CITY AND BOROUGH OF JUNEAU
ALASKA'S CAPITAL CITY

City and Borough of Juneau
City & Borough Manager's Office
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DATE: April 29, 2018

TO: Mayor and Assembly

FROM: Rorie Watt, City Manager

RE: School Debt Scenarios

If the State does not provide reimbursement of School debt in the budget, the financial responsibility will be shifted (transferred, assigned, pick your verb) to the municipalities. By approving bonded debt for our school projects, our voters agreed to pay the full freight if the State portion was not funded. For this fiscal year, the Governor chose to eliminate funding, the House has chosen to eliminate half the funding and the Senate (so far) has chosen to provide full funding. Assuming the Senate keeps full funding during the floor debate this week the next debate will be in conference committee. We hope the Senate can convince the House that it too should honor state commitments and provide full funding. Unfortunately, the debate in the House was more about budget math and how much cost to shift rather than about the policy behind the program or the benefit of the state meeting its commitments. Even if the Senate is successful in keeping full funding there appears to be a good chance the governor will veto some (or all) of the funding. At the municipal level, we don't get to make the decision, just manage the consequences as best as we can.

Shifting the burden this fiscal year (and maybe future years) will require municipalities to raise taxes and in exchange the State won't have to make one or more difficult choices. The Governor, House and Senate are mostly silent on future years (although some have indicated that they would rather pay for school debt at the local level, which means ongoing cessation of State support).

Depending on how much debt is assigned to municipalities, CBJ could face an additional cost of $3.55M (House) or $7.1M (Governor) in FY20 or up to $23M over the next 5 fiscal years. Other communities also have large financial exposures.

If we had clear information from the State, we would anticipate scheduling those debt payments in the most rational way possible. But, we are in the position of learning year by year on how much debt they will assign to us. The below roughly approximated charts illustrate the tax increase choices that we will face. In general, there are rationales for different terms - a one year tax increase caused by the State should probably be dealt with this year, full deletion of State contribution could match the term of the existing debt (5 years). To lessen the impact on tax payers, the Assembly may wish to consider extending the payment period (which would incur additional financing costs).

Article 7 of the State Constitution requires that "The Legislature shall by general law establish and maintain a system of public schools open to all children of the State". By statute, the legislature created the School Construction debt reimbursement program as a means to encourage and leverage local investment and participation in school buildings, which are necessary for a system of public schools. The schools have been built and renovated, the money has been spent, the bills are due. The unfortunate consequence of year by year decision making by the State and the ensuing year by year uncertainty means that municipalities can't rationally plan for the debt shift and the required tax increases.

Our citizens should be advised that the most likely outcome of school debt shifting by the Governor or legislature is a local property tax increase between 4.4% and 13.7% for the next 1, 5 or 10 years.

Effect on Mil Rate from Shifting of School Debt by State:

Nominal Increase to Mill Rate

Amount of Debt Transferred (Millions)	Amortized Over: 1 year	5 years	10 years
$ 3.55	0.71	0.14	0.07
$ 7.10	1.41	0.28	0.14
$ 23.00		0.92	0.46

Annual Percentage Increase to Mill Rate

Amount of Debt Transferred (Millions)	Amortized Over: 1 year	5 years	10 years
$ 3.55	6.7%	1.3%	0.7%
$ 7.10	13.4%	2.7%	1.3%
$ 23.00		8.7%	4.4%

Annual Dollar Increase to Property Taxes ($375k home)

Amount of Debt Transferred (Millions)	Amortized Over: 1 year	5 years	10 years
$ 3.55	$266	$53	$26
$ 7.10	$529	$105	$53
$ 23.00		$345	$173