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Member of the National League of Cities and the National Association of Counties

Senate Finance Committee:

Thank you for the opportunity to present this last week. I realize that it was a lot to cover but also that it was important to provide a broad view about the inputs into and outputs from local decision making. There were a few questions and items for follow up, which I'm responding to here.

Sen. Hoffman – I appreciate your continued dedication to rural Alaska, especially, and to addressing the challenges we face this year as a state. I believe that you and Sen. Stedman indicated continued interest in ensuring our growing senior population has access to a senior exemption that corresponds to and is adjusted for the inflationary pressures that residents experience. I mentioned a recent Commission on Aging report that our 65+ population has more than doubled between 2010 and 2024, and that for those 85+ the projection is that this population increases by 270% between 2024 and 2050. How that differs from when the program was initially established in 1972 as a needs-based exemption for 3-6% of the population is important. I look forward to working with your offices to examine trade-offs and impacts.

I also heard a vision for the harbor matching grant program that focused on increasing the shift of responsibilities from the State to local governments who took over the State's port and harbor obligations. I understand this vision to be less reliance on the State and increasing sustainability, and that ports and harbors would function as enterprises of local government with the appropriate reserves in place. We will work to assess the financials for these communities, including to identify repair and replacement reserves, operating budgets, current fees and revenues, and investments made. As enterprises, that sustainability will rest on the ability of users to contribute more so that local governments can be more self-reliant. That will mean our fishing and tourism industry, mainly, as well as residents, face costs that are more commensurate with meeting the needs of these facilities.

Sen. Stedman – I think you weighed in on a number of issues, but I wanted to follow up specifically on PERS/TRS. I'm encouraged to hear that you are interested in digging into why the State has not made more progress on addressing its net pension liability. Below are questions that we think would be important to have an actuary respond to, and the ARM board be responsible for addressing.

- Provide a chart that demonstrates the impact of layered amortization, and the amount of the net pension liability beyond 2039.
- Demonstrate the impact of level percent of pay vs. level dollar, and how this has affected PERS/TRS since the most recent change.
- Provide an explanation of statements made in actuarial reports that ARM board decisions were made to reduce impact to the State's budget, and how that is different than its statutory obligation.
- Describe the difference between all assumptions and actuals, as broken out in the Buck 2023 summary (https://www.akleg.gov/basis/get_documents.asp?session=34&docid=1405):
 - Our quick look at the difference between actual rate of return compared to assumptions shows a negative number, based on the ARM board presentation to this Committee.
 - A recent document describes 1) Salary increases for continuing active members during FY23 were higher than expected based on the valuation assumptions, resulting in a liability loss of approximately \$94 million; and 2) The CPI-based postretirement pension adjustments (PRPA) were more than expected, resulting in a liability loss of approximately \$366 million.

- Provide information that documents these differences since 2008, for 1) investment experience, 2) salary increases, 3) demographic experience, 4) COLA/PRPA experience, 5) medical claims experience. Please also explain changes in methods, changes in assumptions, and any changes in benefit provisions.
- Provide an explanation for how State vacancy rates impact the system.

You also had questions about the debt burden that local governments have undertaken; cities and boroughs are doing their part to support capital needs and deferred maintenance. Below is the FY23 debt obligation that we have access to or understand to be in place.

Local Governments	GO Bond Debt	Revenue Bond Debt
Municipality of Anchorage	\$1,317,040,000	\$448,722,000
North Slope Borough	\$241,240,000	
Matanuska-Susitna Borough	\$210,700,000	\$10,905,000
Kenai Peninsula Borough	\$81,760,000	\$39,080,000
Fairbanks North Star Borough	\$71,175,000	
City of Valdez	\$67,945,000	
City & Borough of Juneau	\$61,061,000	\$50,220,000
Kodiak Island Borough	\$49,855,000	\$8,840,000
City of Unalaska	\$46,770,000	\$44,860,000
City of Ketchikan	\$46,110,000	\$55,067,000
Ketchikan Gateway Borough	\$32,176,000	
Municipality of Skagway	\$20,270,000	
Northwest Arctic Borough	\$18,434,000	
City of Cordova	\$15,180,000	
Aleutians East Borough	\$13,850,000	
Lake & Peninsula Borough	\$13,025,000	
City of Soldotna	\$10,060,000	
City of Dillingham	\$7,715,000	
City & Borough of Sitka	\$6,935,000	\$123,535,000
City of Kodiak	\$5,000,000	\$5,300,000
City of Seward	\$4,445,000	\$27,855,000
Haines Borough	\$4,292,000	\$745,000
Petersburg Borough	\$3,650,000	\$6,875,000
City & Borough of Wrangell	\$3,500,000	
City of McGrath	\$3,174,000	
City of King Cove	\$2,165,000	
City of Klawock	\$1,654,000	
City of Craig	\$1,300,000	
City of Sand Point	\$880,000	
City of Kenai	\$760,000	
City of Nome	\$640,000	\$3,823,000
City of Hoonah	\$600,000	
City of Adak	\$195,000	

In addition, the following municipalities have revenue debt obligations:

- City of Bethel \$1,968,000
- City of Galena \$347,000
- City of Homer \$5,550,000
- City of North Pole \$398,000
- City of Ouzinkie \$464,000
- City of Pelican \$6,174,000
- City of Saint Paul \$6,006,000
- City of Whittier \$1,580,000

Sen. Kiehl – You were interested in the research we’d done to assess the impact of mandatory and optional exemptions, and how the local tax base has performed over time. In particular, you had asked about the concentration of tax revenue and what the percentages referenced. We have attached the full slide show from UAA’s Center for Economic Development. A quick explanation of concentration of tax revenue as applied in our slideshow: The concentration ratio for each community is a modified Herfindahl-Hirschman Index, more commonly used in finance. To calculate the concentration rate for each community we list the percentages of their annual tax revenue that come from each source (ex: sales tax 50%, bed tax 25%, property tax 25%). We square each percentage and then add them together so 50%, 25%, 25% becomes 25%, 6.25%, 6.25% becomes a concentration rate of 37.5% for our hypothetical community. In this way, the only way to achieve a 100% concentration rate is to rely solely on one source of tax revenue and the smaller the percentage, the more diverse the revenue stream is.

Sen. Cronk – I believe you pointed out, as it relates to quality of life, that some communities actually like it without the amenities list it on the slide. I would only point out that this is the beauty of local control, and a principle of AML. Local decision-making reflects the character of the community. Part of self-reliance is the assessment of revenues that allows a local government to invest where taxpayers and residents determine it should. Where this doesn’t happen, we see dependence on the state or federal government for investments that aren’t locally determined and often unable to meet the needs of our communities. That’s all to say that whether a community provides things or doesn’t is within its control.

Sen. Kaufman – I think your question had to do demographic change in Alaska and you asked for more information about not just projections going forward but also about the net outmigration that Alaska has experienced. We have included two resources from Alaska DOL&WD that help to address this question. F

- Here is the DOL&WD page - <https://live.laborstats.alaska.gov/data-pages/alaska-population-estimates> - that includes data for past population estimates and actuals. If you look at the Population and Components of Change, you’ll see not just how Alaska has changed, but the back that relates to more people leaving than coming here.
- Last year DOL&WD released its regular update of population projections - <https://live.laborstats.alaska.gov/pop/projections/pub/popproj.pdf>. This is a resource that communities and the state can use to understand where we’re headed and how to anticipate or mitigate change, or plan accordingly.
- The release from January 2025 - <https://labor.alaska.gov/news/2025/news25-1.htm#:~:text=Alaska%20has%20lost%20residents%20to,populations%20of%201%2C000%20or%20more> – is somewhat good news. While the State has continued to see fewer people moving to Alaska than those leaving, for the 12th straight year – we had more births than deaths that affected the total replacement value for lost population most recently.