



## MATANUSKA-SUSITNA BOROUGH

### Office of the Borough Manager

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### MEMORANDUM

**DATE:** January 4, 2021  
**TO:** Mayor and Assembly  
**FROM:** Michael Brown, Borough Manager  
**RE:** Committee on School Funding and Tax Cap

**1. Members:**

- A. Assembly Members: Tam Boeve, Tim Hale, Jesse Sumner
- B. Borough Staff: Nicholas Spiropoulos, George Hays, Cheyenne Heindel, Mike Brown

**Ad-hoc members:**

- A. School District Staff: Randy Trani, Luke Fulp

**2. Meetings:** 9/18/2020, 9/28/2020, 10/05/2020, 12/10/2020, 12/17/2020, 12/29/2020

**3. Problem:** Over recent years, the State of Alaska (SOA) has not appropriated funding to cover its share of school bond debt. This leaves the Borough to develop a solution to cover the State's portion should funding not be appropriated. This annual payment varies over the life of the debt, please refer to the enclosure for the debt service payment schedule.

**4. Background:**

- A. The SOA agreed to reimburse 70% of the debt service cost, subject to annual State appropriations, with the Borough paying 30%. The State has not paid its full portion for the past couple of years and school bond debt reimbursement is only 50% funded in the proposed Fiscal Year (FY) 2022 State budget. For FY22, the State's portion of the debt service payment is approximately \$17 million.
- B. MSB 03.04.046 (C, 2) Local Education Funding: Allows for an increase in total amount of education annual debt service when the State of Alaska fails to provide match funds for education debt service.

- C. MSB 3.04.076 Tax Cap: (A) Tax cap is set at 10.50 mills, but, (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 non-areawide mill rate at any time during which the bond issuance is being repaid.
- D. The School District participated in the Committee discussions on December 17<sup>th</sup> and 29<sup>th</sup> however, their participation does not imply agreement with any cost sharing options presented below.
5. **Proposed Solutions/Options:** The proposed solutions and options are divided into two categories: 1) the upcoming FY22 budget, and 2) FY23 and future years. It is important to separate the debt in FY22 from future year debt as any new revenue options take several months to accumulate before that revenue is available to utilize to make a payment. This approach creates time for building the capacity to make future, recurring payments.
- A. **FY22 Proposed Solution:** During FY21, funds were offset because several eligible COVID-19 expenses were paid for using CARES Act funding. The fund balance created by this offset and through other savings are available to assist with debt repayment. The Borough may use those funds to pay for a significant amount of the State's portion of school bond debt in FY22. Additionally, the Governor's proposed FY22 budget included an education debt service reimbursement amount of 50%. This amounts to approximately \$8.5 million for the Borough if appropriated.
- B. **FY23 and Future Years Options:** The following options were discussed by the Committee and are provided for Assembly and public consideration as viable options for covering the State's portion of bond debt. The general thought was that a number of these options may be used in tandem to overcome the projected annual shortfall.
- 1) **Impose a Fuel Excise Tax:** One cent in tax yields between \$200,000 to \$800,000 annually (e.g. \$.05 tax per gallon would yield between \$1 million and \$4 million annually). This estimate is based on the estimate that all of the registered vehicles in the Borough would use an average of 700 gallons of fuel per year. This excise tax would be collected on the distributors, not the customers, although the distributors are expected to pass the increase cost on to their customers.
- 2) **Increase the amount of the Marijuana Sales Tax:** We already have a 5% tax which yields between \$1.2 million and \$1.5 million annually. This tax would require voter approval to enact.

- 3) **Severance Tax on Earth Materials (i.e. Gravel Tax):** Based on initial projections, a tax of \$.25 per ton on gravel could generate between \$500,000 to \$1 million annually.
- 4) **Split the total cost of all school bond debt between the Borough and School District:** This option proposes a 50%-50% split of the total annual debt service between the Borough and the School District, with the Borough retaining existing area-wide revenue (1 mill) to offset its portion (see enclosed schedule for annual debt service amounts).
- 5) **Refinance the School Bond Debt:** Approximately \$3 million - \$5 million in one-time savings. Refinancing could include extending the current repayment schedule however; extending payment terms could also negatively impact the Borough's credit rating. This could increase the cost of issuing any future debt including bond issuances for roads, parks and recreation, etc. The Borough has reached out to its broker for an analysis of the impacts of extending our payment schedule.
- 6) **Levy an Overall Sales Tax:** Based on the estimates done in FY18, a 1% area-wide sales tax could yield approximately \$9 million annually. This estimate is based upon the sales taxes generated by the cities of Palmer, Wasilla and Houston. This tax would require voter approval to enact.
- 7) **Levy an additional amount of Tobacco Tax:** We currently tax \$2.25 per pack and collect about \$8 million per year.
- 8) **Increase the Bed Tax:** We currently have a 5% tax. This tax yielded between \$1.2 million and \$1.4 million annually prior to COVID-19. FY20 tax collected was \$991,427 and the FY21 projection is \$652,500. This tax would require voter approval to enact.
- 9) **Eliminate a portion of the Borough's extra Senior and Disabled Vet Exemption above the State requirement of \$150,000:** The current total of \$68,000 extra exemption equals about \$4.2 million annually.
- 10) **Raise the overall Borough mill rate by 1.7 mills:** This would generate the State's portion of the bond debt service payment and would be adjusted each year based on the annual payment.
- 11) **Conduct Borough Land Sales:** There would be a considerable amount of time and some costs to have the land surveyed, platted for subdivision and approved prior to

sales. Revenue anticipated cannot be determined at this time. Additionally, this is one-time revenue based on sales.

- 12) **Raise the mill rate to the tax cap of 10.5 mills (increase of .2 mills):** This would yield about \$1.5 million annually.
- 13) **Sell excess lands on large parcels of lands at various school sites, where the entirety of the parcel is not being used for school purposes:** Lands which are close to schools are generally highly desirable lands. If those lands are not needed for school purposes, they could be sold for revenue on the sale of the land, as well as increase tax revenue from the private ownership tax. Revenue anticipated cannot be determined at this time. Additionally, this is one-time revenue based on sales.
- 14) **Eliminate the permanent vehicle registrations:** A sunset clause could be put on the existing permanent registrations or the existing registrations could be grandfathered as exempt. At this time, the Borough does not know the extent of lost revenue due to the permanent registration. Borough staff have reached out to the State to determine the number of permanent Mat-Su registrations.
- 15) **Reduce the School District revenue to 6.1 Mills:** This would recoup \$2 million annually for debt repayment.

If no action(s) are taken, the default is that the Borough would be responsible for the State's portion of bond debt payment, if there is no appropriation, see enclosed school bond debt service schedule.

**Matanuska-Susitna Borough School Bond Debt Service**

<b>Year</b>	<b>MSB Funding</b>	<b>State of Alaska Reimbursement*</b>	<b>Total Debt Service</b>
<b>2020</b>	\$ 15,872,654	\$ 8,546,813	\$ 24,419,467
<b>2021</b>	\$ 22,863,409	\$ -	\$ 22,863,409
<b>2022</b>	\$ 7,237,986	\$ 16,888,635	\$ 24,126,621
<b>2023</b>	\$ 7,536,636	\$ 17,585,485	\$ 25,122,121
<b>2024</b>	\$ 7,534,376	\$ 17,580,210	\$ 25,114,586
<b>2025</b>	\$ 7,037,932	\$ 16,421,842	\$ 23,459,774
<b>2026</b>	\$ 6,424,722	\$ 14,991,017	\$ 21,415,739
<b>2027</b>	\$ 5,524,585	\$ 12,890,700	\$ 18,415,285
<b>2028</b>	\$ 5,524,501	\$ 12,890,503	\$ 18,415,004
<b>2029</b>	\$ 5,526,901	\$ 12,896,101	\$ 18,423,002
<b>2030</b>	\$ 5,523,857	\$ 12,888,999	\$ 18,412,856
<b>2031</b>	\$ 5,111,008	\$ 11,925,686	\$ 17,036,694
<b>2032</b>	\$ 4,365,866	\$ 10,187,021	\$ 14,552,887
<b>2033</b>	\$ 2,280,189	\$ 5,320,441	\$ 7,600,630
<b>2034</b>	\$ 1,970,437	\$ 4,597,688	\$ 6,568,125
<b>2035</b>	\$ 1,972,612	\$ 4,602,763	\$ 6,575,375
<b>TOTAL</b>	<b>\$ 112,307,671</b>	<b>\$ 180,213,904</b>	<b>\$ 292,521,575</b>

*Source: Mat-Su Borough Finance Department, February 2020.*

*\*Subject to annual appropriation by Legislature.*