

SUBJECT: AN ORDINANCE OF THE MATANUSKA-SUSITNA BOROUGH ASSEMBLY REPEALING MSB 3.04.075 AND ENACTING MSB 3.04.076 TO ESTABLISH A NEW TAX CAP.

AGENDA OF:**ASSEMBLY ACTION:**

MANAGER RECOMMENDATION: Introduce and set for public hearing.

APPROVED BY JOHN MOOSEY, BOROUGH MANAGER: _____

Route To:	Department/Individual	Initials	Remarks
	Originator		
	Finance Director		
	Borough Attorney		
	Borough Clerk		

ATTACHMENT(S): Fiscal Note: YES ____ NO ____
Ordinance Serial No. 18-__ (__ pp)

SUMMARY STATEMENT:

In the fall of 2017, at the specific direction of the Borough Assembly, the Borough Manager convened a "Task Force" to review the issue of a sales tax within the Matanuska-Susitna Borough. A report by the Sales Tax Task Force was provided to the Borough Assembly in December 2017.

In accordance with "Phase One" of the recommendations, the Borough Mayor requested that the Borough Manager, Finance Director and Attorney meet with Assemblymembers Kowalke and Leonard for the purposes of reviewing and recommending changes to the Borough's "tax cap" and school funding ordinances.

MSB 3.04.075 is the current ordinance governing tax levy limitation - a/k/a/ "revenue cap" or "tax cap." As noted by the Sales Tax Task Force report, there are three concerns with the existing

revenue cap. First, the revenue cap is antiquated and not effective because of the changes in State funding availability. Second, annual funding from the State is not accounted for in the revenue cap. Third, the revenue cap does not allow non-property tax growth to meet operational needs. The proposed ordinance here addresses these issues to the extent they can be addressed in light of the fact that State funding to the general Borough government is decreasing.

The proposal here sets a maximum mill levy cap on both the areawide and non-areawide real property levy. This levy may not be exceeded unless voters approve bond issues, or the State of Alaska fails to provide matching funds for bonds. Moreover, if the Borough Assembly levies taxes under the allowable limit this new ordinance would not prohibit the Assembly from adding tax for the bonds at a later time. Any time voters are asked to approve bonds, voters are informed of the potential tax consequences.

In the past, when voters approved over \$200 million in school bonds, the amounts needed to pay these bonds were not added to the overall mill rate. Instead, these amounts were rolled into the existing mill rate and amounts which would have been available for general government operations and schools were instead used to pay bonds. Under the current tax cap, the ability to add the levy to pay for bonds is lost if the mill levy is not added right away. The proposed ordinance would remedy this situation by allowing a levy to pay future bonds to be added at any time. Past bonded indebtedness cannot be added on top of the proposed cap.

Also, 2 years ago, the State of Alaska failed to provide over \$5million in matching funds for its promised portion of school building debt. The proposed ordinance would allow the Assembly to raise the mill rate if such an event happens again. The Matanuska-Susitna Borough must pay its bonds back. In fact, AS 29.45.100 specifically provides that "Taxes to pay or secure the payment of principal and interest on bonds may be levied without limitation. . ."

Aside from voter approved mill rates for bonds, the proposed ordinance sets maximum rates which cannot be exceeded. The overall dollar amounts available for appropriation will rise or fall as corresponding property values rise or fall. Moreover, any rate of growth in future years will be dependent upon the overall growth of the Matanuska-Susitna Borough.

Because of the varying nature and substantial local control over service area mill rates, service area mill rates are not included in this ordinance. The process of budgetary advice by the local board of supervisors reflects the local and varied nature of

service area finances. Service areas have varying degrees of mill rates because of differences in service level demands, tax base, local character, and history of the individual service areas. Local board members are interested and engaged community members who gather public input and recommend tax rates which reflect those local concerns. When setting mill rates in the various service areas, the Assembly defers to the boards of supervisors' recommendations.

Just as there is not a "one size fits all" mill rate levy in service areas, there is also no "one size fits all" as to a potential tax cap for the service areas. However, it is noted that any deviation from a board recommended mill rate for a service area would garner a large public discussion, and ample justification for deviating from the recommendations of the board would be part of that discussion. For these reasons, there is no attempt at instituting a tax cap for service areas at this time.

Over the next few fiscal years, the Assembly can evaluate whether a tax cap for service areas is appropriate. In the meantime, should a board of supervisors feel a tax cap is warranted for their service area, the board can pass a resolution and work with administration, finance, and legal staff to craft something which works for that particular service area and request the Assembly implement it.

The proposed ordinance will expire on July 1, 2023. A fixed tax cap over the next 5 years will be beneficial to our business, property owners, and our economy. A set cap of 10.5 mils removes uncertainty for investors, businesses, and homeowners in their tax planning. Also, a set tax cap may promote investment into our community because the maximum tax is well known.

RECOMMENDATION OF ADMINISTRATION: Adoption of legislation.

CODE ORDINANCE

Sponsored by:
Introduced:
Public Hearing:
Action:

**MATANUSKA-SUSITNA BOROUGH
ORDINANCE SERIAL NO. 18-__**

AN ORDINANCE OF THE MATANUSKA-SUSITNA BOROUGH ASSEMBLY.

WHEREAS the intent and rationale for this ordinance are found in the accompanying Informational Memorandum No. 18-__.

BE IT ENACTED:

Section 1. Classification. This ordinance is of a general and permanent nature and shall become a part of the Borough Code.

Section 2. Amendment of section. MSB 3.04.075 is hereby repealed.

Section 3. Adoption of section. MSB 3.04.076 is hereby enacted to read as follows:

MSB 3.04.076 TAX CAP

(A) The areawide real property mill rate may not exceed 10.50 mills.

(B) The non-areawide real property mill rate may not exceed 0.6 mills.

(C) Mill rate increases to pay the Borough's portion of voter approved bonds issued on an areawide or nonareawide basis after July 1, 2018 may be added to the respective areawide or nonareawide mill rate at any time during which the bond issuance is being

repaid.

(D) If the State of Alaska fails to provide match funds for bonds, mill rate increases to pay the Borough's portion of voter approved bonds may be added to the respective areawide or nonareawide mill rate at any time during which the bond issuance is being repaid.

(D) This ordinance shall expire July 1, 2023.

Section 4. Effective date. This ordinance shall take effect upon adoption.

ADOPTED by the Matanuska-Susitna Borough Assembly this - day of -, 2018.

VERN HALTER, Borough Mayor

ATTEST:

LONNIE R. McKECHNIE, CMC, Borough Clerk

(SEAL)

SUBJECT: AN ORDINANCE OF THE MATANUSKA-SUSITNA BOROUGH ASSEMBLY REPEALING MSB 3.04.075 AND ENACTING MSB 3.04.076 PERTAINING TO LOCAL EDUCATION FUNDING.

AGENDA OF:

ASSEMBLY ACTION:

MANAGER RECOMMENDATION: Introduce and set for public hearing.

APPROVED BY JOHN MOOSEY, BOROUGH MANAGER: _____

Route To:	Department/Individual	Initials	Remarks
	Originator		
	Finance Director		
	Borough Attorney		
	Borough Clerk		

ATTACHMENT (S) : Fiscal Note: YES ____ NO ____
Ordinance Serial No. 18-__ (__ pp)

SUMMARY STATEMENT:

In December, 2017, the Borough Mayor requested that the Borough Manger, Finance Director and Attorney meet with Assemblymembers Kowalke and Leonard for the purposes of reviewing and recommending changes to the Borough's "tax cap" and school funding ordinances.

As it pertains to local school funding, MSB 3.04.045 provides a formula for local school support. However, MSB 3.04.045 is outdated and would result in massive deficits to the school district if followed.

The proposed ordinance has three parts: educational annual operating funds, educational annual debt service, and a sunset clause. The sunset clause ensures that the proposed funding mechanisms are evaluated again in 5 years. The first and second sections or the ordinance are addressed below.

EDUCATIONAL ANNUAL OPERATING FUNDS

Funding for local school districts in Alaska is guided by state law. While there are other sources of school funding, the ordinance here will address the Borough's contributions under the local contribution to education as well as the appropriations needed for debt payments. The state law on school funding is very complex, but a very basic outline is relevant here.

AS 14.17.410 requires a local contribution "equivalent of a 2.65 mill tax levy on the full and true value of the taxable real and personal property in the district as of January 1 of the second preceding fiscal year. . ." Likewise, that same state statute sets a limit on the maximum amount of the Matanuska-Susitna Borough's local contribution of "23 percent of the total of the district's basic need. . ." As can be seen, the minimum local contribution is related to property values, but the maximum local contribution is related to student counts, cost factors, school sizes, and other factors.

The proposed ordinance will remove complex calculations, eliminate several variables, and establish a reliable, predictable amount for local school district funding for annual operating funds. Simply put, as the Borough's local property base expands, values increase, and new construction is assessed, the local support for schools will increase. In addition, the value used will be that for the current year. Note this is different than the "January 1 of the second preceding fiscal year" date used in state law. This will allow the school district's appropriations to grow in the same year as the Borough's assessments and not lag behind.

As used in the Borough's local ordinance the phrase "taxable real and personal property" means the value of property minus exemption and uncollectible amounts. For example, aside from certain business inventory, personal property is exempt from taxation in the Matanuska-Susitna Borough. Therefore, the value of this exempt personal property would not be used in the calculation of "taxable real and personal property."

For the upcoming fiscal year, FY 2019, areawide taxable assessed value is estimated to be \$9,269,669,000 at this time. Under the proposed ordinance calculated at 6.25 mill levy, the amount to the School District will be \$57,935,431. This is a 3.75% increase over the FY 2018 funding level of \$55,841,300.

Future funding amounts will be dependent upon the rate of overall

growth in Matanuska-Susitna Borough assessments.

EDUCATION ANNUAL DEBT SERVICE

Education annual debt service is defined as the local appropriation needed to cover the voter approved general obligation debt related to educational facilities. When local Matanuska-Susitna Borough voters approve school and educational related bonds, there is a state match to those bond payments. This match is noted on the ballot question and is subject to appropriation by the Alaska State Legislature. The mount of state match is dependent on the year of approval and the type of project. For example, as of today, any voter approved bonds for educational facilities will receive a state match of zero percent. (0%)

As long as the State of Alaska honors its commitment to provide the matching amounts, there is no need to increase the amount of annual debt service. However, if there is a failure on the part of the State of Alaska, then additional local sources will be needed. Finally, if new voter approved educational facilities are approved, an increase in the Borough's payments will be required.

Thus, under the proposed ordinance, the manager may not request an increase in the total amount of education annual debt service unless:

- (1) mandated by state law;
- (2) it is required by a failure of the State of Alaska to provide match funds for education debt service; or
- (3) an increase is needed because the voters approve a bond measure for construction or repair of school buildings which requires addition to the amount needed for the Borough's portion of annual debt service.

For information, the Borough's unreimbursed appropriation for education debt service FY 2019 will be \$9,213,772. This equates to 0.994 areawide real property mils.

RECOMMENDATION OF ADMINISTRATION: Adoption of legislation.

CODE ORDINANCE

Sponsored by:
Introduced:
Public Hearing:
Action:

**MATANUSKA-SUSITNA BOROUGH
ORDINANCE SERIAL NO. 18-__**

AN ORDINANCE OF THE MATANUSKA-SUSITNA BOROUGH ASSEMBLY.

WHEREAS the intent and rationale for this ordinance are found in the accompanying Informational Memorandum No. 18-__.

BE IT ENACTED:

Section 1. Classification. This ordinance is of a general and permanent nature and shall become a part of the Borough Code.

Section 2. Repeal of section. MSB 3.04.045 is hereby repealed.

Section 3. Amendment of section. MSB 3.04.046 Local Education Funding is hereby adopted as follows:

3.04.046 LOCAL EDUCATION FUNDING.

(A) Local Education Funding shall consist of two separate components: education annual operating funds, and education annual debt service.

(B) Education Annual Operating Funds.

The manager shall prepare the annual budget with education annual operating funds provided to the school district at dollar amount equivalent of a 6.25 mill tax levy on the full and true value of the taxable real and personal property for the upcoming fiscal year.

(C) Education Annual Debt Service.

Education annual debt service is the local appropriation needed to cover the voter approved general obligation debt related to schools and educational facilities. The manager may not request an increase in the total amount of education annual debt service unless:

(1) mandated by state law;

(2) it is required by a failure of the State of Alaska to provide match funds for education debt service; or

(3) an increase is needed because the voters approve a bond measure for construction or repair of school buildings which requires addition to the amount needed for the Borough's portion of annual debt service.

(D) Expiration.

This ordinance shall expire July 1, 2023.

Section 4. Effective date. This ordinance shall take effect upon adoption.

ADOPTED by the Matanuska-Susitna Borough Assembly this - day of -, 2018.

VERN HALTER, Borough Mayor

ATTEST:

LONNIE R. McKECHNIE, CMC, Borough Clerk

(SEAL)

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