



COMMITTEE ON SCHOOL FUNDING AND TAX CAP

January 5, 2021

A dark, artistic photograph of a desk. In the top left, a calendar is visible. A pen lies horizontally across the middle. A watch with a dark strap and a round face is positioned vertically in the lower right. The overall lighting is dim, creating a moody atmosphere.

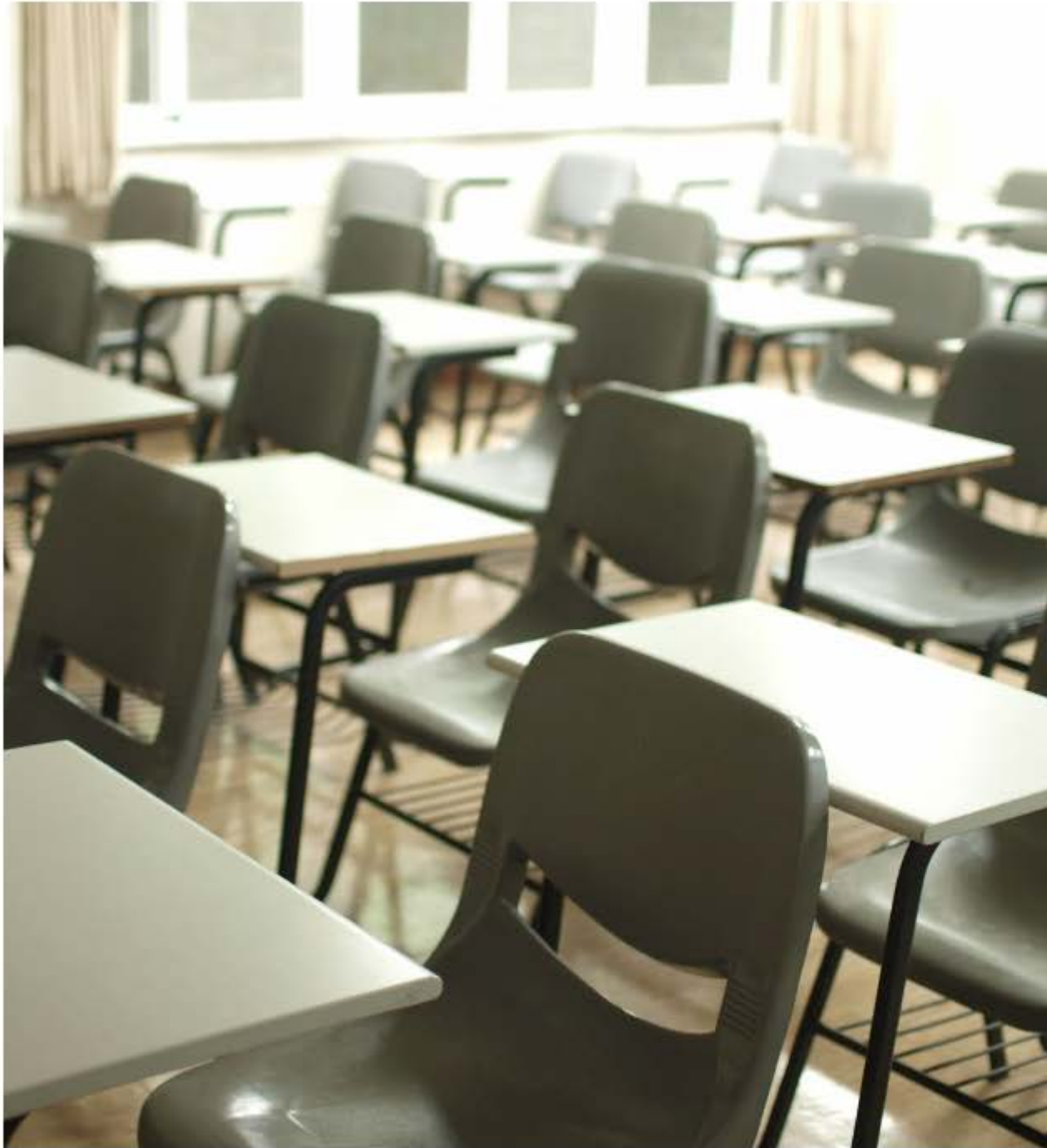
■ AGENDA

Purpose

Background

Fiscal Year 2022

**Fiscal Year 2023
and beyond**

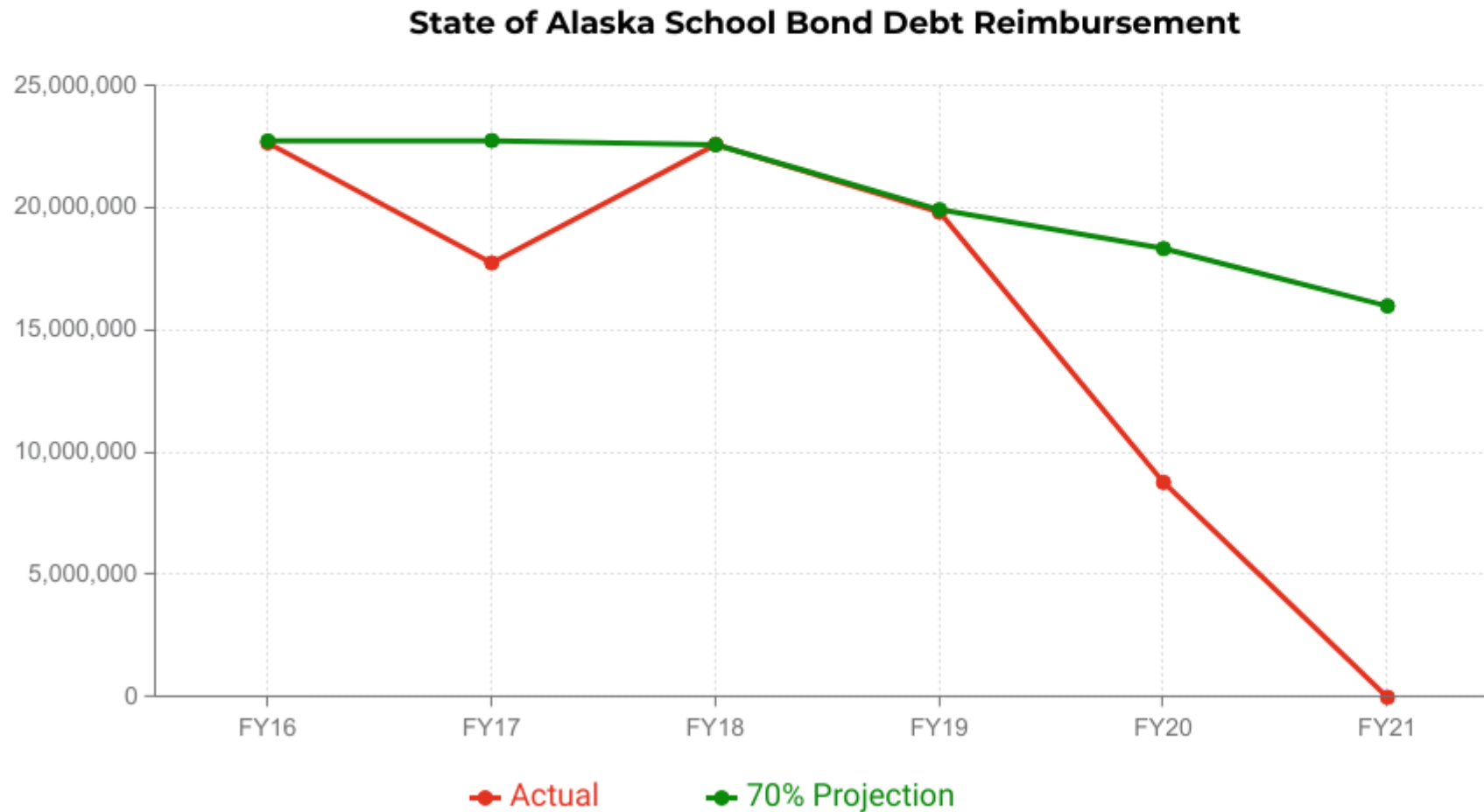


PURPOSE

Over recent years, the State of Alaska 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.

■ BACKGROUND

The following chart depicts previous State bond debt payments compared to what was expected if the 70% reimbursement was appropriated



- **MSB 03.04.046 (C,2) Local Education Funding:** allows for an increase in total amount of education annual debt service if the State of Alaska fails to provide match funds for education debt service.
- **MSB 3.04.076 Tax Cap:** Tax cap is set at 10.50 mills, but, 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.

■ SCHOOL BOND DEBT SCHEDULE

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

- **Payments decrease over time:**

New revenue options can be adjusted over time with changes in total debt service

- **Payments vary year to year**

- **Schedule only includes school bond debt** (does not include roads, parks and recreation, etc.)

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

*Subject to annual appropriation by Legislature.

PROPOSED SOLUTIONS

FISCAL YEAR 2022

Existing operating funding was offset by several eligible COVID-19 expenses which were paid using CARES Act funding. These operating funds are available to offset school bond debt payment shortfalls for FY22. Additionally, the Governor's FY22 budget proposes 50% of the State's portion of debt reimbursement (approximately \$8.5 million).

FISCAL YEAR 2023 AND FUTURE YEARS

Any new revenue options typically take several months to accumulate before that revenue is available to make a debt service payment.

■ EXCISE TAX OPTIONS

A legislated tax on specific goods or services such as fuel and tobacco. These taxes can be approved by the Assembly and do not require voter approval.

01 FUEL

One cent per gallon yields between \$200,000 and \$800,000 annually (e.g. \$.05 tax per gallon could provide between \$1 million and \$4 million annually). Tax would be collected on distributors. Anchorage currently has \$.10 per gallon tax. Borough does not have a fuel excise tax.

02 SEVERANCE

Severance tax on earth materials. A \$.25 per ton tax on gravel, for example, could generate between \$500,000 and \$1 million annually. Borough does not have a severance tax.

03 TOBACCO

The Borough currently has a \$2.25 per pack tax which collects approximately \$8 million annually.

■ SALES TAX OPTIONS

A tax on the sale of goods and services. These taxes require voter approval.

01 MARIJUANA

The Borough currently has a 5% marijuana sales tax which yields between \$1.2 million and \$1.5 million annually.

02 OVERALL SALES TAX

Based on FY18 estimates, a 1% areawide sales tax could yield approximately \$9 million annually. Cities already have a sales tax for their respective jurisdictions.

03 BED

The Borough currently has a 5% bed tax. This tax yielded between \$1.2 million and \$14 million annually prior to COVID-19. FY20 tax collected was \$991,427 and the FY21 projection is \$652,500.

■ OTHER REVENUE OPTIONS

01 REFINANCE EXISTING BONDS

Approximately \$3 million to \$5 million in one-time savings. Borough staff are pursuing refinancing at this time.

02 SENIOR/DISABLED VET EXEMPTION

Eliminate a portion of the extra exemption provided by the Borough. The current total of \$68,000 equals about \$4.2 million annually.

03 RAISE MILL RATE

1) Raise the Borough mill rate by 1.7 mills to cover entire State portion of bond debt or 2) raise mill rate to tax cap to generate another \$1.5 million to \$2 million annually.

04 LAND SALES

One-time revenue based on what can be surveyed, platted and sold. Anticipated revenue cannot be projected.

05 SCHOOL PARCEL LAND SALES

Sell excess lands on large school parcels where parcel is not being used for school purposes. Revenue cannot be projected and this is one-time revenue based on what can be surveyed, platted and sold.

06 PERMANENT VEHICLE REGISTRATION

Eliminate permanent registrations (sunset or grandfathered). Borough staff have reached out to the State to determine the number of permanent registrations to project potential revenue.

07 REDUCE SCHOOL DISTRICT REVENUE

Reduce school district revenue from 6.3 mills to 6.1 mills reducing the district appropriation by approximately \$1.5 million to \$2 million annually.

WHAT NEXT?

OPTIONS TO CONSIDER

These proposed solutions provide the Assembly and Mayor with options that could be employed in tandem to create sustainable revenue to cover the State's portion of existing school bond debt payments.

WITHOUT NEW REVENUE OR STATE APPROPRIATION

The Borough would be faced with covering the State portion of school bond debt totaling approximately \$17.5 million in FY23. This would cause significant reductions to existing budgets (assuming the cost is shared by the Borough and School District).