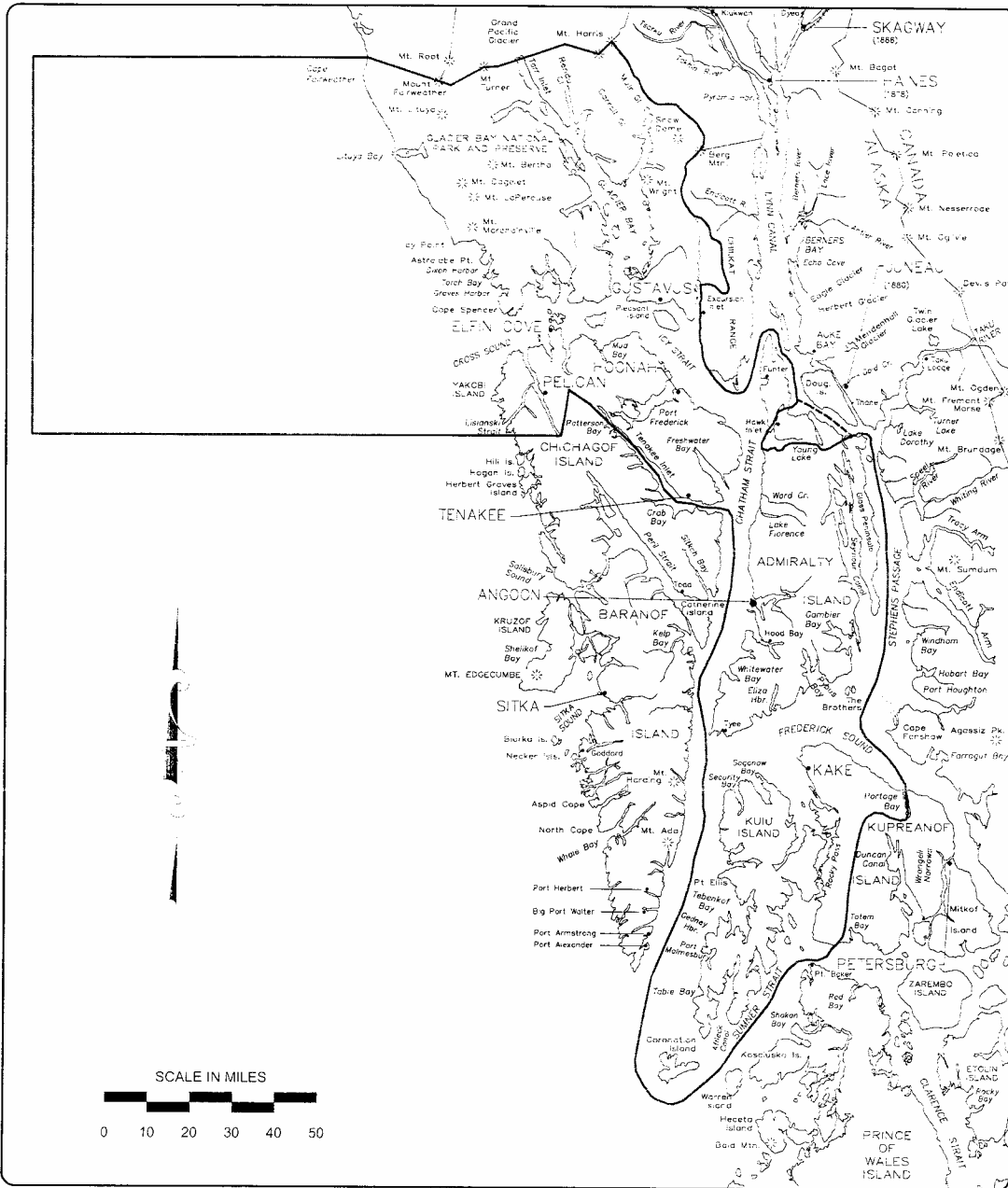


Glacier Bay - Chatham Borough INITIAL FEASIBILITY STUDY

June 2006

*prepared for review
and discussion within our region*



Map of Alaska, U.S. Geological Survey, 1988, modified by City of Hoonah, 2006.

PROPOSED GLACIER BAY
CHATHAM BOROUGH

Prepared by City of Hoonah

Glacier Bay - Chatham Borough INITIAL FEASIBILITY STUDY

Table of Contents

		page
1.0	Questions for Review and Consideration	1
2.0	Introduction and Background	3
3.0	Organizing Principles for Our Borough.....	4
4.0	Why a Glacier Bay - Chatham Borough?	5
5.0	Overview: Glacier Bay-Chatham Proposed Borough.....	8
6.0	Election Districts & Voting: Glacier Bay-Chatham Borough	10
7.0	State and Federal Revenue to Glacier Bay-Chatham Borough.....	13
8.0	Glacier Bay-Chatham Borough Budget.....	15
8.1	Sample Glacier Bay-Chatham Borough \$2.5 Million Budget.....	15
8.2	Sample Glacier Bay-Chatham Borough \$1.9 Million Budget.....	16
8.3	Borough Expenditures	19
9.0	Schools and Education: Glacier Bay-Chatham Borough.....	20
9.1	Overview.....	20
9.2	Table 5 - Current and Proposed State Aid to Borough School District	22
9.3	Table 6 - Current and Proposed State, Federal and Local Funding to Borough School District (and effect of three year LE Phase-In).....	23
9.4	Explanation for Some School Budget Items	24
10.0	Land: Glacier Bay-Chatham Borough	26

List of Figures

Figure 1	Possible Glacier Bay Borough.....	6
Figure 2	PROPOSED Glacier Bay-Chatham Borough.....	7

List of Tables

	Apportionment/Voting District Options A-E.....	11
Table 1	FY 05 (Major) State And Federal Revenue Snapshot - Status Quo and if Glacier Bay-Chatham Borough Formed.....	14
Table 2	Alaskan Local Government Fish Taxes.....	15
Table 3	Glacier Bay-Chatham Borough, Sample Borough Budget (2% Borough Fish Tax).....	17
Table 4	Glacier Bay-Chatham Borough, Sample Borough Budget (1% Borough Sales Tax)	18
Table 5	Current and Proposed State Aid to Borough School District	22
Table 6	Current and Proposed State, Federal and Local Funding to Borough School District	23

Glacier Bay - Chatham Borough INITIAL FEASIBILITY STUDY

June 2006

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1.0 Questions for Review and Consideration

The City of Hoonah is planning to prepare a petition to form a borough in late 2006. We recognize that we must work together on this effort and that ultimately the majority in our region must support this idea. We are proposing a meeting of our region in late September (immediately preceding the Southeast Conference annual meeting) to get together to discuss borough formation. We hope to have funding to help subsidize some travel and lodging. Following are some questions to keep in mind as you read this report. If you would like to send comments on these questions or this report for consideration before or at this meeting, please send them to the City of Hoonah, P.O. Box 360, Hoonah, AK 99829.

1. Section 2 - Introduction and Background, Section 3 - Organizing Principles for Our Borough, and Section 4 – Why a Glacier Bay-Chatham Borough, lay out the case for forming a borough in our region. Do you agree with the material presented? Why or why not?
2. Borough finances are much stronger, including state and federal funding, and our regional ‘clout’ is higher when we join together to form the Glacier Bay-Chatham Borough, rather than forming two separate boroughs. However, this will make movement and communication within our borough more challenging. Two ways we propose to address this are installation and allocating operating funds to run high speed video-conferencing equipment (like what SEARHC and some Chatham REAA school sites have) in each community to be used for assembly and school district meetings as well as other borough meetings. Second, we have funding for assembly and planning commission travel in the borough budget. What are your thoughts?
3. What questions do you have regarding the proposed borough budget? Do you favor the \$1.9 or \$2.5 million dollar option, why? Which local tax option do you find least objectionable and why?
4. Are there services or powers besides the required education, taxation and planning that it would be beneficial for the borough to provide to your community? This study suggests that economic development be added so the borough is empowered to advocate and seek funding for projects our region and community’s desire. What about transportation, trails and recreation, or solid waste?

5. What questions do you have regarding borough school district organization and budgeting? Do you support the idea of waiting until Year 2 after the borough is formed to take on education to allow time to work out transition/consolidation details?
6. Where should the borough office and school district office be located? Our proposal is that both the borough office and school district office be located in Hoonah, but that a borough school district satellite office be located in Angoon or Kake.
7. What would you like to see happen to improve education in your community and our region?
8. Which election district option do you favor and why?

2.0 Introduction and Background

Hoonah has been considering the feasibility and implications of borough formation in our region for several years. Our desire is to prepare a petition to form a borough and submit it to the State's Local Boundary Commission later in 2006. Some of the primary reasons we are pursuing this now include:

- To ensure that we end up in a borough with Glacier Bay, the traditional territory of Tlingit from our community;
- Because it seems inevitable that borough formation is coming sooner or later, and we want the borough to be the one that is most advantageous for our region – both in terms of its boundaries and for how education and taxation are handled. We do not want to wait and have the Local Boundary Commission or Legislature dictate this to us.
- Because we want a borough that does not include property tax;
- Having a regional/borough voice will give us more clout with the Legislature, Congress, funders and regional organizations; and
- Ketchikan, Wrangell-Meyers Chuck-Union Bay, and soon Petersburg-Kupreanof have petitions for borough formation or expansion before the Local Boundary Commission. As other areas in Southeast Alaska form or enlarge boroughs, this reduces our region's share of Tongass Timber Receipts (which helps pay for local education and roads), unless we too form a borough.

3.0 Organizing Principles for Our Borough

The eight principles below are important to people in the Glacier Bay-Chatham region. Our borough will be formed around and promote these ideals.

1. High quality education;
2. Keep our communities independent and unique;
3. Use our strong regional voice to advocate for both borough and each community's priority capital needs and projects;
4. Use borough resources to foster and support our communities and our regional needs;
5. Continued ability of residents to engage in subsistence harvesting and gathering activities;
6. Regional emphasis on reducing electrical rates, high quality docks and harbors, and a strong, sustainable marine highway ferry system;
7. Install and maintain high speed video-conferencing capability in all communities to support and enhance Assembly, School Board and citizen communication; and
8. No borough property tax.

Finally, it is safe to say that every resident of every community in the region, including Hoonah, is leery about creating multiple layers of government. How do we create a borough that has functioning cities within it and prevent this? Here are some ideas:

Make sure, from day one, that duties and responsibilities between the borough and cities do not overlap.

Learn from other Alaskan boroughs that are doing this. Aleutians East Borough, Kenai Peninsula Borough, Kodiak Island Borough, Matanuska Susitna Borough, North Slope Borough and Northwest Arctic Borough are all boroughs that have cities and villages within them like what we are proposing (some are 2nd class boroughs, others are home rule boroughs). We need to hear from them about what is working well and what could be better and use these ideas as we write our petition and set our rules.

We should consider co-locating the main borough offices with city offices in the communities where they are located. We should be able to share rent and some administrative and overhead expenses between cities and the borough, and hopefully between schools and the borough school district.

4.0 Why a Glacier Bay - Chatham Borough?

Initially, we were focused on the Glacier Bay Borough. This is the area depicted on Figure 1 and includes Pelican, Elfin Cove, Gustavus, Hoonah, Tenakee Springs and Glacier Bay National Park and Preserve. This is one of the state's "model boroughs" for Southeast Alaska. Instead, we are now strongly considering pursuit of a borough that also includes Angoon, Kake and all of Admiralty and Kuiu Islands as well as that part of Kupreanof Island that is home to Kake. This Glacier Bay-Chatham Borough is seen in Figure 2. Representatives from all involved communities had an opportunity to discuss this idea together for the first time in late March 2006 in Juneau. This borough would combine two of the state's model boroughs plus some additional territory. We think this makes more sense for three main reasons:

- More people and territory gives depth and strength to support borough government. This borough option results in significantly more state and federal revenue for our region and a larger borough land entitlement. Since there will be local taxation to support education (and other borough responsibilities) this option allows distributing this burden/responsibility out over more people and territory and thereby reducing it for any one individual or business.
- Joining several traditional Tlingit areas and people together under the umbrella of one regional government would create a strong Alaska Native voice in this part of Southeast Alaska.
- Some communities in this region have more economic activity going on than others, however, major activities and opportunities are similar throughout:
 - Subsistence Harvest and Gathering: Hoonah, Kake, Angoon, Gustavus, Pelican, Tenakee Springs, Elfin Cove
 - Sport fishing: Hoonah, Kake, Angoon, Gustavus, Pelican, Tenakee Springs, Elfin Cove
 - Commercial Fishing: Hoonah, Kake, Angoon, Gustavus, Pelican, Tenakee Springs, Elfin Cove
 - Fish Processing: Hoonah, Kake, Gustavus, Pelican
 - Large cruise ship tourism: Hoonah, Glacier Bay
 - Independent tourism: Hoonah, Kake, Angoon, Gustavus, Pelican, Tenakee Springs, Elfin Cove and Glacier Bay
 - Industrial Support (timber, mining): Hoonah
 - Significant Government Sector Employment (school, local, tribal, state, federal): Hoonah, Kake, Angoon, Pelican

Finally, you may notice a dashed line around the Greens Creek mine area on Admiralty Island (Figure 2). This small part of Admiralty Island is already in the City and Borough of Juneau. Angoon residents have very strong historic and cultural ties to this area; many have not forgiven the state Local Boundary Commission for assigning this piece of their traditional territory and island to Juneau for governmental purposes. Our borough formation petition could include asking that this area be detached from Juneau and become part of our borough. However, this would likely generate strong objection from Juneau, and there are ties now between mine operation and Juneau. Our proposal does not include this option, but we are interested in the region's views on this matter. (We also have not talked yet with the mine owner about this option.)

Figure 1
Possible Glacier Bay Borough

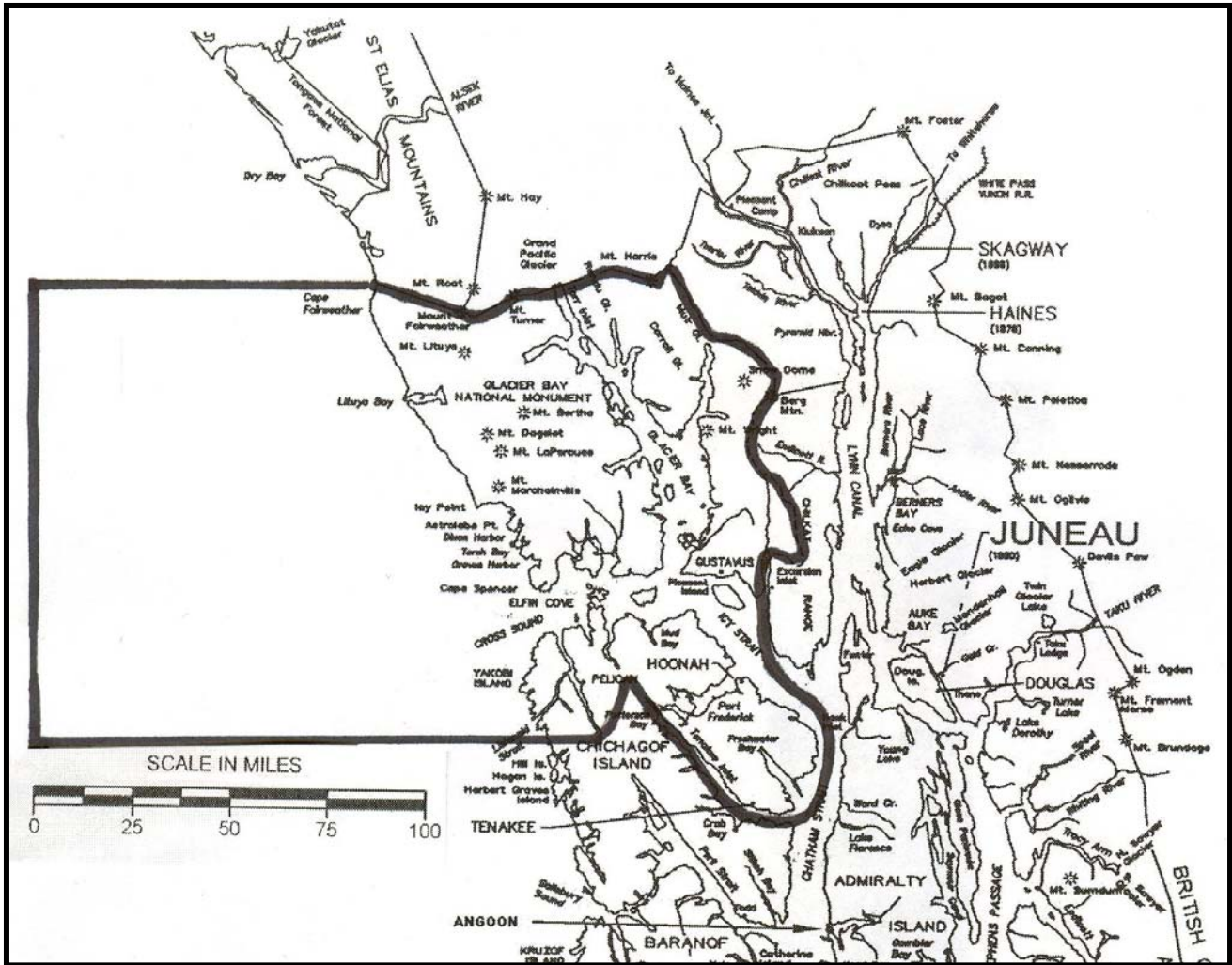
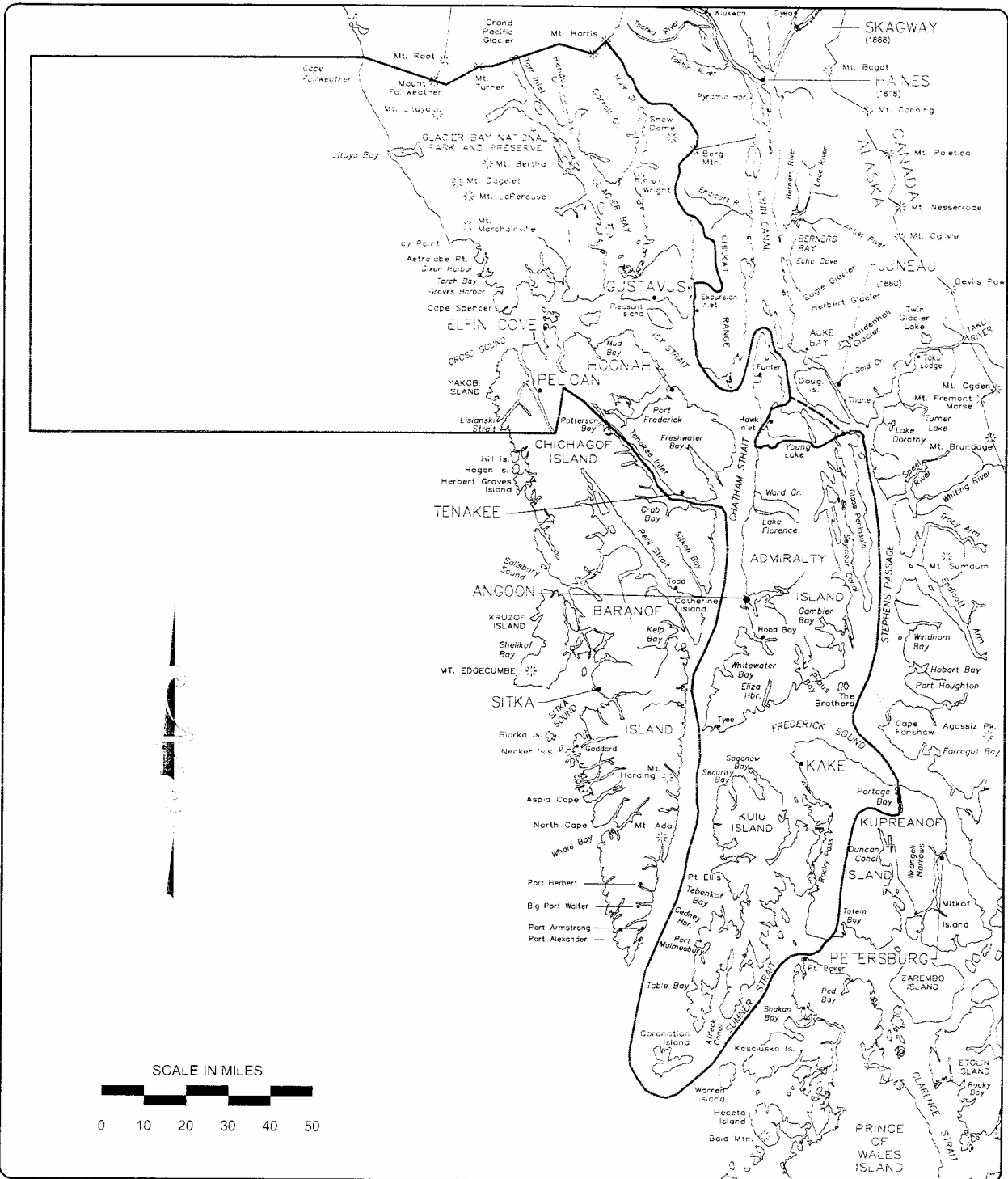


Figure 2
PROPOSED
Glacier Bay-Chatham Borough



ALL INFORMATION ON THIS MAP IS UNCLASSIFIED DATE 05/01/01 BY 60322 UC/STP/STP

**PROPOSED GLACIER BAY
 CHATHAM BOROUGH**

5.0 Overview: Glacier Bay-Chatham Proposed Borough

Borough Type

2nd class (No charter required; local government remain as is but education, taxation and planning is transferred from city (or REAA) responsibility to borough responsibility.)

Borough Population (2005)

2,714

Communities within Borough

Community	Type	2005 Pop.
Hoonah	1 st class	861
Kake	1 st class	598
Angoon	2 nd class	497
Gustavus	2 nd class	459
Pelican	1 st class	115
Tenakee Springs	2 nd class	98
Other areas	Unincorporated	57
Elfin Cove	Unincorporated	29
		2,714

Borough Powers

1. Education
2. Taxation
3. Planning (regional; delegate local planning to cities)
4. Economic Development.
5. If desired and approved by voters, over time: Transportation, Solid Waste, other?

Impact to Local Governments

A. All city governments continue as is. City Councils and City mayors remain as is. City taxes remain as is and revenues collected from them still accrue to cities.

B. City government responsibility to assess and collect taxes is transferred to borough (who in turn passes back local taxes to local governments).

C. Borough undertakes regional planning and economic development efforts that borough residents' desire. It is assumed that city governments want to continue to exercise and control local planning, and that the borough delegates this to the cities.

D. Federal Payment in Lieu of Taxes (PILT) and up to half of State Fish Tax now goes to borough (rather than cities). The borough passes these revenues back to cities so they are not harmed financially. Federal Timber Receipt payments (that once went to cities for schools or roads) now go to borough and are retained by borough, dedicated 100% to education.

Impact to Federal Land, including Tongass Forest Land Use Designations and Glacier Bay lands

none

Impact on Federal Subsistence Status

none

Impact on Tribal Governments

none

Impact to School Districts

A. Dissolve Hoonah, Pelican and Kake City School districts, transfer assets and liabilities to Glacier Bay-Chatham Borough School District.

B. Chatham REAA essentially dissolves (only Klukwan schools remain). Schooling for Gustavus, Angoon, Tenakee Springs and Elfin Cove students transfers from Chatham REAA to Glacier Bay-Chatham Borough School District. Assets and liabilities transfer.

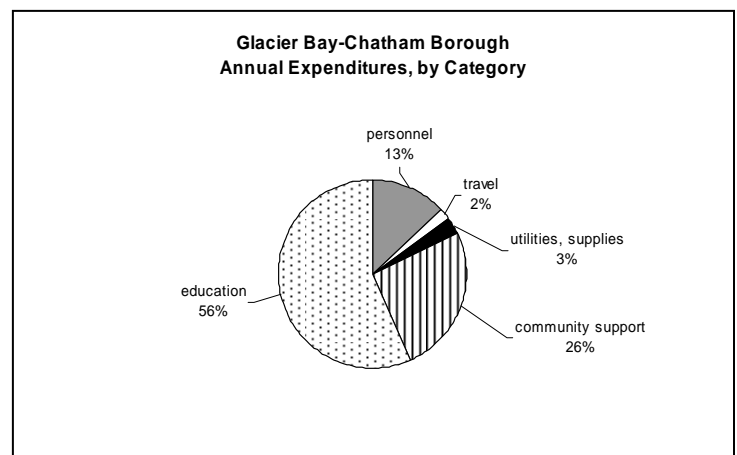
C. Create Glacier Bay-Chatham School District, assume assets and liabilities from former school districts.

D. Estimated ADM in Glacier Bay-Chatham School District: 487

E. Estimated expenditure per pupil: \$15,527 (for comparison, in 2005 per pupil expenditures were: Hoonah \$15,220; Kake: \$15,308, Chatham REAA: \$15,221, Pelican: \$42,765)

Borough Finances

- Estimated annual borough budget is \$2-2.5 million. The percent that would be expended, by category, is on graph below.
- Borough annual revenue: 83-87% would come from state or federal sources, 13-17% from local taxes.
- Some borough tax options to provide the balanced budget cited above (and possibly enable capital grants to cities, provide high funding for education, and build up borough permanent fund), are:
 - 1-2% sales tax (each 1% generates about \$253,000), or
 - 1-2% fish or excise tax (on all resources extracted from borough incld fish, timber, minerals - or just on fish; each 1% generates about \$395,000 (fish only), or
 - 2-3 mill property tax (assume do not want property tax though; 1 mill generates about \$113,000).



6.0 Election Districts & Voting: Glacier Bay-Chatham Borough

Two bodies --- the Borough Assembly and Borough School Board must be elected. Both typically have 5-16 members. The assembly is elected to govern the borough, adopt laws and approve budgets. The school board oversees the operation of borough schools. *An individual may serve as an elected official on both their local city council and on the borough assembly or school board.*

Apportionment (distributing) borough assembly and school board seats is based on population. The fundamental “one-person, one vote” concept must be met. So, the percent of the borough’s total population that a community has will generally guide how many seats on the borough assembly or school board that community has.

	2005 Pop.	% of Borough Pop.
Hoonah	861	32%
Kake	598	22%
Angoon	497	18%
Gustavus	459	17%
Pelican	115	4%
Tenakee Springs	98	4%
Other areas	57	2%
Elfin Cove	29	1%
	2,714	100.00%

There are a few different ways elections can be organized in the borough. This is governed by AS 29.20.050-.320. For the Glacier Bay-Chatham Borough:

- We assume that Our borough will want election districts (rather than one big borough-wide at large election) because this guarantees representation for communities throughout the borough.
- We assume that we will want to require that a person running for office live within the election district, again because this favors representation for all communities.
- We need to decide if, when elections are held, we want people only in the election district to vote for the representative from their election district, or, if we want everyone in the borough to be able to vote for all seats.
- The mayor of a borough is always elected at-large.

State and federal constitutional provisions require that election districts be equally represented. Ideally, each district will have an equal population (per assembly member). However, because this is hard to do, the courts have held that deviations of up to 10% are legal. Five possible apportionment plans are presented for consideration (though two have variations just over 10% and may not be legal). The options vary between 3 and 4 election districts, and have 5 to 13 assembly members. Other options are possible. The mayor would be elected at-large, in addition to the assembly seats shown on these options.

OPTION A						
	Election District	2005 Pop	Pop in district	No. Seats	Pop/ Seat	% Var. from Mean
A	Angoon	497	595	3	198	5.10%
	Tenakee Springs	98				
B	Kake	598	598	3	199	4.63%
C	Elfin Cove	29	636	3	212	-1.44%
	Pelican	115				
	Remainder	33				
	Gustavus	459				
D	Hoonah	861	885	4	221	-5.86%
	Whitestone	3				
	Game Creek	21				
		2714		13	209	

OPTION B						
	Election District	2005 Pop	Pop in District	No. Seats	Pop/ Seat	% Var. from Mean
A	Angoon	497	595	2	298	1.49%
	Tenakee Springs	98				
B	Kake	598	598	2	299	0.99%
C	Elfin Cove	29	636	2	318	-5.30%
	Pelican	115				
	Remainder	33				
	Gustavus	459				
D	Hoonah	861	885	3	295	2.32%
	Whitestone	3				
	Game Creek	21				
		2714		9	302	

OPTION C**						
	Election District	2005 Pop	Pop in District	No. Seats	Pop/ Seat	% Var. from Mean
A	Angoon	497	595	1	595	-9.58%
	Tenakee Springs	98				
B	Kake	598	598	1	598	-10.13%
C	Elfin Cove	29	521	1	521	4.05%
	Remainder	33				
	Gustavus	459				
	Pelican	115	1000	2	500	7.92%
D	Hoonah	861				
	Whitestone	3				
	Game Creek	21				
		2714		5	543	

OPTION D						
	Election District	2005 Pop	Pop in District	No. Seats	Pop/ Seat	% Var. from Mean
A	Angoon	497	1193	4	298	1.24%
	Tenakee Springs	98				
	Kake	598				
B	Elfin Cove	29	636	2	318	-5.30%
	Pelican	115				
	Remainder	33				
	Gustavus	459				
C	Hoonah	861	885	3	295	2.32%
	Whitestone	3				
	Game Creek	21				
		2714		9	302	

OPTION E**						
	Election District	2005 Pop	Pop in District	No. Seats	Pop/ Seat	% Var. from Mean
A	Angoon	497	497	2	249	8.30%
B	Kake	598	598	2	299	-10.33%
C	Hoonah	861	1320	5	264	2.58%
	Gustavus	459				
D	Pelican	115	299	1	299	-10.33%
	Tenakee Springs	98				
	Elfin Cove	29				
	Whitestone	3				
	Game Creek	21				
	Remainder	33				
		2714		10	271	

**** Likely not legal if variation exceeds 10%**

7.0 State and Federal Revenue to Glacier Bay-Chatham Borough

This section estimates revenues (Table 1) to the Glacier Bay-Chatham Borough. Changes to the revenues of cities and unincorporated communities in the region are also reviewed. It is important to keep in mind when considering the budgets in this section and section 7.0 that these budgets are a snapshot in time and will shift as funding changes. The budget figures for the Glacier Bay-Chatham Borough are based on Fiscal Year (FY) 05, and as the borough budget is projected assume that all factors hold constant. However, revenues and expenditures will certainly vary from what is depicted here but the budget information presents an accurate sense of how the borough's budget will work.

- **If the Glacier Bay-Chatham Borough is formed state and federal revenue to the region will increase by \$371,512 or 26% from \$1.43 million to \$1.80 million.**
- **Almost all of the increase would be due to higher National Forest Receipts, due to the number of Tongass acres (estimated by USFS at about 2,302,760 acres) that will be within the borough and how the funding formula works.**

National Forest Receipt payments to boroughs are based on the amount of national forest acreage within the borough boundaries in proportion to the entire acreage of the national forest. Within the unorganized borough, payments to cities and REAAs for schools are made on the basis of school enrollments; and for roads, according to state and locally maintained miles.

However, there is uncertainty over the continuation of this program and funding source. Current authorization for the program and funding allocations expire in 2007. September of 2006 is the last year that funding will be available, unless Congress reauthorizes it. The conventional wisdom at this time is that it will be reauthorized, but the amount of funding will ratchet down over the next six years.

- **Tracking reauthorization and funding levels for PL 106-393, the Secure Rural Schools and Communities Self Determination Act, with Alaskan congressional delegation is very important. It is a cornerstone of the Glacier Bay-Chatham Borough budget as it will almost entirely fund education in the borough.**
- **After borough formation Table 1 shows state and federal revenue to all communities within the borough decreasing. However, this will not be what happens if all agree with the principle that there must be no financial harm to communities in our region as a result of borough formation.** This would work by:
 1. After borough formation the State Fisheries Business Tax revenue is split between the cities and borough; each year for five years the borough gets 10% more and cities get 10% less until it is split 50/50. However, in the Glacier Bay-Chatham Borough this revenue would be passed pass back to the cities so they are not harmed financially as a result of borough formation.
 2. After borough formation Federal Payment in Lieu of Taxes (PILT) revenue goes to the borough not the cities. However, in the Glacier Bay-Chatham Borough federal PILT revenue would be passed pass back to the cities so they are not harmed financially as a result of borough formation. However, it should be noted that this revenue is reduced by 7% as a result of borough formation, so each city would receive 7% less.

Table 1 FY 05 (Major) STATE AND FEDERAL REVENUE SNAPSHOT - Status Quo and if Glacier Bay-Chatham Borough Formed

	2004 Pop	FY 05 National Forest Receipts	FY 05 DCCED Shared Fish Tax	FY 05 State Fisheries Business Tax *	FY 05/04 Liquor licenses	FY 05 ACMP	FY 05 Payment in Lieu of Taxes (PILT) +	Total Revenue to Region *,+
A. Status Quo - 2005								
Hoonah	841	\$282,199	\$2,632	\$133,052	\$4,600	\$8,360	\$91,893	\$522,736
Kake	660	\$266,469	\$8,708	\$6,260	\$0	\$0	\$66,105	\$347,542
Angoon	497	\$28,028	\$2,499	\$0	\$0	\$0	\$54,531	\$85,058
Gustavus	473	\$87,475	\$0	\$0	\$0	\$0	\$47,296	\$134,771
Pelican	118	\$24,831	\$6,782	\$7,736	\$0	\$15,000	\$12,202	\$66,551
Tenakee Springs	105	\$9,112	\$2,345	\$224	\$0	\$0	\$11,446	\$23,127
Elfin Cove	26	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Remainder of area in borough / Chatham REAA	117	\$248,121 (Chtm REAA)	n/a	n/a	n/a	n/a	n/a	\$248,121
total to Glacier Bay-Chatham region now	2837	\$946,235	\$22,966	\$147,272	\$4,600	\$23,360	\$283,473	\$1,427,906
B. If Glacier Bay-Chatham Borough Forms								
New Borough	2837	\$1,294,328	\$10,761	\$106,316	\$0	\$25,000	\$264,378+	\$1,700,783
Hoonah	841	\$0	\$2,290	\$66,526*	\$4,600	\$0	\$0+	\$73,416
Kake	660	\$0	\$7,882	\$3,130*	\$0	\$0	\$0+	\$11,012
Angoon	497	\$0	\$2,162	\$0*	\$0	\$0	\$0+	\$2,162
Gustavus	473	\$0	\$0	\$0*	\$0	\$0	\$0+	\$0
Pelican	118	\$0	\$6,051	\$3,868*	\$0	\$0	\$0+	\$9,919
Tenakee Springs	105	\$0	\$2,014	\$112*	\$0	\$0	\$0+	\$2,126
Elfin Cove	26	\$0	\$0	\$0*	\$0	\$0	\$0+	\$0
Remainder of area in borough / Chatham REAA	117	\$0	\$0	\$0*	\$0	\$0	\$0+	\$0
total to region if boro		\$1,294,328	\$31,160	\$179,952	\$4,600	\$25,000	\$264,378	\$1,799,418
<i>Difference</i>		\$348,093	\$8,194	\$32,680	\$0	\$1,640	-\$19,095	\$371,512

SOURCES: State DCCED, DOR, DOE

* = This revenue snapshot depicts this revenue split between the cities and borough as though five years have passed since borough formation and the split is 50/50. In reality the city gets 10% less each year and the borough gets 10% more each year for five years until it is split 50/50. **However, in the Glacier Bay-Chatham Borough this revenue would be passed pass back to the cities so they are not harmed financially as a result of borough formation.**

+ = **In the Glacier Bay-Chatham Borough federal PILT revenue would be passed pass back to the cities so they are not harmed financially as a result of borough formation. However, it should be noted that this revenue is reduced by 7% as a result of borough formation, so every city would receive 7% less.**

8.0 Glacier Bay-Chatham Borough Budget

Two sample Glacier Bay-Chatham Borough budgets are presented on Tables 3 and 4. The differences in the overall budgets and revenues are reviewed now. After the tables borough expenditures are reviewed.

Sample four year budgets are presented because the first three years after borough formation there are one-time transition revenues and expenses. Thus, it is not until the 4th year (Year 2011 on tables 3 and 4) that a sustainable borough budget is seen. **These sample budgets are should be directly compared to today's conditions;** they are based on FY 05 and do not include inflation or future increased or decreased funding or costs. They paint a picture of how a balanced Glacier Bay-Chatham Borough can be accomplished.

8.1 Sample Glacier Bay-Chatham Borough \$2.5 Million Budget

Table 3 is a \$2.5 million dollar budget of which \$1.7 million or 67% comes from state and federal sources. A 2% borough fish tax provides 95% of the local revenues; it would generate an estimated \$790,000 annually (based on 2004 harvests from borough waters and Southeast Alaska prices).

This tax would be collected from fisherman on fish taken from borough waters. It is based on where fish are taken out of the water, not on where the fish are landed or processed. If it is removed from borough waters, it doesn't matter where the fisherman is from or where they take the fish, the Glacier Bay-Chatham Borough would levy and collect a tax based on 2% of the fish's value. The cities and boroughs shown on Table 2 levy local fish taxes, some of which are identical to what is proposed for Glacier Bay-Chatham Borough resident's consideration.

The other local revenue is 5% interest off a newly establish borough permanent fund.

Other features of this borough budget (Table 3) are:

- \$200,000-\$300,000 directed annually to communities within the borough for local projects;
- PILT and state fish tax pass back to communities;

Table 2 - Alaskan Local Government Fish Taxes	
Local Fish Taxes - Rate and Levying Government	2005 Revenue
2% Aleutians East Borough	\$2,871,000
2% Atka	\$23,169
3% Bristol Bay Borough	\$311,369
2% Chefornak	\$293
2% Egegik	\$412,575
2% Lake and Peninsula Borough	\$857,469
2% Sand Point	\$597,372
2% Togiak	\$25,607
2% Unalaska	\$3,888,475
1% Yakutat Borough	\$26,300
1% Chignik salmon	\$52,528
1% Chignik other seafood	\$51,254
2% King Cove	fisheries tax incl in sales tax
Kake	\$5,686
Excise/Severance Taxes	
10.25 mill Kodiak Is Borough on fish, timber, minerals	\$1,005,539
\$.05/yd or ton Denali Borough	\$87,958

- Education is funded at \$1.16 million, going up to \$1.41 million or higher (the annual local education cap for funding on the Glacier Bay-Chatham Borough is \$1.72 million).
- The first three years deposits are made into a borough permanent fund to build it to \$1 million, which at 5% yield \$50,000 annually to the borough.
- This budget has a great deal of flexibility to address changing revenues and expenses, for example deposit to the permanent fund could be changed, or eliminated and spent on education or other borough projects.

8.2 Sample Glacier Bay-Chatham Borough \$1.9 Million Budget

Table 4 is a \$1.9 million dollar budget of which \$1.7 million or 87% comes from state and federal sources. The local revenue is a 1% borough sales tax that generates about \$253,000 annually.

This budget has no directed funding for capital projects in communities through it does also pass back PILT and state fish tax to communities. Education is funded at \$1.16 million. There is no borough permanent fund. Borough expenses are \$1.9 million.

While balanced, this budget does not have much flexibility to respond to changed expenses or revenues.

**Table 3 Glacier Bay-Chatham Borough
SAMPLE BOROUGH BUDGET (2% borough fish tax)**

	Transition Years Budget			Long Term Budget
	2008	2009	2010	2011
REVENUES				
<i>State and Federal Revenue (major)</i>				
National Forest Receipts	\$1,294,328	\$1,294,328	\$1,294,328	\$1,294,328
ACMP	\$25,000	\$25,000	\$25,000	\$25,000
State Shared Fish Tax	\$10,761	\$10,761	\$10,761	\$10,761
Borough Formation Grant	\$300,000	\$200,000	\$100,000	\$0
PILT	\$264,378	\$264,378	\$264,378	\$264,378
State Fish Business Tax	\$106,316	\$106,316	\$106,316	\$106,316
<i>Annual Non-Local Revenue</i>	\$2,000,783	\$1,900,783	\$1,800,783	\$1,700,783
<i>Local Revenue</i>				
2% Borough Fish Tax	\$789,684	\$789,684	\$789,684	\$789,684
Interest on Borough Permanent Fund (5%)		\$12,500	\$31,250	\$50,000
TOTAL ANNUAL REVENUE	\$2,790,467	\$2,702,967	\$2,621,717	\$2,540,467
EXPENDITURES				
Assembly	\$12,000	\$12,000	\$12,000	\$12,000
Manager, Clerk	\$150,000	\$150,000	\$150,000	\$150,000
Finance	\$75,000	\$75,000	\$75,000	\$75,000
Planner/Grant Writer/Econ Dev	\$60,000	\$60,000	\$60,000	\$60,000
Legal Assistance				\$25,000
Assembly And Planning Commission Travel, Lodging, Per Diem	\$44,100	\$44,100	\$44,100	\$44,100
Telephone, Supplies, Copies	\$30,000	\$40,000	\$40,000	\$40,000
Utilities, Etc	\$30,000	\$30,000	\$30,000	\$30,000
Pass Back Fisheries Business Tax Revenue To Communities	\$73,636	\$73,636	\$73,636	\$73,636
Pass Back PILT To Communities	\$264,378	\$264,378	\$264,378	\$264,378
Capital/Other Grants To Communities In Borough	\$250,000	\$200,000	\$200,000	\$300,000
Education. Assumes amount now given by Hoonah, Kake & Pelican and equivalent amt from cities in former Chatham REAA). Cap: \$1,723,389	\$1,164,626	\$1,164,626	\$1,164,626	\$1,414,626
Deposit to Borough Permanent Fund	\$250,000	\$375,000	\$375,000	
Annual Expenditures	\$2,403,740	\$2,488,740	\$2,488,740	\$2,488,740
<i>Transition Assistance</i>				
Purchase and install telecommunications	\$60,000			
Transition Assistance (not legal)	\$100,000	\$50,000	\$25,000	
Legal asst contract	\$75,000	\$50,000	\$25,000	
Other assistance w/ transition (including for schools)	\$100,000	\$75,000	\$50,000	
One Time Transition Expenses	\$335,000	\$175,000	\$100,000	\$0
TOTAL ANNUAL EXPENDITURES	\$2,738,740	\$2,663,740	\$2,588,740	\$2,488,740
BALANCE	\$51,727	\$39,227	\$32,977	\$51,727

**Table 4 Glacier Bay-Chatham Borough
SAMPLE BOROUGH BUDGET (1% borough sales tax)**

	Transition Years Budget			Long Term Budget
	2008	2009	2010	2011
REVENUES				
<i>State and Federal Revenue (major)</i>				
National Forest Receipts	\$1,294,328	\$1,294,328	\$1,294,328	\$1,294,328
ACMP	\$25,000	\$25,000	\$25,000	\$25,000
State Shared Fish Tax	\$10,761	\$10,761	\$10,761	\$10,761
Borough Formation Grant	\$300,000	\$200,000	\$100,000	\$0
PILT	\$264,378	\$264,378	\$264,378	\$264,378
State Fish Business Tax	\$106,316	\$106,316	\$106,316	\$106,316
<i>Annual Non-Local Revenue</i>	\$2,000,783	\$1,900,783	\$1,800,783	\$1,700,783
<i>Local Revenue</i>				
1% Borough Sales Tax	\$253,202	\$253,202	\$253,202	\$253,202
TOTAL ANNUAL REVENUE	\$2,253,985	\$2,153,985	\$2,053,985	\$1,953,985
EXPENDITURES				
Assembly	\$12,000	\$12,000	\$12,000	\$12,000
Manager, Clerk	\$150,000	\$150,000	\$150,000	\$150,000
Finance	\$75,000	\$75,000	\$75,000	\$75,000
Planner/Grant Writer/Econ Dev	\$60,000	\$60,000	\$60,000	\$60,000
Legal Assistance				\$25,000
Assembly And Planning Commission Travel, Lodging, Per Diem	\$44,100	\$44,100	\$44,100	\$44,100
Telephone, Supplies, Copies	\$30,000	\$40,000	\$40,000	\$40,000
Utilities, Etc	\$30,000	\$30,000	\$30,000	\$30,000
Pass Back Fisheries Business Tax Revenue To Communities	\$73,636	\$73,636	\$73,636	\$73,636
Pass Back PILT To Communities	\$264,378	\$264,378	\$264,378	\$264,378
Capital/Other Grants To Communities In Borough	\$0	\$0	\$0	\$0
Education. Assumes amount now given by Hoonah, Kake & Pelican and equivalent amt from cities in former Chatham REAA). Cap:\$1,723,389	\$1,164,626	\$1,164,626	\$1,164,626	\$1,164,626
Annual Expenditures	\$1,903,740	\$1,913,740	\$1,913,740	\$1,938,740
<i>Transition Assistance</i>				
Purchase and install telecommunications	\$60,000			
Transition Assistance (not legal)	\$100,000	\$50,000	\$25,000	
Legal asst contract	\$75,000	\$50,000	\$25,000	
Other assistance w/ transition (inclcd for schools)	\$100,000	\$75,000	\$50,000	
One Time Transition Expenses	\$335,000	\$175,000	\$100,000	\$0
TOTAL ANNUAL EXPENDITURES	\$2,238,740	\$2,088,740	\$2,013,740	\$1,938,740
BALANCE	\$15,245	\$65,245	\$40,245	\$15,245

8.3 Borough Expenditures

Borough expenditures are the same in both the sample budgets. They are estimates and will be fine-tuned with department heads and others as the petition process goes forward. Assumptions built into the line item expenditures are as follows:

BUDGET LINE ITEM	ASSUMPTIONS
Assembly	\$100 stipend per meeting per Assembly member and mayor, assume 12 meetings per year and 10 members.
Manager, Clerk	Full time manager and clerk with full wage and benefit package. Collection and levy of all local and borough taxes may relieve cities of some personnel requirements.
Finance	Full time finance officer with full wage and benefit package. Collection and levy of all local and borough taxes may relieve cities of some personnel requirements.
Planner/Grant Writer/Econ Dev	Full time position with full wage and benefit package.
Legal Assistance	Contracted legal assistance as needed
Assembly And Planning Commission Travel, Lodging, Per Diem	Assume 6 meetings where all are together, including non-voting rep from 2 communities; and 6 video conference meetings per year for Assembly: Per Meeting costs when all gathered: Airfare - \$2500, Lodging/per diem: \$2400. Assume borough planning commission has comparable costs but for 3 in-person meetings per year (others are video conference)
Telephone, Supplies, Copies	Includes estimated monthly use fees for video conferencing system as determined by provider, and other fees derived by educated guess
Utilities, etc.	Educated guess
Education	Assumes amount now given by Hoonah, Kake & Pelican and equivalent amt from cities in former Chatham REAA. Cap:\$1,723,389
<i>Transition Assistance</i>	
Purchase and install telecommunications	Estimate based on consultation with providers, includes establishing 1 site per community
Transition Assistance (not legal)	Educated guess based on typical consultant fees
Legal assistance contract (including for schools)	Educated guess based on typical legal consultation fees
Other assistance w/ transition (including for schools)	Educated guess based on typical consultant fees

9.0 Schools and Education: Glacier Bay-Chatham Borough

9.1 Overview

Consolidating education services will likely be the most challenging part of borough formation because:

- Education will be the predominate service offered by the borough;
- Quality of education is highly important to all residents of the region;
- Areas must gain, not lose, influence in school matters as a result of borough formation as this is an area about which many residents care deeply; and
- The borough must address differences in labor contracts and the potential effects of consolidation on jobs in the school districts.

If Glacier Bay-Chatham Borough forms, the City of Hoonah, City of Pelican and City of Kake school districts, along with over 80 percent of the Chatham Rural Education Attendance Area (REAA) school district, will be consolidated into a new Glacier Bay-Chatham School District. Education services will be provided by the Glacier Bay-Chatham Borough under the authority of a newly elected Glacier Bay-Chatham Borough school board.

Estimated school expenditures per pupil gives a quick sense of the level of education support in a school district. In three of the four school districts that would be combined if the Glacier Bay-Chatham school district formed, it is quite similar; in 2005 it is Hoonah: \$15,220, Kake: \$15,308, Chatham REAA: \$15,221. However in Pelican, because of its small enrollment and remote location, it is \$42,765 per pupil, the highest in the state. If the total attendance for the proposed borough school district is divided by the estimated total school funding, the per pupil expenditure for the new borough school district would be: \$15,527. This is a slight increase in per pupil expenditure for Hoonah, Kake and Chatham students, but a significant decrease for Pelican. This will present an additional challenge for the borough school district as it, like the state, will have to find a way to continue to provide meaningful education services to Pelican pupils at a reasonable cost to the district.

- **The current school boards in Hoonah, Pelican and Kake can transition to formal Advisory School Boards (per AS 14.12.035) and the existing Advisory School Boards in Gustavus can be retained to provide meaningful participation on local school decisions.**
- **The borough has up to two years after it forms to assume education responsibilities. To address the challenges well, the borough may want to not dissolve existing school districts nor transfer assets and liabilities until year 2 after borough formation. This leaves a full year and transition funding available to address these issues in a systematic and thoughtful way.**
- **Table 5 shows that if the Glacier Bay-Chatham Borough forms State education funding to the region would be decreased by \$137,284 or 3%, going from \$4.89 million to \$4.75 million.**

Funding for Basic Need, Local Effort, deductible 874 and Quality Schools all increase; however the State Aid formula deducts the amount contributed for Local Effort and 874 Aid from Basic Need, resulting in a 3% decrease in overall state education funding.

However, this decrease can more than be compensated for by locally funding education at more than the minimum required Local Effort, as Hoonah and Kake now do. School district funding scenarios at Table 6 assume the borough provides \$1.16 million in real local effort, or 68% of the maximum allowed.

- **Table 6 shows that total revenue to the borough school district (state, federal, local) after any phase-ins were completed (explanation in section 8.3) would be \$7.56 million, a slight increase of \$112,716 from the \$7.45 million current school districts receive in total aid. This includes \$137,284 less in state aid and \$250,000 more in total local contribution. The borough's local contribution could increase by an additional \$558,763 above this before the funding cap was reached.**

The \$1.16 million on Local Effort are 'real dollars.' Sometimes parts of a City's local effort now may be things like showing that percent of the city's total insurance bill or utility bill that can be attributed to the schools, as part of the city's local effort. (It is in a city's best interest to have a higher local effort as it gets rewarded for this by the state in its entitlement funding). While these expenses are legitimate, it is important to contrast this with the proposed Glacier Bay-Chatham borough and school district budgets where the local effort is 'real' dollars.

School board members from the region who have taken an initial look at these scenarios express caution. Since education is the primary function of the borough, more scrutiny into this budget is required as the petition process moves forward. Items such as the following must be closely investigated:

- Some schools districts now get significant grant funding in addition to state federal and local aid depicted in Table 6. These revenues need to be accounted for in the school budgeting.
- Some of the grants school districts are currently receiving are dependent on the demographics or numbers of students in the school district. How will the increased numbers of pupils and the changed demographics of the borough school district affect the ability to receive similar grants in the future?
- Total school funding revenues for the region will be slightly higher after borough formation. This information alone is not enough to evaluate the effects of borough formation on schools. Even though it is not required for a borough formation petition, a sample Glacier Bay-Chatham school district budget should be prepared in consultation with school district superintendents and principals.

9.2 Table 5 - Current and Proposed State Aid to Borough School District

	Current Total - FY 05 School District Funding					After Glacier Bay- Chatham Borough Forms	Difference
	Chatham <i>(modified)</i>	Hoonah	Pelican	Kake	Current Total		
Basic Need	\$1,870,486	\$1,705,612	\$303,389	\$1,399,341	\$5,278,828	\$5,471,084	\$192,256
Local Effort (LE)	-	\$122,834	\$52,121	\$74,734	\$249,689	\$451,851	\$202,162
Deductible 874	\$90,301	\$113,213	-	\$109,600	\$313,114	\$443,864	\$130,750
Quality Schools	\$6,540	\$5,964	\$1,061	\$4,893	\$18,458	\$21,830	\$3,372
State Aid	\$1,786,725	\$1,475,529	\$252,329	\$1,219,900	\$4,734,483	\$4,597,199	(\$137,284)
Funding Floor			\$152,554		\$152,554	\$152,554	-
Entitlement	\$1,786,725	\$1,475,529	\$404,883	\$1,219,900	\$4,887,037	\$4,749,753	(\$137,284)

Source: Alaska Department of Education, School Financing

NOTES

- Chatham (modified): The schools that are not part of this borough formation scenario have been deducted from Chatham amount.
- Basic Need: This is the amount necessary to run this district based on enrollment. The "Current Total" adds the above individual/affected district.
- Local Effort: The "Current Total" is adding the Local Effort together. Whereas the new Local Effort was derived from taking the estimated total Full Value of \$112,962,801 multiplied by .004 mills.
- Deductible 874: This is funding received from the Federal Government to the District for federal lands. This is the deductible Impact aid for the FY 05 year. In Chatham 12% of their PL874 money is derived from Klukwan which is not apart of this.
- Quality Schools: "Current Total" is totaling up all the districts. Whereas the Final Borough is based on the revised adjusted ADM.
- State Aid: This is the amount the State will be contributing to the Basic Need. State Aid is a calculation. It takes Basic Need and deducts out the Local Effort, Impact Aid 874, and then adds in the Quality Schools
- District Cost Factor: To determine the District Cost Factor, DOE used 1.290 which belongs to Pelican

9.3 Table 6 - Current and Proposed State, Federal and Local Funding to Borough School District (and effect of three year LE Phase-In)

REVENUE	Current Total, FY 05 Existing School Districts	After Glacier Bay-Chatham School District Forms***			
		1 st year	2 nd year	3 rd year	final year
Total State Support	\$4,887,037	\$4,501,490	\$4,275,565	\$4,162,602	\$4,749,753
Local Effort/ Contribution	\$914,626	-	\$225,926	\$338,888	\$1,164,626
Total 874	\$1,647,198	\$1,647,198	\$1,647,198	\$1,647,198	\$1,647,198
Total Revenue	\$7,448,861	\$6,148,688	\$6,148,688	\$6,148,688	\$7,561,577
Remaining \$ to Cap.	\$808,763				\$558,763
<i>Total Max. Revenue</i>	<i>\$8,257,624</i>				<i>\$8,120,340</i>

Source: Alaska Department of Education, School Financing

NOTES

*** This shows a three-year phase-in for making local contributions, if the borough declines this option, the final year would be in affect immediately after education powers are transferred.

Basic Need: Basic need is a constant and does not change through out this calculation toward becoming a Borough.

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

Local Effort/ Contribution: During the three year phase-in the state and school district pay the following for Local Effort. Year 1: State- \$451,851, school district- \$0; Year 2: State- \$225,296, school district- \$225,296; Year 3: State - \$112,963, school district- \$338,888. The Local Effort the state pays is based on the amount the State pays of Local Effort (LE) to cover the .004 mills while the District transitions into Borough in accordance with AS 14.17.410(e). This based on the 1st year 1 or no mills, 2nd year 2 mills, 3rd year 3 mills and finally in the 4th year the complete 4 mills.

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

Final fiscal year assumes impact aid percentage at 38.8%

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

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

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

9.4 Explanation for Some School Budget Items

Required Local Effort (LE) and Additional Local Contribution (ALC)

Except for REAAs, the local government within which a school district is located is required to provide Local Effort (LE) to support education. State Department of Education (DOE) statute AS 14.17.025 governs how LE is determined --- it is equal to the lesser of four mills (0.004) of the personal and real property value (full true value-FTV) within the communities that the school district resides, or 45% of Basic Need (the State's determined amount necessary to run the school district). It is based on the FTV on January 1 two years prior (so FY 05 required LE is based on FTV on January 1, 2003). Cities and boroughs may also give additional funding (Additional Local Contribution-ALC) to support schools, up to a cap that is equivalent of a two mill tax levy, or 23 percent of the district's Basic Need (whichever is greater).¹

The amount of the LE and ACL that communities give is one variable in the State's formula that determines how much state aid each school district receives.

The current LE for the school districts that will be part of the Glacier Bay-Chatham Borough is:

Hoonah: \$122,834
Kake \$74,734
Pelican: \$52,121
Chatham REAA: n/a

A conservation estimate of the FTV on January 1, 2003 in the Glacier Bay-Chatham borough is: \$112,962,801. The four mill equivalent is: \$451,851. This means \$202,162 more will be needed to fund borough schools compared to current school districts. This will be easily covered by the additional local contribution (ALC) schools are already making, current LE + ACL contributions are: \$914,626, including some in-kind contributions.

Optional Phase-In of LE/State Aid

Clause (f) of AS 14.17.025 allows a newly formed borough school district to phase in the four mill local effort requirement over a four-year period. When a new borough takes over educational powers, no local contribution is required the first year, the second year a two mill contribution is required, three mills the third year, and four mills the fourth and all subsequent years.

However, taking advantage of this provision that allows a four year phase-in of the local contribution, results decreased overall education funding during the four year phase-in period because the State does not recognize any Additional Local Contributions (ALC) made for education during the phase-in time period (and as noted above the LE+ALC total is currently \$914,626).

¹ This cap on additional contributions is to keep revenue or expenditure disparities among school districts in compliance with Federal equalization requirements that mandate that education financing must be roughly equivalent among rich and poor school districts.

Under the optional LE phase-in, the State of Alaska does not pay the increment of ALC. As part of the optional phase-in, the ALC is counted towards the LE and thus deducted from the LE that the State will pay through the Education Foundation Aid Entitlement Program.² This means that in order to take advantage of, or realize, any savings from a potential postponement or phase-in of the LE as allowed under AS 14.17.025(f), the education budget will have to be reduced by the amount equal to the ALC. Other recently formed boroughs have realized that this phase-in under clause (f) was not to their benefit because it would mean reduced funding to region schools and have consequently turned the phase-in down.³

This report assumes that to maintain high quality education and maximum State education funding, the Glacier Bay-Chatham School board will want to make an ALC for education. Thus, Glacier Bay-Chatham Borough will likely not want to avail itself of this four-year optional phase-in before the full LE is due.

² Essentially, the State of Alaska will only pay the last increment to make a local contribution equivalent to four mils.

³ When the Aleutians East and the Yakutat Boroughs formed, the cities of King Cove and Yakutat, as first class cities, were making Additional Local Contributions in excess of the Local Effort. As a result, these boroughs chose to forego the four-year phase-in of the LE because the school district budgets, and the level of education services delivered, would have had to be reduced.

10.0 Land: Glacier Bay-Chatham Borough

State law provides that, as cities or boroughs form they are entitled to a grant of state land. Under current laws, each new municipality is entitled to receive 10 percent of the maximum total acreage of Vacant, Unappropriated, Unreserved (VUU) state land⁴ within the boundaries of the municipality between the date of its incorporation and two years after that date.

However, there is very little state VUU land available in the prospective borough. The amount of acreage that will be available will *not* compare favorably with other state borough entitlements. The smallest entitlement received to date was Haines Borough which received 2,800 acres, while the largest was Matanuska-Susitna Borough, which received 355,210 acres. At the time of borough incorporation, the Glacier Bay-Chatham Borough should ask the legislature for a larger entitlement or argue for cash compensation.

Hoonah will have maps available later this summer showing state land from which borough selections may be made.

⁴ Vacant, undesignated, unappropriated land is general state land grant land, which has not been patented to a municipality, and is classified by the state for agricultural, grazing, material, public recreation or settlement.