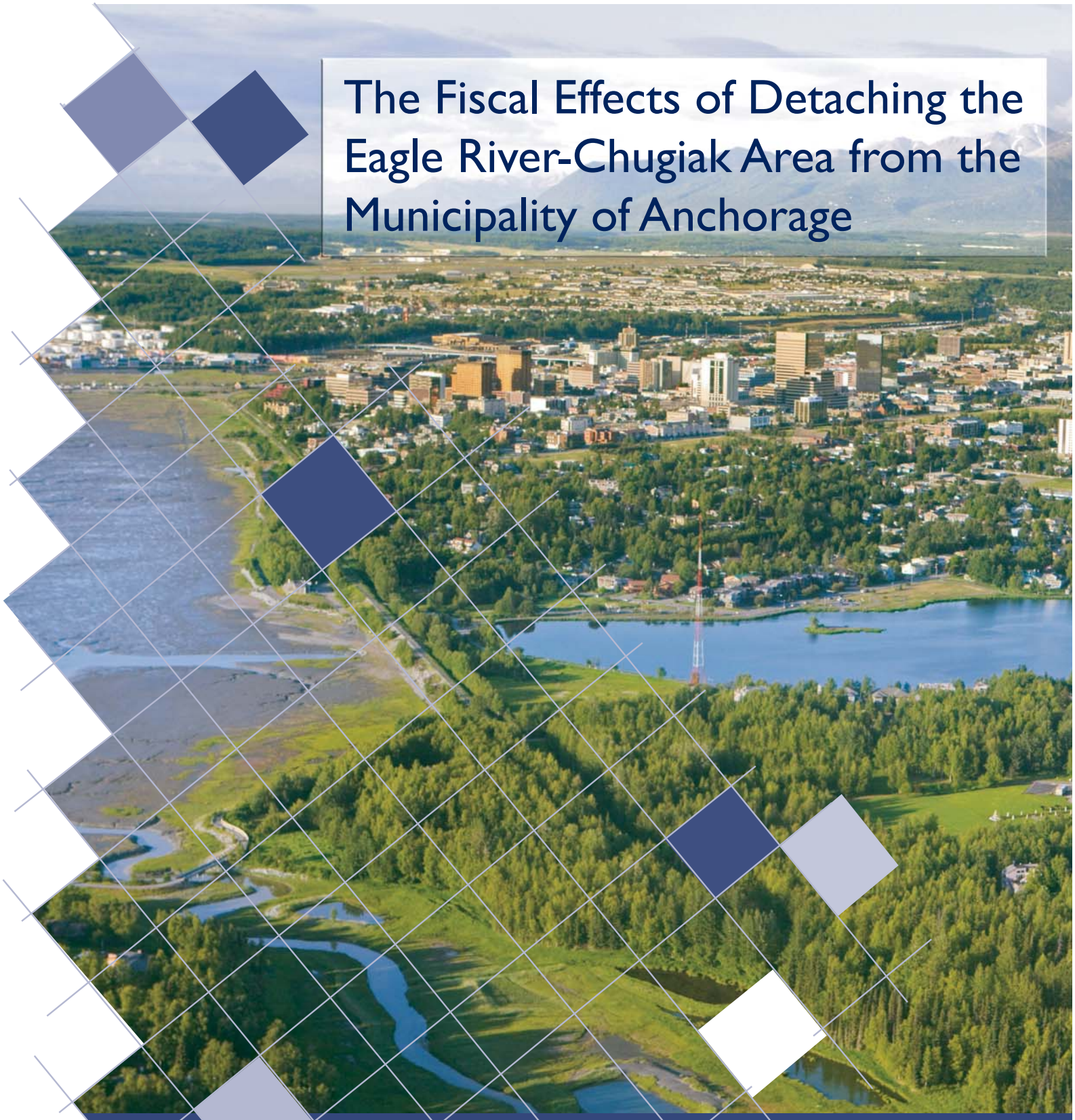
The Fiscal Effects of Detaching the Eagle River-Chugiak Area from the Municipality of Anchorage



northern economics inc.

In association with

Sheinberg Associates ❖ The Alaska Map Company

Prepared for the

Alaska Department of Commerce, Community and Economic Development

April 2007

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Foreword

This document has been written in a "journalistic style," which presents the most important information to the reader at the beginning of the report in the executive summary. More detailed and ancillary information is contained in the main body of the report, which follows the executive summary. The same style is used within each section of the report—the most relevant points are discussed first with the remainder of the section providing details that support those findings. Therefore, the authors encourage the reader to proceed from front to back—skipping to the end of the study to find the conclusions will be unproductive because the conclusions are in the front.

The authors also encourage readers to examine the footnotes contained in the document. In general, the footnotes provide ancillary information that the authors believe to be important and useful, but which is not provided in the main text so as not to obscure the primary focus of the analysis.

Acknowledgements

The authors wish to acknowledge the contributions that employees of Municipality of Anchorage, the Anchorage School District, and the Alaska Department of Education and Early Development made to this study. The mathematical models constructed for this study required highly precise data which the authors could not have located in a timely fashion without the assistance of these individuals and organizations.

Abbreviations

ACPC	Adjusted Cost Per Capita
ADCCED	Alaska Department of Commerce, Community and Economic Development
ADM	Average Daily Membership
ADEED	Alaska State Department of Education and Early Development
ARDSA	Anchorage Road and Drainage Service Area
ASD	Anchorage School District
ATU	Anchorage Telephone Utility
AWWU	Anchorage Water & Wastewater Utility
CAFR	Comprehensive Annual Financial Report
CEA	Chugach Electric Association
CIP	Capital Improvement Program
CPC	Cost Per Capita
DB	Defined Benefit
DC	Defined Contribution
ERC	Eagle River/Chugiak
ERCSD	Eagle River-Chugiak School District
G.O.	General Obligation
GASB	Governmental Accounting Standards Board
GIS	Geographic Information System
IGC	Intra-Governmental Charge
MEA	Matanuska Electric Association
MESA	Municipal Enterprise Service Assessment
ML&P	Municipal Light & Power
MOA	Municipality of Anchorage
MSB	Matanuska-Susitna Borough
MUSA	Municipal Utilities Service Assessment
OECD	Office of Economic and Community Development
PERS	Public Employees' Retirement System
POA	Port of Anchorage
TRS	Teachers' Retirement System

Executive Summary

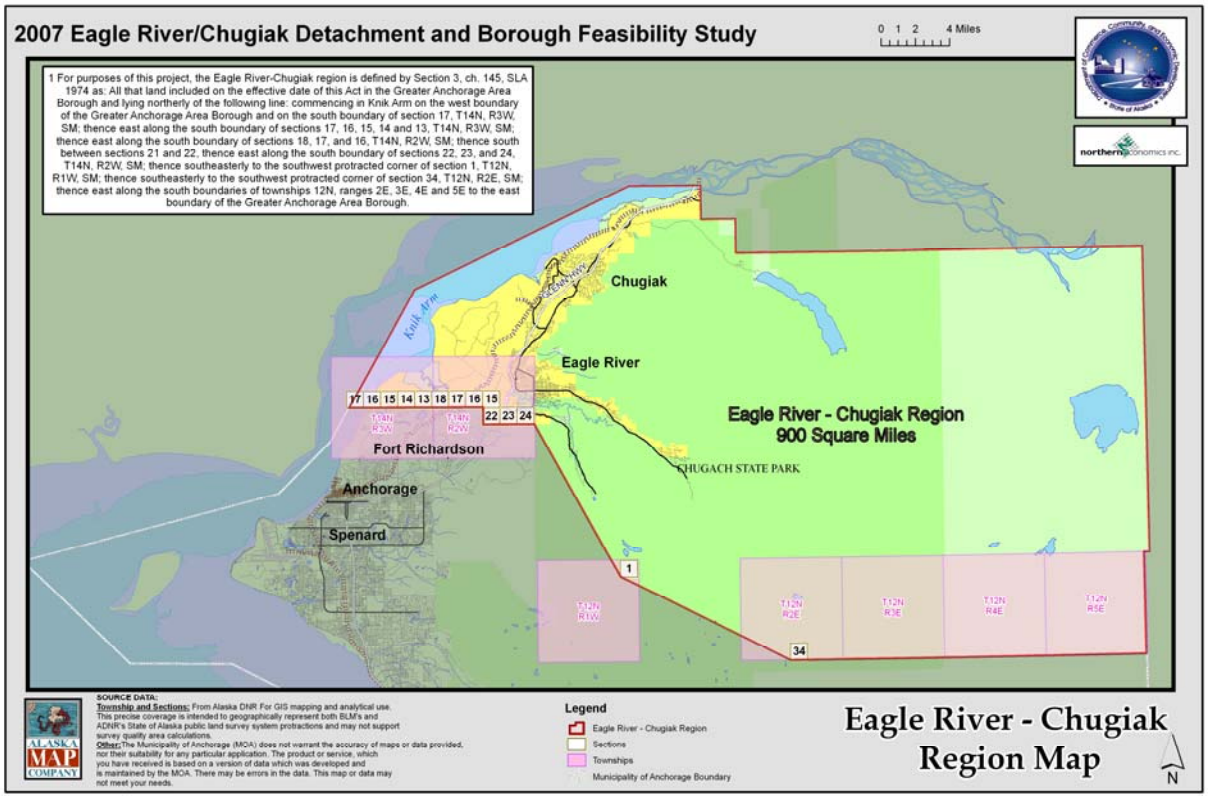
Introduction

The purpose of this project is to provide independent, impartial, and meaningful analyses of:

- The fiscal feasibility of detaching the greater Eagle River-Chugiak region from the Municipality of Anchorage and incorporating the region as a separate borough government
- The fiscal effects that the detachment of the Eagle River-Chugiak region would have on the hypothetical residual Municipality of Anchorage

This study provides an "apples to apples" projection of the fiscal effects of Eagle River and Chugiak detaching from the Municipality of Anchorage and subsequently forming a new borough. In order to ensure an "apples to apples" comparison, the study assumes that citizens in the new Eagle River and Chugiak (ERC) Borough receive or have access to the same level of government and educational services they currently receive as citizens of the Municipality of Anchorage (MOA) (see Figure ES-1). Whether or not ERC Borough citizens would want to continue receiving all of the services they currently have access to as MOA citizens is a public policy question. Ideally, citizens would want to know what sort of services and tax rates they could expect prior to voting on detachment.

Figure ES-1. Hypothetical Borough Boundaries



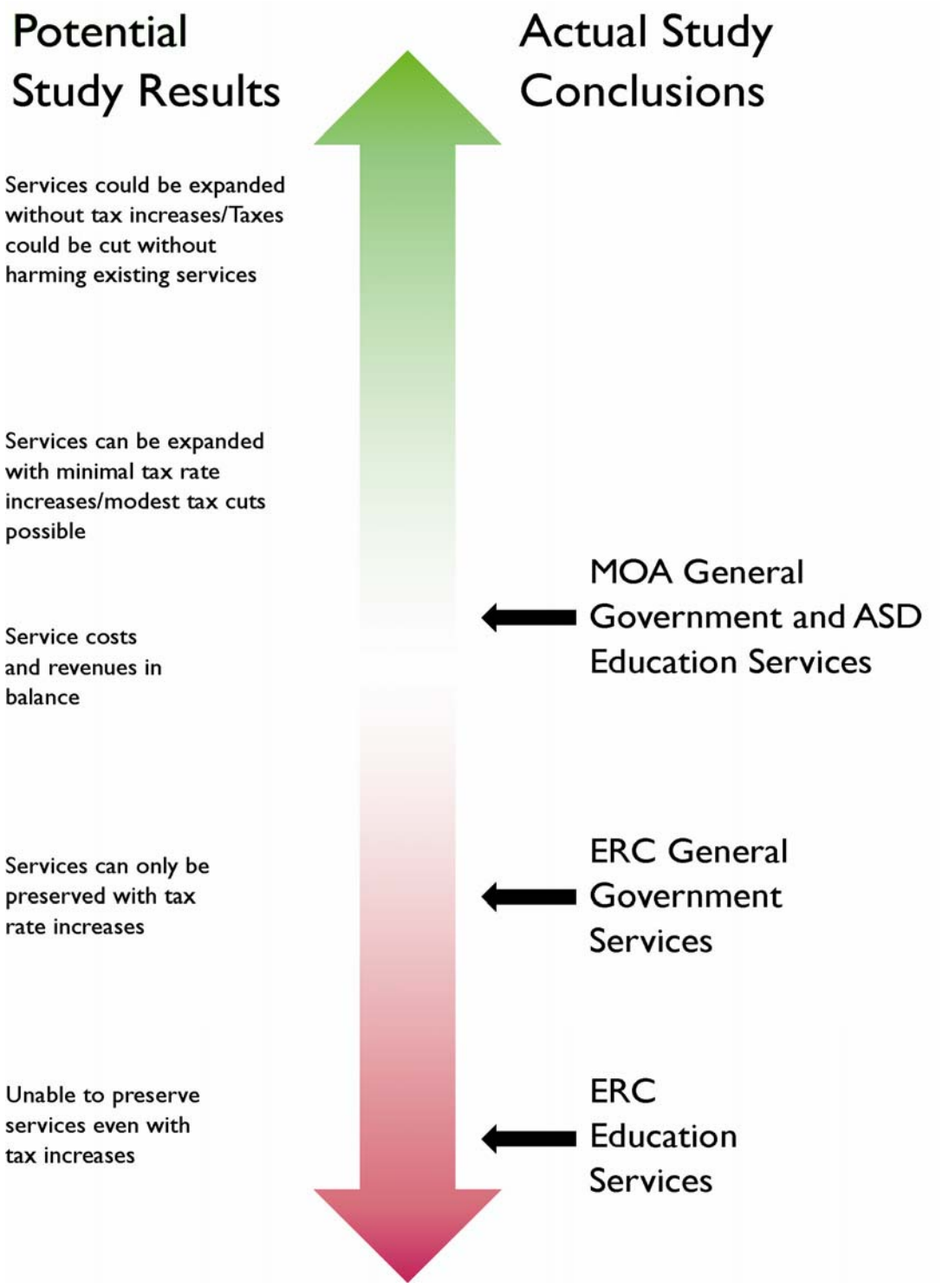
Source: Alaska Map Company, 2007.

Throughout the study's work, expert sources referred to the process of detachment and borough formation as a process very similar to a marital divorce in that detachment will involve negotiation, divisions of assets, divisions of liabilities (e.g., bonded indebtedness), and a separation of interests. There are real consequences associated with these activities. For example, the two methods the study discusses for apportioning education-related general obligation debt result in a nearly $50 million difference in the total amount of debt that the new ERC Borough would have to carry. Payment on the higher amount would add $3.5 million per year to the ERC Borough's education budget. Both of the methods discussed are reasonable and logical, but they have very different implications for both the hypothetical ERC Borough and the MOA Remainder. It is very likely that the actual apportionment of bonded debt would end up being decided by the Alaska State Legislature or the Alaska Court System and include substantial legal wrangling. Similar issues exist with the division of major assets and the implications of existing contracts.

The actual effect of these items on detachment and borough formation will only truly be known when, and if, actual negotiations take place. This study provides a reasonable apportionment of costs, assets, debts, and revenues when enough data existed to support the analysis. However, in some cases there simply were not enough available data to apportion these items with a high degree of certainty. In these cases the study laid out methods for apportionment. Many of these methods are so detailed and time consuming that they will likely only be used in the case of a serious effort to detach Eagle River and Chugiak from the current Municipality of Anchorage.

As noted in Figure ES-2, the estimated fiscal effects of detachment and borough formation can be laid out along a continuum from very positive to very negative. A very positive conclusion would have noted that the hypothetical borough could expand services without a tax increase or that taxes could be cut without harming existing services. A negative conclusion means that after detachment the hypothetical boroughs could only maintain existing service levels through tax increases or that services and service expenditures would have to be cut in order to preserve existing tax rates and keep tax bills from increasing. The middle of the continuum represents a point where current revenues and service expenditures are balanced.

Figure ES-2. Range of Potential Study Results and Conclusions



Detachment would have very different effects on the two hypothetical boroughs. The study concludes that the ERC Borough could not provide its potential citizens with the same level of services that the current MOA provided in 2006 without an increase in property taxes or some other form of revenue.

Further, even if the new Borough increases taxes, the new Eagle River and Chugiak School District (ERCSD) would have to reduce costs by millions of dollars to comply with Alaska's education funding law. The ERC Borough does not have the real and personal property tax base to support current school funding levels. This picture darkens further when transition costs and the cost of duplicating physical structures such as city hall and the school district administrative offices are added into the picture. This study does not quantify those costs, but the authors acknowledge their importance and recognize the affect they could have on the new Boroughs' viability.

The effect of detachment on the Municipality of Anchorage would be much more muted. The analysis finds that the local property tax rates would likely decline slightly or stay the same. The true financial cost of detachment for the current Municipality will come in the costs associated with negotiating and transferring assets to the ERC Borough. In some circumstances, such as for physical assets located inside the MOA Remainder, the MOA could find itself making cash payments to the new borough. Again, the study did not quantify these payments because each physical asset must be assessed, valued, and in some cases, potentially liquidated. The value of liquidated assets will be determined by the market.

If detachment and borough formation proceeds, the citizens of the new boroughs will have hard choices to make between:

- Preserving current services with a tradeoff of changing property tax rates;
- Preserving current tax rates and change the level of services government provides;
- Finding a combination of revenue and service level changes that meets their community's needs.

Throughout much of this analysis, the study frames this conversation by discussing what it will take to preserve current services and the study expresses the net fiscal effects in terms of changing property tax rates. By discussing the results of the study in terms of constant services and property tax rates, the study creates a stable frame of reference for the average citizen as most people know what they pay in property taxes and what they receive for services. At the same time, it is important to note that many potential alternatives exist within the study's results.

Table ES-1 shows the overall net fiscal effects of detachment assuming the Borough's preserve current services. The study estimates that total property tax rates in the MOA Remainder would decline by nearly 0.5 mills with the savings on a $250,000 property of $123 under 2006 conditions. Additionally, neither the MOA nor the Anchorage School District (ASD) would likely have to cut general fund budgets or services beyond the natural reductions associated with not having to service the Eagle River-Chugiak area any more. Conversely, the study expects that property tax rates would need to increase between 2.70 and 4.75 mills for the ERC Borough. This increase would result in additional taxes on a $250,000 property of between $675 and $1,187. Additionally, the ERCSD would need to cut its education general fund budget by between $3.2 million and $10.8 million.[1]

[1] Alaska education funding law provides a maximum amount that local communities can contribute toward education. The study estimates that the ERC Borough maximum local contribution is below the amount required to fund schools at 2006 levels. Hence, the ERC Borough would likely have to cut the school budget regardless of any desire to preserve current service levels (See Section 4.4).

Table ES-1. Net Fiscal Effects of Detachment Expressed Through Property Taxes, Attempting to Keep Constant Service Levels

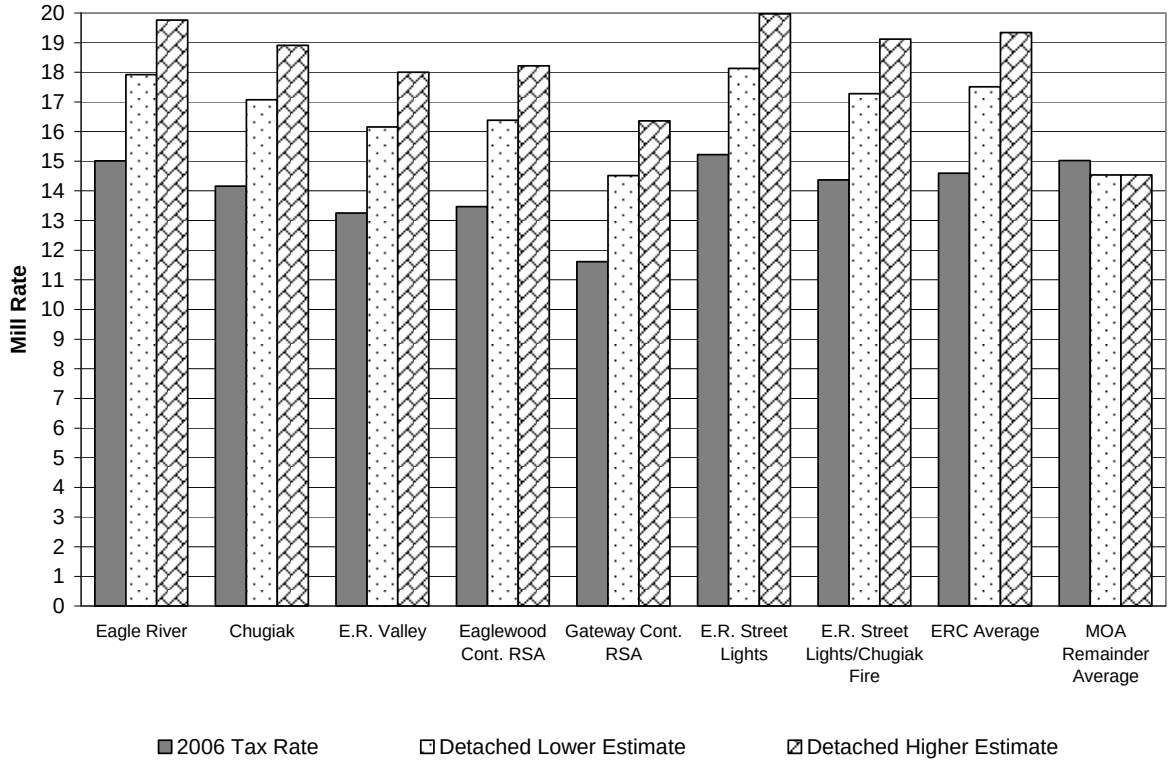
Property Tax Affecting Element	MOA/ASD Remainder	ERC/ERCSD Lower Estimate	ERC/ERCSD Upper Estimate
Change in Property Tax Mill Rates			
General Government (Mills)	-0.38	1.42	3.47
Education (Mills)	-0.11	1.28	1.28
Net Change (Mills)	-0.49	2.70	4.75
Changes in Property Tax Bills			
$100,000 Assessed Taxable Value	-$49	$270	$475
$150,000 Assessed Taxable Value	-$74	$405	$712
$200,000 Assessed Taxable Value	-$98	$540	$949
$250,000 Assessed Taxable Value	-$123	$675	$1,187
$300,000 Assessed Taxable Value	-$147	$810	$1,424
$350,000 Assessed Taxable Value	-$172	$945	$1,661
$400,000 Assessed Taxable Value	-$196	$1,080	$1,899
Concurrent Required Reductions in the Education General Fund Budget			
Additional Budget Cuts Required ($ Millions)	Not Applicable	-$3.20	-$10.80
Additional Budget Cuts Required (%)	Not Applicable	-5.00%	-15.10%

Source: NEI Estimates, 2007.

Figure ES-3 shows the combined (e.g., education and general government) property tax rates in each ERC tax district and the average for both hypothetical boroughs given 2006 revenues and service levels. As noted above, the average mill rate in Anchorage would drop from 15.03 mills to approximately 14.54 mills. Property tax rates in the new ERC Borough would increase from an average of 14.60 mills to between 17.51 and 19.34 mills. While the estimated increase in property tax rates is the same across all ERC tax districts, the highest tax rates would be seen by the Eagle River Street Lights tax districts with estimated property tax mill rates of between 18.13 and 19.97. Appendix A: Estimated Property Tax Rates by Tax District—MOA Remainder and Appendix B: Estimated Property Tax Rates by Tax District—ERC Borough include detailed property tax rates for all districts.[2]

[2] The author's chose not to show detailed tax rates for all districts in graphical form given the number of districts in the MOA Remainder and the fact that the analysis predicts very small changes for those districts. Detailed tax rate tables are located in Appendix A: Estimated Property Tax Rates by Tax District—MOA Remainder and Appendix B: Estimated Property Tax Rates by Tax District—ERC Borough.

Figure ES-3. Projected Combined Property Tax Mill Rates, Attempting to Keep Constant Service Levels



Source: NEI Estimates, 2007.

A key finding of the study is that the new ERC Borough does not have a large enough tax base to support the predicted service expenditures needed to support the same level of services that Eagle River-Chugiak area residents currently receive without either increasing current tax rates or finding a new revenue source (See Section 3.3). This result does not mean that the detachment of Eagle River-Chugiak area from Anchorage and the subsequent formation of a new borough are infeasible. Instead, these results indicate that detachment and borough formation will require trade-offs between taxes and service levels.

The exact trade-offs that need to be made will in part be determined by the goals of citizens living in potential ERC Borough area. Figure ES-4 shows the trade-offs the study results indicate would be necessary for a variety of potential community goals. For example, in the absence of a new revenue source, expanding services expenditures beyond current levels would require an increase in general government property tax rates beyond what the study predicts would be needed to preserve current service levels. Even with this goal, the Alaska's education funding law would prevent the expansion of education expenditures funded from local property taxes. As noted above, preservation of current services would require property tax mill rate increases of between 2.70 and 4.75 mills while education spending would still need to be cut by somewhere between $3.2 and $10.2 million.

Another goal of ERC Borough's citizens could be to preserve current tax rates and change government spending and associated services. For the MOA Remainder, this approach would result in a 2.7 percent increase in general government spending and a 0.6 percent increase in education general fund spending (see Table ES-2). The ERC Borough would need to cut general government spending by between 10.7 and 22.7 percent; a total spending reduction of between $4.10 million and $9.99 million. Education spending cuts, which would have to come from the education general fund, would

need to be between 10.8 percent and 20.3 percent of the current levels. Total education cuts would need to be between $6.88 million and $14.49 million.

Table ES-2. Changes in Service Expenditures (Budget Cuts) Required to Maintain 2006 Property Tax Rates

Government Sector	MOA/ASD Remainder	ERC/ERCSD Lower Estimate	ERC/ERCSD Upper Estimate
General Government ($ Millions)	$8.76	-$4.10	-$9.99
General Government (%)	2.7%	-10.7%	-22.7%
Education General Fund ($ Millions)	$2.50	-$6.88	-$14.49
Education General Fund (%)	0.6%	-10.8%	-20.3%

Source: NEI Estimates, 2007.

Figure ES-4. Potential ERC Community Goals and Their Implications

A third choice for ERC Borough residents would be to change the tax structure and create new sources of revenue. This type of choice is not reflected in Figure ES-4. This study uses an analytical model that assumes that the tax structures in both hypothetical boroughs match the tax structure of the current MOA. One of the first options that the ERC Borough would likely consider is a sales tax. Sales taxes are used by other nearby communities (e.g., Palmer and Wasilla) to generate income. However, the study does not believe that a sales tax would be very effective. Eagle River is very different from Palmer and Wasilla in that Eagle River is very close to Anchorage, which does not have a sales tax. Hence, Eagle River residents can avoid paying the tax by shopping in Anchorage. This issue will be magnified when the Glenn Crossing development and the proposed Muldoon Road development on Cook Inlet Regional Corporation property put new, enhanced shopping opportunities very close to Eagle River. It will be easier for Eagle River residents to access these opportunities than it will be for residents of Anchorage's Hillside or other South Anchorage neighborhoods. Eagle River is not currently a major shopping or tourism destination, so its sales tax revenues will most likely be drawn predominantly from local residents. In such a situation, residents will just be trading one tax for another.

At its core, this study is about making informed decisions. The results of the study do not preclude detachment and borough formation. Instead, they make it clear that detachment and formation will likely entail substantial changes from the status quo for residents in the potential ERC Borough. MOA residents would likely also have to make decisions involving trade-offs, but what these decisions might entail is far less clear than they are for potential residents of and ERC Borough.

The remaining sections of the executive summary address more of the study's specific results and conclusions.

Effect of Detachment/Formation on General Government Costs, Services, & Property Tax Rates

The study estimates that detaching Eagle River and Chugiak from the current MOA and the subsequent formation of a new ERC Borough would result in higher property tax mill rates for ERC Borough taxpayers unless the new ERC Borough made substantial cuts in the costs of government services or located new revenue sources.[3] At the same time, detachment would result in very little change in the overall property tax rates in the remainder of the Municipality of Anchorage. The analysis estimates the cost of running the ERC Borough under 2006 conditions at between $38.17 million and $44.65 million per year (see Table ES-3). Under the current tax regime, the ERC Borough could expect to generate approximately $34.29 million in revenue. Thus, the study estimates that the borough would face an immediate budget deficit of between $3.87 million and $10.36 million per year if it chose to preserve current services. In the absence of budget cuts or a new revenue source, property tax mill rates would need to increase and the study estimates that mill rates would rise somewhere between a low of 1.63 mills (adjusted cost per capita method) and 3.47 mills (cost per capita method).[4]

[3] The mill rate expresses the taxes on a property per $1,000 dollars of assessed value. For example, a rate of one mill is equal to one dollar in taxes per $1,000 in assessed value.

[4] The adjusted cost per capita method (ACPC) and cost per capita method (CPC) are described in detail in Section 3.

Preserving current property tax rates would require cutting between 10.7 percent and 22.7 percent of the estimated cost of continuing to provide current service levels.[5]

Table ES-3. Estimated Revenue and Cost of General Government, ERC Borough ($ Millions)

	Current MOA (2006 Conditions)	ERC Borough	
		ACPC Method	CPC Method
Estimated General Government Revenue	363.05	34.29	34.29
Estimated General Government Cost	363.05	38.17	44.65
Budget Deficit/Surplus	*0.0*	*-3.87*	*-10.36*
Difference as a Portion of General Government Cost	*Not Applicable*	*-10.7%*	*-22.7%*
Equivalent Net Change in Property Tax Mill Rates	*Not Applicable*	*1.63*	*3.47*

Source: NEI Estimates, 2007.

Property tax rates in 2006 in the current tax districts encompassed by the hypothetical ERC Borough ranged from 4.48 mills to 8.09 mills with a weighted average property tax rate of 7.47 mills. The new weighted average property tax rate for general government services would be between 9.10 mills and 10.93 mills assuming the preservation of current services. Table ES-4 shows the estimated general government property tax rates for each taxation district in the hypothetical ERC Borough. The net effect on the owner of a $250,000 property in any tax district would be a tax increase of between $407 and $867; equivalent to between 21.9 percent and 46.4 percent tax increase from the average just for the effects of detachment on general government services.

Table ES-4. Estimated ERC Borough Property Tax Rates, 2006 Conditions

Tax District	Tax District Name	2006 General Government Property Tax Mill Rate	ACPC Estimated Property Tax Mill Rate	CPC Estimated Property Mil Tax Rate
10	Eagle River	7.88	9.51	11.35
22	Chugiak	7.03	8.66	10.50
30	Eagle River Valley	6.12	7.75	9.59
46	Eaglewood Cont. RSA	6.34	7.97	9.81
47	Gateway Cont. RSA	4.48	6.11	7.95
50	Eagle River Street Lights	8.09	9.72	11.56
51	E.R. Street Lights/Chugiak Fire	7.24	8.87	10.71
Average Property Tax Rate		7.47	9.10	10.93
Taxes on a $250,000 Home		$1,867	$2,274	$2,734
Net Change			$407	$867

Source: NEI Estimates, 2007.

Changes in property tax rates affect taxpayers based upon the taxable assessed value of their property. For example, the owner of a property assessed at $100,000 would see an increase in their tax bill of

[5] Another option for preserving current property tax rates would be increasing current tax revenues from non-property tax sources by the amount of the predicted budget deficit. However, as noted in other sections, the lack of an immediate tax base makes this goal difficult to achieve in the short run.

between $163 and $347 but the owner of a property valued at $400,000 would see an increase between $651 and $1,387.

Table ES-5. General Government Property Tax Bill Changes, ERC Borough

Taxable Assessed Value	ERC Borough	
	ACPC Method	CPC Method
$ 100,000	$163	$347
$ 150,000	$244	$520
$ 200,000	$326	$694
$ 250,000	$407	$867
$ 300,000	$489	$1,040
$ 350,000	$570	$1,214
$ 400,000	$651	$1,387

Source: NEI Estimates, 2007.

The issue driving these results is the overall lack of tax base in the ERC Borough. Overall, the ERC Borough generated just 9.4 percent of MOA revenues in 2006 in spite of containing 12.0 percent of Municipality's population. In every category of revenue generation the ERC Borough produces less revenue than one might expect given the population base. The reason for this deficit is that the MOA's tax base is primarily located within the Anchorage Bowl. The concentration of businesses, government property, and infrastructure within the Bowl generate the majority of the MOA's tax revenue. A good example is the hotel and motel revenue tax and the car rental tax. MOA tax records show that less than one-tenth of one percent of revenue from these taxes came from sources inside the proposed boundaries of the ERC Borough; a result driven by the location of the rental car companies at Ted Stevens International Airport and the concentration of hotels in downtown and midtown Anchorage. These two taxes account for between four and five percent of MOA revenues and the contribution from sources within the ERC Borough area are minimal. In essence, the tax base within the Anchorage Bowl, particularly the non-property tax base, is subsidizing the cost of services delivered in other parts of the Municipality.

Table ES-6. Geographic Source of General Government Revenues (Percent of Total), 2006

Revenue Source	MOA Remainder (%)	ERC Borough (%)
Real and Personal Property Taxes	89.2	10.8
Other Local Taxes and Interest	91.6	8.4
Local Programs	91.5	8.5
Intergovernmental Charges & Fund Balances	95.4	4.6
State and Federal Revenues	94.4	5.6
Estimated General Government Revenue Split	90.6	9.4
Estimated Population Split	88.0	12.0
Estimated Assessed Value of Real and Personal Property Split	89.9	11.1

Source: NEI Estimates, 2007.

The situation within the MOA Remainder is quite different. The study estimates that under 2006 conditions, general government revenues would exceed the cost of general government by roughly

$7.37 million and taxpayers in the MOA Remainder could potentially expect a slight reduction in their property taxes of approximately 0.42 mills.[6] The MOA's Remainder role as the home of the majority of the tax base and general size insulates it from the type of results seen in the ERC Borough. The study estimates that with detachment the MOA Remainder would see a slightly positive shift in its finances with revenues outstripping costs by approximately two percent. Transformed into a property tax cut, the weighted average mill rate would drop from 7.90 mills to 7.47 mils; equivalent to a $106 savings for the owner of a $250,000 property.

Table ES-7. Estimated Revenue and Cost of General Government, MOA Remainder ($ Millions)

	Current MOA (2006 Conditions)	MOA Remainder
Estimated General Government Revenue	363.05	328.76
Estimated General Government Cost	363.05	321.39
Budget Deficit/Surplus	*0.0*	*7.37*
Difference as a Portion of General Government Cost	*Not Applicable*	*2%*
Equivalent Net Change in Property Tax Mill Rates	*Not Applicable*	*-0.42*

Source: NEI Estimates, 2007.

General government property tax rates in 2006 in the current tax districts encompassed by the MOA Remainder ranged from 0.46 mills to 8.17 mills, with a weighted average property tax rate of 7.90 mills. As noted above, the new weighted average property tax rate for general government services would be approximately 7.37 mills.

[6] Given the model's level of precision the authors believe that this result means that detachment could also result in a "no change" scenario for remaining MOA taxpayers. However, the likelihood of a positive result is higher than the likelihood of a "no change" result.

Table ES-8. Estimated MOA Remainder Property Tax Rates, 2006 Conditions

Tax District	Name	2006 General Government Property Tax Mill Rate	Post-Detachment Estimated Property Tax Mill Rate
1	City/Anchorage	8.17	7.75
2	Hillside	5.35	4.93
3	General Citywide	8.15	7.73
4	Girdwood	4.43	4.01
5	Glen Alps	5.78	5.36
8	Tanaina	8.15	7.73
9	Stuckagain Heights	6.29	5.87
11	Eagle River Land Fill	0.00	0.00
12	Canyon Road	8.10	7.68
15	Muni/Outside Bowl	0.46	0.04
16	North of Potter Creek	3.03	2.61
19	Upper O'Malley	7.35	6.93
20	Talus West	6.54	6.12
21	Rabbit Creek View	7.85	7.43
23	Rabbit Creek View	7.29	6.87
28	Birchtree/Elmore	6.85	6.43
31	So. Golden View	7.15	6.73
32	Campbell Airstrip	6.85	6.43
33	Sky Ranch	6.59	6.17
34	Valli Vue	6.75	6.33
35	Mt. Park	6.27	5.85
36	SRW Homeowners LRSA	6.60	6.18
37	Mt. Park/Robin Hill	6.65	6.23
40	Raven Woods	6.59	6.17
41	Upper Grover	6.27	5.85
42	View Point	5.83	5.41
43	Bear Valley LRSA	6.29	5.87
44	Villages Scenic Pkwy LRSA	6.28	5.86
45	Sequoia Est. LRS	6.69	6.27
48	Paradise Valley South LRSA	6.21	5.79
52	Rockhill LRSA	6.19	5.77
53	Totem LRSA	6.35	5.93
54	Lake Hill LRSA	6.25	5.83
55	So. Goldenview W/O Fire	4.83	4.41
56	Bear Valley LRS W/O Fire	4.53	4.11
Average Property Tax Rate		7.90	7.47
Taxes on a $250,000 Home		$1,974	$1,868
Net Change			-$106

Source: NEI Estimates, 2007.

As noted previously, changes in property tax rates affect taxpayers based upon the taxable assessed value of their property. For example, the owner of a property assessed at $100,000 would see a reduction in their tax bill of approximately $42 but the owner of a property valued at $400,000 would see a reduction of approximately $170.

Table ES-9. Net Property Taxes Changes for General Government Services, MOA Remainder

Taxable Assessed Value	MOA Remainder
$ 100,000	-$42
$ 150,000	-$64
$ 200,000	-$85
$ 250,000	-$106
$ 300,000	-$127
$ 350,000	-$148
$ 400,000	-$170

Source: NEI Estimates, 2007.

Effects on Education Service, Costs, and Property Tax Rates

Splitting the current ASD into two school districts to serve the hypothetical MOA Remainder and the new ERC Borough would have very limited effects within the MOA Remainder. The analysis concludes that within the MOA Remainder the educational property tax rate would likely fall, under 2006 conditions, from 7.13 mills to 7.02 mils; a decline of 0.11 mills (see Table ES-10). Given the power and accuracy of the model, this result is roughly the same as predicting no change in property tax rates. However, if this decline is translated into a property tax reduction, the owner of a property assessed at $250,000 would save $28.

Table ES-10. Net ASD Fiscal Effects on the MOA Remainder

Property Tax Affecting Element	Current ASD	MOA Remainder
General Fund and Debt Fund Budget ($ Millions)	525.73	454.79
Non-Property Tax Revenues ($ Millions)	341.34	296.70
Required Property Tax Revenues for General Fund Operations ($ Millions)	149.80	229.71
Required Property Tax Revenues for Debt Service Operations ($ Millions)	34.59	31.62
Estimated Property Tax Rates	*7.13*	*7.02*
Equivalent Net Change in Property Tax Mill Rates		-0.11
Taxes on a $250,000 Home	*$1,783*	$1,755
Net Change in Property Tax Bill		-$28

Source: NEI Estimates, 2007.

Conversely, the analysis estimates that the effects of detachment within the ERC Borough will be much larger. The budget required to support a new ERC School District (ERCSD) at current service levels will likely be greater than the borough's abilities to generate tax revenue under Alaska's education funding law AS 14.17.410. This statute establishes a maximum local funding amount of the greater of 4 mills of taxable assessed value plus 23 percent of local basic need ***or*** an additional 2 mills

of taxable assessed value. This funding statute would allow the ERC to contribute up to $21.27 million in local property tax contributions for general fund operations.

Table ES-11. Maximum Local Effort for the ERC Borough School District

Allowed Contribution	23% of Basic Local Need	Additional 2 Mills of Taxable Value
4-Mill Minimum Contribution ($ Millions)	11.53	11.53
Additional Amount Generated ($ Millions)	9.74	5.76
Total Maximum Local Contribution ($ Millions)	21.27	17.29

Source: NEI Estimates based on Sheinberg, 2007 and Sweeney, 2007.

The estimated required local contribution by the ERC Borough to run the school district at current service levels is between $25.77 million and $32.12 million under 2006 conditions (see Table ES-12). These amounts are higher than the $21.27 million allowed under AS 14.17.410 for general fund spending from local tax sources. Hence, the study concludes that the ERCSD would be forced to cut between $3.2 million and $10.80 million, reductions equivalent to between 5.0 percent and 15.1 percent of the total general fund budget. Even with these reductions, the property tax rate would rise for taxpayers in the ERCSD by approximately 1.28 mills. The net effect on a property with taxable assessed value of $250,000 would be $320.

Table ES-12. Net ERCSD Fiscal Effects Accounting for AS 14.17.410

Property Tax Affecting Element	Current MOA	ERC Borough	
		Lower	Upper
General Fund and Debt Fund Budget ($ Millions)	525.73	72.35	79.97
Non-Property Tax Revenues ($ Millions)	341.34	44.92	44.92
Maximum Property Tax Revenues for General Fund Operations ($ Millions)	149.80	21.27	21.27
Required Property Tax Revenues for Debt Service Operations ($ Millions)	34.59	2.97	2.97
Net Budget Shortfall General Fund Budget Reduction ($ Millions)		-$3.2	-$10.80
Required General Fund Budget Reduction (%)		-5.0%	-15.1%
Estimated Property Tax Rates (Mills)	7.13	8.41	8.41
Equivalent Net Change in Property Tax Mill rates		1.28	1.28
Taxes on a $250,000 Home	$1,783	$2,103	$2,103
Net Change in Property Tax Bill		$320	$320

Source: NEI Estimates, 2007.

The implications of these results are significant. The study predicts that it would be difficult, if not impossible, for the ERC Borough to maintain the current levels of school services unless that same level of service could be provided with a much lower budget. While an admirable goal, it is unlikely that services could be exactly replicated given the size of the projected cuts. The best case for citizens wishing to preserve services is a 5.0 percent to 15.1 percent reduction in general fund budget expenditures combined with a 1.28 mill tax rate increase on their properties. If the ERC Borough's citizens wished to preserve the current tax rate (rather than preserving service levels) they would need to find a way to reduce the local contribution to $16.7 million. This amount would require an additional budget cut of $4.57 million beyond that which would be required to comply with AS

14.17.710. This goal would require total cuts between $6.99 million and $14.49 million, equivalent to between a 10.8 to 20.3 percent reduction in projected, required general fund expenditures.

Finally, the study authors believe that the "low" model predictions are too conservative and that the true cost of running the district will almost certainly be higher than what the "low" model predicts. The feedback the study received from ASD officials indicated that the model didn't account for certain cost-saving measures that benefit ASD schools, but would not benefit ERCSD schools without some capital expenditures. For example, many ASD schools are serviced by a central kitchen located in the Anchorage Bowl. Additionally, the low model does not reflect recent utility cost increases such as the 8.25 percent increase in gas prices on November 1, 2006 and the 32 percent increase in natural gas prices on January 1, 2007 (Stokesbary 2007). The model also does not account for the fact that teachers are currently working without a contract and that salary and benefit costs will certainly rise when a new contract is signed. Actual property tax effects would likely be closer to the high-end model than the low-end model.

The net effect on education property taxes will be very different in the two hypothetical boroughs. The property tax within the MOA/ASD Remainder would likely be a minimal savings with no change to services provided. On the other hand, education property tax bills in the ERC Borough would increase by a hundred dollars to over $500 on properties with above-average valuations. In addition, the ERCSD would have to cut its General Fund budget by between 5 and 15 percent. Property tax mill rates would actually increase much more if Alaska's education funding law did not prohibit the Borough from spending the amount the study estimates is needed to run the new ERCSD at current service levels.

Table ES-13. Changes in Property Taxes for Educational Services, 2006 Conditions

Taxable Assessed Value	ASD Remainder	ERCSD
$ 100,000	-$11	$128
$ 150,000	-$16	$192
$ 200,000	-$22	$256
$ 250,000	-$27	$320
$ 300,000	-$33	$384
$ 350,000	-$38	$448
$ 400,000	-$44	$512
Additional Budget Cuts Required ($ Millions)	Not Applicable	-$3.2 to -$10.8
Additional Budget Cuts Required (%)	Not Applicable	-5.0 to -15.1%

Source: NEI Estimates, 2007.

Other Elements Affecting Detachment and Borough Formation

The Alaska Department of Commerce, Community and Economic Development (ADCCED) tasked the study with analyzing the effect of detachment and borough formation on a number of other issues. These included bonded indebtedness, the ratio of bonded indebtedness to taxable assessed value, PERS/TRS, and existing contracts within the current MOA. The study notes that many of these issues have significant implications either for the detachment process or in its wake. This study identifies those implications and notes areas where further analysis would be a prudent measure before proceeding with a detachment decision. Summary discussion and conclusions resulting from these analyses are listed below.

Bonded Indebtedness

Local governments often borrow money to finance long-term capital investment projects and spread the cost of new infrastructure over the lifetime of the facility instead of paying for the project in a single lump sum. The study analyzed the MOA's existing general obligation (G.O.) and special revenue bonds and apportioned these outstanding debts between the hypothetical ERC Borough and MOA Remainder. The study discusses some of the implications related to the outstanding bonded indebtedness of the MOA and the potential bonded indebtedness of the hypothetical ERC Borough.

According to the current tax code, if the detachment occurs, any outstanding general obligation bonds would be re-issued and re-funded in order to apportion these outstanding debts to the appropriate "new" bond issuer (White 2007). The interest rate on each bond would be specific to the financial conditions of each of the two hypothetical boroughs.

Apportionment of MOA debt involved several-steps. First, the MOA's Public Finance Director, Ross Risvold, provided the study information on the Municipality's total outstanding bond debt as of December 31st, 2006. Second, the study examined municipal records to see how and where the MOA spent the money. If bonds were refinanced, the study examined the original debt instrument. Third, the study determined the location of the provided services and attributed that debt to the appropriate area. For example, bonds for projects in the Anchorage Road and Drainage Service Area are attributed to the hypothetical MOA Remainder because that service area is wholly contained within that hypothetical borough.

With regard to school debt, the study takes two approaches. School district attorneys recommended the first approach, which divides school debt based on the ratio of taxable assessed value (Stone 2007). This method acknowledges that voters across the MOA authorized the projects and that the projects currently provide services beyond their specific location. However, that approach ignores the fact that projects may provide location-specific services after detachment. For example, Eagle River High School and the new South High School are currently part of the same school district and provide benefits to the entire Municipality. Under detachment, the benefits of these new schools may be limited to their respective schools districts. The second method divides school debt on the basis of expenditure and service location. This method does not account for potential, but currently unknown legal issues, but more accurately reflects that certain projects will only benefit the citizens of the borough where the project is located.

Table ES-14 shows the ratio of bonded general obligation debt to the taxable assessed value for the MOA Remainder and the ERC Borough using the assessed value method. This ratio is important because it is one of the measures that bonding agencies look at when considering a municipality's bond rating. The debt to taxable assessed value ratio indicates a marginal increase for the MOA Remainder to 4.70 percent while the ERC Borough would fall to 3.48 percent. All of these debt levels are within normal ranges for cities and municipalities throughout the country (White 2007).

Table ES-14. Ratio of Bonded General Obligation Debt to Taxable Assessed Value, Assessed Value Method ($ Millions)

Category	Current MOA	MOA Remainder	ERC Borough
Municipal G.O. Bonds	$407.33	$392.87	$14.46
School District G.O. Bonds	$773.28	$687.45	$85.83
Total G.O. Bond Debt	$1,180.61	$1,080.32	$100.29
Taxable Assessed Property	$25,850.94	$22,969.19	$2,881.75
Debt to Taxable Assessed Value	4.57%	4.70%	3.48%

Source: NEI Estimates Based on Municipality of Anchorage, 2007.

Table ES-15 shows the ratio of bonded general obligation debt to the taxable assessed value for the MOA Remainder and the ERC Borough using the project location method. The debt to taxable assessed value ratios indicates a marginal decline for the MOA Remainder to 4.48 percent while the ERC Borough would increase to 5.25 percent. Again, these ratios are within the normal range.

Table ES-15. Ratio of Bonded General Obligation Debt to Taxable Assessed Value, Project Location Method ($ Millions)

Category	Current MOA	MOA Remainder	ERC Borough
Municipal G.O. Bonds	$407.33	$392.87	$14.46
School District G.O. Bonds	$773.28	$636.55	$136.73
Total G.O. Bond Debt	$1,180.61	$1,029.41	$151.20
Taxable Assessed Property	$25,850.94	$22,969.19	$2,881.75
Debt to Taxable Assessed Value	4.57%	4.48%	5.25%

Source: NEI Estimates Based on Municipality of Anchorage, 2007.

Key informant interviews indicated that detachment is unlikely to result in a negative effect on the MOA's bond rating given the strength of the current management team, the Municipality's long and successful history, and the fact that the indebtedness ratio falls slightly with detachment. However, the effects of detachment on the future bond rating for the ERC Borough are unclear. These ratings will depend on several other factors, including general economic conditions of the new borough, the strength of the new borough's management team, and the bonded indebtedness ratio (White 2007). The rating will also depend on the fiscal health of the new borough. The study notes in Section 3 and Section 4 that the ERC Borough will either have to cut services or raise tax rates, and that these changes will likely need to be substantial. All of these factors together indicate that the ERC Borough's bond rating has the potential to be lower than the bond rating for the current MOA. The study notes that lowering the bond rating will lead to increased interest rates and higher debt payments. These changes would then negatively affect the budget outlook for the new borough and could result in higher property tax rates.

Major Assets

Any division of government services between the MOA and the proposed ERC Borough will require a division of assets, roughly analogous to a married couple dividing their assets during divorce proceedings. The process of dividing these assets will be long, tedious, and potentially divisive. This study is not capable of projecting the division of these assets given the complexity of the issues

associated with division. Instead of an approximated division, the study provides a discussion of the current value of major assets and the issues associated with division.

MOA assets consist of property, plant and equipment, and the infrastructure that provides taxpayers with business-type services such as water, waste water, electricity, solid waste services, education, and the more general government services such as fire, police, roads, and public transportation.

In a financial sense, these assets are recorded on municipal financial statements in the manner prescribed by the Governmental Accounting Standards Board (GASB), municipal ordinances, and other applicable laws and regulations. Each fiscal year, the MOA publishes a Comprehensive Annual Financial Report; this report contains detailed and summary information about the Municipality's assets and its financial health.

Northern Economics and the project staff have reviewed the Municipality's Comprehensive Annual Financial Statement (CAFR) for Fiscal Year 2005 in an effort to determine what major assets would be involved in any detachment from the MOA by the ERC area.[7]

Major assets were defined as net capital assets, such as land, buildings, equipment, and distribution and collection equipment, for both the traditional government services and also the MOA's business-type activities (such as water, sewer, light and power). Using net capital asset values removes short-term assets from consideration, as well as the myriad financial methods used to support the assets (general obligation bonds, revenue bonds, user fees, contributed capital, etc.).

Government and government services constitute approximately $2.5 billion in major assets, while business-type activities are $0.3 billion, based on the FY 05 CAFR. No one method of allocation is likely to meet the needs of a fair and equitable distribution of assets; in reality, a combination of methods would be used. These include allocations by assets, revenue, area (square footage or acres), population, use, sale, contributed capital cost, or value (cost or market).

It is possible different techniques will be needed to allocate resources between government assets and business-type assets. For example, potential allocation of road assets is fairly straightforward: roads within a given borough (or potential borough) would automatically become part of that borough. A business-type activity such as Solid Waste Services is more difficult—if not impossible—to allocate, from both a financial and environmental perspective. The Hiland Road landfill was permitted by both state and federal government agencies after a long and difficult search; it was established to provide a solid waste repository for all citizens from Girdwood to the Matanuska-Susitna Borough boundary. Despite its location within the potential ERC Borough, it will likely continue to serve as the one solid waste landfill for Alaskans from Girdwood to the Knik River, no matter which borough they live in.

Allocating major assets in a reasonable and equitable fashion may be accomplished with one or more of the following methods. It is highly unlikely that only one method would be used and that a combination of several would be used to distribute assets if detachment becomes reality. These methods are discussed along with potential constraints.

Allocation by Assets

Asset allocation is simplest for those government assets that are physically present in each of the two areas; as noted before, road systems are a good example of allocation by physical asset. The length, condition, and cost of the two road systems can be determined through MOA records, including GIS databases showing road locations, condition, and costs. Simply put, physical assets in each of the two areas should be assigned, in most cases, to that area. However, this ignores the fact that citizens in both areas may have helped pay for those assets.

[7] The 2006 CAFR was not available at the time this report was written.

Allocation by Revenue

Revenue allocation methods will be easiest for business-type activities that can be determined by location. For example, the Anchorage Water and Wastewater Utility (AWWU) maintains system-wide maps with water and sewer connections, hydrants, and the number of metered users. Homeowners are billed on a flat rate basis while large, commercial consumers are charged by the quantity of water and sewer services consumed. Potential revenue can be projected through a combination of location (homeowners) and amount of use (commercial users). Where a product or service can be metered, an equitable distribution of revenue and associated cost can be calculated. At some point, the new ERC entity would assume responsibility for water and sewer; at that time, a final sale (transfer) of assets could be completed.

Allocation by Area

Certain MOA assets are allocated by area; neighborhood parks, schools, and playgrounds could be valued on a square footage basis. The separation and recombination of these major assets could be calculated on a dollar per square foot or acre basis. This method would be more appropriate for those utilities or enterprises that currently serve both the MOA and ERC areas, where use can be tied easily to residency. There may be recreational areas in one area that serve residents in the other; if so, either direct transfer or allocation by area might be a useful method.

Allocation by Population

Population of the two potential areas can be determined fairly readily; allocating by population would require use of that ratio as applied to the asset (or assets) in question. This method could be used to calculate a "fair share" of either revenue or cost streams.[8]

Allocation by Use

Each resident of the MOA Remainder or potential ERC Borough would be charged by use under this allocation method. Examples include landfill, airports, certain recreational areas, etc. Allocation by use, if carefully counted, could be used to divide assets and re-allocate them to either the MOA or ERC areas. This would work better for non-fixed assets such as vehicles and mobile equipment.

Allocation by Sale

Assets could be allocated on a cash or value basis, using comparable or surrogate sales for valuation and asset distribution. The selection of a valuation methodology would be important to ensure equitable and fair distribution of MOA assets, since it would likely be combined with other methods unique to asset class.

Allocation by Contributed Capital

Business-type activities such as AWWU or the Port of Anchorage provide information on the contributed capital or retained earnings within each enterprise fund. The amount of this contributed capital could be tracked since inception and allocated by the ratio (per year) of residents within the MOA Remainder and those within the ERC Borough. Since major growth in the ERC area is relatively recent, this could favor the MOA, first established in 1915 at Ship Creek.

[8] One potential application is allocation of proceeds from the MOA Trust Fund, should that fund remain intact.

Allocation by Cost

Simply stated, each asset would be valued by original cost or, possibly, replacement cost. This method would not take into account current value and that might be a more appropriate method than "historical cost" or "estimated historical cost." Again, detachment would likely require a combination of several allocation methods.

PERS/TRS

The State of Alaska, Public Employees' Retirement System (PERS) and the State of Alaska, Teachers' Retirement System (TRS) provide retirement benefits for members of the MOA and ASD. Besides the State of Alaska, PERS includes employees from 159 other government entities, from all parts of Alaska, including the University of Alaska. Currently, the PERS and TRS systems are running an "unfunded liability" that has raised employer contributions from approximately 10 percent of payroll cost to (recommended) amounts approaching 60 percent (State of Alaska, Department of Administration, Financial Overview, February 2, 2007), for all employees hired before July 1, 2006. This high level of employee contribution will increase staffing costs for both the MOA Reminder and the ERC Borough.

Table ES-16. PERS/TRS Liability ($ Millions)

Category	TRS	PERS
Accrued Liability	6,499	12,844
Asset Values	3,959	8,443
Unfunded Liability	2,540	4,402

Source: Alaska Department of Administration, 2007.

In an effort to resolve the unfunded liability issue, Senate Bill 141 was enacted on July 1, 2006. The bill changed all newly-hired employees to a Defined Contribution (DC) system, similar to 401(k) programs in the private sector. The Defined Benefit (DB) system was closed to new entrants as of that same day.

The new DC system has meant reduced employer contributions for employees hired after June 30, 2006; those older, more experienced employees within the three PERS tiers (and two TRS tiers) will still create a demand for significant employer contributions for the unfunded liability within both PERS and TRS. Data show that employer contributions are already rising (see Table ES-17).

Table ES-17. Required Contribution Rates (% of Salary)

Fiscal Year	TRS	PERS
FY 2005-2006	21.00	19.25
FY 2006-2007	26.00	24.25
FY 2007-2008	54.03	40.89

Source: Stokesbary, 2007.

Detachment effects related to PERS/TRS will depend on the behavior of the new boroughs and external factors such as contracts. At one extreme, the new ERC Borough could hire all new employees and deflect any DB issues raised by PERS and TRS. The net effect would be lower cost of labor and perhaps lower cost of service, along with less experienced employees. However, it is

unlikely that the new borough would be able to find enough qualified employees that were not already vested in either system. At the other extreme, if the new ERC Borough were staffed entirely of former MOA employees covered under older tier DB provisions, its labor costs would be high and likely remain high until the PERS and TRS systems come into balance. In reality, it is likely any new staffing of an ERC Borough would be a mix of experienced MOA employees and new hires. Any employees covered under DB provisions would create greater payroll costs for some time in the future. The ratio is unknown and will remain that way until hiring is complete.

The study is unable to quantify the PERS/TRS effect because it is unknown which employees would serve in each borough. Estimating the PERS/TRS liabilities of each borough with any degree of certainty would require looking at the service records of the current municipal workforce to identify how many employees of each tier worked in each department and in what location. Since this method would allow the identification of individual employees, and make assumptions about their futures, it could potentially raise confidentiality and privacy issues. It would also require knowing the number of employees the ERC Borough and hypothetical MOA Remainder will employ.

Contracts

Through key informant interviews and a review of Municipal documents, the study found that labor contracts were the contracts mostly likely to affect detachment and borough formation. Key informants indicated that detachment could potentially break current contracts and that the new ERC Borough would likely need to negotiate new contracts with the employees it selects to help provide Borough services. While current MOA contracts would likely be a starting point for negotiations, there is no evidence to suggest the new ERC Borough would necessarily negotiate more or less favorable terms than the MOA currently receives.

What is Not Addressed by this Study

This study does not address financial costs associated with the transition from a unified borough to two separate boroughs. Additionally, the study does not attempt to apportion assets that will likely be apportioned through negotiation. Both of these issues will likely raise the initial cost of detachment and borough formation.

Finally, this study does not address the "community" cost of detachment. After more than 30 years as a combined entity, the Municipality of Anchorage has developed its own identity separate from the individual identities of its component communities and neighborhoods. Both the new ERC Borough and the MOA Remainder would have to forge new identities for themselves after separation and that process will take both time and energy.

1 Introduction

1.1 Project Purpose and Document Map

The purpose of this project is to provide independent, impartial, and meaningful analyses of:

- The fiscal feasibility of detaching the greater Eagle River-Chugiak region from the Municipality of Anchorage and incorporating the region as a separate borough government.
- The fiscal effects of the detachment of the Eagle River-Chugiak region would have on the hypothetical residual Municipality of Anchorage.

The conclusions of this report are contained in the Executive Summary. Additional and more detailed information, particularly on the study's analytical method are contained in the individual report sections that follow.

Section 1 contains an introduction to the report including the study team's analytical philosophy and important study limitations.

Section 2 describes key background data and provides a general overview of the study's analytical methods.

Section 3 describes the fiscal effects of detachment and borough formation on general government services including a description of the cost of providing services and expected revenues in 2006, the estimated cost of running both the hypothetical Eagle River-Chugiak Borough and the MOA Remainder, and the estimated general government property tax rates for each MOA tax district after detachment assuming constant service levels.

Section 4 describes the fiscal effects of detachment and borough formation on educational services including a description of the cost of providing educational services and expected revenues in 2006, the estimated cost of running a school district in both the hypothetical Eagle River-Chugiak Borough and the MOA Remainder, and the estimated educational property tax rates for each MOA tax district after detachment assuming constant service levels.

Section 5 describes the current levels of bonded indebtedness for the Municipality of Anchorage and the projected bonded indebtedness for the hypothetical Eagle River-Chugiak Borough and the MOA Remainder if past bond expenditures are split based on which area received the services provided by the bonded revenues. The study also provides ratios of bonded indebtedness to taxable assessed value.

Section 6 discusses the complicated process of dividing municipal assets such as utilities, schools, and equipment between the two hypothetical boroughs.

Section 7 discusses PERS/TRS issues and their effect on the hypothetical boroughs.

Section 8 discusses existing contracts to which the Municipality of Anchorage is a party and how these contracts would be affected by detachment and borough formation.

Section 9 contains references cited by the report.

1.2 Study Philosophy

This study provides an "apples to apples" current service projection of the fiscal effects of Eagle River and Chugiak detaching from the Municipality of Anchorage and subsequently forming a new borough. In order to ensure an "apples to apples" comparison the study assumes that citizens in the new ERC Borough receive or have access to the same government and educational services they currently receive as citizens of the Municipality of Anchorage. Whether or not ERC Borough citizens would want to continue receiving these services is a public policy question that would be decided during the formation process for any new borough. If the study had made these public policy decisions it would cloud the results of the analytical model which is designed to specifically address the fiscal effects of detachment and borough formation.

1.3 Analytical Limitations

While the study's results are very robust, the authors note it has a number of analytical limitations. These include:

- The study is a snapshot of Municipal services and budgets for Fiscal Year 2006. The study does not reflect changes that occurred after the 2006 budgetary process. For example, the study model does not reflect increasing PERS/TRS contributions or rising natural gas prices. Prices for these items rose after the 2006 budgetary process was completed by the Municipality.
- The study uses budgeted costs and revenues as opposed to actual costs and revenues because actual costs and revenues for FY 2006 were not available when the study team began the analysis. The original ADCCED Request for Proposal specified that 2006 data must be used for the study.
- As noted above, the study does not make assumptions about the desire of the hypothetical ERC Borough's citizenry to continue specific services. Thus, the analytical model does not represent the exact service levels that might result after detachment and formation. That said, the model does show what changes would have to be made in service levels to preserve current tax rates or what changes would have to occur in tax rates to preserve current services.

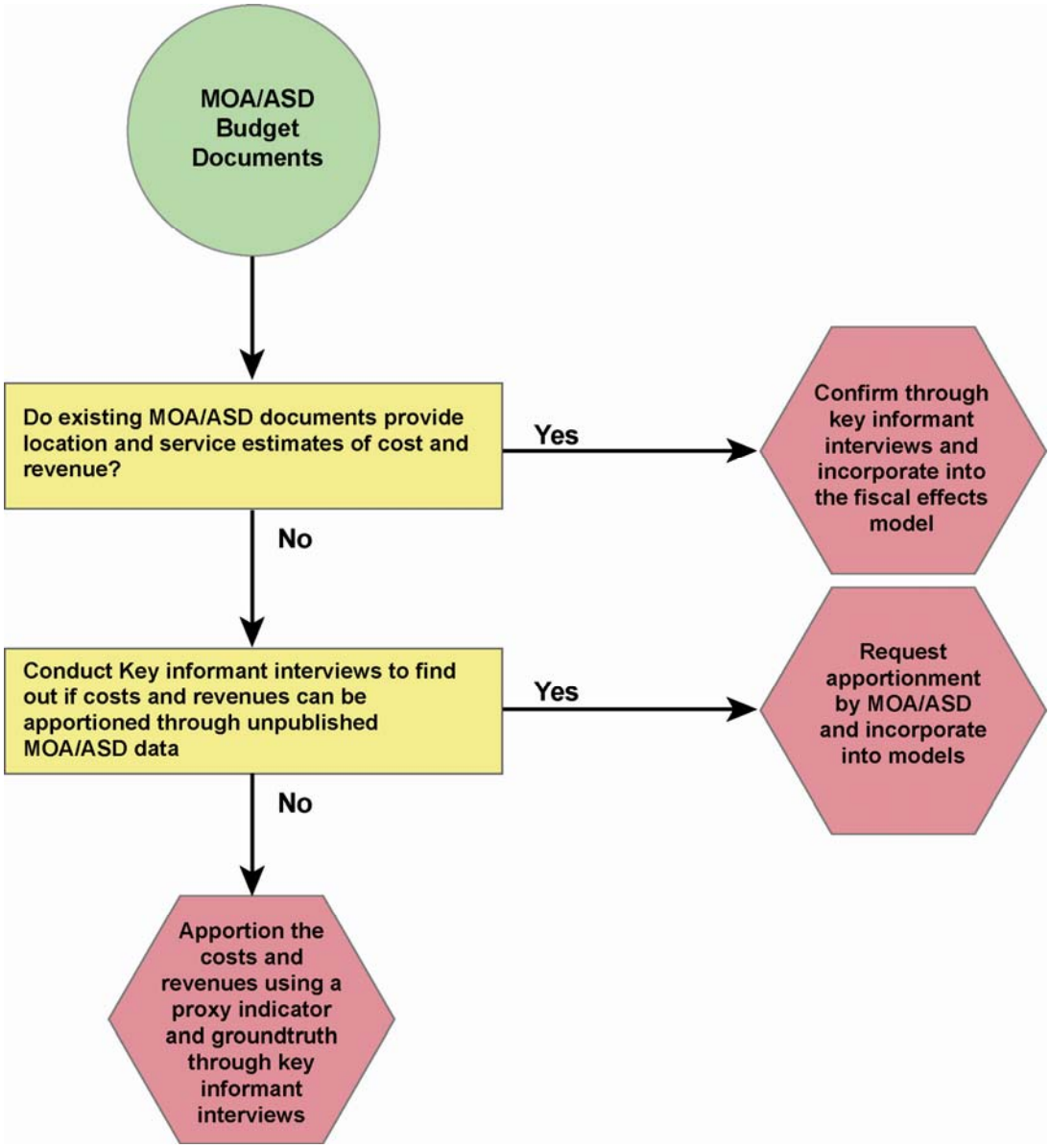
In spite of these limitations, comparisons of the analytical model's projected costs of government and educational services for the hypothetical ERC Borough are within the ranges displayed by a comparison group of other Alaska Boroughs.

2 Methods and Data

2.1 Methods

As noted in Section 1.2, this study focuses on estimating the net fiscal effects of detachment and borough formation under the condition that citizens receive the same level of services after detachment and borough formation as they currently receive from the existing MOA. This approach requires specific and accurate data to ensure an accurate estimate of the net fiscal effects. Whether estimating general government or educational fiscal effects, the study followed the same procedure for gathering information for the study's analytical models. Figure 1 illustrates this procedure.

Figure 1. Analytical Methods



As shown in Figure 1, the study prefers published data explicitly dividing costs and revenues by location over other sources of information. When published data were not available, the study asked key informant interviewees within Municipal government if they had unpublished data apportioning costs and revenues by location. If costs and revenues could not be apportioned by location, the study used proxy methods to apportion the data. For example, the generation of car registration revenues is highly correlated with population, so the analysis used the population ratio between the hypothetical boroughs to apportion revenues from that tax. The three base apportionment methods are:

- Proportional Allocations
- Adjusted Per Capita Allocations
- Proportional plus Fixed Allocations

These methods, described below, apportion costs and revenues using a proxy figure such as population.

Proportional Allocations

In most cases for line-item allocations, Northern Economics allocated revenues and expenses by splitting the amount proportionally based on well-defined variables, including the following:

- Population
- Taxable property value
- Average Daily Membership by school (including district-wide, elementary school, middle school, high school, and charter school)

Allocating with one of these variables assumes the total revenue or expense remains constant, so the sum of the amounts for the Anchorage Remainder and ERC Borough would equal the current Municipality of Anchorage amount.

Adjusted Per Capita Allocations

An alternative allocation method used for many municipal allocations was to use different per capita amounts for each line item, based on information found in the U.S. Census Bureau's Census of Governments about per capita government spending by size class of the organized area.

After detachment, the Anchorage Remainder would be in the same size class as the Municipality of Anchorage, while the new ERC Borough would be in a smaller size class with different per capita amounts. Using data from the U.S. Census of Governments, the analysis adjusted the per capita amounts based on the new organized area's size class. These data show that smaller communities tend to spend less than larger communities either through efficiency or by providing different levels of service. For example, the new ERC Borough would fall into the category of municipalities with 25,000-49,999 citizens. On average, municipalities of this size spent $1,290 per capita in 2002. The MOA falls into the category for municipalities with 200,000-299,999 citizens. These municipalities spent $1,579 per person. Hence, smaller communities spent approximately 81.7 percent per person of what larger communities spent. This allocation method causes the sum of the amounts for the Anchorage Remainder and the Eagle River-Chugiak Borough to be different from the current Municipality amount.

Proportional plus Fixed Allocations

In a few cases, it was determined through key informant interviews that some expenses would be the same for the Anchorage Remainder as they are for the Municipality of Anchorage, regardless of whether a detachment occurs. For these line items, the analysis kept the current line item amounts as is for the Anchorage Remainder and developed estimates for the Eagle River-Chugiak Borough based on the per capita or adjusted per capita amounts.

These allocations caused the sum of the amounts for the Anchorage Remainder and the Eagle River-Chugiak Borough to be greater than the current Municipality Amount.

Each of these methods is described in greater detail in Section 3 and Section 4.

2.1.1 Background Data

This study relies on several key sources of information. A key project goal is to estimate the change in property tax rates that might occur from detachment and formation under 2006 conditions. This goal requires working with FY 2006 data including:

- Major sources of municipal information:
  - Municipality of Anchorage FY 2006 Approved General Operating Budget
  - Municipality of Anchorage Approved Capital Budget 2006-2011
  - Utility/Enterprise Activities Approved 2006-2007 Operating and 2006-2001 Capital Budgets
- Major sources of school district information:
  - Anchorage School District 2005-2006 Adopted Financial Plan
  - Anchorage School District 2006-2007 Adopted Financial Plan

In addition, the study's authors conducted dozens of key informant interviews with MOA and ASD personnel to discuss topics ranging from the attribution of costs to specific fire stations to the disposition of Municipal resources.

2.2 Boundaries, Taxable Value, and Population

The study uses key reference data throughout the analysis. These data do not change when other factors in the study change and include Municipal boundaries, the 2006 taxable assessed value in each tax district, and the estimated 2006 population of the ERC Borough and the MOA Remainder. The following sub-sections discuss each of these items.

2.2.1 Municipal Boundaries

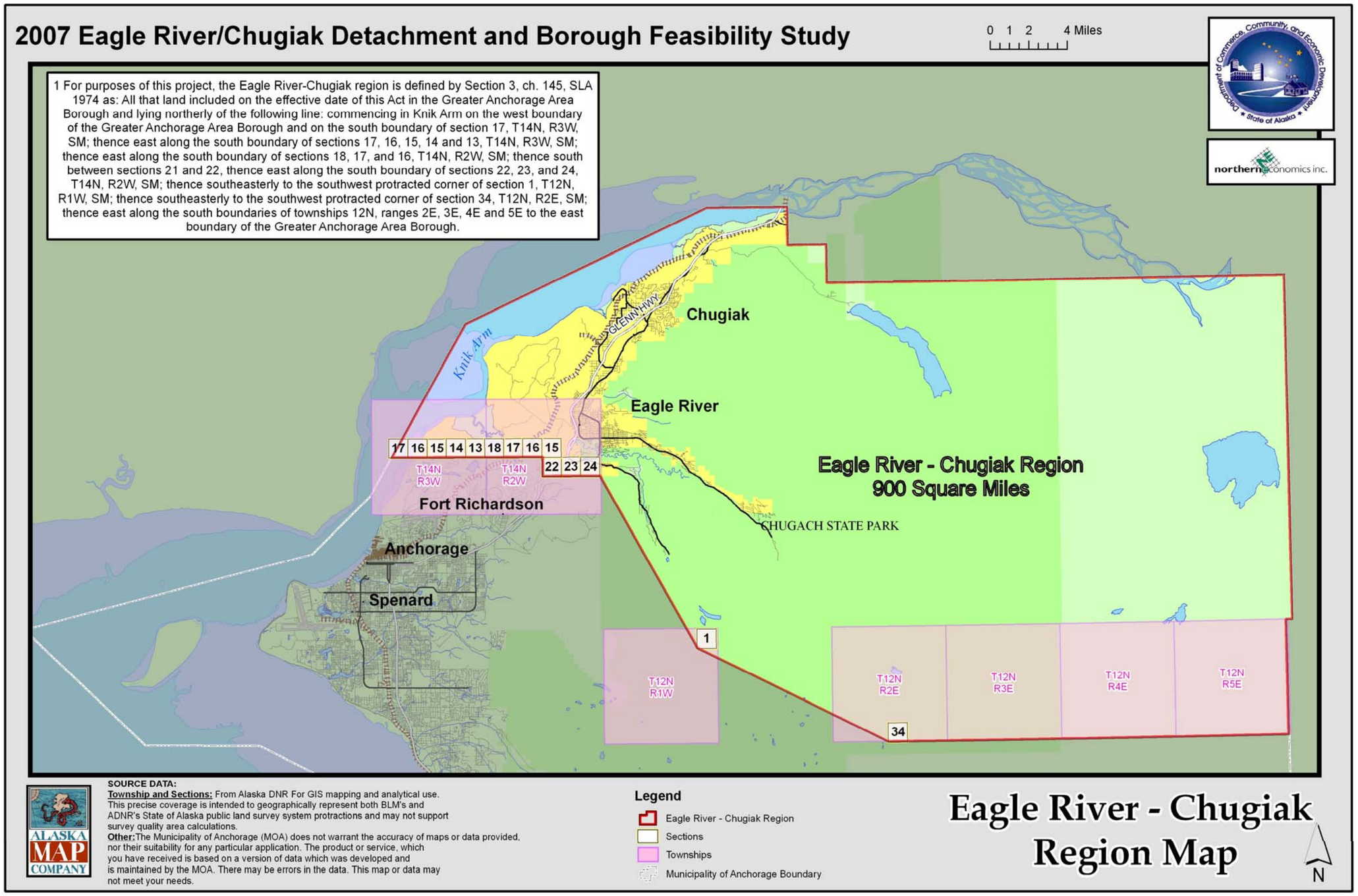
ADCCED defined the boundaries of the hypothetical ERC Borough in the original RFP for this project. That document stated that:

> For purposes of this project, the Eagle River-Chugiak region is defined by Section 3, ch. 145, SLA 1974 as: All that land included on the effective date of this Act in the Greater Anchorage Area Borough and lying northerly of the following line: commencing in Knik Arm on the west boundary of the Greater Anchorage Area Borough and on the south boundary of section 17, T14N, R3W,SM; thence east along the south boundary of sections 17, 16, 15, 14 and 13,

T14N, R3W, SM; thence east along the south boundary of sections 18, 17, and 16, T14N, R2W, SM; thence south between sections 21 and 22, thence east along the south boundary of sections 22, 23, and 24, T14N, R2W, SM; thence southeasterly to the southwest protracted corner of section 1, T12N, R1W, SM; thence southeasterly to the southwest protracted corner of section 34, T12N, R2E, SM; thence east along the south boundaries of townships 12N, ranges 2E, 3E, 4E and 5E to the east boundary of the Greater Anchorage Area Borough.

Figure 2 shows the boundaries of the hypothetical boroughs. For reference purposes the southern border of the ERC near the Glenn Highway stretches just south of the Hiland Road exit, while the northern border is the current MOA border with the Matanuska-Susitna Borough (MSB).

Figure 2. Hypothetical Borough Boundaries



Source: Alaska Map Company, 2007.

2.2.2 2006 Taxable Assessed Value by Tax District

In 2006, the Municipality of Anchorage listed nearly $26 billion in taxable real and personal property. These properties serve as the tax base for the MOA's largest single source of revenue—the real and personal property tax. In 2006, the MOA assessed real property within the municipality at $25.3 billion. Deducted from that amount were appeals to assessment, state credits for the primary residence of senior citizens, state credits for disabled veterans with service disabilities of 50 percent or more, and the MOA's exemption for 10 percent of the value of a primary residence up to $20,000. These adjustments reduced the overall assessed value of real property to $23.0 billion. New construction and personal property added $0.6 billion and $2.2 billion respectively. Each of the taxation districts are shown in Figure 3 while the total taxable assessed value is shown in Table 2.

As shown in Figure 3, the study determined where the boundaries of each taxing district are located relative to the proposed hypothetical boundaries of the two boroughs. Fortunately, the vast majority of taxing districts are located wholly within the boundaries of one borough or the other. There are four Taxing Districts that cross the hypothetical boundaries: 000 (Municipality outside the Bowl with Police-Ft. Richardson), 010 (Eagle River), 030 (Eagle River Valley Rural Road Service Area), and 016 (Municipality outside the Bowl with Police North of Potter Creek). The study made the following decisions regarding these districts:

- Tax District 000 contains no taxable property and is excluded from this portion of the analysis.
- Tax Districts 010 and 030 are effectively wholly within the ERC Borough given the location of taxable property within those districts.
- The taxable value of Tax District 016 is effectively within the MOA Remainder because the portion outside the Remainder is within Chugach State Park.

The analysis estimates that in 2006, the hypothetical MOA would have contained approximately $22.97 billion in total taxable value from personal and real property while the hypothetical ERC Borough would have contained approximately $2.88 billion in taxable value from real and personal property (see Table 1). The assessed value in the ERC Borough as a portion of the assessed value of the entire area is in line with estimates of the ERC Borough's portion of the entire population. Both the 2006 assessed value and 2006 estimated population stand at approximately 12 percent of the study area total. Additionally, the ERC Borough contained 17.8 percent of the new construction valued in 2006. However, the ERC Borough contains only 3.1 percent of the study area's total value of assessed personal property. The net effect is that the ERC Borough contains slightly less taxable value (11.1 percent) than its overall portion of the study area population base (i.e., between 11.8 and 12.0 percent).

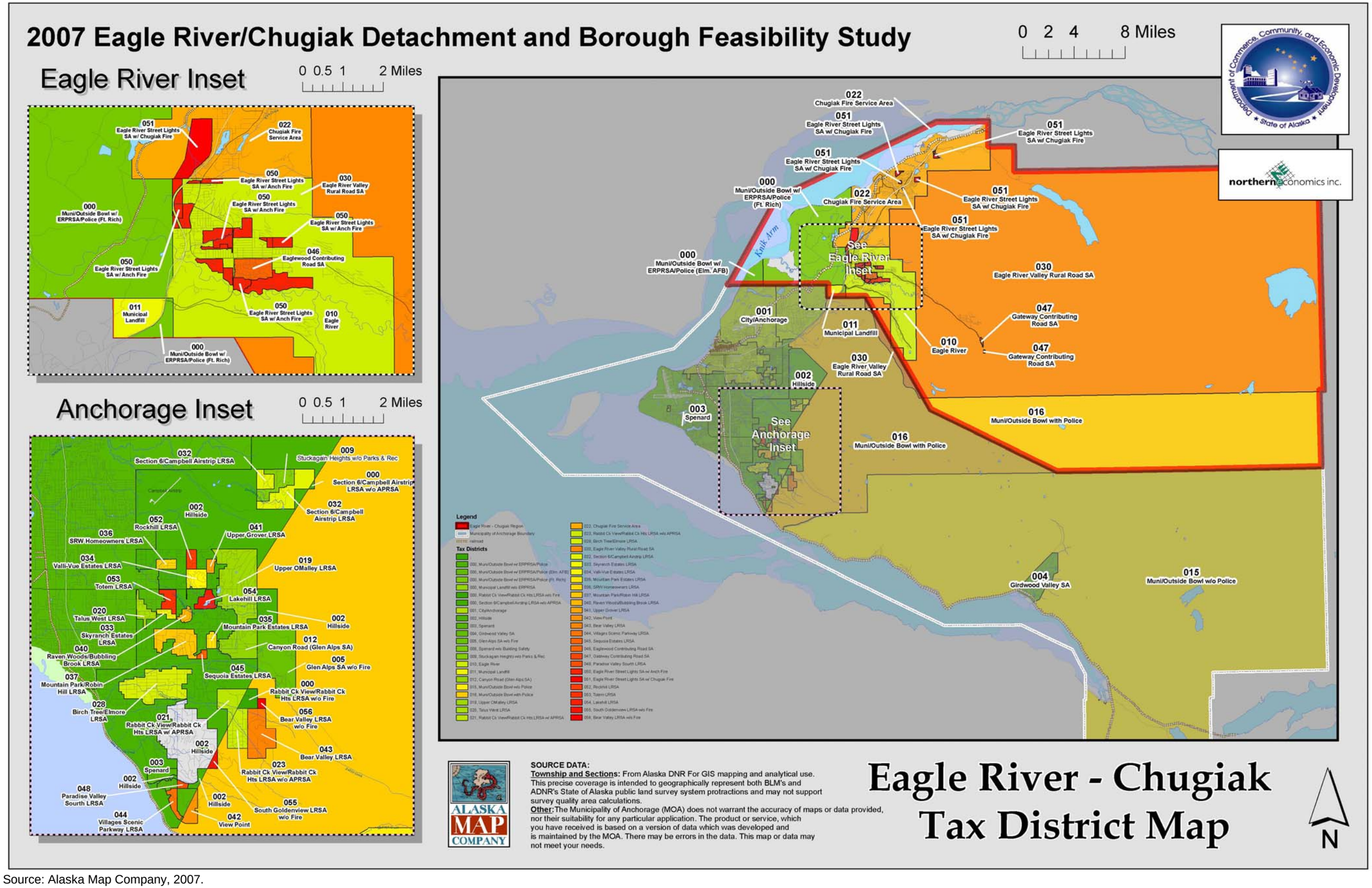
Table 1. Taxable Value by Hypothetical Borough, 2006 Conditions ($ Millions)

Area	Assessed Value	Less Adjustments[9]	New Construction	Personal & Business Property	Total Taxable Value
MOA Remainder	22,330.8	20,319.6	477.5	2,172.0	22,969.2
Eagle River/Chugiak Borough	3,033.5	2,709.8	103.2	68.8	2,881.8
Attributable to the ERC (%)	12.0%	11.8%	17.8%	3.1%	11.1%
Total	25,364.3	23,029.4	580.6	2,240.8	25,850.9

Source: NEI Estimates based on Municipality of Anchorage, 2007.

[9] Adjustments include an adjustment factor for appeals, deductions for state credits, and deductions for the residential property exemption.

Figure 3. Current Municipality of Anchorage Tax Districts



Source: Alaska Map Company, 2007.

Table 2. Total Assessed and Taxable Value by District ($ Millions), 2006[10]

Tax Dist.	Tax District Name	Assessed Value	Less Adjustments[11]	New Construction	Personal Property	Total Taxable Value
1	City/Anchorage	5,520.0	4,988.0	77.5	669.3	5,734.7
2	Hillside	945.5	868.2	28.0	11.2	907.5
3	General Citywide	14,109.0	12,838.4	317.7	1,467.4	14,623.4
4	Girdwood	335.0	319.2	10.3	12.6	342.0
5	Glen Alps	26.9	25.2	0.8	0.6	26.6
8	Tanaina	21.8	20.4	0.0	0.0	20.4
9	Stuckagain Heights	45.0	42.2	0.3	0.0	42.5
10	Eagle River	937.5	833.0	27.5	25.7	886.1
11	Eagle River Land Fill	0.0	0.0	0.0	0.0	0.0
12	Canyon Road	63.4	57.3	0.8	0.5	58.6
15	Muni/Outside Bowl	50.0	47.0	3.8	5.4	56.2
16	North of Potter Creek	23.7	22.8	1.5	0.1	24.4
19	Upper O'Malley	275.9	255.1	4.9	0.6	260.7
20	Talus West	55.1	48.7	0.5	0.2	49.3
21	Rabbit Creek View	2.3	2.2	0.1	0.6	2.9
22	Chugiak	834.6	739.9	34.0	25.2	799.0
23	Rabbit Creek View	25.3	23.6	0.8	0.2	24.6
28	Birchtree/Elmore	157.3	141.5	1.6	0.6	143.7
30	Eagle River Valley	137.1	126.1	2.3	0.7	129.1
31	So. Golden View	213.6	201.3	24.1	1.0	226.4
32	Campbell Airstrip	45.1	42.4	1.5	0.3	44.1
33	Sky Ranch	23.4	20.8	0.1	0.0	21.0
34	Valli Vue	79.6	70.5	0.6	0.3	71.4
35	Mt. Park	30.2	27.0	0.1	0.4	27.6
36	SRW Homeowners LRSA	31.7	27.7	0.6	0.0	28.3
37	Mt. Park/Robin Hill	87.0	78.7	1.2	0.2	80.0
40	Raven Woods	12.1	10.0	0.0	0.0	10.0
41	Upper Grover	11.9	10.2	0.0	0.0	10.3
42	View Point	1.4	1.4	0.0	0.1	1.5
43	Bear Valley LRSA	24.8	23.6	0.1	0.1	23.8
44	Villages Scenic Pkwy LRSA	10.2	9.9	0.0	0.1	9.9
45	Sequoia Est. LRS	13.7	13.0	0.0	0.0	13.0
46	Eaglewood Cont. RSA	244.9	221.3	0.3	6.5	228.1
47	Gateway Cont. RSA	5.8	5.5	0.1	0.0	5.7
48	Paradise Valley South LRSA	9.4	8.9	0.4	0.0	9.3
50	Eagle River St. Lights	770.3	690.7	27.7	10.7	729.1
51	E.R. St. Lights/Chug. Fire	103.3	93.3	11.3	0.0	104.5
52	Rockhill LRSA	27.5	25.4	0.1	0.1	25.6
53	Totem LRSA	19.8	17.9	0.1	0.0	18.0
54	Lake Hill LRSA	27.0	25.6	0.1	0.0	25.6
55	So. Goldenview W/O Fire	5.8	5.4	0.0	0.0	5.4
56	Bear Valley LRS W/O Fire	0.2	0.2	0.0	0.0	0.2
Totals		**25,364.3**	**23,029.4**	**580.7**	**2,240.8**	**25,850.9**

Source: Municipality of Anchorage Office of Management and Budget, 2007.

[10] This tables does not include Tax District 000 as the MOA does not tax property is that district.

[11] Adjustments include an adjustment factor for appeals, deductions for state credits, and deductions for the residential property exemption.

2.2.3 Population

The study estimates the 2006 population in the hypothetical ERC Borough and MOA Remainder because official ADCCED population numbers do not divide the current MOA into regions. In order to accomplish this estimation, the analysis first calculates the 2000 population in each constituent region using GIS data from the 2000 U.S. Census. The study then adjusts for growth in population for each area by the growth in Alaska Permanent Fund Dividend (PFD) applications. There is no reason to believe that application rates by qualified individuals should differ by region within the MOA. The growth in PFD applications has been a good proxy for total population growth. It also allows the study to account for the ERC Borough's fast population growth over the last several years. These estimated populations are then used to calculate population ratios which are applied to ADCCED's official 2006 figures. ADCCED reports that in 2006, the MOA's population totaled 282,813 individuals. This analysis estimates that 12.02 percent of that population lives in what would be the ERC Borough while 87.98 percent of that population is in what would be the MOA Remainder.

Table 3. Estimated 2006 Populations

Area	Estimated 2006 Population (Number)	Estimated 2006 Population (%)
Municipality of Anchorage (Remainder)	248,820	88.0
Eagle River/ Chugiak Borough	33,993	12.0
Total	282,813	100.00

Source: NEI Estimates based on 2000 U.S Census and Alaska Permanent Fund Division (2000-2005)

3 Fiscal Effects on Municipal Services, Costs, and Revenues

3.1 Summary

This summary section discusses the results of the analysis of Municipal services, costs, and revenues. The following sub-sections describe the study's analytical methods and the assumptions in greater detail. The study estimates that detaching Eagle River and Chugiak (ERC) from the current MOA and the subsequent formation of a new ERC Borough would result in higher property tax mill rates for ERC Borough taxpayers unless the new ERC Borough made substantial cuts in the costs of government services or located new revenue sources. As shown in Table 18, the analysis estimates the cost of running the ERC Borough under 2006 conditions at $38.17 million to $44.65 million per year. Under the current tax regime, the ERC Borough could expect to generate approximately $34.29 million in revenue.[12] Thus, the study estimates that the borough would face an immediate budget deficit of between $3.87 million and $10.36 million per year.

In order to balance the budget, the new borough would have to cut the cost of general government between 10 percent and 23 percent. In the absence of budget cuts or a new revenue source, property tax mill rates would increase and the study estimates that mill rates would rise somewhere between a low of 1.63 mills (adjusted cost per capita method) and 3.47 mills (cost per capita method). The effect on the hypothetical MOA Remainder on revenues is much more subdued. The study estimates that, under 2006 conditions, general government revenues would exceed the cost of general government by roughly $7.37 million and taxpayers in the MOA Remainder could expect a slight reduction in their property taxes of approximately 0.42 mills.[13]

Table 4. Estimated Revenue and Cost of General Government for Hypothetical Boroughs

	2006 Budget Comparison ($ Millions)		
		ERC Borough	
Service Name	MOA Remainder	ACPC Method	CPC Method
Estimated Revenue	328.76	34.29	34.29
Estimated Cost	321.39	38.17	44.65
Total Difference	*7.37*	*-3.87*	*-10.36*
Difference as a Portion of General Government Cost	*2%*	*-10%*	*-23%*
Equivalent Net Change in Property Tax Mill rates	*-0.42*	*1.63*	*3.47*

Source: NEI Estimates, 2007.

Changes in property tax rates affect taxpayers based upon the taxable assessed value of their property. In the absence of budget cuts or a new revenue source, the owner of an ERC Borough property with a taxable assessed value of $250,000 could expect to pay a tax increase between $407 and $867 per year under 2006 budget and service levels. In contrast, the taxpayer of a similarly assessed property

[12] As previously noted, these estimates assume a continuation of the same level of services ERC Borough citizens enjoy as citizens of the current MOA.

[13] Given the model's level of precision the authors believe that this result means that detachment could also result in a "no change" scenario for remaining MOA taxpayers. However, the likelihood of a positive result is higher than the likelihood of a "no change" result.

located in the MOA Remainder would continue to receive general government services at 2006 levels, but would experience an estimated $106 reduction in their property tax bill.

Table 5. Changes in Property Taxes for General Government Services in MOA Remainder and ERC Boroughs with 2006 Level of Services Provision

Taxable Assessed Value	MOA Remainder	ERC Borough	
		ACPC Method	CPC Method
$ 100,000	-$42	$163	$347
$ 150,000	-$64	$244	$520
$ 200,000	-$85	$326	$694
$ 250,000	-$106	$407	$867
$ 300,000	-$127	$489	$1,040
$ 350,000	-$148	$570	$1,214
$ 400,000	-$170	$651	$1,387

Source: NEI Estimates, 2007.

The results in Table 5 reflect only the cost of general government services at the 2006 services provision level and do not include any additional tax burdens associated with the operation of a local school district, which are discussed in Section 4. Additionally, these results do not reflect gains or losses from the one-time disposition of joint assets currently held by the MOA (see Section 6) or the transition costs associated with detachment and creation of the ERC Borough. The results clearly show that the long-term sustainability of the ERC Borough at the general government level would require:

- A significant increase in tax revenues from property taxes or other revenue sources if residents of the ERC Borough want to continue to receive their 2006 services level;

and/or

- A significant reduction in expenditures related to general government services if borough citizens felt their current tax burdens represented the maximum amount they would be willing to pay for general government. The authors note that under this scenario ERC Borough residents could expect to receive fewer services for the same tax they currently pay.

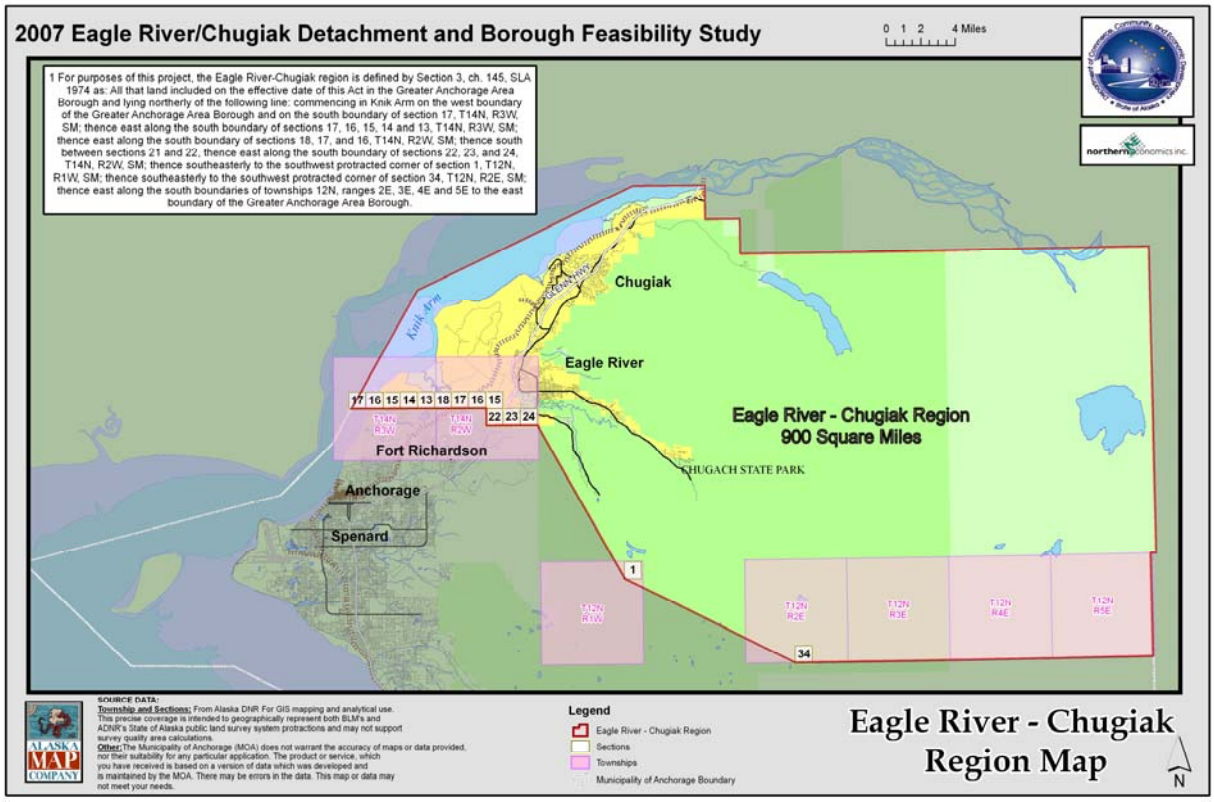
The author's emphasize the and/or above because a combination of revenue increases and service expenditure reductions could be more palatable to the citizens of the potential ERC Borough than a solution which relies solely on revenue increases or budget cuts.

The following sub-sections discuss the model and method of analysis used to generate these results.

3.2 Division of General Government Costs between Hypothetical Boroughs

This section examines the location, type, and cost of services provided by the MOA. The division of these services between locations is an important step in determining the overall fiscal effects of ERC detachment and establishment of a new borough. The partitioning was done by overlaying the boundaries of the hypothetical ERC Borough over maps showing the service areas for various general government services. Figure 4 shows the boundaries of the hypothetical ERC Borough as defined by the original Request for Proposal for this project.

Figure 4. Hypothetical Borough Boundaries



Source: Alaska Map Company

The analysis categorizes municipal services into four location-types of services as specified in the project's original Request for Proposal:

- **Areawide** – Services that the MOA provides to all tax districts within the current MOA. For example, the MOA provides general government services such as property appraisal to all of the MOA's 57 tax districts.
- **Overlapping** – Services provided to some, but not all, of the MOA's current tax districts and a portion of these tax districts would be in the ERC Borough or the MOA Remainder.
- **Wholly Attributable to the ERC Borough** – Services that the MOA currently provides only to tax districts wholly, or effectively wholly, within the proposed ERC Borough. For example, the Eagle River Street Lights Service Area is wholly contained within the boundaries of the ERC Borough.
- **Wholly Attributable to the MOA Remainder** – Services that the MOA currently provides only to tax districts wholly, or effectively wholly, within the boundaries of the proposed MOA Remainder. For example, the services of the Municipal Light and Power fall wholly within the boundaries of the proposed MOA Remainder.

3.2.1 2006 Municipal Services by Location

This section begins with a discussion of the costs of services by the four location categories or types. The following sections then discuss in more detail the budget line items included in each of the

location types. Services in the areawide category account for the largest portion of Municipal general government expenditures (Table 6). The cost of providing areawide services represented 60.1 percent of the total general government operating budget in 2006. Overlapping services absorb the next largest portion of the budget (25.1 percent) followed by services attributable to the MOA Remainder (13.2 percent). Services wholly attributable to the ERC Borough absorbed only 1.7 percent of the FY 2006 budget.

Table 6. Municipal General Government Services by Location, FY 06 Operating Budget

Service Location	FY 06 Budget ($ Millions)	FY 06 Budget (%)
Areawide	218.10	60.1
Overlapping	90.95	25.1
Eagle River-Chugiak Borough	6.08	1.7
MOA Remainder	47.92	13.2
Total	363.05	100.00

Source: Municipality of Anchorage, 2005.
Notes: The budgeted amount reflects the Direct Organizational Cost for General Government services and the Operating and Non-Operating Expenses for the utilities and enterprise activities.

3.2.1.1 Areawide Services

Maintenance and Operations is by far the largest single budget item of areawide services, and accounts for more than one-third of that budget category (see Table 7). Public Transportation, Office of Economic and Community Development: Administration and Library, Health and Human Services, Information Technology, Municipal Manager, and Finance Department are the next largest budget items, each receiving more than $10 million in the FY 06 budget. Other areawide services received amounts ranging from a low of $.30 million for equal opportunity to a high of $8.44 million for development services.

Table 7. Areawide Municipal Services, FY 06 Operating Budget[14]

Service Name	2006 Budgeted Amount ($ Millions)
Maintenance and Operations[15]	81.33
Public Transportation	17.27
Office of Economic and Community Development: Administration and Library	16.91
Health and Human Services	14.72
Information Technology	12.99
Municipal Manager	12.32
Finance	11.52
Development Services	8.44
Project Management and Engineering	7.17
Heritage Land Bank	6.60
Traffic	5.78
Planning	5.54
Municipal Attorney	5.14
Employee Relations	4.04
Assembly	2.55
Purchasing	1.38
Office of the Mayor	1.30
Management and Budget	1.10
Chief Fiscal Officer	.68
Equal Rights Commission	.57
Internal Audit	.45
Equal Opportunity	.30
Total	**218.10**

Source: Municipality of Anchorage, 2005.
Notes: The budgeted amount reflects the direct organizational cost for General Government services and the operating and non-operating expenses for the utilities and enterprise activities.

3.2.1.2 Overlapping Services

The Anchorage Police Department (APD) is the largest component of the overlapping services category, representing more than 70 percent of the costs in this category (see Table 8). The study notes that there are other Municipal entities that provide overlapping services such as Solid Waste Services and the Anchorage Water and Wastewater Utility (AWWU). However, these services do not affect general government costs (or property tax rates). The disposition of these entities is discussed in Section 6.

[14] The authors note that debt services from capital projects included as part of the total for each line item. Unfortunately, currently available data does not allow the project to break out debt service repayments by location.

[15] All services except for Eagle River Street Lights SA and Eagle River Contribution to CIP.

Table 8. Overlapping Municipal Services, FY 06 Operating Budget

Service Name	2006 Budgeted Amount ($ Millions)
Police Department	66.69
Fire Department[16]	24.26
Total	**90.95**

Source: Municipality of Anchorage, 2005.
Notes: The budgeted amount reflects the Direct Organizational Cost for General Government services and the Operating and Non-Operating Expenses for the utilities and enterprise activities.

3.2.1.3 ERC Borough Services

As shown in Table 9, the largest municipal service provided wholly within the potential ERC Borough is parks and recreation. This service accounts for nearly one-half of the category total. The budget for this line item includes the inter-governmental costs that Anchorage Parks and Recreation charges the Office of Economic and Community Development for services provided.

Table 9. Municipal Services Wholly Attributable to the Eagle River-Chugiak Borough, FY 06 Approved Budget

Service	2006 Budgeted Amount ($ Millions)
OECD: Eagle River/Chugiak Parks & Recreation	2.96
Maintenance & Operations: ER Street Lights SA & ER Contribution to CIP	2.46
Fire Department: Chugiak Fire & Rescue	.67
Total	**6.08**

Source: Municipality of Anchorage, 2005.
Notes: The budgeted amount reflects the Direct Organizational Cost for General Government services and the Operating and Non-Operating Expenses for the utilities and enterprise activities.

3.2.1.4 MOA Remainder Services

Major budget items in this category include Anchorage Fire & Rescue and Girdwood Fire & Rescue, Anchorage Park and Recreation, and the Office of Economic and Community Development. The total amount is $47.92 million.

Table 10. Municipal Services Wholly Attributable to the MOA Remainder, FY 06 Operating Budget

Service Name	2006 Budgeted Amount ($ Millions)
Fire Department: Anchorage Fire & Rescue and Girdwood Fire & Rescue	34.04
Anchorage Parks and Recreation	10.80
Office of Economic and Community Development: Museum	3.08
Total	**47.92**

Source: Municipality of Anchorage, 2005.
Notes: The budgeted amount reflects the Direct Organizational Cost for General Government services and the Operating and Non-Operating Expenses for the utilities and enterprise activities.

[16] All services except for Anchorage Fire & Rescue, Chugiak Fire & Rescue, and Girdwood Fire & Rescue

3.2.2 Methods for Apportioning and Estimating Costs of Services

The following subsections provide details on the four different methods used to apportion the FY2006 costs of general government municipal services between the hypothetical ERC and MOA Remainders.

The analysis evaluated each service identified in Section 3.2 and selected the most appropriate methodology for that type of service. The four methods, current and direct cost, adjusted cost per capita, cost per capita, and custom estimates, are described in greater detail below.

3.2.2.1 Current and Direct Cost (CDC)

This method assumes that the total cost of service items would be the same under detachment as they are under the 2006 municipal configuration. For example, the MOA Remainder would still have an eleven-member assembly after detachment. Hence, there is no reason to think that the cost of the MOA Remainder's Assembly would be different under the detachment scenario. Additionally, there is no reason to think that specific line items wholly attributable to specific areas will change as long as those line items are not receiving support from another line item. The CDC method applies to some areawide line items for the MOA Remainder and to some wholly attributable line items in both the MOA Remainder and the detached ERC Borough.

3.2.2.2 Adjusted Cost per Capita (ACPC)

Every five years the U.S. Census Bureau conducts a census of municipal governments. Data from this census show that smaller governments spend less per person on general government expenditures than larger government units. The new ERC Borough would fall into the category of municipalities with 25,000-49,999 citizens. On average, municipalities of this size spent $1,290 per capita in 2002. The MOA falls into the category for municipalities with 200,000-299,999 citizens. These municipalities spent $1,579 per person. Thus, smaller communities in the 25,000-49,999 category spent 81.7 percent per capita of what municipalities in the larger category spent (see Table 11).

Table 11. Expenditure Ratios Collected 2002 U.S. Census of Governments

Expenditure Type	Per Capita Expenditures by Municipal Size		Expenditure Ratio
	Pop. 200,000-299,999	Pop. 25,000-49,999	
General Government Expenditures	$1,579	$1,290	81.7%

Source: U.S. Census of Governments, 2002

The Adjusted Cost per Capita (ACPC) calculates the current cost per capita of providing a service to the current Municipality of Anchorage and multiplies that number by the expenditure ratio to calculate an expected per capita cost of providing the same service. The analysis only uses the ACPC method to estimate cost of areawide line items and overlapping service items in the ERC Borough. This creates an optimistic scenario which assumes greater efficiency through a smaller government size. This method is a variant of the fiscal impact method described in Burchell et al. (1986).

3.2.2.3 Cost per Capita (CPC)

The CPC method assumes that the provision of a service will cost the same per capita under detachment as it does now under the 2006 municipal configuration. This method is described in Burchell et al. (1986). The method looks at current total costs in the MOA and divides them by the

most recent population estimates to calculate a cost per capita. The study then assumes that the cost of providing services under detachment would be the same per capita as it is now. This method applies to line items for the hypothetical MOA Remainder, where the study does not use the CDC method. Additionally, as described below, it provides an alternative method for estimating costs in the hypothetical ERC Borough.

The authors believe that one reason that smaller governments spend less per person than larger governments is because they are providing lower levels of service. Another reason could be that smaller governments are more efficient. It is unclear which of these reasons has the greater effect on the numbers collected by the Census of U.S. Governments. The study uses the CPC method to provide a more conservative estimate of what it might cost to run the ERC Borough if it turns out that the smaller government is not more efficient.

3.2.2.4 Custom Estimates

A few line items do not neatly fall into one of the three previous categories. In these cases, the authors conducted key informant interviews to develop custom estimation methods which fit the particular service item. For example, the Anchorage Fire Department was able to provide a direct estimate of the cost of providing service through Fire Station 11 in Eagle River (Jones 2006). This estimate was not available through official MOA publications.

3.2.3 Estimated Cost of Running the Hypothetical Boroughs

Overall, the analysis estimates that the cost of running the MOA Remainder would be approximately $321.39 million, while the cost of running the detached ERC Borough would be between $38.17 million and $44.06 million (see Table 12).

Table 12. Detached Cost of Service Estimates

Service Type	Detached 2006 Cost of Services ($ Millions)		
		Eagle River-Chugiak Borough	
	MOA Reminder	ACPC	CPC
Areawide	195.25	20.82	25.24
Overlapping	78.22	11.26	12.74
ERC Borough or MOA Remainder Only	47.92	6.08	6.08
Total	**321.39**	**38.17**	**44.06**

Source: NEI Estimates, 2007.

The sections below describe the estimated cost of services in both the hypothetical MOA Remainder and the new ERC Borough.

3.2.3.1 Cost of Services in the Hypothetical MOA

The analysis estimates that the hypothetical MOA Remainder would cost $321.39 million to operate under the detachment scenario (see Table 13). This amount is a 12.5 percent reduction compared to the actual 2006 budget of $363.05 million. The study notes that the 12.5 percent reduction is roughly comparable to the 12 percent reduction in population that would be expected under detachment.

The reason that some costs do not change proportionately with population numbers is that the base costs of certain services are unlikely to change with detachment. For example, the Municipal Assembly is assumed to stay the same size whether or not detachment occurs. Additionally, other services like equal rights or equal opportunity would not necessarily shrink with a relatively small decrease in population. That is not to say that these offices won't face cutbacks with a shrinking tax base. It is certainly possible that the municipal executive and legislative branches could work to reduce expenditures in all departments under detachment. However, these are policy decisions for those branches of government.

The largest line items in the MOA budget are Maintenance and Operations, the Anchorage Police Department, and the Anchorage Fire Department (see Table 13). These three areas account for 60 percent of the cost of municipal services (excluding educational services).

Table 13. Estimated Cost of Municipal Services in the Hypothetical MOA Remainder

Service Name	Type	Allocated 2006 Budgeted Amount ($ in millions)
Maintenance and Operations	Areawide	71.55
Police Department	Overlapping	58.61
Fire Department	Wholly Attributable	34.04
Fire Department	Overlapping	19.61
Public Transportation	Areawide	16.17
Office of Economic and Community Development	Areawide	14.88
Information Technology	Areawide	12.99
Health and Human Services	Areawide	12.95
Municipal Manager	Areawide	10.84
Anchorage Parks and Recreation	Wholly Attributable	10.80
Finance	Areawide	10.14
Development Services	Areawide	7.41
Project Management and Engineering	Areawide	6.31
Heritage Land Bank	Areawide	5.81
Traffic	Areawide	5.09
Planning	Areawide	4.88
Municipal Attorney	Areawide	4.52
Employee Relations	Areawide	3.55
Office of Economic and Community Development	Wholly Attributable	3.08
Assembly	Areawide	2.55
Purchasing	Areawide	1.38
Office of the Mayor	Areawide	1.15
Management and Budget	Areawide	1.10
Chief Fiscal Officer	Areawide	0.68
Equal Rights Commission	Areawide	0.57
Internal Audit	Areawide	0.45
Equal Opportunity	Areawide	0.30
Total		321.39

Source: NEI Estimates, 2007.

3.2.3.2 Cost of Services in the Hypothetical ERC

The study estimates that the cost of running the ERC Borough's municipal government would be between $38.17 million and $44.06 million under 2006 conditions (see Table 14). These numbers assume that service levels stay the same. For example, the study assumes the new ERC Borough would continue the current PeopleMover service provided within Eagle River and between ERC population centers and the Anchorage PeopleMover system. As with the discussion of Anchorage, changing service levels is a policy decision for the citizens of the borough after detachment or during the detachment process. The largest line items are maintenance and operation, police service, fire services, the office of economic and community development, and solid waste services. These five service providers account for more than two-thirds of the expected cost of providing services based on an "apples to apples" comparison.

Table 14. Estimated Cost of Municipal Services in the Hypothetical ERC Borough

Service Name	Type	Allocated 2006 Budgeted Amount ($)	
		ACPC Method	CPC Method
Maintenance and Operations	Areawide	7.99	9.78
Police Department	Overlapping	6.60	8.08
Fire Department	Overlapping	4.66	4.66
Office of Economic and Community Development	Wholly Attributable	2.96	2.96
Maintenance and Operations	Wholly Attributable	2.46	2.46
Office of Economic and Community Development	Areawide	1.66	2.03
Health and Human Services	Areawide	1.45	1.77
Information Technology	Areawide	1.28	1.56
Municipal Manager	Areawide	1.21	1.48
Finance	Areawide	1.13	1.38
Public Transportation	Areawide	1.10	1.10
Development Services	Areawide	0.83	1.01
Project Management and Engineering	Areawide	0.70	0.86
Heritage Land Bank (Equivalent)	Areawide	0.65	0.79
Traffic	Areawide	0.57	0.70
Planning	Areawide	0.54	0.67
Fire Department	Wholly Attributable	0.67	0.67
Municipal Attorney	Areawide	0.50	0.62
Employee Relations	Areawide	0.40	0.49
Assembly	Areawide	0.25	0.31
Purchasing	Areawide	0.14	0.17
Office of the Mayor	Areawide	0.13	0.16
Management and Budget	Areawide	0.11	0.13
Chief Fiscal Officer	Areawide	0.07	0.08
Equal Rights Commission	Areawide	0.06	0.07
Internal Audit	Areawide	0.04	0.05
Equal Opportunity	Areawide	0.03	0.04
Total		38.17	44.06

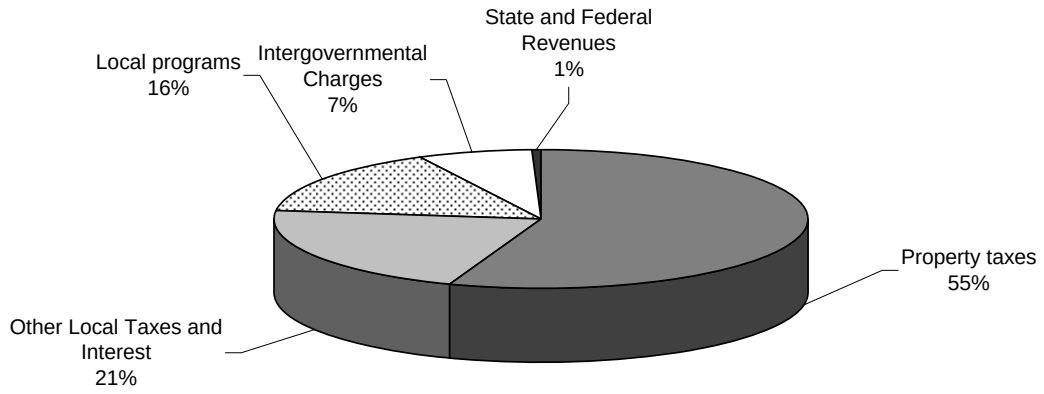
Source: NEI Estimates, 2007.

3.3 Municipal Revenues

3.3.1 Municipal Revenues by Source

The Municipality of Anchorage is funded through a combination of local, state, and federal revenues with local revenue sources such as property taxes, program revenues, and other local taxes providing more than 92 percent of all revenue. Revenues from state and federal sources each accounted for less than one-half of one percent of all budgeted revenues in 2006. Other revenue sources accounted for just over seven percent of all budgeted revenues (See Figure 5).

Figure 5. Municipal Revenues by Source



Source: Municipality Of Anchorage (2006b).

In 2006, estimated revenues for the MOA totaled $363.1 million. Property taxes are the dominant revenue source for the current Municipality of Anchorage (See Figure 5 and Table 15). In 2006, property taxes comprised 55.57 percent of revenues budgeted by the Municipality. These taxes totaled $201.7 million and include general property taxes and special service taxes, including limited road service area and rural road service area property taxes.

Table 15. Municipal Revenues by Source

Revenue Source	2006 Estimated Revenues ($ Millions)
Property Taxes	201.73
Other Local Taxes and Interest	77.21
Local Programs	56.53
Intergovernmental Charges	25.52
State and Federal Revenues	2.06
Total	**363.06**

Source: Municipality Of Anchorage (2006b).

Other local tax revenues, including tobacco taxes, lodging taxes, municipal utility/enterprise service assessment (MUSA/MESA) payments, and automobile rental taxes, make up the second largest revenue source, accounting for 21.27 percent of budgeted revenues, or $77.2 million in 2006. These four categories noted above comprise 60.5 percent of other local taxes and interest. Other important

revenue sources in this category include surplus revenues from the operation of certificated utilities and the contribution from the MOA trust fund.

Municipal residents and visitors can pay to participate in municipally run programs. Additionally, the municipality charges service fees, fines, penalties, and forfeitures for certain actions. This combined category of revenues makes up the third largest source of revenue for the Municipality. The FY 2006 budget estimates that local program fees will comprise 15.57 percent of total FY 2006 revenues, or $56.5 million.

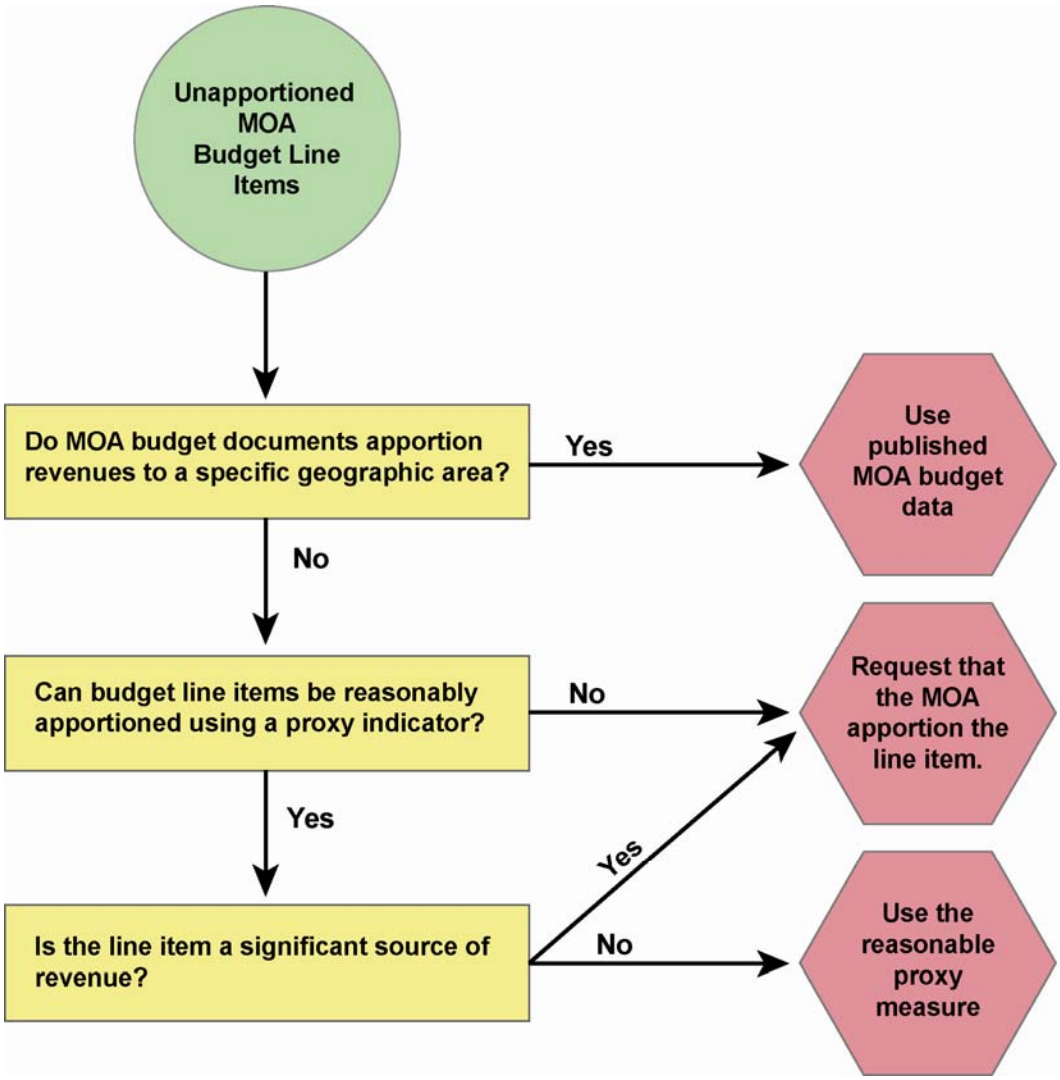
Intergovernmental Charges (IGC) outside the approved general government budget represent just over seven percent of expected FY 2006 revenues, or approximately $25.5 million. These revenues are charges from the MOA to other government entities that were not otherwise budgeted and include charges for services provided to utilities and grants the Municipality is managing.[17]

State revenues account for less than one-half of one percent of expected FY 2006 revenues. This percentage is approximately $1.55 million. Electric co-op allocation makes up the largest share of the state revenue sources. Other sources are liquor licenses, fisheries taxes, and payments in lieu of taxes. Federal sources also account for less than one-half of one percent of expected FY 2006 revenues. More than 92 percent of this category is made up of payments in lieu of property taxes.

As noted in Section 3.2.1, in 2006 the Municipality of Anchorage budgeted for revenues of $363.1 million. A key element of this project is determining from where those revenues flow and whether to attribute them to sources either in the hypothetical MOA Remainder or in the hypothetical ERC Borough. The study used a multi-step process to geographically divide revenue. This process is outlined in Figure 6.

[17] Discussions with MOA staff indicate that 40 percent of this money comes from charges to utilities, 40 percent comes from charges to capital projects, and 20 percent comes from charges to grants for services provided. These services can include management services or specific requests to other departments for support.

Figure 6. Process for Apportioning Revenues



The steps in this process include:

- Examine whether the MOA geographically apportioned the revenue in the line item explanations contained in its 2006/2007 Approved General Government Operating Budget.[18]
- Determine whether remaining unapportioned line items could be apportioned without a specific data request to the Municipality. For example, the MOA does not require building permits in the area covered by the ERC Borough. Thus, all revenues generated through building permits are apportioned to the hypothetical MOA Remainder.
- For still unapportioned line items, the study determined whether a reasonable proxy method might be available. For example, the study apportioned auto taxes on the basis of population because there is no reason to expect the rate of vehicle ownership to differ between each area. The analysis vetted each line item's apportionment method during a meeting with Jeff Sinz, MOA Chief Fiscal Officer, and Janet Mitson, Director of the Office of Management and Budget.

[18] This document is attached as an appendix.

- For critical individual line items representing a substantial portion of the municipality's revenue, the study asked the Municipality of Anchorage's Office of Management and Budget to estimate the portion attributable to each geographic area based on past receipts. The study used this method for items such as hotel and motel taxes and motor vehicle rental taxes. Together, these items accounted for more than four percent of overall budgeted 2006 revenue and could not be split by a proxy marker such as population because the number of hotel rooms per person and the number of vehicle rentals per person are likely to differ between the two areas.

3.3.2 Fiscal Effects on Municipal Revenues

The study estimates that the hypothetical MOA Remainder accounted for approximately $327.37 million in revenue under 2006 conditions (see Table 16). This amount includes $179.99 million from real and personal property taxes, $71.25 million from other local taxes and interest, $51.71 million from local programs, $22.46 million in intergovernmental charges and fund balances, and $1.98 million in federal and state revenues (see Table 16). The hypothetical ERC Borough accounted for $35.69 million of total municipal revenues in 2006. This amount includes $21.75 million in real and personal property taxes, $5.96 million from other local taxes and interest, $4.83 million from local programs, $3.07 million from intergovernmental charges and fund balances, and $0.08 million from state and federal revenues.

Table 16. Division of General Government Revenues ($ Millions)

Revenue Source	MOA Remainder	ERC Borough	2006 Total
Real and Personal Property Taxes	179.99	21.75	201.74
Other Local Taxes and Interest	71.25	5.96	77.21
Local Programs	51.71	4.83	56.54
Intergovernmental Charges & Fund Balances	22.46	3.07	25.53
State and Federal Revenues	1.98	.08	2.06
Total	327.37	35.69	363.06

Source: NEI Estimates based on Municipality Of Anchorage (2006b).

Under 2006 conditions, the hypothetical ERC accounts for a lower percentage of revenues than might be expected based on the hypothetical borough's portion of overall population and portion of assessed value of real and personal property tax value (see Table 17). Overall, the study estimates that sources within the hypothetical ERC Borough account for 9.4 percent of overall general government revenues in the 2006 budget. This portion compares to approximately 12.0 percent of population and 11.1 percent of the taxable assessed value of real and personal property (see Table 3).

Table 17. Division of General Government Revenues (Percent of Total)

Revenue Source	MOA Remainder	ERC Borough
Real and Personal Property Taxes	89.2	10.8
Other Local Taxes and Interest	91.6	8.4
Local Programs	91.5	8.5
Intergovernmental Charges & Fund Balances	95.4	4.6
State and Federal Revenues	94.4	5.6
Estimated General Government Revenue Split	90.6	9.4
Estimated Population Split	88.0	12.0
Estimated Assessed Value of Real and Personal Property Split	89.9	11.1

Source: NEI Estimates, 2007.

Overall, ERC Borough sources accounted for 10.8 percent of budgeted revenues from real and personal property taxes. This percentage is less than the 11.1 percent of the taxable assessed value the area represents—a difference that reflects the lower level of services within the hypothetical ERC Borough area. Residents of the hypothetical borough are demanding fewer services than residents of the Anchorage Bowl and their real and personal property tax contributions as a percentage of the whole reflect that choice.

ERC Borough sources accounted for 8.4 percent of "Other Local Tax and Interest." The deviation from the population standard reflects the fact that the Anchorage Bowl contains much of the study area's tax base. Large income sources in this category include hotel and motel taxes and car rental taxes which come disproportionately from the Anchorage Bowl's concentration of hotel beds and car rental companies.

ERC Borough sources accounted for an estimated 8.5 percent of revenues from local programs and 4.6 percent of intergovernmental charges. The differential in the former category is driven by the lack of user fees for various permits issued by the Municipality (e.g., electrical, building, etc.) while the differential in the latter is driven by the fact that the intergovernmental charges are primarily attributable to utilities located inside the MOA Remainder and charges to Anchorage Roads and Drainage Service Area (ARDSA)-related grants (Mitson 2007).

The study estimates that only 5.6 percent of revenues from state and federal sources to the general government account flow from the ERC Borough. The majority of these revenues are payments in lieu of taxes for buildings within the hypothetical MOA Remainder.

3.4 Net General Government Fiscal Effects

The net effects of detachment and borough formation differ greatly between the hypothetical ERC Borough and the MOA Remainder. As shown above, the analysis estimates the cost of running the ERC Borough at between $38.17 million and $44.06 million per year under 2006 conditions. Under the current tax regime the ERC Borough could expect to generate approximately $34.29 million in revenue.[19] Thus, the study estimates that the borough would face an immediate budget deficit of between $3.87 million and $10.36 million per year under 2006 conditions. For the MOA Remainder,

[19] As previously noted, these estimates assume a continuation of the same level of services ERC Borough citizens enjoy as citizens of the current MOA.

the study estimates the cost of general government services at $321.39 million with revenues of $328.76 million for a net surplus of approximately $7.37 million.

Assuming the creation of no new tax revenue streams, the ERC Borough would face cutting the cost of providing general government services by between 10 and 23 percent. This analysis shows tax increases in property tax equivalents. Alternative to cutting services, the ERC Borough would have to raise taxes.

Table 18. General Government Fiscal Effects

Service Name	2006 Budget Comparison		
	MOA Remainder	ERC Borough	
		ACPC Method	CPC Method
Estimated Revenue ($ Millions)	328.76	34.29	34.29
Estimated Cost ($ Millions)	321.39	38.17	44.65
Total Difference	*7.37*	*-3.87*	*-10.36*
Difference as a Portion of General Government Cost	*2%*	*-10%*	*-23%*
Equivalent Net Change in Property Tax Mill Rates	*-0.42*	*1.63*	*3.47*

Source: NEI Estimates, 2007.

3.4.1 Estimated General Government Property Tax Rates

This analysis interprets the net general government fiscal effects in terms of property tax increases or decreases. As shown in Section 3.3, the current municipal revenue stream comes from a diverse set of sources and the models used in this analysis assume that the ERC Borough's revenue regime exactly replicates the current structure, rates, and sources of the MOA's 2006 revenue regime. However, property taxes are the Municipality's single largest revenue source, and, as noted in Section 3.3, the non-property tax base is generally located inside the hypothetical MOA Remainder. Thus, property taxes would be the most likely and immediate source of ERC Borough revenue.

In the absence of budget cuts or a new revenue source, property tax mill rates would have to increase and the study estimates that mill rates would have to rise between 1.63 mills and 3.47 mills (see Table 18). Current tax rates in the hypothetical ERC Borough range from 4.48 mills to 8.09 mills with a weighted average property tax rate of 7.47 mills. The new weighted average property tax rate for general government services would be between 9.10 mills and 10.93 mills. Table 19 shows the estimated general government property tax rates for each taxation district in the hypothetical ERC Borough. The net effect on the owner of a $250,000 property in any tax district would be a tax increase of between $407 and $867; equivalent to between a 21.9 percent and 46.4 percent tax increase from the average just for general government services.

Table 19. Estimated ERC Borough Property Tax Rates, 2006 Conditions

Tax District	Tax District Name	2006 General Government Property Tax Mill Rate	ACPC Estimated Property Tax Mill Rate	CPC Estimated Property Tax Mill Rate
10	Eagle River	7.88	9.51	11.35
22	Chugiak	7.03	8.66	10.50
30	Eagle River Valley	6.12	7.75	9.59
46	Eaglewood Cont. RSA	6.34	7.97	9.81
47	Gateway Cont. RSA	4.48	6.11	7.95
50	Eagle River Street Lights	8.09	9.72	11.56
51	E.R. Street Lights/Chugiak Fire	7.24	8.87	10.71
Average Property Tax Rate		7.47	9.10	10.93
Taxes on a $250,000 Home		$1,867	$2,274	$2,734
Net Change			$407	$867

Source: NEI Estimates, 2007.

The situation within the MOA Remainder is quite different. The MOA Remainder's role as the home of the majority of the tax base and its general size insulate it from the type of results seen in the ERC Borough. The study estimates that with detachment the MOA Remainder would see a slightly positive shift in its finances with revenues outstripping costs by approximately two percent. Transformed into a property tax cut, the weighted average mill rate would drop from 7.90 mills to 7.47 mills, equivalent to a $106 savings for the owner of a $250,000 property.

Table 20. Estimated MOA Remainder Property Tax Rates, 2006 Conditions

Tax District	Name	2006 General Government Property Tax Mill Rate	Post-Detachment Estimated Property Tax Mill Rate
1	City/Anchorage	8.17	7.75
2	Hillside	5.35	4.93
3	General Citywide	8.15	7.73
4	Girdwood	4.43	4.01
5	Glen Alps	5.78	5.36
8	Tanaina	8.15	7.73
9	Stuckagain Heights	6.29	5.87
11	Eagle River Land Fill	0.00	0.00
12	Canyon Road	8.10	7.68
15	Muni/Outside Bowl	0.46	0.04
16	North of Potter Creek	3.03	2.61
19	Upper O'Malley	7.35	6.93
20	Talus West	6.54	6.12
21	Rabbit Creek View	7.85	7.43
23	Rabbit Creek View	7.29	6.87
28	Birchtree/Elmore	6.85	6.43
31	So. Golden View	7.15	6.73
32	Campbell Airstrip	6.85	6.43
33	Sky Ranch	6.59	6.17
34	Valli Vue	6.75	6.33
35	Mt. Park	6.27	5.85
36	SRW Homeowners LRSA	6.60	6.18
37	Mt. Park/Robin Hill	6.65	6.23
40	Raven Woods	6.59	6.17
41	Upper Grover	6.27	5.85
42	View Point	5.83	5.41
43	Bear Valley LRSA	6.29	5.87
44	Villages Scenic Pkwy LRSA	6.28	5.86
45	Sequoia Est. LRS	6.69	6.27
48	Paradise Valley South LRSA	6.21	5.79
52	Rockhill LRSA	6.19	5.77
53	Totem LRSA	6.35	5.93
54	Lake Hill LRSA	6.25	5.83
55	So. Goldenview W/O Fire	4.83	4.41
56	Bear Valley LRS W/O Fire	4.53	4.11
Average Property Tax Rate		7.90	7.47
Taxes on a $250,000 Home		$1,974	$1,868
Net Change			-$106

Source: NEI Estimates, 2007.

4 Fiscal Effects on School District Services and Revenues

4.1 Summary

Splitting the current ASD into two school districts to serve the hypothetical MOA Remainder and the new ERC Borough would have very limited effects within the MOA Remainder. The analysis concludes that within the MOA Remainder, the educational property tax rate would likely fall, under 2006 conditions, from 7.13 mills to 7.02 mills, a decline of 0.11 mills (see Table 21). Given the power and accuracy of the model, this result is roughly the same as predicting no change in property tax rates. However, if this decline is translated into a property tax reduction, the owner of a property assessed at $250,000 would save $28.

Table 21. Net ASD Fiscal Effects on the MOA Remainder

Property Tax Affecting Element	Current ASD	MOA Remainder
General Fund and Debt Fund Budget ($ Millions)	525.73	454.79
Non-Property Tax Revenues ($ Millions)	341.34	296.70
Required Property Tax Revenues for General Fund Operations ($ Millions)	149.80	229.71
Required Property Tax Revenues for Debt Service Operations ($ Millions)	34.59	31.62
Estimated Property Tax Rates	*7.13*	*7.02*
Equivalent Net Change in Property Tax Mill Rates		-0.11
Taxes on a $250,000 Home	*$1,783*	$1,755
Net Change in Property Tax Bill		-$28

Source: NEI Estimates, 2007.

Conversely, the analysis estimates that the effects of detachment within the ERC Borough will be much larger. The budget required to support a new ERC School District (ERCSD) at current service levels will likely be greater than the borough's ability to generate tax revenue under Alaska's education funding law AS 12.17.410. This statute establishes a maximum local funding amount of the greater of 4 mills of taxable assessed value plus 23 percent of local basic need ***or*** an additional 2 mills of taxable assessed value. This funding statute would allow the ERC to contribute up to $21.27 million in local property tax contributions for general fund operations.

Table 22. Maximum Local Effort for the ERC Borough School District

Allowed Contribution	23% of Basic Local Need	Additional 2 Mills of Taxable Value
4-Mill Minimum Contribution ($ Millions)	11.53	11.53
Additional Amount Generated ($ Millions)	9.74	5.76
Total Maximum Local Contribution ($ Millions)	21.27	17.29

Source: NEI Estimates based on Sheinberg, 2007 and Sweeney, 2007.

The estimated required local contribution by the ERC Borough to run the school district at current service levels is between $27.43 million and $32.12 million under 2006 conditions (see Table 23).

These amounts are higher than the $21.27 million allowed under AS 14.17.410 for general fund spending from local tax sources. Hence, the study concludes that the ERCSD would be forced to cut between $3.2 million and $10.80 million—reductions equivalent to between 5.0 percent and 15.1 percent of the total general fund budget. Even with these reductions, the property tax rate would rise for taxpayers in the ERCSD by approximately 1.28 mills. The net effect on a property with taxable assessed value of $250,000 would be $320.

Table 23. Net ERCSD Fiscal Effects Accounting for AS 14.17.410

Property Tax Affecting Element	Current MOA	ERC Borough	
		Lower	Upper
General Fund and Debt Fund Budget ($ Millions)	525.73	72.35	79.97
Non-Property Tax Revenues ($ Millions)	341.34	44.92	44.92
Maximum Property Tax Revenues for General Fund Operations ($ Millions)	149.80	21.27	21.27
Required Property Tax Revenues for Debt Service Operations ($ Millions)	34.59	2.97	2.97
Net Budget Shortfall General Fund Budget Reduction ($ Millions)		-$3.2	-$10.80
Required General Fund Budget Reduction (%)		-5.0%	-15.1%
Estimated Property Tax Rates (Mills)	7.13	8.41	8.41
Equivalent Net Change in Property Tax Mill rates		1.28	1.28
Taxes on a $250,000 Home	$1,783	$2,103	$2,103
Net Change in Property Tax Bill		$320	$320

Source: NEI Estimates, 2007.

The implications of these results are significant. The study predicts that it would be difficult, if not impossible, for the ERC Borough to maintain the current levels of school services unless that same level of service could be provided with a much lower budget. While an admirable goal, it is unlikely that services could be exactly replicated given the size of the projected cuts. The best case for citizens wishing to preserve services is a 5.0 to 15.1 percent reduction in general fund budget expenditures combined with a 1.28 mill tax rate increase on their properties. If the ERC Borough's citizens wished to preserve the current tax rate (rather than preserving service levels), they would need to find a way to reduce the local contribution to $16.7 million. This amount would require an additional budget cut of $4.57 million beyond that which would be required to comply with AS 14.17.710. This goal would require total cuts between $9.0 million and $15.42 million; or a 13.8 to 21.6 percent decrease in projected, required general fund expenditures.

Finally, the study authors believe that the "low" model's predictions are too conservative and that the true cost of running the district will almost certainly be higher than what the "low" model predicts. The feedback the study received from ASD officials indicated that the model didn't account for certain cost saving measures that benefit ASD schools, but would not benefit ERCSD schools without some capital expenditures. For example, many ASD schools are serviced by a central kitchen located in the Anchorage Bowl. Additionally, the low model does not reflect recent utility cost increases such as the 8.25 percent increase in gas prices on November 1, 2006 and the 32 percent increase in natural gas prices on January 1, 2007 (Stokesbary 2007). The model also does not account for the fact that teachers are currently working without a contract and that salary and benefit costs will certainly rise when a new contract is signed. Actual property tax effects would likely be closer to the high-end model than the low-end model.

The rest of this section discusses how the study arrived at these conclusions.

4.2 The Current ASD Costs and Revenues

Each January, the ASD presents the Anchorage community with a balanced budget for the upcoming fiscal year, which runs from July 1st of the current year through June 30th of the following year. This balanced budget approach means projected costs and revenues must equal each other. This study works with FY 05-06 and FY 06-07 data because when the ASD calculates educational property tax rates, they take one-half of the expected costs from the current fiscal year's budget and one-half of the costs for the following fiscal year's budget to essentially calculate a calendar year cost of operating the school district. This study follows the same approach; analyzing both the FY 05-06 and FY 06-07 budgets to calculate the fiscal effects on calendar year 2006 property tax rates.

The ASD school budget is made up of four funds:

- The general fund, which covers general operations including salaries and benefits
- The debt service fund, which covers the cost of repaying construction projects
- The local, state, and federal projects fund, which manages state and federal grant monies
- The food service fund, which covers culinary operations in the school district

When the school district presents the budget in January, it presents a balanced budget for each fund. The largest of the four funds is the general fund. The general fund totaled $433 million in FY 05-06 and $476.98 in FY 06-07, or between 75.7 and 77.1 percent of the total budget. The Debt Service Fund accounted for between 12.5 and 13.4 percent of the budget. The Local, State, and Federal Projects Fund accounted for between 7.9 and 8.4 percent, and the Food Service Fund accounted for between 2.4 and 2.5 percent.

Table 24. Anchorage School District Budget and Revenues by Fund, FY 05-06 and FY 06-07

Fund Name	FY 05-06 Budget/Revenue ($ Millions)	FY 05-06 Budget/Revenue (%)	FY 06-07 Budget/Revenue ($ Millions)	FY 06-07 Budget/Revenue (%)
General Fund	433.00	75.7	476.98	77.1
Debt Service Fund	76.69	13.4	77.31	12.5
Local, State, and Federal Projects	48.00	8.4	49.00	7.9
Food Service Fund	14.52	2.5	15.00	2.4
Total ASD Budget	572.21	100.0	618.29	100.0

Source: Anchorage School District, 2005 and 2006.

The revenue sources for each of these funds vary (see Table 25). For example, in FY 06-07 the largest revenue source of monies for the general fund was the State of Alaska followed by local sources; primarily local real and personal property taxes. As with the General Fund, the Debt Service Fund monies come primarily from state and local sources. These two funds are the only funds that affect property taxes since local monies for the other two funds come from non-property tax sources. The Local, State, and Federal Projects Fund monies come primarily from Federal grants while the Food Service Fund Monies come from a mix of federal monies, local food sales, and fund balances.

Table 25. Percentage of Source of Money by Fund Type, FY 06-07

Fund	Local Sources	State Sources	Federal Sources	Fund Balances	User Fees
			(%)		
General Fund	33.3	61.0	3.2	1.5	1.0
Debt Service Fund	42.8	50.4	0.0	6.8	0.0
Local, State, and Federal Projects	1.6	2.3	96.1	0.0	0.0
Food Service Fund	42.8	0.0	54.4	2.5	0.0

Source: Anchorage School District, http://www.asdk12.org/depts/budget/0607/more/index.asp, 2007a.

4.3 Division of Educational Service Costs between Hypothetical Boroughs

The analysis followed the same process used for categorizing municipal services to categorize services and general fund expenditures provided by the Anchorage School District and project the cost of running the hypothetical school districts. The steps to this process are:

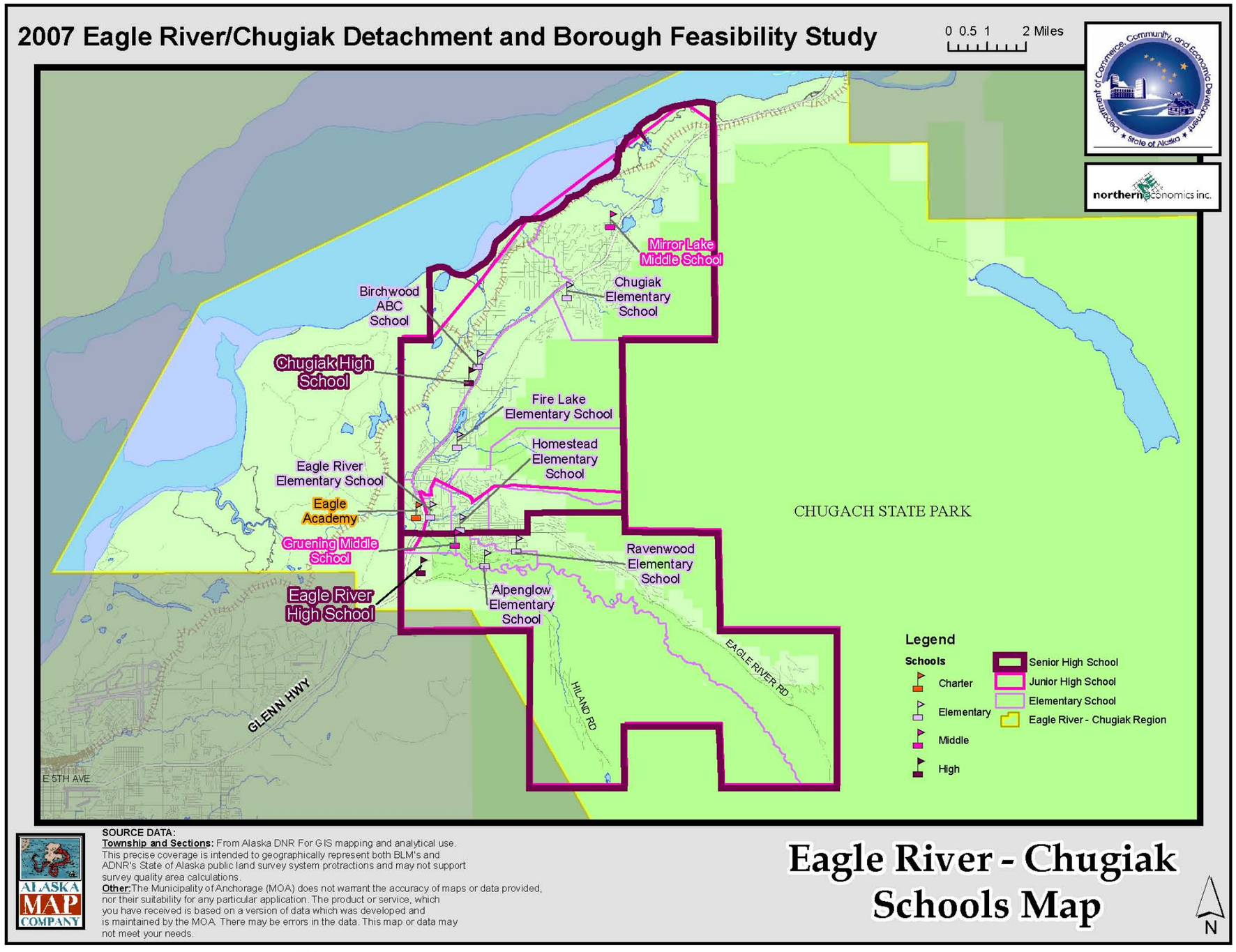
- Identify which high schools and feeder elementary and middle schools fall within the boundaries of the hypothetical ERC Borough
- Determine whether the service areas for these schools were wholly, or materially wholly, located within the proposed ERC Borough boundaries
- Categorize services based on the information generated through the process described in Section 3.2 applied to the FY 05-06 and FY 06-07 budget for the ASD. This process identifies which costs are specific to individual schools and which costs comes from services the ASD delivers on an areawide basis.
- The study uses a variant of the CPC method described above with average daily memberships (ADM) used instead of population to apportion areawide costs. ADMs are the State of Alaska's measurements of how many children were eligible to attend that school on average over an official period. The study obtained the ADMs used in this analysis from the state Department of Education (Sweeney 2006) and apportioned areawide costs per ADM.

4.3.1 School District Boundaries

As shown in Figure 7, the service area for Chugiak High School and its feeder elementary and middle schools is completely contained within the boundaries of the hypothetical ERC Borough. The schools in the ERCSD include Eagle River High School, Gruening Middle School, Alpenglow Elementary School, Ravenwood Elementary, Chugiak High School, Mirror Lake Middle School, Fire Lake Elementary, Chugiak Elementary, and Birchwood ABC. The population for Homestead Elementary is split between the two middle schools. The boundaries for Eagle River High School extend slightly over the borough boundaries in two locations. The first location is in an unpopulated section of Fort Richardson, while the second extends out into an unpopulated section of Chugach State Park. While these boundaries would need to be clarified for any detachment, they do not materially affect this analysis. In addition, Eagle River and Gruening Middle School currently take children that live on Fort Richardson.[20]

[20] ASD officials indicated that in the case of an ERC detachment, these children would be reassigned to schools inside the MOA Remainder. The analysis accounts for this shift by adjusting the number of ADMs attributed to each hypothetical school district as explained in Section 4.3.2.

Figure 7. School District Boundaries for the Hypothetical Boroughs



Source: Generated by the Alaska Map Company, 2006.

4.3.2 Apportionment of General Fund Costs

The study reviewed the ASD's approved budgets for FY 05-06 and FY 07-07 in detail. These documents apportion specific costs to the operation of specific schools. Since the location of each school is known and each school is wholly located in one borough or another, the costs identified by the approved budget plans are wholly attributable to one borough or the other. For example, in FY 05-06 the study identified $433 million in general fund costs. It further identified $34.08 million of those costs as attributable to ERCSD schools and $219.17 million to ASD Remainder schools. The remaining $179.76 million in costs are areawide, split among all the schools in the borough.

Table 26. ASD General Fund Services by Category

Service Provision Area	FY 05-06 Budget ($ Millions)	FY 05-06 Budget (%)	FY 06- 07 Budget ($ Millions)	FY 06-07 Budget (%)
Areawide Services	179.76	41.5	200.04	41.9
Hypothetical Eagle River-Chugiak Borough Services	34.08	7.9	39.43	8.3
Hypothetical ASD Remainder Services	219.17	50.6	237.51	49.8
Total	**433.00**	**100.0**	**476.98**	**100.00**

Source: Anchorage School District, 2005 and 2006.

Special education services are the largest component of the areawide services category (see Table 27). These services account for nearly 40 percent of the services costs of areawide costs. Other major services by cost include operation and maintenance of facilities ($23.7 million), instructional support ($21.4 million), pupil transportation services ($16.3 million), district-wide non-departmental ($11.9 million), general administration ($11.9 million), and bilingual education ($9.0 million). These seven categories account for 91 percent of the cost of areawide services.

Table 27. Areawide ASD Services

Service Name	FY 05-06 Budget ($ Millions)	FY 06-07 Budget ($ Millions)
Special Education Services	69.11	78.72
Operations & Maintenance of Facilities	23.71	24.02
Instructional Support	21.44	21.34
Pupil Transportation Services	16.31	16.76
District-wide Non-Departmental	11.95	17.88
General Administration	11.88	12.86
Bilingual/Multicultural Education	8.98	9.72
Unallocated Elementary School Resources	4.09	3.61
Gifted	3.99	4.56
Unallocated High School Resources	3.13	3.24
Unallocated Middle School Resources	1.31	1.42
Elementary Education	1.07	1.15
Community Education Services	.63	.77
Student Activities - High School	.60	.97
Middle School Education	.45	.47
Summer School - Middle School	.45	.48
High School Education	.43	.48
Student Activities - Middle School	.20	.20
Unallocated Charter School Resources	.03	0
Total Areawide Services	**179.76**	**200.04**

Source: Anchorage School District, 2005 and 2006.

The analysis splits areawide service costs by the adjusted ratio of ADMs between the boroughs (see Table 28). The ADM numbers come directly from official Alaska State Department of Education and Early Development (ADEED) counts in October of the appropriate fiscal year. Additionally, data from ASD Officials indicate there are the equivalent of approximately 464 ADMs from Eagle River that attend school in Anchorage and 350 ADMs from Fort Richardson that attend school in Eagle River. ASD officials indicate that the children from the local military bases would be redistricted to Anchorage schools, while it is not clear whether the families of children coming from Eagle River to Anchorage would want to pay out-of-district tuition (Comeau 2007). Hence, that analysis returns all children to their home district as determined by address. The net change from this assumption is less than one-tenth of one percent of the overall number of students in both districts.

Table 28. Adjusted Average Daily Memberships

Area	FY 05-06 Budget	FY 06-07 Budget	Average of Both Years	Portion Attributable to District
ESRSD	7,079	7,210	7,144	14.8
ASD Remainder	41,429	40,704	41,067	85.2
Current ASD	48,508	47,914	48,211	100.0

Source: Alaska Department of Education and Early Development, 2007.

The costs and revenues for the Local, State, and Federal Projects Fund and the Food Service Fund are also split by the ADM ratio. These funds do not affect local property tax rates in the ASD. Their inclusion in this report is illustrative only and the study's estimates of these funds do not reflect the fact that grants are often awarded years in advance or the fact that ERCSD schools may not have the physical capability of providing food service in the same way that they currently provide food services. These issues are outside the scope of this report, but join the long list of additional issues that will have to be addressed before detachment and borough formation is considered further.

The analysis located $373.13 million in FY 05-06 and $406.02 million in FY 06-07 general fund costs attributable to the operation of schools located wholly within the hypothetical ASD remainder. Table 29 outlines these costs by service and identifies which method the analysis used to calculate the amount attributable to the ASD Remainder.

Table 29. Estimated General Fund Cost of Educational Services in the ASD Remainder

Service Name	Type	Allocated 2006 Cost ($ Millions)	Allocated 2007 Cost($ Millions)
General Administration	Areawide	10.14	10.95
Elementary Education	Areawide	0.92	0.99
Middle School Education	Areawide	0.37	0.39
High School Education	Areawide	0.36	0.40
Unallocated Elementary School Resources	Areawide	3.54	3.11
Unallocated Middle School Resources	Areawide	1.08	1.16
Unallocated High School Resources	Areawide	2.62	2.70
Unallocated Charter School Resources	Areawide	0.03	0.00
Student Activities - Middle School	Areawide	0.16	0.17
Summer School - Elementary	Areawide	0.15	0.55
Summer School - High School	Areawide	0.33	0.63
Summer School - Middle School	Areawide	0.37	0.39
Student Activities - High School	Areawide	0.50	0.81
Special Education Services	Areawide	59.02	67.07
Instructional Support	Areawide	18.31	18.18
Gifted	Areawide	3.41	3.89
Bilingual/Multicultural Education	Areawide	7.67	8.28
Community Education Services	Areawide	0.54	0.65
Pupil Transportation Services	Areawide	13.93	14.28
Operations & Maintenance of Facilities	Areawide	20.25	20.46
Districtwide Non-Departmental	Areawide	10.21	15.23
Elementary Schools	Wholly Attributable	106.55	115.00
Middle Schools	Wholly Attributable	35.66	38.12
High Schools	Wholly Attributable	53.44	62.61
Alternative Schools	Wholly Attributable	13.20	10.39
Charter Schools	Wholly Attributable	10.36	9.63
Total		373.13	406.02

Source: NEI Estimates, 2007.

The analysis located $59.76 million in FY 05-06 and $67.86 million in FY 06-07 general fund costs attributable to the operation of schools located wholly within the hypothetical ERCSD. Table 30 outlines these costs by service and identifies which method the analysis used to calculate the amount attributable to the ERCSD.

Table 30. Estimated Cost Educational Services in the ERCSD

Service Name	Type	Allocated 2006 Cost ($ Millions)	Allocated 2007 Cost($ Millions)
General Administration	Areawide	1.73	1.93
Elementary Education	Areawide	0.14	0.16
Middle School Education	Areawide	0.08	0.09
High School Education	Areawide	0.07	0.08
Unallocated Elementary School Resources	Areawide	0.55	0.50
Unallocated Middle School Resources	Areawide	0.22	0.26
Unallocated High School Resources	Areawide	0.51	0.54
Unallocated Charter School Resources	Areawide	0.01	0.00
Student Activities - Middle School	Areawide	0.03	0.04
Summer School - Elementary	Areawide	0.03	0.09
Summer School - High School	Areawide	0.07	0.13
Summer School - Middle School	Areawide	0.08	0.09
Student Activities - High School	Areawide	0.10	0.16
Special Education Services	Areawide	10.08	11.85
Instructional Support	Areawide	3.13	3.21
Gifted	Areawide	0.58	0.69
Bilingual/Multicultural Education[21]	Areawide	1.31	1.46
Community Education Services	Areawide	0.09	0.12
Pupil Transportation Services	Areawide	2.38	2.52
Operations & Maintenance of Facilities	Areawide	3.46	3.61
Districtwide Non-Departmental	Areawide	1.74	2.69
Elementary Schools	Wholly Attributable	12.74	14.40
Middle Schools	Wholly Attributable	7.41	7.93
High Schools	Wholly Attributable	11.82	13.85
Charter Schools	Wholly Attributable	1.38	1.47
Total		59.76	67.86

Source: NEI Estimates, 2007.

4.3.2.1 Apportionment of Debt Fund Costs

The apportionment of Debt Fund costs is based on the analysis in Section 5, which determines the bonded indebtedness of each hypothetical borough based upon outstanding general government and school debt. The analysis estimates that in FY 05-06 and FY 06-07, the ASD Remainder would have Debt Fund costs of $68.17 million and $68.73 million respectively, while the ERCSD would have

[21] U.S. Census data indicate that the ERC Borough area is less diverse than the MOA as a whole so the district may spend less than this amount. At the same time, any specialized facilities for these educational programs are located inside the MOA Remainder; a fact which could balance out the lower costs mentioned above.

debt fund costs of $8.51 and $8.58 respectively. As noted in Section 5, these estimates assume that debt is apportioned by the ratio of taxable assessed value and not by where debt-incurring projects were built. If the study apportions debt based on project location, then the ERCSD would face an additional $4.5 million per year in tax payments. For a more detailed discussion please refer to Section 5.

Table 31. Estimated Debt Fund Cost by School District ($ Millions)

Fiscal Year	Current ASD	ASD Remainder	ERCSD
FY 05-06	76.69	68.17	8.51
FY 06-07	77.31	68.73	8.58

Source: NEI Estimates, 2007.

4.3.2.2 Apportionment of Non-Property Tax Affecting Fund Costs

As previously noted, the study splits costs and revenues for the Local, State, and Federal Projects Funds and the Food Service Fund by the ADM ratio, and these funds do not affect local property tax rates in the ASD. The study provides the data in Table 32 as a reasonable approximation of these costs and to help with the calculation of the overall cost of running the school district.

Table 32. Distribution of Costs from Non-Property Tax Affecting Funds ($ Millions)

Non-Property Tax Affecting Funds	Current ASD		ASD Remainder		ERCSD	
	FY 05-06	FY 06-07	FY 05-06	FY 06-07	FY 05-06	FY 06-07
Local, State, & Federal Projects	48.00	49.00	41.00	41.63	7.00	7.37
Food Service Funds	14.52	15.00	12.40	12.74	2.12	2.26

Source: NEI Estimates, 2007.

4.3.3 Estimated Cost of Running the Hypothetical School Districts

The estimated costs of running the ASD Remainder is $494.70 in FY 2005-2006 condition and $529.12 million in FY 06-07 conditions. Costs associated with funds that affect property taxes $441.31 million and $474.75 million respectively (See Table 33). The study uses these costs to drive the fiscal effects model and determine the effect of detachment and formation on educational property tax rates.

Table 33. Estimated Cost of Running the ASD Remainder

Fund	Property Tax Affecting Budget Item	FY 05-06 Budget ($ Millions)	FY 06-07 Budget ($ Millions)
General Fund	Yes	373.13	406.02
Debt Service Fund	Yes	68.17	68.73
Local, State, and Federal Projects	No	41.00	41.63
Food Service Funds	No	12.40	12.74
Total Cost of Running the School District		**494.70**	**529.12**
Total Amount Affecting Property Taxes		**441.31**	**474.75**

Source: NEI Estimates, 2007.

The estimated costs of running the ERCSD is $77.39 million in FY 2005-2006 condition and $86.07 million in FY 06-07 conditions. Costs associated with funds that affect property taxes total $68.27 million and $76.44 million respectively (See Table 34). As noted above, the study uses these costs to drive the fiscal effects model and determine the effect of detachment and formation on educational property tax rates.

Table 34. Estimated Cost of Running the ERCSD

Fund	Property Tax Affecting Budget Item	FY 05-06 Budget ($ Millions)	FY 06-07 Budget ($ Millions)
General Fund	Yes	59.76	67.86
Debt Service Fund	Yes	8.51	8.58
Local, State, and Federal Projects	No	7.00	7.37
Food Service Funds	No	2.12	2.26
Total Cost of Running the School District		**77.39**	**86.07**
Total Amount Affecting Property Taxes		**68.27**	**76.44**

Source: NEI Estimates, 2007.

4.3.3.1 Estimated Costs per Student and Comparison Group Results

As an independent check on the model's estimate of the cost of running the ERCSD, the study compared the predicted cost per ADM to run the ERCSD against the actual cost per ADM for four other school districts in Alaska[22]. The study's model estimated a cost of $8,442 per student in 05-06 for the ERCSD. This estimate is slightly above the low-end of the range of the four comparison group school districts which range from $8,361 (Kenai Peninsula Borough) to $9,619 (Juneau School District).

Table 35. Cost per ADM (Adjusted for Cost Factors), 05-06

School District	Raw 05-06 ADMs	Adjusted Cost per ADM
Juneau School District	5,218	$9,619
Matanuska Susitna Borough School District	15,349	$9,279
Fairbanks North Start Borough School District	14,513	$8,913
Kenai Peninsula Borough School District	9,499	$8,361
Eagle River/Chugiak (Predicted)	7,079	$8,442
Comparison Group Totals and Averages		$9,005

Source: NEI Estimates based on Barto (2007); Matanuska-Susitna Borough (2007); Alaska Department of Education and Early Education (2007); Fairbanks-North Star Borough (2007); Kenai Peninsula Borough (2007)

After developing these initial estimates, the study team met with ASD officials to discuss the model's results. The feedback provided by these meetings and the results of the comparison group analysis indicated that the model might be predicting too low as it could not account for certain items, such as the fact that many ASD schools receive their hot cafeteria food from a centralized kitchen and that the

[22] The model adjusts raw costs per ADM by each individual district's cost factor as determined by ADEED. This process converts what the districts actually spent per student into what they would have spent if they had been providing the same service in an area with Anchorage's cost factor.

ERCSD would have to contract out or build a central kitchen to replace those services. Thus, for an added measure of rigor, the study added a high-end estimate of costs by adjusting the model results by the 11.9 percent difference between the average of the cost per ADM in the Juneau School District and Matanuska-Susitna Borough (MSB) School District and the estimated cost per ADM for the ERCSD. This adjusted estimate is denoted as the study's "high estimate." The study selected these two districts because Juneau is the closest in size, while the MSB School District has a similarly low cost factor. The original model results are denoted as the study's "low estimate."

4.3.4 Fiscal Effects on Education Related Revenues

As noted above, the ASD operates using four funds. However, only the general fund and the debt service fund affect local tax rates.[23] The study replicates the property tax calculations performed and published every year by the school district in its Approved Financial Plan. The school district averages the costs of the general fund and debt service fund over two fiscal years to calculate a single calendar year's property tax rate. For example, the 2006 school property tax rate is generated by:

- Averaging the FY 2005-2006 budget and the FY 2006-2007 budget
- Calculating the property tax revenue needed by subtracting expected state, federal, and local revenue and non-property tax sources from the expected average budget
- Dividing the expected local property tax contribution by the taxable assessed values shown in Table 36 to calculate a school property tax rate

The study's replication of this calculation is shown in Table 36. For FY 2005-2006 and FY 2006-2007 the ASD expected an average general fund budget of $448.73 million and an average debt service budget of $77 million. This average can be thought of as the cost of running the district from January 1, 2006 to December 31, 2006, since the ASD runs on a July 1-June 30 fiscal year. Needs unmet by non-property tax sources left $149.8 million of the general fund budget and $34.59 million of the debt service budget to be covered by property taxes. These amounts require property tax mill rates of 5.79 mills for the general fund and 1.34 mills for the debt service fund for a total educational property tax mill rate of 7.13 mills.

Table 36. Estimated General Fund /Debt Fund Costs and Revenues by Source, Current ASD ($ Millions)

	2005-2006		2006-2007		Average for Tax Calculations		
Category	General Fund	Debt Service	General Fund	Debt Service	General Fund	Debt Service	Property Tax Affecting Budget
General Fund and Debt Fund	433.00	76.69	464.45	77.31	448.73	77.00	525.73
Local Non-Property Tax Revenue	10.49	5.46	4.84	2.17	7.67	3.81	11.48
State Aid	264.32	38.39	289.22	38.80	276.77	38.60	315.37
Federal Aid	13.87	0.00	15.12	0.00	14.49	0.00	14.49
Required Property Taxes	144.32	32.83	155.28	36.34	149.8	34.59	184.39
Taxable Assessed Value							25,850.94
Local Property Tax Rate (Mills)					5.79	1.34	7.13

Source: Anchorage School District 2005 and 2006.

[23] Local, state and federal fund monies come primarily from federal sources (96.1 percent of the total) while the food service revenues come primarily through federal monies (54.4 percent) and meal sales (42. 8 percent). The study assumes that neither of these funds would affect tax rates in the future, but notes that in other school districts general fund monies are used to subsidize food services funds (Kenai Peninsula Borough 2006).

In order to calculate the amount of property tax revenue needed for each school district, the study apportions the expected amount of local non-property tax revenue, the expected amount of state aid, and the expected amount of federal aid. The study apportions local property tax revenues on the basis of ADMs. For the apportionment of expected state and federal aid to districts, the study contacted the ADEED for assistance. The study provided ADEED with the estimated ADMs and taxable assessed value in each district in 2006 and the ADEED provided an estimate of the expected state and local aid. The study then applied the ratio of ADEED's estimated aid to the ASD's expected aid numbers from the FY 2005-2006 and FY 2006-2007 budgets. This process and a discussion of local education funding are found in Appendix D: Memo from Sheinberg Associates on Education Costs. The ERC Borough, based on 2006 ADMs and the 2006 taxable assessed value, would expect just over 13 percent of the state aid that Anchorage School District received in FY 2005-2006 and FY 2006-2007 (Sheinberg, 2007).

4.3.4.1 Expected Budget and Local Property Tax Revenue Needs for a MOA Remainder School District

The study estimates that a school district in the MOA Remainder and under 2006 conditions would have had a total general fund budget of $389.58 million and a total debt service budget of $68.45 million (see Table 37). After deducting expected non-property tax local revenues and expected state and federal aid, the district would need local tax revenues of $129.71 million for general fund operations and $31.62 million for debt service. These amounts require property tax mill rates of 5.65 mills for the general fund and 1.38 mills for the debt service fund for a total educational property tax rate of 7.02 mills.[24]

Table 37. Estimated General Fund & Debt Fund Budget, MOA Remainder ($ Millions)

	2005-2006		2006-2007		Average for Tax Calculations		
Category	General Fund	Debt Service	General Fund	Debt Service	General Fund	Debt Service	Property Tax Affecting Budget
General Fund and Debt Fund	373.13	68.17	406.02	68.73	389.58	68.45	458.03
Local Non-Property Tax Rev.	8.98	4.67	4.15	1.86	6.57	3.26	9.83
State Aid	229.87	33.39	251.52	33.74	240.7	33.57	274.27
Federal Aid	12.06	0.00	13.15	0.00	12.6	0.00	12.6
Required Property Taxes	122.21	30.11	137.20	33.13	129.71	31.62	161.33
Taxable Assessed Value							22,969.19
Local Property Tax Rate (Mills)					5.65	1.38	7.02

Source: NEI Estimates based on Anchorage School District, 2005 and 2006.

4.3.4.2 Expected Budget and Local Property Tax Revenue Needs for an ERC Borough School District

The study provides a low and high estimate for the cost of running an ERCSD for FY 05-06 and FY 06-07 as well as the average for property tax calculations. The study provides this range of estimates because the degree of uncertainty about the costs of running the ERCSD is greater than the degree of uncertainty surrounding estimates for a Remainder ASD. As discussed in Section 4.3.3.1, the low

[24] This calculation assumes that debt is split along the ratio of taxable values for each borough. For a detailed discussion of this issue, please see Section 5.3. If debt were split based on the project location, the required debt service payment would be roughly $3.5 million lower for the MOA and roughly $3.5 million higher for the ERC Borough.

estimate in this case comes from the spreadsheet model designed specifically for this analysis, while the high estimate assumes that the model underestimated the cost of running the new ERCSD and that the actual cost is the same as the cost of running the similarly sized Juneau School District.

The study's low estimates project that an ERC Borough would have had a total general fund budget of $63.81 million and a total debt service budget of $8.55 million (sees Table 38 and Section 4.3.2.1). After deducting expected non-property tax local revenues and expected state and federal aid, the district would need local tax revenues of $24.46 million for general fund operations and $2.96 million for debt service. These amounts require property tax rates of 8.49 mills for the general fund and 1.03 mills for the debt service fund for a total educational property tax rate of 9.52 mills.

Table 38. Estimated General Fund & Debt Fund Budget, ERC Borough Low ($ Millions)

	FY 05-06		FY 06-07		Average for Tax Calculations		
Category	General Fund	Debt Service	General Fund	Debt Service	General Fund	Debt Service	Property Tax Affecting Budget
General Fund and Debt Fund	59.76	8.51	67.86	8.58	63.81	8.55	72.36
Local Non-Property Tax Rev.	1.51	0.78	0.7	0.31	1.10	0.55	1.65
State Aid	34.45	5.00	37.69	5.06	36.07	5.03	41.1
Federal Aid	2.08	0.00	2.27	0.00	2.17	0.00	2.17
Required Property Taxes	21.73	2.72	27.20	3.21	24.46	2.96	27.42
Taxable Assessed Value					2881.75		
Local Property Tax Rate (Mills)					8.49	1.03	9.52

Source: NEI Estimates based on Anchorage School District, 2005 and 2006; Sheinberg 2007, and Sweeney, 2007.

The study's high estimates project that an ERC Borough would have had a total general fund budget of $71.42 million and a total debt service budget of $8.55 million (sees Table 39 and Section 4.3.2.1). After deducting expected non-property tax local revenues and expected state and federal aid, the district would need local tax revenues of $32.07 million for general fund operations and $2.97 million for debt service. These amounts require property tax rates of 11.15 mills for the general fund and 1.03 mills for the debt service fund for a total educational property tax rate of 12.16 mills.

Table 39. Estimated General Fund & Debt Fund Budget, ERC Borough High ($ Millions)

	FY 05-06		FY 06-07		Average for Tax Calculations		
Category	General Fund	Debt Service	General Fund	Debt Service	General Fund	Debt Service	Property Tax Affecting Budget
General Fund and Debt Fund	66.89	8.51	75.95	8.58	71.42	8.55	79.97
Local Non-Property Tax Rev.	1.51	0.78	0.70	0.31	1.1	0.55	1.65
State Aid	34.45	5.00	37.69	5.06	36.07	5.03	41.1
Federal Aid	2.08	0.00	2.27	0.00	2.17	0.00	2.17
Required Property Taxes	28.85	27.24	35.30	3.21	32.07	2.97	35.04
Taxable Assessed Value							2,881.75
Local Property Tax Rate (Mills)					11.15	1.03	12.16

Source: NEI Estimates based on Anchorage School District, 2005 and 2006; Sheinberg 2007, and Sweeney, 2007.

The study's estimate of ERC educational property tax rates of 9.52 mills to 12.16 mills is higher than the current MOA's 2006 educational property tax rate of 7.13 mills. The higher tax rates reflect two key issues:

- The ERC Borough has a higher portion of students relative to population than the rest of the Municipality of Anchorage. The ERC Borough has approximately 14.5 percent of the current MOA's student population and approximately 12 percent of the population.
- The ERC Borough has a smaller property tax base than one would expect given the population. The study estimated that the tax base in the hypothetical ERC Borough generated approximately 9.4 percent of 2006 budgeted revenues while containing 12 percent of the population. More specifically, the real and personal property tax base is approximately 11.1 percent compared to 12.0 percent of the population.

While these differences may seem small, they can make large differences when applied to budgets of tens or hundreds of millions of dollars. Additionally, the study authors believe that the "low" model's predictions are too conservative, and that the true cost of running the district will almost certainly be higher than what the "low" model predicts. For example, the low model does not reflect recent utility cost increases such as the 8.25 percent increase in gas prices on November 1, 2006 and the 32 percent increase in natural gas prices on January 1, 2007. The model also does not account for the fact that teachers are currently working without a contract and that salary and benefit costs will certainly rise when a new contract is signed. Actual property tax effects would likely be closer to the high end model than the low end model.

4.4 Net Fiscal Effects on Education and Local Property Tax Rates

From an operations budget perspective, splitting the current ASD into two school districts to serve the hypothetical MOA Remainder and the ERC Borough would have very limited effects within the MOA Remainder. The analysis suggests the educational property tax rate would fall under 2006 conditions from 7.13 mills to 7.02 mills, a decline of 0.11 mills (see Table 40). If this decline is translated into a property tax reduction, the owner of a property assessed at $250,000 would save $28. Effects within the ERC Borough are much larger. The study estimates property tax rates in the ERC Borough would have to increase by between 2.39 mills and 5.03 mills (i.e., to between 9.52 and 12.48 mills) in order to generate the revenues needed to operate the school district at the current service level. These changes in tax rates would increase the tax bill on a property assessed at $250,000 by between $597 and $1,257 per year.

Table 40. Net School District Fiscal Effects (Unadjusted for State Law)

Property Tax Affecting Element	Current MOA (2006)	MOA Remainder	ERC Borough	
			Lower	Upper
General Fund and Debt Fund Budget ($ Millions)	525.73	454.79	$72.35	$79.97
Non-Property Tax Revenues ($ Millions)	341.34	296.70	$44.92	$44.92
Property Tax Revenues ($ Millions)	184.39	158.09	$27.43	35.04
Estimated Property Tax Rates	*7.13*	*7.02*	*9.52*	*12.48*
Equivalent Net Change in Property Tax Mill Rates		-0.11	2.39	5.03
Taxes on a $250,000 Home	*$1,783*	$1,755	$2,380	$3,040
Net Change in Property Tax Bill		-$28	$597	$1,257

Source: NEI Estimates, 2007.

The results above reflect the estimated cost of running the ERC Borough school district at current service levels. The discussion does not reflect AS 14.17.410. This statute governs education funding in the state of Alaska. It establishes a minimum contribution level, stating that:

> "the required local contribution of a city or borough school district is the equivalent of a four 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, as determined by the Department of Commerce, Community, and Economic Development under AS 14.17.510 and AS 29.45.110 , not to exceed 45 percent of a district's basic need for the preceding fiscal year as determined under (1) of this subsection."

Additionally, the statute establishes a maximum local contribution stating:

> "In addition to the local contribution required under (b)(2) of this section, a city or borough school district in a fiscal year may make a local contribution of not more than the greater of
>
> **(1)** the equivalent of a two 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, as determined by the Department of Commerce, Community, and Economic Development under AS 14.17.510 and AS 29.45.110 ;
>
> ***Or***
>
> **(2)** 23 percent of the district's basic need for the fiscal year under (b)(1) of this section."

The estimated local contribution by the ERC Borough to run the school district at current service levels is between $29.61 million and $35.06 million under 2006 conditions. These amounts are higher than the maximum allowed under AS 14.17.410. As shown in Table 41, the maximum local contribution to the ERC Borough school district's budget would be the greater of 4 mills of taxable assessed value plus 23 percent of the district's basic need ***or*** 4 mills of taxable assessed value plus 2 mills of taxable assessed value. In this case, the addition of 23 percent of basic need provides a higher local contribution of $21.27 million under 2006 conditions.[25]

Table 41. Maximum Local Effort for the ERC Borough School District ($ Millions)

Allowed Contribution	23% of Basic Local Need	Additional 2 Mills of Taxable Value
4-Mill Minimum Contribution ($ Millions)	11.53	11.53
Additional Amount Generated ($ Millions)	9.74	5.76
Total Maximum Local Contribution ($ Millions)	21.27	17.29

Source: NEI Estimates based on Sheinberg, 2007 and Sweeney, 2007.

A maximum contribution to general fund operations of $21.27 million (not including $3.8 million for debt fund service) would require substantial cuts in the ERC School District's budget without a new source of income not subject to AS 14.17.410. This maximum would require budget cuts of between $3.2 million and $10.80 million; reductions equivalent to between 5.0 and 15.1 percent of the general fund budget. These cuts would result in a combined general fund and debt service fund

[25] Basic local need was determined by ADEED and is discussed in Appendix D: Memo from Sheinberg Associates on Education Costs. The study could only provide ADEED with enough information to calculate the most recent year's basic need. However, the analysis is relatively insensitive to year-to-year changes in basic local need calculations.

property tax rate of 8.41 mills. The net effect on a property with taxable assessed value of $250,000 would be an increase $320.

Table 42. Net School District Fiscal Effects (Adjusted for State Law)

Property Tax Affecting Element	Current MOA (2006)	MOA Remainder	ERC Borough	
			Lower	Upper
General Fund and Debt Fund Budget ($ Millions)	525.73	454.79	72.35	79.97
Non-Property Tax Revenues ($ Millions)	341.34	296.70	44.92	44.92
Maximum Property Tax Revenues ($ Millions)	184.39	158.09	24.24	24.24
Estimated Property Tax Rates (Mills)	7.13	*7.02*	8.41	8.41
Equivalent Net Change in Property Tax Mill Rates		-0.11	1.28	1.28
Taxes on a $250,000 Home	$1,783	$1,755	$2,103	$2,103
Net Change in Property Tax Bill		-$28	$320	$320
Required General Fund Budget Reduction ($ Millions)			-$3.20	-$10.80
Required General Fund Budget Reduction (%)			-5.0%	-15.1%

Source: NEI Estimates, 2007.

The implications of these results are significant. The study predicts that it would be difficult, if not impossible, for the ERC Borough to maintain the current levels of school services unless that same level of service could be provided with a much lower budget. While an admirable goal, it is unlikely that services could be exactly replicated given the size of the projected cuts. The best case for citizens wishing to preserve services is a 5.0 percent to 15.1 percent reduction in general fund budget expenditures combined with a 1.28 mill tax rate increase on their properties. If the ERC Borough's citizens wished to preserve the current tax rate (rather than preserving service levels) they would need to find a way to reduce the local contribution to $16.7 million. This amount would require an additional budget cut of $4.57 million beyond that which would be required to comply with AS 14.17.710. This goal would require total cuts between $9.0 million and $15.42 million; or a 13.8 to 21.6 percent in projected, required general fund expenditures.

5 Bonded Indebtedness

The detachment of the Eagle River-Chugiak area from the Municipality of Anchorage will have implications on the outstanding bonded indebtedness of the MOA and potential bonded indebtedness of the ERC Borough. This section provides information on the MOA's existing general obligation and revenue bond debt and the estimated apportionment of these outstanding debts between the hypothetical ERC Borough and the hypothetical residual Municipality of Anchorage. If the detachment occurs, it is likely that the bonds will be re-issued and re-funded, given the current tax code, to apportion these outstanding debts to the appropriate "new" bond issuer (White 2007). This report does not address the legal implications of re-funding and refinancing the bonds. For example, several key informants indicated that while some tax districts pay taxes for the repayment of tax district specific-debt, the Municipality as a whole is under the legal obligation for repayment. Hence, there remains some question about the legal implications of dividing the debt between the hypothetical boroughs.

This section offers a preliminary apportionment of the debt. The apportionment process involved multiple-steps. In the first step, the Municipality of Anchorage's Public Finance Director, Ross Risvold, provided the study with the Municipality's total outstanding debt by bond as of December 31st, 2006. The study then went into municipal records to see how the money from the original bonds was spent. In the case of bonds that had been refinanced since their original issuance, this process meant returning to the original debt instrument to determine what projects the MOA used the money to complete. Once these data were collected, the study determined the location of the services provided and attributed that debt to the appropriate area. For example, bonds spent on projects in the Anchorage Road and Drainage Service Area are attributable to the hypothetical MOA Remainder, because that service area is wholly contained within the hypothetical MOA Remainder.

With regard to school debt, the study takes two approaches. The first approach was recommended by school district attorneys and divides school debt based on the ratio of taxable assessed value. This method acknowledges the fact that the projects were authorized by Municipal voters and currently provide services beyond their specific location. However, that logic ignores the fact that the project will provide location-specific services after detachment. For example, Eagle River High School and the new South High School are currently part of the same school district and provide benefits to the entire Municipality. Under detachment, the benefits provided by these newly constructed schools would primarily be limited to their respective school districts. The second method divides school debt on the basis of where the money was spent and what services were provided. The study notes this method as the project location method. In essence, these two methods show that apportioning debt will be difficult and potentially divisive given the amount of money involved. The study calculates the property tax rates only using the data from the assessed value method.[26]

Table 43 shows the ratio of bonded general obligation debt to the taxable assessed value for the MOA Remainder and the ERC Borough using the assessed value method. This ratio is important because it is one of the measures that bonding agencies look at when considering a municipality's bond rating. The debt to taxable assessed value ratios indicate a marginal increase for the MOA Remainder to 4.70 percent, while the ERC Borough would fall to 3.48 percent. These ratios are within the normal range for Municipalities (White 2007).

[26] The overall conclusions of the study do not change if the project location method is used. Either way, the study concludes the ERC Borough would have to cut expenditures substantially in order to meet state law regarding educational contributions.

Table 43. Ratio of Bonded General Obligation Debt to Taxable Assessed Value (Assessed Value Method) (% Millions)

Category	Current MOA	MOA Remainder	ERC Borough
Municipal G.O. Bonds	$407.33	$392.87	$14.46
School District G.O. Bonds	$773.28	$687.45	$85.83
Total G.O. Bond Debt	$1,180.61	$1,080.32	$100.29
Taxable Assessed Property	$25,850.94	$22,969.19	$2,881.75
Debt to Taxable Assessed Value	***4.57%***	***4.70%***	***3.48%***

Source: NEI Estimates Based on MOA Public Finance Data, 2007.

Table 44 shows the ratio of bonded general obligation debt to the taxable assessed value for the MOA Remainder and the ERC Borough using the project location method to apportion school debt. The debt to taxable assessed value ratios indicates a marginal decline for the MOA Remainder to 4.48 percent while the ERC Borough would increase to 5.25 percent. Again, these ratios are within the normal range.

Table 44. Ratio of Bonded General Obligation Debt to Taxable Assessed Value (Project Location Method) (% Millions)

Category	Current MOA	MOA Remainder	ERC Borough
Municipal G.O. Bonds	$407.33	$392.87	$14.46
School District G.O. Bonds	$773.28	$636.55	$136.73
Total G.O. Bond Debt	$1,180.61	$1,029.41	$151.20
Taxable Assessed Property	$25,850.94	$22,969.19	$2,881.75
Debt to Taxable Assessed Value	***4.57%***	***4.48%***	***5.25%***

Source: NEI Estimates Based on MOA Public Finance Data, 2007.

Key informants indicated that detachment is unlikely to result in a negative effect on the MOA's bond rating given the strength of the current management team, the Municipality's long and successful history, and the fact that the indebtedness ratio falls only slightly with detachment. However, the effects of detachment on the future bond rating for the ERC Borough are unclear. These ratings will depend on several other factors, including general economic conditions of the new borough, the strength of the new borough's management team, and the bonded indebtedness ratio (White 2007). In addition, the rating will also depend on the fiscal health of the new borough. The study notes in Section 3 and Section 4 that the ERC Borough will either have to cut services or raise tax rates and that these changes will likely need to be substantial. All of these factors together indicate that the ERC Borough's bond rating has the potential to be lower than the bond rating for the current MOA. The study notes that lowering the bond rating will lead to increased interest rates and higher debt payments. These changes would then negatively affect the budget outlook for the new borough and could result in even higher property tax rates than predicted by the study.

This section also provides estimates of apportionment of reasonably anticipated general obligation bonds and revenue bonds relating to general municipal operations, schools, utilities, enterprises, and other facilities. This was done using information from the approved 2007-2012 Capital Improvement Program (CIP). Total current planned expenditures amount to approximately $1.024 billion with 92.9 percent of that amount apportioned to the MOA Remainder and 7.1 percent apportioned to projects in Eagle River.

Table 45. Distribution of Future CIP Projects ($ Millions)

Department	Total Current Planned Expenditures	MOA Remainder	ERC Borough
Fire	32.00	29.13	2.87
Police	20.75	18.24	2.51
Public Transportation	2.33	2.18	0.15
Office of Economic & Community Development	25.18	25.18	0.00
Project Management & Engineering	282.01	272.45	9.56
Anchorage School District	662.50	604.90	57.60
Total Dollar Amount	**1,024.77**	**952.08**	**72.69**
Total (% Basis)	**100.0%**	**92.9%**	**7.1%**

Source: NEI Estimates based Municipality of Anchorage, 2006a.

5.1 Existing Bonded Indebtedness

The Office of Management and Budget provided information on current outstanding debt as of December 31, 2006 for municipal and school-related general obligation bonds for the MOA. The study apportioned the bonded indebtedness of the MOA by examining bonds with outstanding balances and assigning the balances to the appropriate geographic area. The study assigned the bonded debt incurred for purchasing, constructing, or repairing improvements or facilities within the Anchorage Bowl and Girdwood to the MOA Remainder, and those incurred for facilities and services in the Eagle River and Chugiak areas to the ERC Borough. The study apportions projects considered areawide, or without a specific geographic assignment using the distribution of population and expenditures by department by area[27].

The total outstanding Municipal debt on general obligation bonds in 2006 (municipal and school bonds) amounted to $1.18 billion, with $407.3 million in municipal bonds and $773.3 million in school bonds. The study estimates that the hypothetical ERC Borough accounts for $151 million of the total outstanding bonded debt and the hypothetical remainder of the MOA accounts for the balance of over $1 billion.

Table 46 and Table 48 show more details on the outstanding bonded debt on municipal and school bonds, respectively, and the apportioned amounts between the two hypothetical entities.

5.1.1 Municipal Bonds

The study found that the bulk of the general obligation bonded debt belongs to the MOA Remainder because that is where most of the money was spent, reflecting the fact that the Anchorage Bowl receives (and pays for) a higher level of services than the Eagle River and Chugiak areas. As indicated in Table 46, about 96 percent of the municipal general obligation bonded debt is associated with projects in the Anchorage Bowl, where nearly 88 percent of the total MOA population lives. The number of facilities and level of services required to support the population base in the area likely

[27] On average, current expenditures for area-wide services are apportioned as follows: I) Police Department: 87.9 percent to the Anchorage Bowl and Girdwood and 12.1 percent to the Eagle River-Chugiak area; ii) Fire Department: 87.6 percent to the Anchorage Bowl and Girdwood and 12.4 percent to the Eagle River–Chugiak area; and iii) People Mover: 93.6 percent to the Anchorage Bowl and Girdwood and 6.4 percent to the Eagle River-Chugiak area.

accounts for this high percentage. The Municipality used a portion of the funds from the municipal general obligation bonds issued during the years 1995 through 2006 for the Eagle River-Chugiak Parks and Recreation projects; otherwise, the majority of the funds were used for the ARDSA, Anchorage Parks and Recreation, and area-wide projects for public transport, police, fire, and public safety services.

Table 46. Outstanding Bonded Debt on Municipal General Obligation Bonds ($ Millions) as of 12/31/2006

		Total Amount Currently Owed (12/31/06)	Apportionment	
			MOA Remainder	ERC Borough
Bond Number	Bond Name		($ Millions)	
GOA-1993-B	(Refunding) 1993 Series B	9.59	9.28	0.31
GOA-1995-B	(Refunding) 1995 Series B	7.01	6.78	0.22
GOA-1997-A	(New) 1997 Series A	0.87	0.85	0.01
GOA-1999-A	(New/Refunding) 1999 Series A	30.67	29.46	1.21
GOA-2000-A	(New) 2000 Series A	16.31	15.55	0.76
GOA-2002-A	(New/Refunding) 2002 Series A	88.36	85.37	2.98
GOA-2003-A	(New) 2003 Series A	31.22	27.11	4.11
GOA-2004-A	(Refunding) 2004 Series A	19.86	19.18	0.68
GOA-2004-C	(Refunding) 2004 Series C	48.80	47.34	1.46
GOA-2005-C	(Refunding) 2005 Series C	18.15	17.32	0.83
GOA-2005-D	(Refunding) 2005 Series D	43.11	41.39	1.72
GOA-2005-F	(New) 2005 Series F	93.41	93.23	0.18
Amount		407.33	392.87	14.46
Percent		100.00%	96.45%	3.55%

Source: NEI Estimates Based on MOA Public Finance Data, 2007.

5.1.2 School-Related General Obligation Bonds

The study uses two methods to apportion school bond debt between the hypothetical boroughs. At first, the study divided debt based only on project location. However, ASD attorneys provided legal guidance on dividing debt and suggested dividing debt based on total assessed value. Under the project location method, the MOA Remainder would be responsible for 82.3 percent of the debt while the ERC Borough would be responsible for 17.7 percent of the debt. Under the total assessed value method, the MOA Reminder would be responsible for 89.9 percent of the debt while the ERC Borough would be responsible for 11.1 percent.

The study discusses both methods below. While the project location method shows the true cost of providing services to the ERC Borough (and is thus superior in the amount of information it provides), opinions from ASD suggest that the taxable value method may more likely come to fruition in any detachment. The study applies the taxable value method to both the property rate calculations and the calculations of total debt to taxable value based on the expert opinions of the ASD attorneys.

5.1.2.1 Taxable Value Method (School Debt)

As previously noted, this report does not address the legal implications of re-funding and refinancing the bonds. Several key informant interviewees indicated that while some tax districts pay taxes for the

repayment of tax district specific debt, the Municipality as a whole is under the legal obligation for repayment. In response to the study's request for guidance, the ASD requested an opinion from their attorneys. The attorneys' response states:

> The Municipality issues some service-area bonds; however this process is not used for schools. Bonds for capital projects for new school construction and major renovations are issued and approved on an area-wide basis. Thus, a capital school project for Eagle River is voted on by all voters in the Municipality; similarly; a school project for the Anchorage Bowl is voted on by all voters including those residing in Eagle River/Chugiak. Importantly, all property owners within the entire Municipality then fund the indebtedness through increased property taxes monies expended for improvements on an area-wide basis in the Municipality of Anchorage—improvements that may have improved the Eagle River/Chugiak area, or the Anchorage Bowl, but none of which can be reasonably treated as passed for the exclusive benefit of one area over the other.
>
> Because of this process for school bonds, it is our opinion that apportionment of the debt service should be similarly obligated based on areawide bonded indebtedness and not on a project or site-basis. It is our understanding that if the detachment process moves forward, respective percentages will be determined of the current assessed valuation of the property between the new proposed Eagle River/Chugiak Borough and the hypothetical remaining Municipality of Anchorage. It would be a fair and reasonable apportionment of existing bonded indebtedness to then apply this percentage to outstanding debt service to determine the portion for which the new hypothetical Borough would be responsible (Stone 2007).

In short, the letter suggests that school debt should be apportioned based on the respective value of taxable assessed value. As noted in Section 2.2.2, the ERC Borough accounts for 11.1 percent of taxable assessed value. This portion would give the hypothetical borough $85.83 million of the ASD's current school general obligation debt—a discount of just over $50 million from the project location method. The project location method gives the ERC Borough just under 18 percent of school debt (see Section 5.1.2.2).

Table 47. Bonded General Obligation Debt, Taxable Assessed Value Method ($ Millions)

Category	Current MOA	MOA Remainder	ERC Borough
School District G.O. Bonds	$773.28	$687.45	$85.83

Source: NEI Estimates Based on MOA Public Finance Data, 2007.

A drawback of using this method is that it understates the actual amount of debt associated with running the ERC Borough's school district. While the ASD's attorneys state that none of the projects "can be reasonably treated as passed for the exclusive benefit of one area over the other," the comment fails to recognize that under detachment, projects would effectively become assets that exclusively benefit one area or the other. The authors of the study believe the issue of how to apportion this debt would be very contentious.

5.1.2.2 Project Location Method (School Debt)

As shown in Table 48, the total amount owed on school bonds in 2006 was $773 million, accounting for 65 percent of the total amount of outstanding general obligation debt. The study found that about 82.3 percent of this debt ($636.6 million) is attributable to the MOA Remainder and 18 percent ($137 million) is attributable to the hypothetical ERC Borough. The ERC apportionment is mainly due

to relatively recent expenditures expanding school facilities in the Eagle River and Chugiak area. Using the project location method, overall school property tax rates would be 0.8 mills higher in the ERC Borough than under a taxable value method. As noted above, the study provides this information as a true representation of the bonded debt associated with projects in the ERC Borough area. However, based on expert advice, the study uses the taxable apportionment method (Stone 2007).

Table 48. Outstanding Bonded Debt on Municipal General Obligation School Bonds ($ Millions)

Bond Number	Bond Name	Total Amount Currently Owed	Apportionment	
			MOA Remainder	ERC Borough
GOS-1995-A	(New/Refunding) 1995 Series A	23.75	19.13	4.62
GOS-1997-A	(New) 1997 Series A	2.00	1.81	0.19
GOS-1998-R	(Refunding) 1998	19.74	15.39	4.34
GOS-1999-A	(New) 1999 Series A	7.90	7.73	0.17
GOS-2000-A	(New) 2000 Series A	7.73	7.10	0.62
GOS-2000-B	(New) 2000 Series B	13.38	9.42	3.95
GOS-2001-A	(New) 2001 Series A	28.01	25.75	2.25
GOS-2001-R	(Refunding) 2001	49.46	39.87	9.59
GOS-2002-B	(New/Refunding) 2002 Series B	113.12	96.90	16.22
GOS-2003-B	(New) 2003 Series B	113.00	80.33	32.67
GOS-2004-B	(Refunding) 2004 Series B	80.62	68.34	12.27
GOS-2004-D	(New) 2004 Series D	80.33	57.03	23.29
GOS-2005-A	(New) 2005 Series A	61.35	56.96	4.39
GOS-2005-B	(Refunding) 2005 Series B	29.07	26.14	2.92
GOS-2005-E	(Refunding) 2005 Series E	14.79	14.49	0.30
GOS-2006-A	(New) 2006 Series A	48.50	43.08	5.42
GOS-2006-B	(Refunding 2006 Series B	28.89	22.60	6.29
GOS-2006-C	(Refunding) 2006 Series C	51.71	44.47	7.24
Amount		**773.28**	**636.55**	**136.73**
Percent		**100.00%**	**82.32%**	**17.68%**

Source: NEI Estimates based on Risvold, 2007.

5.1.3 Impacts of Detachment on Municipal Bond Ratings

Table 49 shows the ratio of bonded general obligation debt to the taxable assessed value for the MOA Remainder and the ERC Borough using the assessed value method. This ratio is important because it is one of the measures that bonding agencies look at when considering a municipality's bond rating. The debt to taxable assessed value ratios indicate a marginal increase for the MOA Remainder to 4.70 percent while the ERC Borough would fall to 3.48 percent.

Table 49. Ratio of Bonded General Obligation Debt to Taxable Assessed Value (Taxable Value Method) ($ Millions)

Category	Current MOA	MOA Remainder	ERC Borough
Municipal G.O. Bonds	$407.33	$392.87	$14.46
School District G.O. Bonds	$773.28	$687.45	$85.83
Total G.O. Bond Debt	$1,180.61	$1,080.32	$100.29
Taxable Assessed Property	$25,850.94	$22,969.19	$2,881.75
Debt to Taxable Assessed Value	***4.57%***	***4.70%***	***3.48%***

Source: NEI Estimates Based on MOA Public Finance Data, 2007.

Table 50 shows the ratio of bonded general obligation debt to the taxable assessed value for the MOA Remainder and the ERC Borough using the project location method. The debt to taxable assessed value ratios indicate a marginal decline for the MOA Remainder to 4.48 percent while the ERC Borough would increase to 5.25 percent. Again, these ratios are within the normal range.

Table 50. Ratio of Bonded General Obligation Debt to Taxable Assessed Value (Project Location Method) ($ Millions)

Category	Current MOA	MOA Remainder	ERC Borough
Municipal G.O. Bonds	$407.33	$392.87	$14.46
School District G.O. Bonds	$773.28	$636.55	$136.73
Total G.O. Bond Debt	$1,180.61	$1,029.41	$151.20
Taxable Assessed Property	$25,850.94	$22,969.19	$2,881.75
Debt to Taxable Assessed Value	***4.57%***	***4.48%***	***5.25%***

Source: NEI Estimates Based on MOA Public Finance Data, 2007.

Key informant interviews indicated that detachment is unlikely to result in a negative effect on the MOA's bond rating given the strength of the current management team, the Municipality's long and successful history, and the fact that the indebtedness ratio falls slightly with detachment. However, the effects of detachment on the future bond rating for the ERC Borough are unclear. These ratings will depend on several other factors, including general economic conditions of the new borough, the strength of the new borough's management team, and the bonded indebtedness ratio (White 2007). In addition, the rating will also depend on the fiscal health of the new borough. The study notes in Section 3 and Section 4 that the ERC Borough will either have to cut services or raise tax rates, and that these changes will likely need to be substantial. All of these factors together indicate that the ERC Borough's bond rating has the potential to be lower than the bond rating for the current MOA. The study notes that lowering the bond rating will lead to increased interest rates and higher debt payments. These changes would then negatively affect the budget outlook for the new borough and could result in even higher property tax rates.

5.2 Revenue Bonds

A revenue bond is a special type of municipal bond distinguished by its guarantee of repayment solely from a specified revenue-generating entity associated with the purpose of the bonds. Unlike general obligation bonds, only the revenues specified in the legal contract between the bond holder and bond issuer are required to be used for repayment of the principal and interest of the bonds. Income

generated by the facility goes first toward meeting debt service on the bonds (i.e., paying interest to bondholders and retiring the bonds at maturity). Unlike general obligation bonds, the taxing authority does not back the revenue bonds with the Full Faith and Credit of the bond issuer. Because the pledge of security is not as great as that of general obligation bonds, revenue bonds carry a slightly higher interest rate than G.O. bonds; however, they are usually considered the second-most secure type of municipal bonds.

Overall Municipal utility and enterprise-related debt totaled $307.2 million at the end of 2006 (see Table 51). The study did not apportion the bonded debt associated with utilities and enterprises between the boroughs because of several difficulties (see Section 6).

Table 51. Outstanding Bonded Debt on Municipal Enterprise and Other Revenue Bonds ($ Millions)

Type of Bond	Description	Amount
Electric Revenue Bonds		
ERB-1993-A	1993 Series A (Refunding) Senior Lien	22.99
ERB-1996-A	1996 Series (A) Refunding	45.58
ERB-1996-B	1996 Series B	1.02
ERB-2005-A	2005 Series A Sr. Lien	109.35
ERB-2005-B	2005 Series B Taxable	17.86
Electric Total		196.78
Water Revenue Bonds		
WRB-1999-A	1999 (A) New/Refunding	57.85
WRB-2004-A	2004 (A) New	16.15
WRB-2004-M	2004 Jr. Lien Mini	2.00
Water Total		76.00
Wastewater Revenue Bonds		
WWRB-1999-A	1999 (A)	4.56
WWRB-2004-A	2004 (A) New	22.62
Wastewater Total		27.18
Lease Revenue Bonds - Correctional Facility		
LRB-2000-A	2000 (A) Correctional Facility	0.24
LRB-2005-A	2005 Correctional Facility	0.82
Correctional Facility Total		1.06
Bond Bank Revenue Bonds		
BBR-2004-B	Revenue Bonds 2004 Series B (PAC Roof)	5.16
Solid Waste Revenue Bonds		
SWR-1995-A	1995 Refunding	1.02
Total All Revenue Bonds:		**307.19**

Source: Risvold, 2007.

5.3 Anticipated Bonded Indebtedness

This section shows the estimated potential bonded indebtedness of the hypothetical Eagle River-Chugiak Borough and the hypothetical MOA Remainder. The value of approved CIP projects planned for 2007 to 2012 using G.O. and revenue bonds as the source of funding represent the reasonably

anticipated future bonded indebtedness of the Municipality. The study examined project descriptions to determine the location of the capital projects and allocated indebtedness between the two hypothetical boroughs based on the location. The study used population or road mileage to apportion areawide projects between the two hypothetical boroughs.

The estimate of total anticipated general government bonded debt for 2007 to 2012 from G.O. bonds is $362 million. Of the total, the study apportions $15 million (4 percent) to the hypothetical ERC Borough and $247 million to the hypothetical MOA Remainder. This ratio is higher than the ratio for past debt, indicating that the ERC taxable debt to value ratio has the potential to increase in coming years relative to its current level.

In addition, the study estimates a bonded debt (revenue bonds) of $159.8 million for Port of Anchorage and Municipal Light and Power capital projects for the MOA Remainder.

The following section provides more detail about the anticipated bonded debt.

5.3.1 Approved General Government Capital Improvement Projects by Department

The 2007 to 2012 CIP is a compilation of capital projects proposed for design and/or construction, or purchase and installation during the next six years. The study used the information in this list to project the foreseeable bonded indebtedness of the Municipality of Anchorage and apportion the debt between the hypothetical ERC and MOA Remainders.

The study estimates planned capital improvement projects for all departments for the next six years to cost about $934 million with general obligation bonds providing funding for 39 percent of this amount ($362 million) (see Table 52). These amounts represent only the expected bond-financed share of the project costs. Other sources of funds include state and federal grants, Heritage Land Bank funds, and others.

Five MOA departments—Fire, Police, Public Transportation, Office of Economics and Community Development, and Project Management and Engineering—have planned capital projects with bonds identified as the source of funding.

Table 52. Anticipated Amount of General Obligation Bonds to Fund Proposed 2007-2012 Capital Improvement Projects by Department ($ Millions)

Department	2007	2008	2009	2010	2011	2012	Total
Fire	$4.08	$8.23	$5.73	$7.98	$3.68	$2.33	$32.00
Police	$0.00	$8.25	$10.00	$2.50	$0.00	$0.00	$20.75
Public Transportation	$0.90	$0.00	$0.00	$1.43	$0.00	$0.00	$2.33
OECD	$5.05	$5.82	$5.47	$4.60	$2.75	$1.50	$25.18
Project Management & Engineering	$45.30	$48.75	$54.65	$48.84	$49.23	$35.25	$282.01
Total:	$55.33	$71.04	$75.84	$65.34	$55.66	$39.08	$362.27

Source: Municipality of Anchorage, 2006a.

The study estimated the approved capital projects for the Fire Department to cost a total of $35 million. G.O. bonds would finance $32 million. The study apportioned bond-funded capital projects between the two hypothetical entities as shown in Table 53. The study used descriptions of the cost items in the CIP to apportion costs between the two hypothetical boroughs. The planned projects for the Fire Department are mostly for projects in the Anchorage Bowl. The biggest Fire

Department project for the Eagle River-Chugiak area is a needs assessment and site selection project for a new Eagle River Valley Fire Station in 2011 (bonds are anticipated to provide $750,000 for this project). The study apportioned bond-financed amounts for areawide projects using the distribution of population within the Municipality. The study estimates that the hypothetical ERC Borough will share $2.87 million in bonded debt for the planned Fire Department capital projects.

Table 53. Anticipated Bonded Debt: Fire Department CIP Projects ($ Millions), 2007-2012

Year	Total Amount	Apportionment	
		MOA Remainder	ERC Borough
2007	4.08	3.95	0.12
2008	8.23	7.75	0.47
2009	5.73	5.55	0.17
2010	7.98	7.62	0.36
2011	3.68	2.06	1.62
2012	2.33	2.20	0.12
Amount	**32.00**	**29.13**	**2.87**
Percent	**100.00%**	**91.03%**	**8.97%**

Source: NEI Estimates based on Source: Municipality of Anchorage, 2006a.

The study estimated the total cost of Police Department CIP projects at $51.6 million, with bonds financing $20.75 million worth of projects in 2008, 2009, and 2010. The majority of the projects identified in the CIP are areawide. The study apportioned these projects based on the ERC Borough accounting for $2.51 million of the total $20.75 million in anticipated bonded debt for the planned Police Department capital projects Table 54.

Table 54. Anticipated Bonded Debt: Police Department CIP Projects ($ Millions), 2007-2012

Year	Total Amount	Apportionment	
		MOA Remainder	ERC Borough
2007	0.00	0.00	0.00
2008	8.25	7.25	1.00
2009	10.00	8.79	1.21
2010	2.50	2.20	0.30
2011	0.00	0.00	0.00
2012	0.00	0.00	0.00
Amount	**20.75**	**18.24**	**2.51**
Percent	**100.00%**	**87.90%**	**12.10%**

Source: NEI Estimates based on Source: Municipality of Anchorage, 2006a.

The study estimates the total amount of anticipated bond-financed CIP projects for the Department of Public Transportation for the 6-year planning period at $2.33 million Table 55. The hypothetical ERC Borough accounts for about 6 percent of the total anticipated bonded debt for public transport projects, amounting to about $150,000 over the six-year planning period, while the hypothetical Anchorage Remainder accounts for $2.18 million. The study apportioned the CIP-related debt based on the distribution of the current expenditures for the People Mover.

Table 55. Anticipated Bonded Debt: Department of Public Transportation CIP Projects ($ Millions), 2007-2012

Year	Total Amount	Apportionment	
		MOA Remainder	ERC Borough
2007	0.90	0.84	0.06
2008	0.00	0.00	0.00
2009	0.00	0.00	0.00
2010	1.43	1.33	0.09
2011	0.00	0.00	0.00
2012	0.00	0.00	0.00
Amount	**2.33**	**2.18**	**0.15**
Percent	**100.00%**	**93.56%**	**6.44%**

Source: NEI Estimates based on Source: Municipality of Anchorage, 2006a.

The CIP projects under the Project Management and Engineering Department include all the planned improvements in road and drainage facilities within the Municipality. The total cost of projects under this department amount to over $465 million over the 6-year period, with $282 million financed by bonds. The majority of the planned projects are ARDSA-related and specific to the Anchorage Bowl. There are specific road projects planned for the Eagle River-Chugiak area, but they are expected to be financed using state and federal dollars.

The areawide projects were apportioned between the two hypothetical entities using the distribution of road mileage within the Municipality. The bond-financed projects associated with the hypothetical Eagle River-Chugiak Borough are estimated at $9.56 million over the planning period.

Table 56. Anticipated Bonded Debt: Department of Project Management and Engineering CIP Projects ($ Millions), 2007-2012

Year	Total Amount	Apportionment	
		MOA Remainder	ERC Borough
2007	45.30	43.68	1.62
2008	48.75	47.41	1.34
2009	54.65	51.33	3.32
2010	48.84	47.83	1.01
2011	49.23	47.98	1.25
2012	35.25	34.24	1.01
Amount	**282.01**	**272.45**	**9.56**
Percent	**100.00%**	**96.61%**	**3.39%**

Source: NEI Estimates based on Source: Municipality of Anchorage, 2006a.

In addition to the projects proposed for the departments discussed above the Municipality also plans to bond $25 million worth of projects through the Office of Economic and Community Development (OECD) for the various parks and recreational facilities within the MOA Remainder. The study apportions all of the estimated future bonded debt ($25 million) for OECD projects to the hypothetical MOA Remainder.

5.3.2 Anchorage School District Capital Improvement Plan

Table 57 shows estimates of future bonded debt on general obligation school bonds. The study estimates the recommended capital improvement projects for the various schools within the Municipality at $662.5 million over the 6-year period with about 91 percent allocated to the MOA Remainder and about 9 percent by the hypothetical ERC Borough. For areawide or district-wide projects, the study apportioned debt by distribution of student enrollment between the two areas[28].

Table 57. Anticipated Bonded Debt: Anchorage School District Capital Improvement Projects ($ Millions), July 1, 2006 – June 30, 2012

Year	Total Amount	Apportionment	
		MOA Remainder	ERC Borough
2007	99.87	85.01	14.85
2008	131.33	127.36	3.97
2009	145.56	139.30	6.26
2010	148.00	132.33	15.66
2011	94.55	86.34	8.21
2012	43.20	34.55	8.64
Amount	**662.50**	**604.90**	**57.60**
Percent	**100.00%**	**91.31%**	**8.69%**

Source: NEI Estimates based on ASD, 2006b.

5.3.3 Approved Utilities Capital Improvement Projects

The study estimates future debt from revenues bonds with information from the approved CIP projects and the budgets for the various MOA utilities and enterprise activities. Table 58 shows the amounts by year of revenue bond financed projects by utility or enterprise. The study expects the hypothetical MOA Remainder to incur potential enterprise-related future debt.

Table 58. Anticipated Bonded Debt for Municipal Utilities' 2007-2012 Capital Improvement Projects ($ Millions)

Utility/Enterprise	2008	2010
Municipal Light and Power	$47.87	$46.90
Port of Anchorage	$65.00	

Source: NEI Estimates based on Source: Municipality of Anchorage, 2006a.

[28] The allocation used was 86 percent MOA Remainder and 14 percent Eagle River – Chugiak area.

6 Effects on Major Assets

Any division of government services between the MOA and the proposed ERC Borough will require a division of assets, roughly analogous to a married couple dividing their assets during divorce proceedings. The process of dividing these assets will be long, tedious, and potentially divisive. This study is not capable of projecting the division of these assets given the complexity and political nature of the issues associated with division. Instead of an approximated division, the study provides a discussion of the current value of major assets and identifies some the issues associated with division of some assets.

MOA assets consist of property, plants and equipment, and the infrastructure that provides taxpayers with business-type services such as water, waste water, electricity, solid waste services, education, and the more general government services such as fire, police, roads, and public transportation.

In a financial sense, the MOA records these assets on municipal financial statements in the manner prescribed by the Governmental Accounting Standards Board (GASB), municipal ordinances, and other applicable laws and regulations. Each fiscal year, the MOA publishes a Comprehensive Annual Financial Report; this report contains detailed and summary information about the Municipality's assets and its financial health.

Comprehensive Annual Financial Report, 2005

For this analysis, the MOA's *Comprehensive Annual Financial Report* (CAFR) dated December 31, 2005, was used as a principal resource. The financial statements within the CAFR were audited by KPMG LLP and were considered to:

> …present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Municipality of Anchorage, Alaska, as of December 31, 2005….

6.1 Summary

Northern Economics and project staff reviewed the Municipality's CAFR for Fiscal Year 2005 to determine which major assets would be involved in any detachment from the MOA by the ERC area.

Major assets were defined as net capital assets, such as land, buildings, equipment, and distribution and collection equipment for both the traditional government services and also the MOA's business-type activities (such as water, sewer, light, and power). Using net capital asset values removes short-term assets from consideration, as well as the myriad of financial methods used to support the assets (general obligation bonds, revenue bonds, user fees, contributed capital, etc.).

Government and government services constitute approximately $2.5 billion in major assets, while business-type activities are $0.3 billion, based on the CAFR for FY 05.

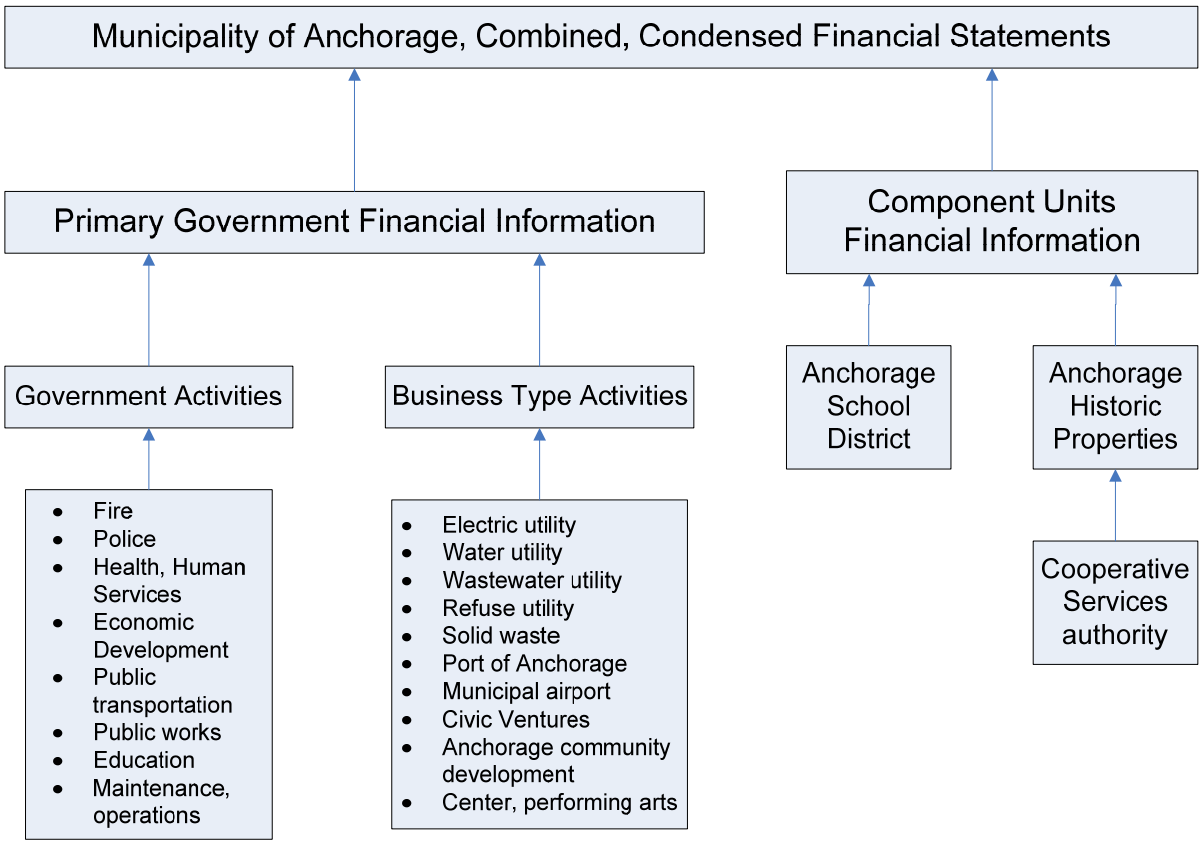
No one method of allocation is likely to meet the needs of a fair and equitable distribution of assets; in reality, a combination of methods would be used. These include allocations by assets, revenue, area (square footage or acres), population, use, sale, contributed capital cost or value (cost or market).

6.2 Comprehensive Annual Financial Report, FY 2005.

Financial information presented in the FY 2005 CAFR is essentially structured as shown in Figure 8. Those functions reported under Government Activities are aggregated, while the business-type activities are reported separately. Under business-type activities, the first three utilities (electric, water, wastewater) are considered as "major" while the others are also reported, in some cases as aggregated data.

Component units are part of the Municipality but are tracked separately. For example, the Anchorage School District reports and records its own assets, even though title to these assets is held by the Municipality.

Figure 8. Municipality of Anchorage, Comprehensive Annual Financial Statement Structure.



Source: Municipality of Anchorage, 2005.

The resources "owned" or assigned to each Municipal unit are reported as assets of that unit, as further discussed in the next section.

6.3 Municipal Assets

The FY 2005 CAFR contains financial information about several types of assets. For this analysis, net capital assets are considered major assets; however, other asset types are defined and discussed below.

6.3.1 Total Assets

Total assets are those items owned by the Municipality; they include infrastructure, land, buildings, machinery, vehicles, equipment and office fixtures, and other assets such as cash, investments, and inventory. Anchorage uses these assets to provide current (and future) services to its citizens.

Assets are often financed through bond sales (e.g., schools), special taxes (e.g., the bed tax for tourism purposes), and other types of funding sources (e.g., user fees or special assessments). Terms and conditions of each financing method will vary significantly between one asset and another, similar to home mortgages and automobile financing; certain assets may also have different economic lives. Buildings, for example, may have a 50-year useful life while computers may have fewer than 5 years before they are obsolete.

6.3.2 Net Assets

The statement of net assets within the FY 2005 CAFR presents financial information on all of Anchorage's assets and liabilities (such as loans or loan-type financing); the difference between the two figures is defined as net assets. The term is somewhat similar to a resident whose home is valued at $300,000 with a $200,000 remaining mortgage (principal); the $100,000 of home equity is a net asset much like Anchorage's municipal assets.

Net assets and how they grow (or contract) over time are a useful way to present the financial health of any municipality. Anchorage's total assets exceeded liabilities by $3.057 billion for the fiscal year ending on December 31, 2004 and $3.124 billion for the fiscal year ending December 31, 2005. The one-year growth of $0.067 billion is approximately a two percent gain.

Over 95 percent of Anchorage's net assets are considered as capital assets, again, in the form of buildings, roads, equipment, and similar items. The remainder of Anchorage's net assets is in various forms such as cash, investments, receivables, interest, and inventories. The total net capital assets of these units are shown in Table 59 below.

Table 59. Anchorage's Net Assets ($ Thousands)

	Governmental Activities		Business-Type Activities		Total	
Accounts	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Current and other assets	$514,725	$447,204	$261,910	$265,666	$776,635	$712,870
Capital assets	$2,938,344	$2,903,188	$1,155,449	$1,114,361	$4,093,793	$4,017,549
Total assets	$3,453,069	$3,350,392	$1,417,359	$1,380,027	$4,870,428	$4,730,419
Long term liabilities	*$694,498*	*$605,918*	*$375,621*	*$436,884*	*$1,070,119*	*$1,042,802*
Other Liabilities	$144,725	$90,397	$531,405	$485,553	$676,130	$575,950
Total liabilities	*$839,223*	*$696,315*	*$907,026*	*$922,437*	*$1,746,249*	*$1,618,752*
Total net assets	**$2,613,846**	**$2,654,077**	**$510,333**	**$457,590**	**$3,124,179**	**$3,111,667**

Source: Municipality of Anchorage, 2005.

6.3.3 Net Capital Assets

Since 95 percent of Anchorage's net assets are capital assets, major assets in this analysis were defined as net capital assets. Capital assets are further defined as follows (FY 2005, CAFR):

> Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, sidewalks, drainage systems, and similar items) are, reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by Anchorage as assets with an estimated useful life in excess of one year and an initial, individual cost of more than $5,000 for equipment or $1,000 for computer hardware and software. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Further, net capital asset figures avoid different types of long-term financing, economic lives, and interest rates. As a result, net capital assets represent the recorded value of the asset without consideration of the financing used, if any. This is suitable for an initial analysis but final figures, if detachment occurs, should be adjusted for financial rates, terms, and the credit status of the owning entity.

Table 60 shows total assets, total liabilities, total net assets, and net capital assets by unit (or account) for the fiscal year 2005. Percentages are shown as a percentage of total assets.

Table 60. Anchorage Assets, Liabilities, Net Assets, and Net Capital Assets, by Dollars and Percentage, 2005 ($ Thousands)

Unit or Account	2005	% of Total Assets
Governmental Assets	$3,453,069	70.9
Business-type Assets	$1,417,359	29.1
Total assets	$4,870,428	100.0
Governmental Liabilities	$839,223	17.2
Business-type Liabilities	$907,026	18.6
Total liabilities	$1,746,249	35.9
Total net assets		
Governmental activities	$2,613,846	53.7
Business-type activities	$510,333	10.5
Total net assets	$3,124,179	64.1
Net capital assets		
Governmental activities	$2,485,271	51.0
Business-type activities	$318,830	6.5
Total net capital assets	**$2,804,101**	**57.6**

Source: Municipality of Anchorage, 2005.

Total government assets are approximately $3.5 billion, while business-type activity assets are approximately $1.4 billion. However, government and business-type liabilities (i.e., debt financing) are approximately the same, with business-type liabilities somewhat greater than government liabilities. This suggests business-type activities are much more likely to be debt financed, through bond sales for water and sewer projects, for example.

Net capital assets represent government and business-type assets without the varying effects of bonds, different financing terms, interest rates, etc.

6.4 Government versus Business-type Assets

Primary government activities are the traditional ones that most citizens refer to as government services: fire, police, roads, education, and health and human services. Generally, the benefits of these government services are more diffuse and spread across all sectors within an area such as Anchorage. Police, for example, apprehend wrong-doers regardless of where they came from.

Business-type activities are those services with a more direct benefit to users or, in some cases, a more focused service, such as the Port of Anchorage. Both the electric and water utility provide a service that is regulated and metered; each home, business or connected user pays for the services received. Total liabilities are approximately the same percentage with total net assets and total net capital assets of governmental activities at a ratio of 10 to 1 to business type activities. Any division of assets due to detachment will require a sharp focus on governmental net capital assets, when compared to business-type activities. Simply stated, there are more of them.

This level of detail is not available for net capital assets, at least within the CAFR; accounts and asset listing with different municipal accounts will have this information.

6.4.1 Allocation of Assets, by Government or Business-Type Asset

It is possible different techniques will be needed to allocate resources between government assets and business-type assets. For example, potential allocation of road assets is fairly straightforward: roads within a given borough (or potential borough) will automatically become part of that borough. A business-type activity such as Solid Waste Services is more difficult, if not impossible, to allocate, from both a financial and environmental perspective.

The Hyland Road landfill was permitted by both state and federal government agencies after a long and difficult search; it was established to provide a solid waste repository for all citizens from Girdwood to the Matanuska-Susitna Boundary. Despite its location within the potential ERC Borough, it will likely continue to serve as the one solid waste landfill for Alaskans from Girdwood to the Knik River, no matter which borough they live in.

Service rates could be altered to reflect use and location; however, the accumulated funds for post-closure monitoring represent funds collected since the facility opened. Does the new ERC Borough become the "Responsible Party" for post-closure monitoring and reporting or does it remain with Anchorage— or might there be joint responsibility? Do state and federal solid waste permits transfer and, if so, under what conditions? Current accumulated funds should be retained by the entity that will do monitoring and inspection with adjustments, if needed. This will be difficult to do as future liabilities will occur near the middle of this century when the landfill is closed and post-closure monitoring begins, around the year 2043.

6.4.2 Allocation of Assets, by Government or Business-Type Asset Type

Major capital assets, by type and government or business-type activity, are shown in Table 61.

Table 61. Municipality of Anchorage, Net Capital Assets, by Category, 2005 and 2004

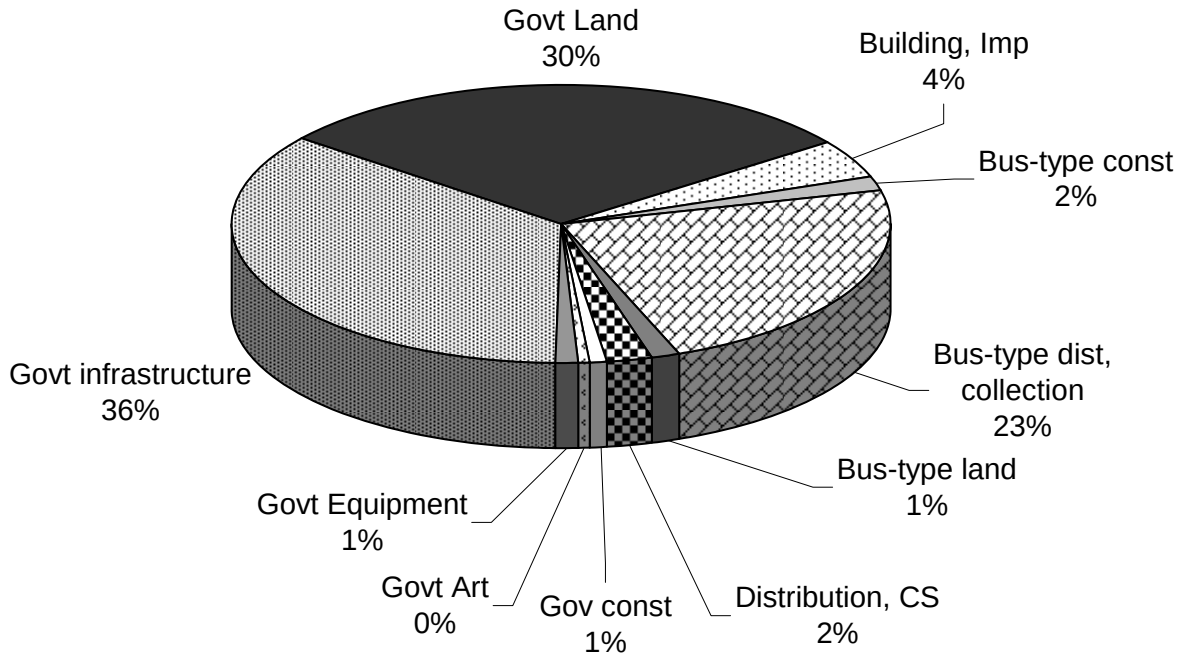
Net Capital Assets	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	$1,206,888	$1,195,735	$58,290	$58,277	$1,265,178	$1,254,012
Buildings, improvements	$180,077	$164,638	$83,609	$85,270	$263,686	$249,908
Art	$14,281	$13,943	$0	$0	$14,281	$13,943
Equipment	$44,869	$52,266	$0	$0	$44,869	$52,266
Distribution, collection systems	$0	$0	$944,162	$912,730	$944,162	$912,730
Infrastructure	$1,448,917	$1,446,748	$0	$0	$1,448,917	$1,446,748
Construction in progress	$43,312	$29,858	$69,388	$58,084	$112,700	$87,942
Total	$2,938,344	$2,903,188	$1,155,449	$1,114,361	$4,093,793	$4,017,549

Source: Municipality of Anchorage, 2005.

Government assets include art and equipment, while business-type activities do not list art (or equipment) in the same way. However, business-type activities such as AWWU have extensive distribution and collection systems, as shown. Government infrastructure is a large figure, while business-type activities show net capital assets as buildings and improvements and distribution and collection systems.

Figure 9 illustrates the relative size of Anchorage's government and business-type asset categories.

Figure 9. FY 2005, Relative Size of Government and Business-Type Net Capital Assets



Source: Municipality of Anchorage, 2005.

By far the largest categories are government land and infrastructure. For business-type enterprises, distribution and collection systems are the largest categories; these reflect electric power poles and lines, transformers, water lines, sewer pipes, and so on.

6.4.3 Business-type Activities

Anchorage's electric utility, Municipal Light and Power, and the Municipality's Water and Wastewater Utility are the three largest business-type activities. These are discussed below.

Electric Utility

Municipal Light and Power (ML&P) currently provides power to much of Anchorage, with additional service from Chugach Electric Association (CEA) and Matanuska Electric Association (MEA). Eagle River and Chugiak are served, in different locations, by ML&P and MEA. MEA buys its own power and does not have a central asset (such as a power plant) with the distribution system currently in place (utility poles, lines, transformers, etc.). There are significant economies of scale with large power generation plants; it is unlikely the ERC Borough will seek to build its own facility. Allocation of assets becomes more of an equitable share of the current facility and how that value could be transferred.

Water and Wastewater Utility

The Anchorage Water and Wastewater Utility (AWWU) is responsible for water and sewer service for much of the MOA. Like ML&P, it provides partial service to the MOA, with limited or no water or sewer for certain areas, such as the Anchorage Hillside area. Homeowner and community wells and septic systems are common. No separate facility is anticipated in the near-term; however, the expanding population of the ERC area suggests this type of utility might be one of the first funded by the new borough. One allocation method might be a contingent valuation of the current distribution system with a settlement date based on the ERC plant. At that time, the current distribution and collection systems could be assigned to the new facility.

6.4.4 Non-major Enterprise Funds

The refuse and solid waste utilities, the Port of Anchorage, and the Merrill Field airport are viewed within the CAFR as non-major enterprise funds (or activities).

Refuse Utility

The refuse utility is confined to the former City of Anchorage boundary (circa 1974) and does not extend into the ERC area. It is very likely this utility would remain within the Municipality.

Solid Waste Utility

The solid waste landfill is served by direct users (self-haulers), commercial refuse firms, and transfer stations in Anchorage and Girdwood, as well as Eagle River and Chugiak. As discussed earlier, this heavily-permitted regional landfill will likely continue to serve local residents throughout the region until its anticipated end-of-service in 2043.

Port of Anchorage

The Port of Anchorage (POA) is a fixed-location asset due to its geography. Since its beginnings in 1961, the Port has grown until it now handles goods and services for 80 percent or more of Alaska's citizens and over 90 percent of all Anchorage Railbelt residents. Allocating use of this Port by borough residency would likely be impossible; the most likely allocation would be by assets, revenues or other financial method. Another possibility is a Port Authority or Joint Ownership, with both MOA and ERC representatives.

Municipal Airport

Merrill Field has been owned by the MOA since its establishment in 1930; it is still owned and operated by the MOA. The Birchwood airport, located in the Eagle River-Chugiak detachment area, is a state-owned airport and not subject to potential impacts of detachment. Allocation of these assets could be a straightforward dollar-for-dollar valuation, based on net book value or other agreed-upon valuation definition.

6.5 Component Units

There are two components of the MOA listed in a separate section of the CAFR: the Anchorage School District (ASD) and Anchorage Historic Properties. ASD detachment impacts are the subject of a more detailed analysis elsewhere in this report. Properties and interests held by Anchorage Historic Properties are in the Anchorage area and include the 4th Avenue Theater, Brown's Point Cottages, and the Oscar Anderson House, among others. None appear to be located in the ERC detachment area, so it is likely all assets of this entity would remain with the MOA.

6.6 Endowment (Trust) Fund

The MOA sold the Anchorage Telephone Utility (ATU) in 1999, and proceeds from that sale were placed in the MOA Trust Fund to provide a perpetual revenue stream as well as tax relief. Of the approximately $130 million in the trust fund, $6.3 million was provided to the MOA in FY 2005 for government services. The fund generates revenue based on an average market value over the previous five years; long-term investment returns of eight percent are projected with inflation at three percent and proceeds each year based on five percent of the five-year average (CAFR, 2005). The fund or its proceeds (or both) could be split based on a population or relative number of subscribers at the time of sale.

6.7 Anchorage School District

Detachment will include dividing ASD buildings, equipment, and other assets. A full accounting of the division of assets between the hypothetical boroughs was not available for this report. Many non-property assets would likely be divided through a negotiated process. However, the ASD provided the study with a breakdown by borough of assets associated with specific properties. These data show that 19.6 percent of the ASD's book value is associated with properties is located in the ERC Borough (see Table 62). This percentage is very close to the 17.7 percent of educational debt that the study apportions to the ERC Borough using the project location method. Theoretically, if assets depreciated at the same rates as the debts associated with them were paid off and the asset was totally financed with debt, then the loan would be repaid as the value of asset reached zero. However, most

institutions repay debt faster than the asset depreciates so the study expects the attributed debt value to be less than the book value. Again, these two figures serve as independent checks that the study's estimates are reasonable.

Table 62. Book Value of ASD Facilities

Cost	MOA Remainder	ERC Borough
Land Acquisition and Improvements	64.46	9.60
Buildings	869.88	223.92
Equipment	117.92	12.86
Total Cost	*1052.26*	*246.38*
Accumulated Depreciation	-274.46	-56.49
Book Value	**777.80**	**189.89**

Source: Stokesbary, 2007.

Table 63 shows the number of schools in the ASD and the allocated number by area and type of school. Note that the proposed detachment would include elementary schools, middle schools, and high schools only, at this time. There are no business-type funds in the ASD.

Table 63. Number of Schools, 2005-2006, Potential Allocation by Area and Type

Area	High S	Middle S	Elem S	Alt 2nd	Spec Ed	Voc S	Charter S	Total
ERC	2	2	7	0	0	0	0	11
ASD Remainder	6	7	53	6	2	1	6	81
Total	**8**	**9**	**60**	**6**	**2**	**1**	**6**	**92**

Source: Anchorage School District, 2006c.

Table 63 also makes it apparent that detachment would leave the ERCSD without many of the specialized schools found in Anchorage. The ERCSD would have to choose between conducting those programs inside existing schools, constructing new buildings to house these programs, or paying the ASD for the right to send students to programs inside the ASD.

6.7.1 ASD Total Assets

Table 64 displays ASD total assets for FY2005 and FY2006, in millions of dollars. Major changes from 2005 to 2006 reflect construction that was completed and then recorded as an asset (or increase in an existing asset).

Table 64. Total Assets, Anchorage School District, FY2006 and FY2005 ($ Millions)

	Account	2006	2005
Assets			
	Current, other	$269.7	$371.5
	Capital assets	$1,160.1	$1,075.7
	Total assets	$1,429.8	$1,447.2
Liabilities			
	Net pension and other	$13.4	$5.0
	Long-term liabilities	$718.3	$758.8
	Other liabilities	$200.6	$200.3
	Total liabilities	$932.3	$964.1
Net Assets			
	Net capital assets	$401.9	$277.9
	Restricted	$17.5	$63.9
	Unrestricted	$78.1	$141.6
	Total Net Assets	$497.5	$483.4

Source: Anchorage School District, 2006c.

As noted in the CAFR:

> By far the largest portion of the Anchorage School District's total assets reflects its investment in capital assets (e.g., land, building, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The Anchorage School District uses these capital assets to provide services to students and citizens….

Certain net assets are listed as restricted or unrestricted. Restricted assets are those reserved for authorized construction and debt services; unrestricted net assets may be used for the ASD's ongoing educational operations.

6.7.2 ASD Capital Assets

Table 65 shows the district's total capital assets by function. Schools are by far the major assets with all others approximately equal. There are no administration or food services buildings in the Eagle River-Chugiak area, so these represent another potential expense for an independent school district in the proposed borough.

Table 65. Anchorage School District, Capital Assets, FY2006, by Function ($ Millions)

Function	Land, Improvements	Buildings, Equipment	Pupil Transportation	CIP	Total	Percent
	($ Millions)					
Instruction	70.3	1,184.2	0.0	184.0	1,438.5	96.9
Administration	0.9	11.8	0.0	0.3	13.0	0.9
Operation, maintenance	2.4	8.3	0.0	0.3	11.1	0.7
Pupil transportation	0.4	0.5	8.9	1.1	10.9	0.7
Food services	0.1	10.8	0.0	0.0	10.9	0.7
Total	**74.1**	**1,215.6**	**8.9**	**185.8**	**1,484.4**	**100.0**

Source: Northern Economics, adapted from Anchorage School District, 2006c.

6.7.3 Net Capital Assets, ASD

Since 97 percent of Anchorage's school assets are capital assets, major ASD assets were defined as net capital assets, in a manner consistent with net capital assets of the MOA. Net capital asset figures represent the recorded value of the asset without financing consideration. As noted with MOA net capital assets, this is suitable for initial analysis but final figures, if detachment occurs, should be adjusted for financial rates, terms, and the credit status of the owning entity. Outstanding school debt (bonds) will need to be addressed as part of any detachment process.

Net capital asset values for ASD's buildings, equipment, etc. have been requested from the District's Chief Financial Officer; when these figures are received, they will be used to complete this section and to project a range of school asset values for the proposed 11 ERC schools.

6.8 Allocation Methods

Allocating major assets in a reasonable and equitable fashion may be accomplished with one or more of the following methods. It is highly unlikely that any one method would be used and that a combination of several would be used to distribute assets if detachment becomes reality.

6.8.1 Allocation by Assets

Asset allocation is simplest for those government assets that are physically present in each of the two areas; as noted before, road systems are a good example of allocation by physical asset. The length, condition and cost of the two road systems can be determined through MOA records, including GIS databases showing road locations, condition, and costs. Simply put, physical assets in each of the two areas should be assigned, in most cases, to that area.

6.8.2 Allocation by Revenue

Revenue allocation methods will be easiest for business-type activities that can be determined by location. For example, AWWU maintains system-wide maps with water and sewer connections, hydrants, and the number of metered users. Homeowners are billed on a flat rate basis while large, commercial consumers are charged by the quantity of water and sewer consumed. Potential revenue can be projected through a combination of location (homeowners) and amount of use (commercial users). Where a product or service can be metered, an equitable distribution of revenue and

associated cost can be calculated. At some point, the new ERC entity would assume responsibility for water and sewer; at that time, a final sale (transfer) of assets could be completed.

6.8.3 Allocation by Area

Certain MOA assets are allocated by area; neighborhood parks, schools, and playgrounds could be valued on a square footage basis. The separation and recombination of these major assets could be calculated on a dollar per square foot or acre basis. This method would be more appropriate for those areas that currently service both the MOA and ERC areas, where use can be easily tied to residency. There may be recreational areas in one area that serve residents in the other; if so, either direct transfer or allocation by area might be a useful method.

6.8.4 Allocation by Population

Population of the two potential areas can be determined fairly readily; allocating by population would require use of that ratio as applied to the asset (or assets) in question. This method could be used to calculate a "fair share" of either revenue or cost streams. One potential application is allocation of proceeds from the MOA Trust Fund, should that fund remain intact.

6.8.5 Allocation by Use

Each resident of the MOA or potential ERC Borough would be charged by use under this allocation method. Examples include landfill, airports, certain recreational areas, etc. Allocation by use, if carefully counted, could be used to divide assets and re-allocate them to either the MOA or ERC areas. This would work better for non-fixed assets such as vehicles and mobile equipment.

6.8.6 Allocation by Sale

Assets could be allocated on a cash or value basis, using comparable or surrogate sales for valuation and asset distribution. The selection of a valuation methodology would be important to ensure equitable and fair distribution of MOA assets since it would likely be combined with other methods unique to asset class.

6.8.7 Allocation by Contributed Capital

Business-type activities such as AWWU or the Port of Anchorage provide information on the contributed capital or retained earnings within each enterprise fund. The amount of this contributed capital could be tracked since inception and allocated by the ratio (per year) of residents within the MOA and those within the ERC Borough. Since major growth in the ERC area is relatively recent, this could favor the MOA, first established in 1915 at Ship Creek.

6.8.8 Allocation by Cost

Simply stated, each asset would be valued by original cost or, possibly, replacement cost. This method would not take into account current value and that might be a more appropriate method than "historical cost" or "estimated historical cost." Again, detachment would likely require a combination of several allocation methods.

7 PERS/TRS

The State of Alaska, Public Employees' Retirement System (PERS) and the State of Alaska, Teachers' Retirement System (TRS) provide retirement benefits for members of the MOA. Besides the State of Alaska, PERS includes employees from 159 other government entities, from all parts of Alaska, including the University of Alaska.

Currently, the PERS and TRS systems are running an "unfunded liability" that has raised employer contributions from approximately 10 percent of payroll cost to (recommended) amounts approaching 60 percent (State of Alaska, Department of Administration, Financial Overview, February 2, 2007), for all employees hired before July 1, 2006. This high level of employee contribution will increase staffing costs for both the MOA Remainder and the ERC Borough.

This report section provides history on the current problem, outlines its magnitude, and suggests how it might impact potential detachment of the ERC Borough.

7.1 PERS, TRS Funding

Article 12, Section 7 of the Alaska Constitution states: *Membership in employee retirement systems of the State or its political subdivisions shall constitute a contractual relationship. Accrued benefits of these systems shall not be diminished or impaired.* Retirement benefits, pension and medical, are guaranteed.

Funding these benefits is a matter of accruing funds from both employees (employee contributions) and employers (employer match or contribution). Funds are managed by the Alaska Retirement Management Board, as part of the Department of Administration, Division of Retirement and Benefits. Contribution requirements are negotiated with employees, generally as part of multi-year union contracts, or set by the Board for employer's contribution requirements.

The Board is advised by actuaries and accountants who provide input on investments, workforce characteristics, and key assumptions about mortality, disability, and medical variables, among other actuarial factors.

Actuarial valuation is based on these variables and generally is designed to smooth out peaks and valleys from investment returns (stock market variation) and to take a long-term perspective. Further, rates for future fiscal years are based on current (or prior) year values; during most years, this is adequate. However, a combination of events since the late 1990s has lead to the following unfunded liability (Alaska Dept. of Administration, 2007), in billions of dollars. Buck Consultants (2005) calculated the unfunded liabilities for TRS and PERS as shown in Table 66, using calculations based on the Projected Unit Credit Funding Method and a 4 percent amortization rate.

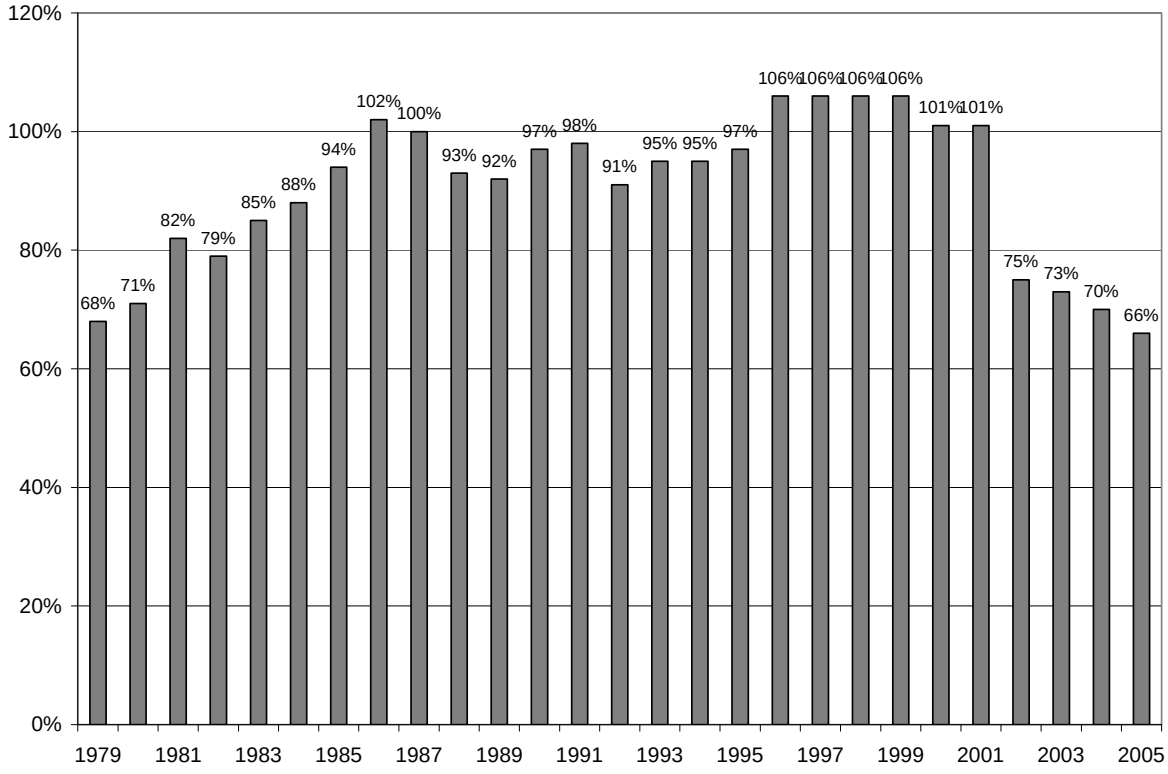
Table 66. PERS/TRS Liability ($ Millions)

Category	TRS	PERS
Accrued Liability	6,499	12,844
Asset Values	3,959	8,443
Unfunded Liability	2,540	4,402

Source: Alaska Department of Administration, 2007.

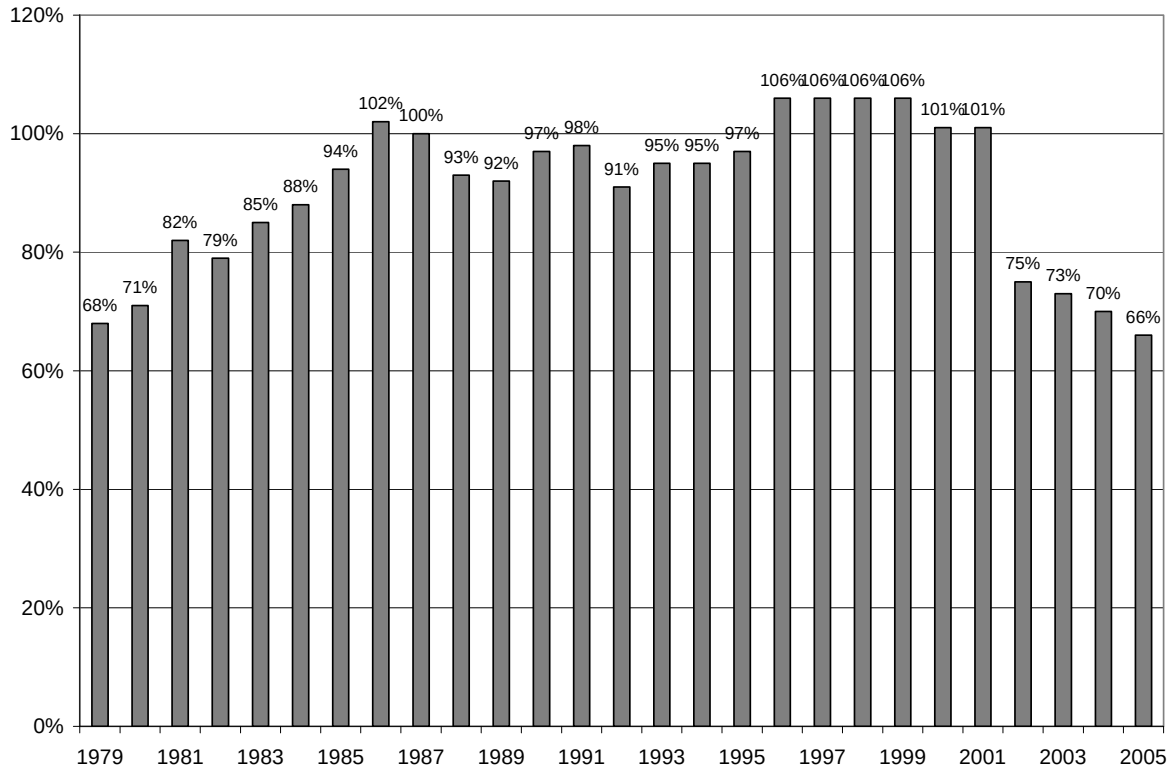
Figure 10 and Figure 11 illustrate the history of PERS and TRS valuations, from 1979 to 2005 as a percentage of valuation assets. Generally, both PERS and TRS try to maintain a 100 to 102 percent funding. There is a similar unfunded liability for the TRS system, which is administered by the same Board. However, the TRS system has historically been under-funded by approximately five percentage points more than PERS. Invested funds did well through FY 2001, but fell in FY2002 due to two years of very poor market returns, medical contribution rates that were less than experienced costs, and time-lagged contribution rates that created a gap between assets (actuarially valued) and accrued liability.

Figure 10. PERS Funding Ratio History



Source: Buck, 2006b.

Figure 11. TRS Funding Ratio History



Source: Buck, 2006c.

The Division of Retirement and Benefits issued estimated PERS and TRS contribution rates (in September of 2006), using a 25-year amortization of the unfunded liability and a level dollar assumption. For example, the MOA's FY 07 contribution rate of 18.65 percent would increase to a FY 08 rate of 39.33 percent; the State of Alaska rates for PERS would approximately double, from 22.75 percent to 44.01 percent. For the Anchorage School District, the FY 07 rate of 24.25 percent would increase to 40.89 percent in FY 08. These are current and contentious budget issues.

In an effort to resolve the unfunded liability issue, Senate Bill 141 was enacted on July 1, 2006. The bill changed all newly-hired employees to a Defined Contribution (DC) system, similar to 401(k) programs in the private sector. The DB system was closed to new entrants as of that same day.

7.2 Detachment Implications

The new DC system has meant reduced employer contributions for employees hired after June 30, 2006; those older, more experienced employees within the three PERS tiers (and two TRS tiers) will still create a demand for significant employer contributions for the unfunded liability within both PERS and TRS. Data show that employer contributions are already rising (see Table 67).

Table 67. Required Contribution Rates for the Anchorage School District (% of Annual Salary)

Fiscal Year	TRS	PERS
FY 2005-2006	21.00	19.25
FY 2006-2007	26.00	24.25
FY 2007-2008	54.03	40.89

Source: Stokesbary, 2007.

At one extreme, the new ERC Borough could hire all new employees and deflect any DB issues raised by PERS and TRS. The net effect would be lower cost of labor and perhaps lower cost of service, along with less experienced employees. However, it is unlikely that the new borough would be able to find enough qualified employees that were not already vested in either system. At the other extreme, if the new ERC Borough were staffed entirely of former MOA employees covered under DB provisions, their labor costs would be high and likely remain high until the PRS and TRS systems come into balance.

In reality, it is likely any new staffing of an ERC Borough would be a mixed of experienced MOA employees and new hires. Any employees covered under DB provisions could create greater payroll costs for some time in the future. The ratio is unknown and will remain that way until hiring is complete.

8 Contracts

8.1.1 Summary

Through key informant interviews and a review of Municipal documents, the study found that labor contracts were the contracts mostly likely to affect detachment and borough formation. Key informants indicated that detachment could potentially break current contracts and that the new ERC Borough would likely need to negotiate new contracts with the employees it selects to help provide Borough services. While current MOA contracts would likely be a starting point for negotiations there is no evidence to suggest that the new ERC Borough would necessarily negotiate more or less favorable terms than what the MOA currently receives.

8.1.2 Anchorage School District

The Anchorage School District participates in eight collective bargaining units as listed in Table 68. The table also includes brief descriptions of the kinds of workers covered under each contract, the length of the contract, approximate number of employees, and web links to the Adobe Acrobat files of the contract where available. The expiration dates of the contracts range from June 30, 2006 to June 30, 2009. Members of the Anchorage Education Association are currently working without a contract. The analysis in this report assumes that at the time of detachment all bargaining units would have a successor clause that in the event of a sale, expansion, extension, amalgamation, consolidation, merger or transfer of educational units or institutions, the employees who are eligible for membership in the bargaining unit of their current employer shall immediately become members of the successor bargaining unit. The analysis also assumes that any contracts for office supplies, instructional materials etc. would be allocated by location to the appropriate hypothetical borough.

Table 68. Bargaining Units, Employees, and Contracts

Bargaining Unit	Employees Covered	Length of Contract	Approximate Number of Employees	Link to PDF of Agreement
Anchorage Council of Education/American Federation of Teachers, Local 4425	Technical, Professional, Middle Managers	July 1, 2006 through June 30, 2009	375	http://www.asd.k12.ak.us/forms/uploads/ACE.pdf
Anchorage Education Association (AEA)	Teachers	July 1, 2005 through June 30, 2006	3,457	http://www.asd.k12.ak.us/forms/uploads/AEA.pdf
Anchorage Principals' Association (APA)	Principals	July 1, 2004 through June 30, 2007	139	http://www.asd.k12.ak.us/forms/uploads/APA.pdf
Public Employees Local 71, AFL-CIO	Custodians and Building Plant Operators	July 1, 2006 through June 30, 2009	320	http://www.asd.k12.ak.us/forms/uploads/Local71.pdf
General Teamsters Local 959	Bus Drivers and Attendants Unit	July 1, 2006 through June 30, 2009	115	http://www.asd.k12.ak.us/forms/uploads/Team_Bus.pdf
General Teamsters Local 959	Warehouse & Maintenance Employees	July 1, 2005 through June 30, 2008	180	http://www.asd.k12.ak.us/forms/uploads/Team_WareMaint.pdf
General Teamsters Local 959	Food Service Bargaining Unit	July 1, 2006 through June 30, 2009	180	http://www.asdk12.org/forms/uploads/Team_Food.pdf
TOTEM Association of Educational Support Personnel, AFL-CIO	Teaching Assistants, Secretaries, Tutors, Library Aids	July 1, 2006 through June 30, 2009	1,300	http://www.asd.k12.ak.us/forms/uploads/TOTEM.pdf

Source: Thompson, 2007

8.1.3 Municipality of Anchorage

The Municipality of Anchorage also participates in several collective bargaining units as listed in Table 69. The table also includes brief descriptions of the kinds of workers covered under each contract, the expiration date of the current contract, and, approximate number of employees. Expiration dates range from August 31, 2007 to June 30, 2010. The analysis in this report assumes that at the time of detachment all bargaining units would have a successor clause similar to the one in the Firefighters Local 1264 contract:

> This Agreement shall be binding upon the successors and assigns of the parties hereto, and no provision, term, or obligation herein contained shall be affected, modified, altered, or changed in any respect whatsoever by any kind of change in ownership, management or governing entity of either party hereto, or by any change, geographical or otherwise, in the location of business of either party hereto.

As a result of these clauses, employees eligible for membership in the bargaining unit of their current employer would immediately become members of the successor bargaining unit.

After discussion with MOA officials, the analysis also assumes that any contracts for office supplies, equipment, and other materials would be allocated by location to the appropriate hypothetical borough.

Table 69. Bargaining Units, Employees, and Contract Expiration Date

Bargaining Unit	Employees Covered	Contract Expiration Date	Approximate Number of Employees
International Association of Firefighters Local 1264	Firefighters, Paramedics, Support Staff	June 30, 2009	364
General Teamsters Local Union No. 959	Mostly People Mover Drivers	August 31, 2007	111
Anchorage Municipal Employees Association	Administrative, Clerical, Appraisers, Nurses, Engineers, and Others	December 31, 2007	573
Public Employees Local 71, AFL-CIO	Parks and Recreation Employees	June 30, 2008	25
Anchorage Police Department Employees' Association	Patrol, Dispatch, Detectives, and Support Staff	June 30, 2009	507
Machinists Local 1690	Street Maintenance	October 30, 2007	69
International Brotherhood of Electrical Workers Local 1547	Mostly ML&P	September 30, 2008	231
International Union of Operating Engineers Local 302	Street Maintenance	June 30, 2008	144
Plumbers and Pipefitters Local 367	AWWU	June 30, 2010	138

Source: Stallone, 2007.

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Appendix A: Estimated Property Tax Rates by Tax District—MOA Remainder

Tax District	Name	2006 General Government Property Tax Mill Rate	2006 Education Property Tax Mill Rate	2006 Property Tax Rate	Detached GG Property Tax Mill Rate	Detached Education Property Tax Mill Rate	Detached Total Property Tax Mill Rate
1	City/Anchorage	8.17	7.13	15.30	7.75	7.02	14.77
2	Hillside	5.35	7.13	12.48	4.93	7.02	11.95
3	General Citywide	8.15	7.13	15.28	7.73	7.02	14.75
4	Girdwood	4.43	7.13	11.56	4.01	7.02	11.03
5	Glen Alps	5.78	7.13	12.91	5.36	7.02	12.38
8	Tanaina	8.15	7.13	15.28	7.73	7.02	14.75
9	Stuckagain Heights	6.29	7.13	13.42	5.87	7.02	12.89
11	Eagle River Land Fill	0.00	7.13	7.13	0.00	7.02	7.02
12	Canyon Road	8.10	7.13	15.23	7.68	7.02	14.70
15	Muni/Outside Bowl	0.46	7.13	7.59	0.04	7.02	7.06
16	North of Potter Creek	3.03	7.13	10.16	2.61	7.02	9.63
19	Upper O'Malley	7.35	7.13	14.48	6.93	7.02	13.95
20	Talus West	6.54	7.13	13.67	6.12	7.02	13.14
21	Rabbit Creek View	7.85	7.13	14.98	7.43	7.02	14.45
23	Rabbit Creek View	7.29	7.13	14.42	6.87	7.02	13.89
28	Birchtree/Elmore	6.85	7.13	13.98	6.43	7.02	13.45
31	So. Golden View	7.15	7.13	14.28	6.73	7.02	13.75
32	Campbell Airstrip	6.85	7.13	13.98	6.43	7.02	13.45
33	Sky Ranch	6.59	7.13	13.72	6.17	7.02	13.19
34	Valli Vue	6.75	7.13	13.88	6.33	7.02	13.35
35	Mt. Park	6.27	7.13	13.40	5.85	7.02	12.87
36	SRW Homeowners LRSA	6.60	7.13	13.73	6.18	7.02	13.20
37	Mt. Park/Robin Hill	6.65	7.13	13.78	6.23	7.02	13.25
40	Raven Woods	6.59	7.13	13.72	6.17	7.02	13.19
41	Upper Grover	6.27	7.13	13.40	5.85	7.02	12.87
42	View Point	5.83	7.13	12.96	5.41	7.02	12.43
43	Bear Valley LRSA	6.29	7.13	13.42	5.87	7.02	12.89
44	Villages Scenic Pkwy LRSA	6.28	7.13	13.41	5.86	7.02	12.88
45	Sequoia Est. LRS	6.69	7.13	13.82	6.27	7.02	13.29
48	Paradise Valley South LRSA	6.21	7.13	13.34	5.79	7.02	12.81
52	Rockhill LRSA	6.19	7.13	13.32	5.77	7.02	12.79
53	Totem LRSA	6.35	7.13	13.48	5.93	7.02	12.95
54	Lake Hill LRSA	6.25	7.13	13.38	5.83	7.02	12.85
55	So. Goldenview W/O Fire	4.83	7.13	11.96	4.41	7.02	11.43
56	Bear Valley LRS W/O Fire	4.53	7.13	11.66	4.11	7.02	11.13

Source: NEI Estimates, 2007.

Appendix B: Estimated Property Tax Rates by Tax District—ERC Borough

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Estimated Property Tax Rates by Tax District on the following page

Tax District	Tax District Name	2006 General Government Property Tax Mill Rate	2006 Education Property Tax Mill Rate	2006 Property Tax Rate	Lower GG Property Tax Mill Rate	Upper GG Property Mill Tax Rate	Education Property Tax Mill Rate	Lower Detached Total Property Tax Mill Rate	Upper Detached Total Property Tax Mill Rate
10	Eagle River	7.88	7.13	15.01	9.51	11.35	8.41	17.92	19.76
22	Chugiak	7.03	7.13	14.16	8.66	10.5	8.41	17.07	18.91
30	Eagle River Valley	6.12	7.13	13.25	7.75	9.59	8.41	16.16	18
46	Eaglewood Cont. RSA	6.34	7.13	13.47	7.97	9.81	8.41	16.38	18.22
47	Gateway Cont. RSA	4.48	7.13	11.61	6.11	7.95	8.41	14.52	16.36
50	Eagle River Street Lights	8.09	7.13	15.22	9.72	11.56	8.41	18.13	19.97
51	E.R. Street Lights/Chugiak Fire	7.24	7.13	14.37	8.87	10.71	8.41	17.28	19.12

Source: NEI Estimates, 2007.

Appendix C: ASD Tax Rate Calculations Sheet

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ASD calculations on the following page

Anchorage School District
Fiscal Year 2006-2007

PROJECTED REVENUES AND EXPENDITURES SUMMARY

Fund	Revenues and Fund Balance				FY 2006-2007 Revenue/Source Projections	FY 2006-2007 Expenditure Projections
	Local		State	Federal		
	Taxes	Other				
General	$ 155,257,376	$ 4,842,800	$ 298,217,471	$ 15,115,000	$ 473,432,647	$ 473,432,647
Food Service	0	6,593,311	0	8,406,689	15,000,000	15,000,000
Debt Service	36,344,912	2,167,000	38,798,303	0	77,310,215	77,310,215
	191,602,288	13,603,111	337,015,774	23,521,689	565,742,862	565,742,862
Local, State and Federal Grants	0	645,047	1,097,434	47,257,519	49,000,000	49,000,000
TOTAL	$ 191,602,288	$ 14,248,158	$ 338,113,208	$ 70,779,208	$ 614,742,862	$ 614,742,862
Percentage of Revenue Sources to Total Revenue Projections	31.17%	2.32%	55.00%	11.51%	100.00%	

Computation of Total Taxes for Calendar Year 2006

		General Fund	Debt Service Fund
Amount required to fund second half of Adopted FY 2005-2006 Budget: January 1, 2006/June 30, 2006	$177,157,001 x 50% =	$ 72,161,161	$ 16,417,340
Amount required to fund first half of Adopted FY 2006-2007 Budget: July 1, 2006/December 31, 2006	$191,602,288 x 50% =	77,628,688	18,172,456
TOTAL Taxes for Calendar Year 2006		$ 149,789,849	$ 34,589,796

Total Taxes for Calendar Year 2006

1) Total Taxes 2006	$ 184,379,645	= 7.13 mills	$ 149,789,849	$ 34,589,796
Assessed Valuation	$ 25,851,732,750		$ 25,851,732,750	$ 25,851,732,750
			5.79 mills	1.34 mills

1) The 2006 mill rate is based on assessed valuation provided by the Municipality of Anchorage Office of Management and Budget.

Appendix D: Memo from Sheinberg Associates on Education Costs

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Memo is located on the following page

Sheinberg Associates 204 N. Franklin Street, Suite 1 • Juneau, AK 99801 • (907) 586-3141 • Fax (907) 586-2331

DATE: March 13, 2007
TO: Jonathan King, Northern Economics, Inc.
FROM: Barbara Sheinberg, AICP, Sheinberg Associates
SUBJECT: Fiscal Impacts to Education of forming an Eagle River Chugiak Borough

Introduction and Methods

Sheinberg Associates researched the fiscal effects to education funding of the Eagle River Chugiak area detaching from the Municipality of Anchorage to form its own borough and school district. As part of this inquiry consultation with Alaska Department of Education and Early Development (EED), Division of Education Support Services personnel occurred, including Eddy Jeans, director; Elizabeth Sweeny Nudelman, School Finance Manager; and Mindy Lobaugh, School Finance Specialist. EED helped analyze the fiscal effects to school district revenue. Northern Economics provided two datum to EED; a list of schools that would leave the Anchorage school district and become part of a new Eagle River Chugiak school district (based on each school's physical location), and informed EED that under the scenario being analyzed, 11.1% of the Municipality of Anchorage (MOA) estimated full and true value (FTV) of taxable property would transfer to the hypothetical Eagle River Chugiak (ERC) borough. EED provided revenue forecasts. Other educational statistics and data used are available at the Alaska EED website (www.eed.state.ak.us/stats).

Schools and Pupils in Hypothetical Eagle River Chugiak School District

If Eagle River Chugiak formed a borough, 12 schools would leave the Anchorage school district and become part of the new borough school district (Table 1); 83 schools would remain in the Anchorage school district. Eagle River Chugiak schools would have an average daily membership (ADM) of 6,325.26; leaving 42,994.30 ADM in the residual Anchorage school district (as of October 1, 2005[1]). Thus about 13% of Anchorage pupils would become part of the Eagle River Chugiak school district. The Eagle River Chugiak ADM would include 51 intensive need pupils at the 12 district schools, which also influences revenues.

[1] The October 2005 ADM is a primary factor for determining FY 2006 education funding.

Table 1. Schools in hypothetical ERC School District

Schools
1. Alpenglow Elementary
2. Birchwood ABC Elementary
3. Chugiak Elementary
4. Chugiak High School
5. Eagle Academy Charter School
6. Eagle River Elementary
7. Eagle River High School
8. Fire Lake Elementary
9. Gruening Middle School
10. Homestead Elementary
11. Mirror Lake Middle School
12. Ravenwood Elementary

Overview - Education Funding

Funding for education generally comes from four sources: State education foundation entitlement program ("state aid"), federal Impact aid, the required minimum ("Local Effort") and any additional local contribution from the city or borough, and special revenues sources such as grants. Each revenue source is now briefly described.

State funding for schools is provided through the State Education Foundation Entitlement Program ("state aid"). The current state public school funding formula was adopted under SB 36 in 1998 and implemented in 1999. The public school funding formula is defined in Alaska Statute 14.17.

The amount of funding received is based on a formula that includes characteristics of a school district such as the number of pupils (average daily membership "ADM"); an area cost differential (an adjustment for cost of living in the area); number of special and intensive needs pupils; amount of the Legislatively appropriated basic need; quality schools funding (to help with assessments); the number of schools in the district; amount of Federal Impact Aid payments; the amount of the municipality's contribution to support its schools; and other variables. All these variables are entered into a formula to determine the amount of state aid. The largest factor is basic need, which is the (adjusted) ADM multiplied by the base student allocation from the Legislature. In FY 2006 the Anchorage school district basic need was $330,186,990.

Federal funds for education are primarily provided through "Impact Aid," authorized by P.L. 107-110, Title VIII through fiscal year 2007. Impact aid is designed to directly reimburse public school districts for the loss of traditional revenue sources due to a federal presence or federal activity. Funds are allocated based on factors such as the

number of parents of students who reside or work on federally impacted property including military land and Alaska Native Claims Settlement Act (ANCSA) land, and on the number of Alaska Native students. Anchorage, with its military bases, gets a large share of Impact Aid.

Except for REAAs, the local government within which a school district is located is required to make a minimum Local Effort (LE) contribution to support education. The amount of the contribution that the community gives is one variable in the State formula that determines how much state aid each school district receives. State EED statute AS 14.17.410 (b) (2) governs how the LE is determined --- it is equal to the lesser of four mills (0.004) of the personal and real property value within the community that the school district resides, or 45% of Basic Need (the State's determined amount necessary to run the school district).

In addition to the required LE, AS 14.17.410 (c) allows local governments to make an Additional Local Contribution (ALC) for education up to the equivalent of a two mill tax levy, or 23 percent of the district's Basic Need (whichever is greater).[2]

There is a relationship between how much federal Impact Aid a school district gets and whether or not the municipality made an ALC to support education. The amount of state aid that a school district receives is partially decreased by the amount of federal impact aid that it receives. However, the federal program rewards school districts for making an Additional Local Contribution (ALC) for education by requiring *less* of a reduction in State aid as the school district's ALC increases. For example, if a school district contributes the LE for education, federal funding from PL 107-110 requires that the state only reduce state aid to the school district by ninety percent. This means that if a school district makes an LE of $100 and receives its federal impact aid funding, the school district's state aid would be reduced by ninety percent of the amount of federal funding received. If, however, a school district also makes an ALC for education, the reduction in state aid is based on the ratio of the LE and the total local contribution. For example, if a school district is required to give $100, but gives $125, the amount of state aid it receives would only be reduced by 100:125, which equals eighty percent, in contrast to ninety percent in the example above.

Finally, school districts in Alaska typically receive special and other revenue sources. In FY 06 about 12% of the Anchorage school revenue was from these sources. These sources includes child nutrition program funds, 21st century learning community grants, assistance with assessments, drug and violence prevention grants, special education funding, pupil transportation funds and so on.

[2] This cap on additional contributions is to keep revenue or expenditure disparities among school districts in compliance with Federal equalization requirements that mandate that education financing must be roughly equivalent among rich and poor school districts.

Alaska Statute 14.17.410(b) (2)

Alaska Statute (AS) 14.17.410(b) (2) governs how a city or borough's required local contribution to support schools is determined.
AS 14.17.410(b) (2) states,

> "The required local contribution of a city or borough school district is the equivalent of a four 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, as determined by the Department of Commerce, Community, and Economic Development under AS 14.17.510 and AS 29.45.110, not to exceed 45 percent of a district's basic need for the preceding fiscal year as determined under (1) of this subsection."

Neither Alaska EED statutes nor its regulations anticipate a situation when an area detaches from an existing borough and simultaneously incorporates its own borough. If the Eagle River Chugiak area detached from Anchorage and formed its own borough, an estimated 11.1% of the total area's full and true value (FTV) taxable property would be pulled from the MOA and become the ERC borough. At issue is how the required local contribution to education, which is based on the FTV of two years prior, would account for this "transitioning" 11.1% of taxable property?

The letter of the law in AS 14.17.410(b) (2) would seem to require that the mandatory local effort to support education for the residual MOA be based, for two years, on the FTV of the entire former MOA. Conceivably then both boroughs could, for two years, be making a local effort contribution based on the 11.1% of taxable property that left the MOA and became the ERC borough. This would be inequitable to the residual MOA. It seems logical in a situation such as this that the EED would determine the required local effort by applying the split in taxable property between the two boroughs, back two years.

This situation was reviewed with EED Division of Education Support Services personnel in January 2007[3]. Director E. Jeans confirmed that the law is not clear and therefore he is not able to give a written determination. However, he stated that no area's FTV would be double-counted. The value attributable to the new ERC borough would be pulled-out of the MOA and moved over to the new ERC borough. If it hadn't already been two years (due to transition issues), Anchorage would not be put in a position of having to make a local effort contribution based on property that was no longer in its borough as that would not be equitable. EED staff stated that reasonable and fair treatment would be applied to all areas.

[3] B. Sheinberg personal communication, 1/17/08, with EED Division of Education Support Services personnel E. Jeans, E. Sweeney Nudelman, and M. Lobaugh.

Fiscal Effect on Education Funding

State Education Aid

If borough detachment and formation had occurred in FY 2006, the effect would be moving approximately 13% of the total pupils and 11.1% of the region's assessed property value from Anchorage to Eagle River Chugiak. State education aid to Anchorage would decrease by about 13% or $32,415,316 (Table 2) and transfer to the new Eagle River Chugiak school district.

Table 2. FY 2006 School District - State Education Aid Funding [4]

	EXISTING ANCHORAGE	Hypothetical Eagle River Chugiak School District	Hypothetical Residual Anchorage School District
Basic Need	$330,186,990	$42,365,527	$287,821,463
Local Effort (LE)	$76,624,175[5]	$10,057,102	$66,567,073
Deductible 874	$5,926,505	$30,911	$5,895,594
Quality Schools	$1,073,997	$137,802	$936,195
State Education Aid	**$248,710,307**	**$32,415,316**	**$216,294,991**

Source: Alaska Department of Education and Early Development

In FY 2006, Anchorage gave its required four-mill equivalent local effort (LE) and an additional local contribution (ALC) of $70,587,646, or 48% above its required LE, for a total local contribution (LE +ALC) of $147,211,821 to support education. This analysis assumes that the new Eagle River Chugiak borough would make an equivalent ALC to support education because residents would not want a drop in education support or quality as a result of borough formation. This also ensures this analysis is an "apples-to apples" comparison of the impact to education funding.

Overall (State, Local and Federal) Education Revenue

State, local and federal education revenue to the hypothetical Eagle River Chugiak school district in FY06 is calculated to be $47,214,4166. State aid accounts for 69% of the

[4] NOTES: For purposes of this analysis the above information was derived from FY'06 Foundation numbers. Base student allocation of $4,919. **Basic Need:** Existing Anchorage is derived from Actual FY06 Foundation Report. Eagle River/Chugiak is derived from information provided by the requestor listing which schools would be in the affected area. **Req. Local Effort:** Required Local Effort was derived from the Existing Anchorage's Full Value of $22,651,130,210 x 11.1% to arrive at a new F/V of $2,514,275,453 then multiply it by .004 mills. **Deductible 874:** The amount of Federal Impact Aid that the new borough may receive is estimated at $45,746. **Quality Schools:** Adjusted ADM multiplied by $16. **State Aid:** State Aid is a calculation. It takes Basic Need and deducts out the Req. Local Effort, Impact Aid 874, and then adds in the Quality Schools.

[5] This is Anchorage's Required Local Effort. In FY 2006, Anchorage gave an additional local contribution of $70,587,646, for a total local contribution of $147,211,821. This is about $5.3 million below Anchorage's funding cap.

funding and the borough's local contribution comprises the other 31% (federal aid is less than 1%). The ERC borough would be able to contribute an additional $2.0 million before the cap on local contributions (LE+ALC) of $16,801,173 was reached (Table 3).

Table 3. FY 2006 Hypothetical ERC School District - Education Revenue

Education Revenue	*Hypothetical ERC School District (if only LE is contributed locally)*	Hypothetical ERC School District (if LE and ALC is contributed locally)	Residual Anchorage School District (if LE and ALC is contributed locally)
State Education Aid	*$32,415,316*	$32,415,316	$200,829,009
Local Contribution	*$10,057,102*	$14,734,256	$120,698,607
Total 874 (federal impact aid)	*$64,843*	$64,843	$13,026,674
Total Revenue	*$42,537,261*	**$47,214,415**	**$334,554,290**
Remaining $ to Cap.	*$6,744,071*	*$2,066,917*	$25,613,031
Total Max. Revenue	*$49,281,332*	*$49,281,332*	*$360,167,321*

Source: Alaska Department of Education and Early Development, Division of Education Support Services

Four-Year Optional Phase-in of Local Contribution to Education (AS 14.17.410)

AS 14.17.410(e) allows a newly formed borough school district to phase in the required four mill local effort (LE) contribution over a four-year period. Under this phase-in when a new borough takes over educational powers no local contribution is required the first year, the second year a two mill contribution is required, three mills the third year, and four mills the fourth and all subsequent years.

However, taking advantage of the four-year phase-in would effectively reduce the overall education funding to Eagle River Chugiak schools for four years compared to what these schools received as part of the Anchorage school district, so it is assumed that the four-year phase-in option would be declined. It is nonetheless explained below (Table 4).

Under the optional local effort (LE) phase-in, the State of Alaska does not pay the increment of additional local contribution (ALC). As part of the optional phase-in, the ALC is counted towards the required LE and thus deducted from the LE that the State will pay through the Education Foundation Aid Entitlement Program.[7] This means that in order to take advantage of, or realize, any savings from a potential postponement, or phase-in, of the LE as allowed under AS 14.17.410(e), the education budget will be reduced by the amount equal to the ALC.

In FY 2006, Anchorage gave 48% above its LE as an ALC, yielding a total local contribution to education of $147,211,821. It seems likely that to maintain high quality

[6] This analysis is based on formula driven state, federal and local education revenue. It does not include special revenue or grants. In FY 05 special revenue and grants accounted for 12% of the Anchorage school district's total revenue.

[7] Essentially, the State of Alaska will only pay the last increment to make a local contribution equivalent to four mils.

education and maximum State education funding, the hypothetical Eagle River Chugiak school board would want to make an equivalent ALC for education. If it was similarly 48% above the ERC LE, the ALC would be approximately $4.6 million (with an equivalent reduction in state aid). Thus, ERC would likely not want to avail itself of this four-year optional phase-in before the full LE is due.

Table 4. Optional 4-Year Phase-in for New Boroughs Making the Local Contribution to Education

Eagle River/Chugiak If 4 year transition [AS14.17.410]	**1st Year 0 Mills**	**2nd Year .002 Mills**	**3rd Year .003 Mills**	**4th Year .004 Mills**
Basic Need	$42,365,527	$42,365,527	$42,365,527	$42,365,527
Required Local Effort (LE)	$10,057,102	10,057,102	10,057,102	10,057,102
Deductible 874	$45,746	$45,746	$45,746	$30,911
Quality Schools	$137,802	$137,802	$137,802	$137,802
State Education Aid	$32,400,481	32,400,481	32,400,481	32,415,316
State Education Aid	$32,400,481	32,400,481	32,400,481	32,415,316
Required LE State Pays	$10,057,102	5,028,551	2,514,276	-
TOTAL STATE SUPPORT	**$42,457,583**	**$36,568,289**	**$33,623,642**	**$30,678,995**
Mill calculation for transitioning district:		*$ 5,028,551*	*$ 7,542,826*	

Source: Alaska Department of Education and Early Development, Division of Education Support Services

Per Pupil Spending

The average per pupil expenditure is one way to assess and compare the level of educational support in a school district. Under the assumptions in this analysis, per pupil spending would be approximately equivalent in the two school districts. If state, federal and local revenue to the hypothetical Eagle River Chugiak schools is totaled (assuming the ERC borough contributed a local and additional contribution equivalent to what the MOA gave in FY 06, and excluding any special revenue or grant funds), the school district per pupil expenditure would be $7,464 (Table 5). The hypothetical remainder Anchorage school district per pupil expenditure would be $7,781.

Table 5. Calculated Per Pupil Expenditure for State, Federal and Local Education Revenue

School District	**Per Pupil Funding**
FY 2006 Hypothetical remainder Anchorage school district per pupil expenditure:	$7,781
FY 2006 Hypothetical Eagle River Chugiak school district per pupil expenditure (if LE+ALC contributed):	$7,464