are constitutionally protected and are not subject to repeal and transfer to the general fund.

Some of the [proposed legislation, governor's directives, and administrative orders](#) are posted on the OMB website.

SB 57 – Repeal Municipal Levy of Oil & Gas Tax/Credit

Wednesday, February 13 Governor Dunleavy introduced [SB 57](#), which repeals the ability of municipalities to tax oil and gas exploration, production, and pipeline property. The bill is part of his FY20 Operating Budget package. The state would assess and collect all taxes on these properties, an estimated total of \$421 million, with no revenue going to municipalities.

According to the [Fall 2018 Revenue Sources Book](#):

“Property subject to state oil and gas property tax includes property used in the exploration, production, and pipeline transportation of unrefined oil and gas. Each year, the Department of Revenue determines the assessed value for taxable oil and gas petroleum property as of the Jan. 1 assessment date. The state levies a tax on its assessments at a rate of 20 mills (2%) of the assessed value. When oil and gas property is located within a municipality, the municipality may also levy a tax on the department’s assessments at the same rate the municipality taxes all other property within its municipal boundary. The tax paid to a municipality on oil

and gas property acts as a credit toward payment to the state on those same assessments. The North Slope Borough, the primary recipient of municipal petroleum property tax, currently levies a rate of 17.99 mills. This forecast assumes this rate will remain constant through the forecast period.” [Pages 66-67]

“In FY 2018, the state collected \$122 million in unrestricted revenue from petroleum property tax. About \$126 million is expected in FY 2019 with a gradual decline to \$104 million in FY 2028. These amounts represent only the state share of property tax. The total assessment roll for the state is approximately \$28 billion, resulting in total petroleum property tax collection of roughly \$560 million including the municipal share.” [Page 67]

SB 57 would change the amount that communities that currently collect this tax would contribute toward schools. Those communities would also have less local revenue overall, so the ability to contribute above the cap would be impacted. Below is a chart from the Fall 2018 Revenue Sources Book (page 64) showing, currently, how much revenue municipalities receive from this tax.

Chapter 4		Petroleum Property Tax¹			
8		Distribution and local mill rates, FY 2018			
Millions of Dollars					
Taxing Jurisdiction	Gross Tax	Local Share	State Share	Local Effective Mill Rate	
Unorganized	62.0	0.0	62.0	N/A	
North Slope Borough	413.9	372.1	41.8	17.99	
Fairbanks North Star Borough	14.9	11.8	3.0	16.00 ²	
Municipality of Anchorage	3.0	2.4	0.6	16.40	
Kenai Peninsula Borough	30.1	15.0	15.2	9.95 ²	
City of Valdez	38.4	38.4	0.0	20.00	
Matanuska-Susitna Borough	0.2	0.1	0.1	12.49 ²	
City of Whittier	0.0	0.0	0.0	8.00	
City of Cordova	0.2	0.1	0.1	11.81	
Total FY 2018	562.6	439.9	122.7		

¹Tax amounts shown here represent the total certified tax roll for the 2018 tax year, due June 30, 2018. These amounts may not exactly match cash revenue received in the fiscal year as presented elsewhere in this book due to a combination of credits and late payments. Gross Tax is total tax paid to both the local government and the State of Alaska. The Local Share and State Share columns represent revenue primarily received in June 2018.

²The Fairbanks North Star Borough, Kenai Peninsula Borough, and Matanuska-Susitna Borough do not have a uniform mill rate for petroleum properties. The rate presented here is the weighted-average effective mill rate based on the 2018 certified tax roll.

SB 57 has two Dept. of Education & Early Development fiscal notes:

- **Fiscal note 2: A zero fiscal note** that says, “*This legislation amends AS 14.17.510(a) by repealing the language that excluded the assessed property values of oil and gas production and pipeline property from the required local contribution calculation if the municipality as not levying a tax on those properties. This bill would expand the exclusion on the assessed values of oil and gas production and pipeline property to all municipalities, since they would no longer be able to collect taxes on the value of those properties effective July 1, 2019.*

The funding mechanism is a general fund transfer to the Public Education Fund (PEF). The fiscal note effect for FY2020 through FY2025 is reported in the fiscal not for the PEF [Fiscal Note 4; see below], as the funding is deposited to the PEF not into the Foundation Program funding component. The above analysis is presented here for explanation purposes only.”

- **Fiscal Note 4, for \$22,355,200** for FY20 – FY25, “*This legislation amends AS 14.17.510(a) by repealing the language that excluded the assessed property values of oil and gas production and pipeline property from the required local contribution calculation if the municipality was not levying a tax on those properties. This bill would expand the exclusion on the assessed values of oil and gas production and pipeline property to all municipalities since they would no longer be able to collect taxes on the value of those properties effective July 1, 2019.*

There are seven school districts with oil and gas property that would be affected by this legislation (Anchorage, Cordova, Fairbanks, Kenai, Mat-Su, North Slope, and Valdez). The fiscal note’s general fund appropriation was calculated by removing the associated full value of the oil and gas property from the school district’s total full value determination, in order to establish a new required local contribution amount under AS 14.17.410. By removing the oil and gas property, each school district’s required local contribution decreased. With the reduced required local contribution, the state aid portion of the foundation formula increased by a total of \$22,355,200 for these seven districts. This ensures that each school district receives their respective basic need as calculated under AS 14.17.”

SB 57 was referred to the Senate Community & Regional Affairs and Finance Committees. It is not yet scheduled for any hearings.

SB 59 – Repeal Debt Reimbursement: Capital Projects

[SB 59](#) repeals statutes for debt reimbursement for the University of Alaska, municipalities (including school bond debt reimbursement), and power projects.

Table 4.8 on page 43 of the Dept. of Revenue’s publication “[Alaska Public Debt 2018-2019](#)” shows the following school bond debt (in thousands) for individual municipalities.

boroughs and cities within boroughs	G.O. debt ¹	revenue debt ¹	total debt ¹	% of debt	
				school G.O. total ²	state's share ²
Adak	\$ 680	\$ -	\$ 680	\$ -	-
Aleutians East	26,201	-	26,201	10,178	61%
Anchorage	965,345	501,750	1,467,095	453,667	65%
Bethel	-	2,175	2,175	-	-
Cordova	17,666	1,464	19,130	11,885	66%
Craig	1,695	-	1,695	-	-
Dillingham	9,150	-	9,150	9,148	70%
Fairbanks NSB	137,260	-	137,260	122,843	67%
Haines	9,939	1,050	10,989	9,785	70%
Hoonah	1,295	-	1,295	40	70%
Juneau	83,706	53,380	137,086	56,035	69%
Kenai	1,445	-	1,445	-	-
Kenai Borough	85,905	32,127	118,032	36,790	70%
Ketchikan	57,697	47,803	105,500	-	-
Ketchikan Bor.	33,495	-	33,495	18,782	67%
King Cove	4,012	-	4,012	-	-
Kodiak	8,000	7,000	15,000	-	-
Kodiak Bor.	74,080	13,180	87,260	74,080	69%
Lake Peninsula	16,500	-	16,500	16,500	68%
Mat-Su	349,795	22,975	372,770	264,318	69%
Nome	2,803	6,705	9,508	1,703	67%
North Pole	755	488	1,243	-	-
North Slope	253,580	40,315	293,895	833	60%
Northwest Arctic Bor	35,442	-	35,442	23,844	72%
Palmer	710	1,786	2,496	-	-
Petersburg	10,260	-	10,260	5,217	63%
Saint Paul	-	6,006	6,006	-	-
Sand Point	3,800	-	3,800	-	-
Seward	3,210	27,325	30,535	-	-
Sitka	20,745	118,940	139,685	20,745	68%
Skagway	19,993	-	19,993	-	-
Soldotna	1,900	-	1,900	-	-
Unalaska	5,825	55,810	61,635	2,170	70%
Valdez	48,515	-	48,515	1,552	64%
Wasilla	800	-	800	-	-
Wrangell	980	794	1,774	880	70%
Total	\$ 2,293,184	\$ 941,073	\$ 3,234,257	\$1,140,995	

1 Alaska Taxable, from most recent 6/30/2017 report.

2 Current as of 6/30/2018

Source: Alaska Taxable, Alaska Dept. of Community & Economic Development and Dept. of Education and Early Development