MATANUSKA-SUSITNA BOROUGH INFORMATION MEMORANDUM **IM No. 18-032**

SUBJECT: AN ORDINANCE OF THE MATANUSKA-SUSITNA BOROUGH ASSEMBLY REPEALING MSB 3.04.045 AND ENACTING MSB 3.04.046 PERTAINING TO LOCAL EDUCATION FUNDING.

AGENDA OF: March 20, 2018

ASSEMBLY ACTION:
OR 18-014 - Public Hearing held
Amended, Adopted w/ Assemblymembers
McKee & Kowalke opposed @ 4/17/18 RM

MANAGER RECOMMENDATION: Introduce and set for public hearing.

APPROVED ~~BY~~ for JOHN MOOSEY, BOROUGH MANAGER: George Rick Hayes

Route To:	Department/Individual	Initials	Remarks
	Originator	NS	at Assembly direction
	Finance Director		
	Borough Attorney	NS	
	Borough Clerk		3/12/18

ATTACHMENT(S): Fiscal Note: YES X NO _____
Ordinance Serial No. 18-014 (2 pp)
Section to be Repealed MSB 3.04.045 (2 pp)

SUMMARY STATEMENT:

In December, 2017, 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.

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 However, MSB 3.04.045 is outdated and would result in massive deficits to the school district if followed.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 of 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 amount 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 mills.

RECOMMENDATION OF ADMINISTRATION: Adoption of legislation.

MATANUSKA-SUSITNA BOROUGH
FISCAL NOTE

Agenda Date: March 20, 2018
SUBJECT: AN ORDINANCE OF THE MATANUSKA-SUSITNA BOROUGH ASSEMBLY REPEALING MSB 3.04.046 AND ENACTING MSB 3.04.046 PERTAINING TO LOCAL EDUCATION FUNDING.

ORIGINATOR: Nicholas Spiropoulos

FISCAL ACTION (TO BE COMPLETED BY FINANCE)	FISCAL IMPACT (YES) NO
AMOUNT REQUESTED *	FUNDING SOURCE Tax levy of real & personal Property
FROM ACCOUNT # 100.000.000.4XX.XXX	PROJECT #
TO ACCOUNT: 204.000.000.3XX.XXX	PROJECT #
VERIFIED BY: Barbara Bquempert	CERTIFIED BY:
DATE: 3/6/18	DATE:

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Personnel Services						
Travel						
Contractual						
Supplies						
Equipment						
Land/Structures						
Grants, Claims						
Miscellaneous						
TOTAL OPERATING						
CAPITAL						
REVENUE		*	→	→	→	→

FUNDING: (Thousands of Dollars)

General Fund		*	→	→	→	→
State/Federal Funds						
Other						
TOTAL		*	→	→	→	→

POSITIONS:

Full-Time						
Part-Time						
Temporary						

ANALYSIS: (Attach a separate page if necessary) * The amount is dependent on the tax levy for each year.

PREPARED BY: _____ PHONE: _____

DEPARTMENT: Chief of Staff DATE: _____

APPROVED BY: _____ DATE: 3/7/18

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Ordinance Serial No. 18-014

SECTION TO BE REPEALED:

3.04.045 FUNDING FORMULA FOR LOCAL SCHOOL SUPPORT. SHARE

(A) The borough shall include within the manager's proposed budget an amount for local school support. The amount of local support for the general educational operating fund, pupil transportation, student activities, and community services shall be calculated utilizing the following formula:

(1) *Base year.* The base year (1994) formula for support is as follows:

(a) Support = 11,315 projected students x $1,710 per student which would equal $19,348,650; unless there are sufficient alternative revenue sources available for local support, in which case the formula shall be calculated according to the following formula:

(b) Support = 11,315 projected students x $1,850 per student which would equal $20,932,750.

(2) *Subsequent years.*

(a) Support = number of projected students x $ per student in the prior year x the change in the 10-year moving average of the Anchorage CPI.

(B) The amounts calculated by the previous formulas may be adjusted for programs which are transferred between the borough and school district.

(C) The amount calculated in subsection (A) of this section shall be shown in the general fund as a transfer to the education operating fund.

(D) The amount shown as a transfer in subsection (B) of this section shall be shown as a revenue source in the education operating fund.

(E) The amount appropriated in the education operating fund shall be based upon the following formula:

(1) *Base year.*

(a) Appropriation = number of prior year student count x $ per student calculated in subsection (A) of this section.

(2) *Subsequent year.*

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(a) Appropriation = number of prior year student count x $ per student calculated in subsection (A) of this section x change in the 10-year moving average of the Anchorage CPI.

(F) On the first of November of each year, the borough administration shall introduce an appropriation ordinance for local support based upon actual enrollment as of October 15th.

(G) Additional revenue sources mean: sales and use tax, business license tax, value added tax, severance tax, corporate income tax, property transfer tax, head tax, employment tax, and fuel transfer tax.

(H) Supplemental appropriations shall not be included in computing the local support for the general education operating fund.

(Ord. 99-127, § 2, 1999; Ord. 94-001AM, § 4 (part), 1994; Ord. 92-140 (sub1), § 2, 1992)

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