

ORAL HISTORY 2001-88-05

Carl Shepro

State aid to local governments and municipalities

Scott Sterling, interviewer

1983

Series: Alaska Legislative Review

Scott Sterling asked Carl Shepro what kind of aid the state provides for municipalities and local governments. Shepro said the state provides several different kinds of aid. They provide municipal assistance grants, grants for the schools, revenue sharing and some shared taxes. Sterling asked about municipal grants. Shepro said the municipal grants are operating grants provided to the municipalities by the legislature. They are used for maintaining governmental services. Sterling asked if they came with conditions attached. Shepro said they are funded with portions of the state's corporate income tax. The legislature provides these in order to reduce local costs to the local tax payers of governmental services. They are not categorical type grants. Initially they were slated by the legislature to reduce local taxes. They are an important source of revenue at this point for the localities.

Sterling asked how much money the state granted last year. Shepro said in fiscal year '82 it was 87 million dollars.

Sterling asked about revenue sharing. Shepro said revenue sharing is money that is passed from the state according to a formula. It is based on population, on the tax base of the municipality and by the rate the municipality taxes. In 1980 or 81 they provided a minimum of 25,000 dollars for localities that don't really have a tax base. Sterling asked if this means the municipality has a higher mil rate for a given tax then it will receive less money from the state. Shepro said it means the opposite. He said the intent of the legislature recently has been to reduce the local burden on individuals, but with revenue sharing it actually encourages more taxes. Shepro said it hasn't been a fact that municipalities raise taxes to get more revenue sharing from the state. The urban governments have actually lowered their tax base. Fairbanks has cut taxes by about 61 percent since the inception of municipal assistance.

Sterling asked about the impact of declining oil revenues on municipalities. Shepro said it is kind of uncertain at this point. They are seeing some of the impact now in terms of what the legislature is doing with the budget. The state is going to reduce some of the funding in the event of a cutback. One logical consequence would be for the local areas to raise their property taxes again.

Sterling asked about funding for school districts. Shepro said the school districts are set up under the boroughs. The state does provide funding for the operation of districts and for school construction on a separate basis.

Sterling asked what kind of distinction is made based on organized boroughs and first-class cities and the rural areas which are not in organized boroughs. Shepro said the rate of taxation makes a difference in how much they are eligible for. Most of the small incorporated areas in unorganized boroughs just don't have a tax base so this is one basis for changing the grants for municipalities. There are different problems in terms of what they can do with the funding. Capital grants when they go to a municipality

have to have an agreement that the state will pay for construction and local governments have to pay for operating costs and maintenance costs. This has been a problem with some localities in unorganized boroughs. They are not able to maintain effectively.

Sterling asked what kind of problems municipalities are facing with revenue declines and their plans to either raise revenues locally or cut back services. Shepro said it varies from borough to borough. With the Fairbanks North Star Borough a lot of the services are provided by service areas. If you want a service then you pay for it. It is not available on an area wide basis. One of the problem areas with a decrease in state funds is the area of schools. When a legislative appropriation is short of what the local entitlement is then there has to be some hard choices.

Sterling asked what kind of state aid was available to municipalities before oil revenues began to climb. Shepro said prior to about 1969 the federal government provided most of the money. Historically local areas in Alaska have not had a very big tax base. One of the areas for the opponents to statehood was there was no tax base in Alaska and it didn't appear that it was going to develop in a big hurry. There was a strong dependence on the federal government.

Sterling asked if the boroughs are now dependent on the state government for most of their funding. Shepro said that doesn't necessarily mean there is state control on what local governments do. In terms of revenues they come in most part from the state. In 1980 the state was supporting 74 percent of local governments operation. Prior to 1969 the state was funding about 33 percent and the federal government was providing about 52 percent of revenues. In 1980 they were providing approximately 12 percent. The cutback in federal revenue sharing has been happening all over the United States.

Sterling said local governments throughout Alaska are going to be faced with making decisions as to whether or not to raise taxes because oil revenues will be declining. He asked if the legislature has been strongly committed to keeping a high level of financing for local governments. Shepro said it would appear with some of the bills now they are very concerned about maintaining the high levels of support. There are some supplemental bills being considered now to take up some of the slack in the area of schools and the area of revenue sharing to make up the shortfalls.

Sterling said a lot of attention has been focused on the supplemental capital appropriations bill for FY83. He asked what percentage of the projects under that bill will become the responsibility of local governments in terms of operation and maintenance. Shepro said any capital construction grants to local areas are required to be operated and maintained locally. The state provides funding for construction and the local areas are responsible for maintenance. One of the complaints by local areas was funding for a lot of projects they didn't necessarily need and then maintenance down the road.

Sterling said at the beginning of the legislative session both Fairbanks North Star Borough and the municipality of Anchorage both go through a process where they prepare a list of capital projects that they would like to see funded by the legislature. He asked how they figure operating and maintenance costs for those projects. Shepro said they can't depend on the state to do it so the local governments have to take those costs under consideration. He said long term costs may not necessarily be apparent. Fairbanks has a good planning process and they are aware of the costs. He said given the revenues declining local areas are much more aware of the costs. Local areas may look at this and decide not to engage in certain projects.

Sterling asked if it would be advantageous for rural unorganized areas to take steps to incorporate or to organize and then get more money from the state. Shepro said this is an area where there is a lot of controversy. In some areas there is a definite resistance to organizing.

Sterling asked about the future for municipalities and local government in Alaska in terms of state aid. Shepro said it is uncertain at this time. It depends on the state's revenues. The local governments in Alaska have had it good in terms of state monies. He said nobody really knows at this point. The state makes projections about revenues and it is uncertain. One of the consequences will be a change in politics at the local areas. There is a well-developed lobby in Alaska on the part of municipalities. He said possibly with the decline in revenues and therefore conflict over resources there may be more citizen participation.

Sterling talked about increasing alternative sources of revenues. Shepro said most of the local governments have cut back in terms of property, sales taxes and there are no income taxes at this point. There are possibilities there for financing local government services. Prioritizing services may be needed.