

SUBJECT: AN ORDINANCE OF THE MATANUSKA-SUSITNA BOROUGH ASSEMBLY  
AMENDING 3.04.046 LOCAL EDUCATION FUNDING.

AGENDA OF: 5-16-19

ASSEMBLY ACTION:

MANAGER RECOMMENDATION: Introduce and set for public hearing.

APPROVED BY JOHN MOOSEY, BOROUGH MANAGER:

Route To:	Department/Individual	Initials	Remarks
	Originator	NS	for Mayor Halter
	Finance Director	CY	
	Borough Attorney	NS	
	Borough Clerk	JRM	5/3/19

ATTACHMENT (S): Fiscal Note: YES \_\_\_\_ NO X  
Ordinance Serial No. 19-\_\_\_\_ (3 pp)  
Mayor's memo dated March 26, 2019 (5pp)  
Mayor's memo dated April 29, 2019 (6pp)

SUMMARY STATEMENT: This ordinance is being presented by Mayor Halter to revise MSB 3.04.046 Local Education Funding. Attached to this Informational Memorandum are 2 prior memos from Mayor Halter expressing the reasoning and intent of the change to code.

RECOMMENDATION OF ADMINISTRATION: Adoption of legislation.



## MATANUSKA-SUSITNA BOROUGH

### Office of the Borough Mayor

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[Vern.Halter@matsugov.us](mailto:Vern.Halter@matsugov.us)

March 26, 2019

To: Mat-Su Borough Assembly  
From: Vern Halter, Borough Mayor  
Re: FY2020 Borough Budget Process – Recommendations

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These are my recommendations for your consideration:

My main recommendation is to:

Amend 3.04.046 Local Education Funding by combining subsections (B) and (C) into one section and modifying the mill rate 6.3 mills to 7.3 mills. The 7.3 mills would not only include “operating” funding for schools but also “education annual debt service.”

The Governor’s proposed budget, which ignores our 70/30 school bond debt partnership, makes it difficult - if not impossible, to fund school operations under the current 6.3 mill rate and at the same time take on the increased debt service, which is outside the 6.3 mills.

3.04.076 Tax Cap sets our area wide mill rate not to exceed 10.5 mills. The current subsection C (2) of 3.04.076 does allow you to increase the area wide mill rate beyond the 10.5 should the State fail to pay its 70% share of the school bond debt.

I prefer the Assembly modify 3.04.046. By amending 3.04.046 - combining subsections (B) and (C) the taxpayers are spared a mill rate increase. The Governor’s shift on school bonds is absorbed in this education funding amendment. Operating money is reduced as debt money is increased. Should the State pay its 70% share of bond debt, or some part of it, school operating money goes up accordingly and debt payments go down. In the year 2037 all current school bond debt is paid in full and each year until 2037 the amount of debt per year goes down.

Historically, our combined total school funding for operating funds and debt funds is over 7 mills, so this is not an increase in school funding; this amendment simply changes school funding to cover the additional cost of shifting school bond debt from the State to the Borough.

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Education Mill Rate and Education Funding Chart:

Year	Mill Rate	Total School Funding
2016	7.421	\$63,378,524.00
2017	7.734	\$71,702,017.00
2018	7.488	\$66,562,262.00
2019	7.294	\$67,588,690.00
Mayor's Proposal for 2020	7.3	\$70,295,445.00

Analysis of Operating and Debt Funding at 7.3 mills for Fiscal Year 2020 Budget,  
Total = \$70,295,445.00:

School Bond Debt Amount Paid by State	Borough Operating Funding Amount	Borough Debt Funding Amount
70% Debt	\$61,843,024	\$8,452,421
60% Debt	\$59,573,623	\$10,721,822
50% Debt	\$56,893,167	\$13,402,278
30% Debt	\$51,532,256	\$18,763,189
0% Debt	\$43,490,889	\$26,804,556

My second recommendation is for this budget cycle:

Do not close out the Borough budget setting the mill rate until after the State legislative process, including the Governor's line item veto power and right to legislative over ride, have been completed. The Borough should follow its normal budget procedure, but don't pass the budget until all the facts are known. Most of the Governor's proposed budget cuts shift costs to municipalities, so make sure the Assembly knows the final outcome before setting the Borough's mill rate.

State law requires our tax notices be out by July 1<sup>st</sup>. Our real drop-dead deadline is June 14<sup>th</sup> for the Borough's FY2020 budget. According to our CFO we can still publish the tax notices by July 1<sup>st</sup>. We could extend past June 14<sup>th</sup>, but the cost of re-publishing the tax notices is about \$5,000.

My third recommendation is for future budget cycles:

The Mat-Su Borough should change its fiscal year from July 1<sup>st</sup> through June 30<sup>th</sup> to January 1<sup>st</sup> through December 31<sup>st</sup>. This would require an amendment to MSB 3.04.010 and MSB 3.04.020. The required timeline in 3.04.020 is particularly problematic considering the School

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District and Borough are required to meet this timeline not knowing the final outcome of the State's budget process. The past three or four budget cycles since 2015/2016 reflect the uncertainty at the State level. The potential shift in government costs is real and looming.

There are probably many consequences to this change and I will leave that up to the CFO to address. The City of Wasilla operates on this calendar.

Other Thoughts:

My main recommendation allows the Borough to provide the essential services it is mandated to provide and it recognizes the ever-present growth in population, which stretches the Borough's ability to provide those services. When Governor Walker vetoed 5.7 million in school bond debt, the Borough was able to absorb this shift, but it was costly to services and our personnel. The current projected amount of bond shift and other cuts is beyond the Borough's ability to absorb.

Even if all 70% of bond indebtedness was paid by the State, the Borough still has to absorb some \$2,682,853.00 in other reductions by the State. A few short months ago, the Borough also forward funded earthquake reparations in the amount of 8 million dollars. Last summer the cyber-attack cost the borough over a million dollars after insurance. More recently, the manager instituted a hiring freeze and is not filling needed positions because of this budgeting uncertainty we are facing. The Borough is simply stretched to its limits to meet its own operations.

The Mat-Su Borough should not default on school bonds under any circumstances. Moody's and Fitch both rate the Borough AA+. Amending 3.04.046 guarantees we are able to pay for our bonds even under difficult cost shifting in education funding by the State.

Vern Halter  
Mayor

Cc:  
John Moosey – Borough Manager  
Monica Goyette – Superintendent of Schools  
Nicholas Spiropoulos – Borough Attorney  
Lonnie McKechnie – Borough Clerk  
Cheyenne Heindel – Chief Financial Officer

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### Office of the Borough Mayor

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[Vern.Halter@matsugov.us](mailto:Vern.Halter@matsugov.us)

April 29, 2019

To: Mat-Su Borough Assembly  
From: Vern Halter, Borough Mayor  
Re: FY2020 Borough Budget Process – Second Memorandum

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The FY2020 Mat-Su Borough budget is critical to the future of the Mat-Su. The Borough faces difficult decisions requiring tough choices, ones that will shape the Borough's future for many years to come. This is my eleventh Borough budget cycle and this is my second memorandum in a month to the Assembly on the FY2020 budget and particularly "school debt" reimbursement from the State of Alaska. While we do not know the exact amount of the revenue decline from the State, we can prepare the Borough to meet whatever challenge is presented to us.

Once again, as Mayor, I respectfully request that this Assembly amend MSB 03.04.046 Education Funding. This code section should be comprised of both "operating" funds and "school debt" reimbursement funds. You cannot realistically separate the two without raising the mill rate and/or impairing Borough operations at the same time. The proposed FY2020 budget is a prime example of this. In this proposal, the areawide mill rate rises from FY2019's five year high of 10.331 to 11.525 for FY2020. The main cause is both education operating funds and school debt payments rise. Under the current MSB 03.04.046 school operating money goes up for FY2020 by \$2.3 million over 2019, and since school debt payments are now outside the purview of MSB 03.04.046 these debt payments jump from FY2019's .994 mill rate to a whopping 2.83 mill rate for FY2020. The current MSB 03.04.046 allows this and MSB 03.04.075, Tax Cap, condones this. This fails the Mat-Su Borough taxpayer.

Education funding has always been the Borough's top priority. For years 7 to 7.5 mills was required to fund school operations and to pay school debt. For many years the Borough has always held the areawide mill rate to 9.60 to 10.33. For the proposed FY2020 budget the total school mill rate jumps dramatically to 9.13 forcing the total areawide mill rate up to 11.525. This only leaves 1.97 mills for Borough operations.

The proposed FY2020 areawide budget cuts are over \$11 million and the non-areawide cuts are over \$1 million. I maintain that Borough operations caught in a population growth

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environment will suffer. There is also no doubt in my mind that this will also have an adverse effect on employee morale over time.

Cutting and stripping the Borough operations to offset a school debt "cost shift" from the State has many consequences: small but important grants to our three cities are deleted; a simple yet highly important Veteran's Memorial is dropped; matching grant money to receive federal and state transportation grants disappear; salmon restoration and our Fish & Wildlife Commission is slowed to a crawl; Talkeetna's enormous potential for flooding is almost guaranteed now; higher landfill fees occur; recycling is cut; repairs and equipment is reduced; there is a hiring freeze and positions are not filled and the list goes on, but a bigger one is crime.

The crime wave in the Borough has reached epidemic levels. With voter approval in 2018 and with a follow-up ordinance the Borough has instituted a comprehensive review of policing and what the Borough can or cannot do to reduce crime. This will take time, money and budgeting. Hindering this process by stripping areawide budget for FY2020 is exactly the wrong decision at the wrong time.

The Mat-Su Borough is not the cause of the current budgeting dilemma. No way do I want larger class sizes or crowded schools, or fewer teachers. No way do I want draconian cuts to Borough operations. No way do I want higher property taxes. When one adds on all the fire service taxes, road service taxes, and the non-areawide mill levy Borough residents already pay unusually high property taxes. To add more is not a good solution.

Governor Dunleavy is a product of the school system. He was a principal. He was on the Mat-Su School Board rising to President. He was an advocate and the deciding vote for the 2012 school bond package. This 2012 bond package is what the whole FY2020 Borough budget discussion is now about. Mr. Dunleavy argued eloquently to put the bond package on the ballot at 70% State funded and 30% Borough funded. He wanted to let the voters decide; and the voters did, voting to approve the 70/30 bond handsomely. Many people now argue and say it was up to annual appropriation by the State and therefore it is alright for the State to cut it's agreed upon contribution. I disagree with this tactic, but like many other Boroughs our interests and our taxpayers are totally ignored in the interest of politics. Remember also the "cost shift" on school debt reimbursement is not a one-time deal. This goes on for many years to come all the way out to 2037 to retire current bonds.

As Mayor, I am asking for bipartisan support from Assembly members for amending MSB 03.04.046, Education Funding. Ten year financial charts using 2% growth in appraised property values are attached. The first chart is the status quo 70% State funding and 30% Borough funding. The second chart is 50% State funding and 50% Borough funding and the third chart is 0% State funding and 100% Borough funding.

The best case scenario obviously is the State funding school debt at 70%. This is great for the Borough and the School District. There is actually more school operating money with the amended MSB 03.04.046 than the current code section.

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The middle of the road State funding of school debt at 50% starts school operating funds out for FY2020 just lower than FY2019, but school operating money growth returns steadily climbing.

Zero percent funding of debt by the State is the worst case scenario. The numbers are telling but the debt is guaranteed to be paid and school operating money rebounds after debt declines in future years. By 2027 operating money is over \$62 million.

Under all three of these scenarios taxpayers are not called upon to pay more property taxes, since an amended MSB 03.04.046 automatically includes both school operating funds and debt funds. The FY2020 budget could be funded at last year's mill rate of 10.33. The Borough can better maintain its operation funding and bond payments are always guaranteed to be paid. We need to respond with a sound education funding system that can weather the good or bad. Amending MSB 03.04.046 does just that.



Vern Halter  
Mayor

Cc:

Monica Goyette – Superintendent of Schools

Luke Fulp – CFO, May-Su School District

John Moosey – Borough Manager

Nicholas Spiropoulos – Borough Attorney

Cheyenne Heindel – CFO, Mat-Su Borough

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## 70% Debt Paid by the State of Alaska

	Net Assessed Value	Total School Funding at 7.3 mills	Annual Debt Payment	Taxpayer Portion of Debt Service if state pays @70%	School District Operations
<b>FY2019 Actual Local Contribution</b>					<b>58,374,918</b>
FY2020	9,629,510,000	70,295,445	26,804,556	8,452,422	61,843,023
FY2021	9,822,100,200	71,701,331	26,224,381	8,260,863	63,440,468
FY2022	10,018,542,204	73,135,358	25,138,656	7,870,111	65,265,247
FY2023	10,218,913,048	74,598,065	25,134,156	7,868,358	66,729,707
FY2024	10,423,291,309	76,090,027	25,126,781	7,865,676	68,224,351
FY2025	10,631,757,135	77,611,827	23,472,081	7,267,606	70,344,221
FY2026	10,844,392,278	79,164,064	21,425,788	6,530,756	72,633,308
FY2027	11,061,280,123	80,747,345	18,427,763	5,528,329	75,219,016
FY2028	11,282,505,726	82,362,292	18,425,775	5,527,733	76,834,559
FY2029	11,508,155,840	84,009,538	18,436,285	5,530,886	78,478,652
FY2030	11,738,318,957	85,689,728	18,426,085	5,527,826	80,161,902

2% growth annually in Assessed Valuation

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## 50% Debt Paid by the State of Alaska

	Net Assessed Value	Total School Funding at 7.3 mills	Annual Debt Payment	Taxpayer Portion of Debt Service if state pays @50%	School District Operations
<b>FY2019 Actual Local Contribution</b>					<b>58,374,918</b>
FY2020	9,629,510,000	70,295,445	26,804,556	13,402,278	56,893,167
FY2021	9,822,100,200	71,701,331	26,224,381	13,112,191	58,589,140
FY2022	10,018,542,204	73,135,358	25,138,656	12,569,328	60,566,030
FY2023	10,218,913,048	74,598,065	25,134,156	12,567,078	62,030,987
FY2024	10,423,291,309	76,090,027	25,126,781	12,563,391	63,526,636
FY2025	10,631,757,135	77,611,827	23,472,081	11,736,041	65,875,786
FY2026	10,844,392,278	79,164,064	21,425,788	10,712,894	68,451,170
FY2027	11,061,280,123	80,747,345	18,427,763	9,213,881	71,533,464
FY2028	11,282,505,726	82,362,292	18,425,775	9,212,888	73,149,404
FY2029	11,508,155,840	84,009,538	18,436,285	9,218,143	74,791,395
FY2030	11,738,318,957	85,689,728	18,426,085	9,213,043	76,476,685

2% growth annually in Assessed Valuation

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## 0% Debt Paid by the State of Alaska

	Net Assessed Value	Total School Funding at 7.3 mills	Annual Debt Payment	Taxpayer Portion of Debt Service if state pays @0%	School District Operations
<b>FY2019 Actual Local Contribution</b>					<b>58,374,918</b>
FY2020	9,629,510,000	70,295,445	26,804,556	26,804,556	43,490,889
FY2021	9,822,100,200	71,701,331	26,224,381	26,224,381	45,476,950
FY2022	10,018,542,204	73,135,358	25,138,656	25,138,656	47,996,702
FY2023	10,218,913,048	74,598,065	25,134,156	25,134,156	49,463,909
FY2024	10,423,291,309	76,090,027	25,126,781	25,126,781	50,963,246
FY2025	10,631,757,135	77,611,827	23,472,081	23,472,081	54,139,746
FY2026	10,844,392,278	79,164,064	21,425,788	21,425,788	57,738,276
FY2027	11,061,280,123	80,747,345	18,427,763	18,427,763	62,319,582
FY2028	11,282,505,726	82,362,292	18,425,775	18,425,775	63,936,517
FY2029	11,508,155,840	84,009,538	18,436,285	18,436,285	65,573,253
FY2030	11,738,318,957	85,689,728	18,426,085	18,426,085	67,263,643

2% growth annually in Assessed Valuation

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