



November 20, 2013

TO: POWCAC and Contact List for Prince of Wales Island Area Borough Feasibility Study

Attached please find seven replacement pages for the May 2013 Prince of Wales Island Area Borough Feasibility Analysis. To assist you, the places on each page with a change are highlighted in yellow.

These changes all result from one error: when the example borough budgets were prepared they incorrectly showed all state community revenue sharing (CRS) for the region going to the borough when instead, CRS to the region's 6 or 7 cities would continue to go directly to the cities after borough formation. This error results in \$1 million to \$700,000 less (depending on the scenario) in assumed state revenue to the borough; a gap that must be met through either increased local tax revenue or reduced borough spending. Example revenue generation options already in the report can cover the gap, but the margin is now tighter in the theoretical borough budgets.

The project website will be updated (no later than December 2) with revised pdfs of the full Report and the stand-alone Executive Summary. All will be named, and footers will state, "November 2013 Update."

Sincerely,


Barbara J. Sheinberg, AICP
SHEINBERG ASSOCIATES

million. This includes one-time transition costs. If additional services including areawide economic development and emergency management, and transportation/harbor maintenance outside of cities are offered, then the borough budget would be about \$4.7 million (includes education funding and borough revenue-sharing to cities and communities).

The approach used to prepare the POW Borough budget was to:

1. Identify realistic borough operating expenses (\$2.5-\$4.7 million).
2. Deduct reasonable estimates of state and federal revenue (\$5.5 million to \$539,000, depending upon assumptions about future payments).
3. Identify the 'gap' remaining that local revenue would need to fill in order to provide a balanced budget (\$0-\$3.1 million). Given likely declines in federal revenue the higher gap (\$3.1 million) may be more realistic if high support for education is desired.
4. Estimate the revenue that varying local tax options could provide.
5. Suggest, as an example, three local tax scenarios with differing approaches to balance the budget.
 - Option 1 spreads taxes among all parties but does not include any property tax.
 - Option 2 utilizes almost all tax types but at very small levies for each. It includes a 2.65 mill property tax. This scenario could generate \$2.5 million in revenue or up to \$3.2 million if there was a mine and a PILOT agreement equivalent to 4 mills.
 - Option 3 assumes a mine is operating and relies on a negotiated 10 mill payment-in-lieu-of-taxes (PILOT) and a 2% areawide sales tax only.

If borough formation did proceed in the future, residents would need to choose which taxes and at what rates they intend to use. Ultimately, these decisions would be documented in the Petition to form a Borough for all to review, and voted on as part of the final local vote on whether or not to form a borough.

A "menu" with some of the local tax options for a POW Borough is summarized on the table on the next page.

The approach used to prepare the POW Borough budget was to:

6. Identify realistic borough operating expenses (\$2.5-\$4.7 million).
7. Deduct reasonable estimates of state and federal revenue (\$5.5 million to \$539,000, depending upon assumptions about future payments).
8. Identify the 'gap' remaining that local revenue would need to fill in order to provide a balanced budget (\$0-\$3.1 million). Given likely declines in federal revenue the higher gap (\$3.1 million) may be more realistic if high support for education is desired.
9. Estimate the revenue that varying local tax options could provide.
10. Suggest, as an example, three local tax scenarios to balance the budget.

9B. Introduction

When considering the budgets in this report it is important to realize that the data is a 'snapshot in time' and will shift as funding changes. Other sections of this report detail anticipated state and federal revenue, and review local revenue tax options. This section aggregates this data into sample borough budgets.

The budget figures for a Prince of Wales Borough are based on Fiscal Year (FY) 12 or 13. Expenditures account for future inflation by increasing salaries and all regular costs 2% per year and increases education contributions to give an Additional Local Contribution of twice what is required, as the three city school districts have been doing. Overtime expenditures will certainly vary from what is depicted, but the data shows trends and is a picture of POW Borough budget.

The borough budget includes 7 to 11 full time equivalent employees, depending on whether more than the three mandatory services are provided. Salaries and benefit levels are based on compensation levels in similar rural boroughs with multiple communities in Alaska.

Three scenarios are presented for a POW Borough expenses, revenues and overall budget:

Scenario 1/Column A – This is if the POW Borough existed now, in FY 12/13. These are the reasonably expected state and federal revenues. Compared to the status quo it includes \$1.4 million more in Secure Rural Schools (SRS), \$300,000 more in State Community Revenue Sharing(CRS), and slightly less federal Payment in Lieu of Taxes (PILT).

Scenario 2/Column B – This is also a scenario for a FY 12/FY 13 year 1 POW Borough; however, here the amount of SRS has been reduced in half due to the federal government's possible overestimation of this revenue, and, the estimated state (DOR) shared fish business tax revenue to the region is the area's 6-year average, rather than FY 12.

Scenario 3/Column C – This is the POW Budget 4 years into the future, but is also essentially a “worst case scenario” from a state/federal revenue perspective. Here, there is no more SRS or PILT funding from the federal government and State Revenue Sharing is reduced by 40 percent. This scenario yields a \$2.2 - \$3.1 million “gap” between expenses and state and federal revenue that must be filled by local taxes. It also assumes 4 years of 2% annual salary and cost increases, and giving a significant additional contribution to support education (of twice what is required, as the three city school districts did in FY 12/13). Borough revenue share with cities and communities is reduced equivalent to the regional reduction in these revenues.

9C. Borough Expenses

(a “Line-by-line” guide to Table 21, Borough Expenditures)

1. Rows 1-33 are expenses associated with a POW Borough that only exercises the three mandatory powers: education, planning and taxation.
 - **Rows 1-19 show regular borough salaries and expenses.**
 - **Rows 20-22 show the local contribution to support POW School District education.** These rows show the Required Contribution, plus, assumes an Additional Local Contributions by the borough for education of approximately twice what is required (giving at a similar level as what the three city schools districts do now. These assumptions are explained in the Impact to Schools section of this report. The value behind this assumption is a high investment in education, which the area would need to affirm if it proceeds with borough formation.
 - **Rows 23-28 show one-time transition expenses** as the borough government gets organized; after three years transitional funding from the state ends.
 - There are three columns with data on the expenditure (and revenue) tables. Columns A and B both depict Year 1 under different assumptions about the level of state and federal support. Column C is Year 4 data, after all one-time transition revenues and expenses are completed, and also assume drastic cutbacks have occurred in state and federal revenue.
 - **Row 29 shows all borough expenses** including regular, education and one-time transition.
 - **Rows 30-33 show a Borough Revenue Sharing program with the cities/communities,** and a Borough Capital Grant program for communities/cities. Row 30 is revenue that went to cities and communities before borough formation but that would now go to the borough. This revenue sharing/pass-back program would hold cities/communities “financially harmless” as a result of borough formation This is explained in more detail in Chapter 7 of this report. A key issue is whether these revenues are paying for duties that the borough has now assumed (in which case the revenue should stay with the borough) or if this revenue is needed by cities/communities to provide

9D. Borough Revenues

(a “Line-by-line” Guide to Table 22, Borough Revenues)

Chapter 7 of this report on “Affects to Federal and State Revenue”, and Chapter 8 on “Options for Raising Local Revenue” provide explanations for the data and assumptions on Table 22. All scenarios assume Port Alexander is part of the borough. For simplicity multiple scenarios removing Port Alexander are not included here but the revenue implications are available for viewing in the two chapters noted above.

1. **Rows 1-8 show reasonably expected state and federal revenue to the Borough** under the three scenarios/columns A-C, described in the Introduction. The estimates in Column A were all provided by the respective state or federal fiscal analysts.
2. **Rows 9-12 are critical. They show the result after state and federal revenue is deducted from borough expenses.** If a POW borough existed now (Column A) there would be surplus of \$780,000 to \$2.9 million. Under the more conservative revenue assumptions in Column B, a deficit of \$316,000 would be expected after revenue was shared with cities and communities (if not shared a surplus would result). Column C shows year 4, with an assumed zeroing out of federal revenue and reducing major state revenues by 40%, but still providing strong support to education, yielding a gap that must be filled by local tax sources to balance the budget of between \$2.2 and \$3.1 million.
3. Go to Table 10 for a “Menu” of options for Raising Local Tax revenue in a POW Borough.
4. **Rows 13 –36 presents three sample POW Local Tax Options**
 - **Option 1, in rows 13-21, spreads taxes among all parties but does not include any property tax.** It could raise an estimated \$2.99 million, or up to \$4 million if there was a mine and a PILOT agreement equivalent to 6 mills.
 - **Option 2, on rows 22-33, utilizes almost all tax types but at very small levies for each.** It includes a 2.65 mill property tax. This scenario could generate \$2.5 million in revenue or up to \$3.2 million if there was a mine and a PILOT agreement equivalent to 4 mills.
 - **Option 3, on rows 34-36, relies on a 10 mill PILOT agreement with an operating mine, and a 2% areawide sales tax only.** It would generate \$3.1 million.
 - These options are presented to show differing tax approaches. If the area decided in the future to move forward on borough formation, it would prepare a Petition that included the desired local taxation option to align with regional services, costs, and preferences.

Table 22 POW Borough Revenues		A	B	C
		FY 12/13- if POW Borough	FY 12/13- if POW Borough, SRS reduced by 50%, fish rev is 6 yr ave	Year 4 - Transition Over, Assume NO SRS or PILT, State CRS down by 40%
Federal & State Revenue				"worst case"
1	Federal SRS Schools & Roads	\$3,316,610	1,658,305	\$0
2	Federal SRS Projects	\$272,806	\$136,403	\$0
3	Federal PILT	\$672,485	\$336,243	\$0
4	Community Revenue Sharing	\$615,745	\$615,745	\$369,447
5	State DOR Shared Fisheries Business Tax	\$281,362	\$114,787	\$114,787
6	State Shared Fisheries Business Tax (DCCED)	\$54,363	\$54,363	\$54,363
7	State Borough formation grant	\$300,000	\$300,000	\$0
8	<i>subtotal state and federal</i>	\$5,513,371	\$3,215,846	\$538,597
State/Federal Revenue less Borough Expenses				
9	Borough Option 1 (3 powers only, no rev share w communities)	\$2,958,971	\$661,446	-\$2,200,852
10	Borough Option 2 (3 powers only, with rev share w communities)	\$1,377,841	-\$316,387	-\$2,538,500
11	Borough Option 3 (added powers, no rev share w communities)	\$2,359,771	\$62,246	-\$2,824,260
12	Borough Option 4 (added powers, with rev share w communities)	\$778,641	-\$915,587	-\$3,161,908
For full "Menu" of Local Tax Options - see Table 10 Need to raise \$0 to \$2.5 million to erase deficit				
Local Tax Option 1: Spread Tax To All, But No Property Tax				
13	3% areawide sales tax			\$2,130,000
14	\$10/box sport fish tax			\$201,000
15	5% areawide lodging tax (exempting Klawock, Thorne Bay and Port Alexander)			\$257,648
16	6% alcohol tax			\$204,000
17	\$3/Mbf timber			\$201,000
18	5 cent/cy gravel			\$6000
19	TOTAL			\$2,999,648
20	If mine opens, negotiate PILOT for 6 mill equivalent - this allows borough to reduce other taxes or start savings to provide match for CIP, etc			\$1,026,000
21	<i>Total with mine</i>			\$4,025,648
Local Tax Option 2 - Very Small Tax Rates Spread Out And 2.65 Mill On Property				
22	2% areawide sales tax			\$1,420,000
23	\$5/box sport fish tax			\$100,500
24	2% areawide lodging			\$114,000
25	2% alcohol			\$68,000

Table 22 POW Borough Revenues		A	B	C
		FY 12/13- if POW Borough	FY 12/13- if POW Borough, SRS reduced by 50%, fish rev is 6 yr ave	Year 4 - Transition Over, Assume NO SRS or PILT, State CRS down by 40%
26	\$1/day guided visitors			\$20,500
27	\$1/month employee tax			\$17,040
28	2.65 mill property tax			\$612,150
29	5 cents/cy gravel			\$6,000
30	\$2/Mbf/timber			\$134,000
31	TOTAL			\$2,492,190
32	If mine opens, negotiate PILOT for 4 mill equivalent - this allows borough to reduce other taxes or start savings to provide match for CIP, etc			\$684,000
33	<i>Total with mine</i>			<i>\$3,176,190</i>
Local Tax Option 3 - Tax Mine & Sales Only				
34	If mine opens, negotiate PILOT for 10 mill equivalent - this allows borough to reduce other taxes or start savings to provide match for CIP, etc			\$1,710,000
35	2% areawide sales tax			\$1,420,000
36	TOTAL			\$3,130,000
There are Multiple Local Tax Options, Depending on Local Preferences, Services and Costs				

9E. Conclusion

The POW Borough budget would be between \$2.5 and \$4.7 million depending on how much was given to support education, whether any additional services beyond the three mandatory are offered, and whether a revenue sharing program with communities and cities was established. State and federal revenues are changing now, and would provide an estimated \$5.5 million to \$539,000. The lower figure is more realistic. To balance the POW Borough budget, from \$0 to \$3.1 million would be needed, but given likely federal funding reductions the higher figure is more realistic.

The analysis in Chapter 8 shows that the region has the capacity to raise local tax revenue from a variety of sources and activities. Three local tax options presented in Table 22 all balance the borough budget by generating from \$2.5 million to over \$4 million annually. Some assume an operating mine is on the island, others do not.

If borough formation did proceed in the future, residents would need to choose which taxes and at what rates they intend to use. Ultimately, these decisions would be documented in the Petition to form a Borough for all to review.