Figure 1

118 miles (MP 221 to 339)

84 miles ("south part", MP 339 to 423)

DATE: November 28, 2018

TO: Kerry Boyd, Yukon Koyukuk School District (YKSD) Superintendent and YKSD School Board

FROM: Barbara Sheinberg, AICP, Sheinberg Associates

SUBJECT: Updated Financial Information about forming a Yukon Koyukuk Borough

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To assist the Yukon Koyukuk School Board in considering Yukon Koyukuk borough formation, Sheinberg Associates updated financial projections, as presented in this memorandum. Specifically, additional borough formation scenarios were considered (Table 1), and updates to projected education funding (Table 2) and the projected borough budget – including the size of the surplus or deficit (Table 3) were prepared. Fiscal year (FY) 17 data is used because it is the most recent year for which there is a complete set of audits. All numbers in this report are rounded to the nearest 100.

Information sources included FY 17 school district audits, Alaska Department of Education and Early Development (ADEED) FY 17 final school foundation funding reports, and assistance provided by Elwin Blackwell, ADEED School Finance Manager and Mindy Lobaugh, ADEED School Finance Specialist, as well as Yukon Koyukuk School District (YKSD) budgets and consultation by Kristen Winters, Chief Financial Officer, YKSD.

Table 1 explains all YK Borough formation scenarios.

1. Borough scenarios A-C do not include the City of Galena or Galena School District in the borough.

2. Both scenarios without Galena (A-C), and scenarios with Galena (D-G), consider the financial results if the Yukon Koyukuk (YK) Borough includes all 202 of the Trans Alaska Pipeline (TAPS), only half of 'south part' (160 miles of TAPS in YK Borough), or none of the 'south part' (118 miles of TAPS in the YK Borough). See Figure 1. The estimated assessed value of all property ("Full True Value") in the YK Borough varies depending on how many miles of TAPS are in the borough.

3. Scenarios A-D all assume the ADEED District Cost Factor (DCF) used to determine state School Foundation Aid is 1.834, Scenarios E-G assume it is 1.510.
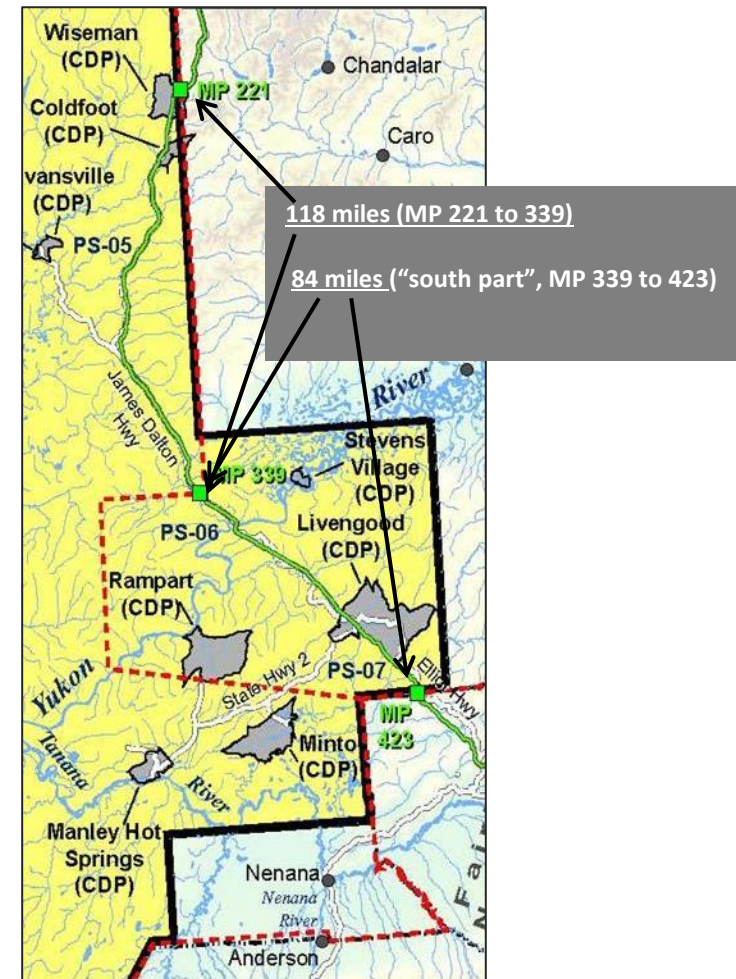
Table 2 is estimated Yukon Koyukuk Borough School District funding, including:

- Column B - the projected YK Borough Required Minimum contribution to the School District

- Column C - the projected YK Borough Maximum Allowed "cap") contribution to the School District

- Column D - FY 17 State Foundation Aid

- Column E lists how much support to schools the Yukon Koyukuk Borough gives. Each scenario shows 3 options: the YK Borough gives the required minimum or "min" contribution to support the school district; gives "75%" of the maximum it is allowed to contribute to schools; or gives the maximum or "max" that it is allowed to for supporting the school district.

- Column F - this is the estimated State Foundation Aid if a borough formed

- Column H - this is the estimated total State Foundation Aid PLUS the YK Borough funding to the school district

Table 3 is the estimated Yukon Koyukuk Borough Budget, with the projected surplus or deficit, including:

- Columns B, C, D - Estimated YK Borough revenues

- Columns E, F, G - Assumed YK Borough expenses

- Column H - Resultant YK Borough surplus or deficit

MAJOR CONCLUSIONS

A YK Borough works well financially for the school district and tribes/communities – both if Galena is in school district/borough or not in - as long as: 1) the borough gives 75% of the maximum it is allowed to contribute to the school district, and 2) all 202 miles of TAPS pipeline are in the YK Borough boundary.

If only 160 miles of TAPS pipeline are in YK Borough, then the borough works well financially for the school district and tribes/ communities only: 1) if Galena is not in school district/borough, and 2) assuming that the borough gives 75% of the maximum it is allowed to contribute to the school district.

If only 118 miles of TAPS (none of the south part, see Figure 1) are in the YK Borough, then (whether Galena is in or out of the borough) there likely will not be enough revenue to increase school funding, support tribes/communities, and have a comfortable surplus.

ANALYSIS

1. **Must Look at Two Factors**

To determine whether it makes sense to form a borough financially, two factors must be considered:
    A. The impact to school funding (Table 2, column H) and B. Whether there will be enough borough revenue to support schools, run the borough, support the region's tribes/communities, and still have a sizeable annual surplus to spend or save to help the region (Table 3, column H).

In other words, it only makes sense to form a borough financially if total funding to the school district increases, and if after supporting schools and tribes/communities, there is a sizeable borough surplus.

2. School Funding

Forming a borough will have a positive impact on overall school funding if the Yukon Koyukuk (YK) Borough gives at least 75% of the maximum it is allowed to give to the school district.

School funding will be at least 10% higher than it was in FY 17 for all scenarios when the YK Borough gives at least 75% of the maximum it is allowed to contribute to the school district. (See Table 2, column H, rows 2, 3, 5, 6, 8, 9, 11, 12, 14, 15, 17, 18, 20, 21.)

School funding will not change (0%) or will decline (-3%) if the YK Borough only gives the Minimum Required (see Table 2, column H, rows 1, 4, 7, 10, 13, 16, 19). In this case however, since less is being given to support the school district, there would be a sizeable borough surplus (see Table 3, Column H, rows 1, 4, 7, 10, 13, 16, 19).

3. Borough Budget

To be conservative, given the assumptions behind these calculations, inflation, and other factors, it seems prudent to aim for at least a $1.5 million annual surplus in the borough budget. This will cover contingencies and allow either additional project funding or building up borough savings.

YK Borough formation will result in an estimated annual surplus of at least $1.5 million (after 75% of the maximum allowed is given to the school district and $3.3 million is given to support tribes/communities) under four scenarios:

- Scenario A - If all 202 miles of TAPS are in the YK Borough, Galena is in not the borough/school district, and the borough gives at least 75% of the maximum to support schools (see Table 3, column H, rows 2 and 3)

- Scenario B - If only 160 miles of TAPS are in the YK Borough, Galena is not in borough/school district, and the borough gives 75% of the maximum to support schools (see Table 3, column H, row 5)

- Scenario D - If all 202 miles of TAPS are in the YK Borough, Galena is in the borough/school district, the borough gives 75% of the maximum to support schools, and the DCF = 1.835 (see Table 3, column H, row 11)

- Scenario E - If all 202 miles of TAPS are in the YK Borough, Galena is in the borough/school district, the borough gives 75% of the maximum to support schools, and the DCF = 1.510 (see Table 3, column H, row 14)

4. A Few Other Take-Aways

Finances are Stronger if all 202 miles of TAPS in YK Borough

The amount of TAPS pipeline in the YK Borough has a major impact on finances because the fewer miles of pipeline in the borough, the smaller the tax revenue to the YK Borough.

- It is thus very important that all 202 miles of TAPS, or at a minimum at least 1/2 of the south part of TAPS at 160 miles, be included in YK Borough.

- To maximize likelihood of gaining all 202 miles TAPS, include it in the proposed borough boundary when you prepare the borough petition, and:

  o Work with Stevens Village to help them understand and support being part of YK Borough rather than the Fairbanks Borough or continuing to be in the unorganized borough.

  o Work with the Livengood Mine owner/developer to help them understand the benefits for the mine to being part of YK Borough rather than the Fairbanks Borough or the uncertainty of continuing in the unorganized borough.

  o Begin now to document the connections and relationships (cultural, economic, transportation, communication, other) between Livengood, Stevens Village, Rampart and the Yukon Koyukuk area/communities/schools.

Can the YK Borough Home Rule Charter Require it to Contribute 75% of Maximum to Schools each Year (as long as no deficit is created)?

The charter can emphasize that forming a borough is based in large part on the region's value of and commitment to education. It can also state that the borough will contribute at least 75% of maximum (cap) to schools each year (as long as no deficit is created). The Alaska Constitution, Article 11 Section 7, indicates that the voters cannot stipulate a financial allocation of a future assembly via initiative or referendum. However, one may argue that initial voting on a charter is something different. It certainly is worth considering this in the charter language as either a requirement or intent.

If Galena is NOT part of YK Borough

The school district and borough are financially strong without Galena as long as all 202 miles of TAPS, or at least 1/2 of the south part (160 miles) of TAPS, are in the YK Borough. If you wish to exclude Galena in the YK Borough and School District:

- In the borough formation petition, research and cite precedents (like Klukwan, Hyder, Port Alexander) where communities/areas were excluded from a larger borough. Galena would be free to join in future if desired. Also, in petition quote objections of Galena residents, city, and school district to being included.

When it is time to determine DFC for new YK Borough School District, argue for a DCF that is same as current YKSD (1.835)

The District Cost Factor (DCF) is an important part of the State Foundation Aid calculation. The higher the DCF, the larger the state's Foundation Aid to schools. YKSD's DCF is 1.835. Galena SD's DCF is 1.391. If Galena is part of the YK Borough and School District, there is a legitimate argument that the YK

Borough School District's DCF should be held at 1.835 because the number of non-correspondence students in the district will double and the high DCF takes the cost of serving these rural schools and students into account.

Table 1 – Borough Scenarios Defined
Scenario and Assumptions
GALENA IS <u>NOT</u> IN BOROUGH
SCENARIO A • Estimated Full True Value (FTV) of property in YK Borough is <u>$1,537,258,600</u> (all 202 miles TAPS in YK Borough) • State Foundation Formula's District Cost Factor (DCF) is same as YKSD currently = <u>1.835</u>
SCENARIO B • Est. FTV of property in YK Borough is <u>$1,224,858,600</u> (½ of south part of TAPS in YK Borough, 160 miles TAPS in Borough) • State Foundation Formula's DCF = <u>1.835</u>
SCENARIO C • Est. FTV of property in YK Borough is <u>$940,858,600</u> (none of south part of TAPS in YK Borough, 118 miles TAPS in Borough) • State Foundation Formula's DCF = <u>1.835</u>
GALENA <u>IS</u> IN BOROUGH
SCENARIO D • Est. FTV of property in YK Borough is <u>$1,578,453,300</u> (all 202 miles TAPS in YK Borough) • State Foundation Formula's DCF = <u>1.835</u>
SCENARIO E • Est. FTV of property in YK Borough is <u>$1,578,453,300</u> (all 202 miles TAPS in YK Borough) • State Foundation Formula's DCF is weighted average of YKSD, Galena, and Tanana = <u>1.510</u>
SCENARIO F • Est. FTV of property in YK Borough is <u>$1,266,053,300</u> (½ of south part of TAPS in YK Borough, 160 miles TAPS in Borough) • State Foundation Formula's DCF = <u>1.510</u>
SCENARIO G • Est. FTV of property in YK Borough is <u>$982,053,300</u> (none of south part of TAPS in YK Borough, 118 miles TAPS in Borough) • State Foundation Formula's DCF = <u>1.510</u>
Note that the estimated Full True Value (FTV) is based only on existing development.

Table 2 - School Funding: Impact of Forming Yukon Koyukuk Borough

	A	B	C	D	E		F	G	H	
	Scenario and Assumptions	Est. Minimum Borough Required to Contribute to <u>Schools</u>	Est. Maximum ("Cap") Borough Allowed to Contribute to <u>Schools</u>	<u>FY 17</u> State Foundation Aid to Current School Districts***	Assumed Borough Contribution to Schools		Estimated State Foundation Aid to Schools if Borough	Change to State Foundation Aid if Borough forms. (*Compared to Current FY 17, Column D*)	Estimated State Foundation Aid + Local Funding to Schools [1] (*and % change compared to FY 17 state aid*)	
GALENA IS NOT IN YK BOROUGH										
1	**SCENARIO A**	$4,073,700	$8,053,500	$16,358,400	*min*	$4,073,700	$12,343,400	-$4,015,000	$16,417,200	*0%*
2	FTV = $1,537,258,600				*75%*	$6,063,600	$12,634,200	-$3,724,200	$18,697,800	*14%*
3	DCF = 1.835				*max*	$8,053,500	$12,781,300	-$3,577,100	$20,834,800	*27%*
4	**SCENARIO B**	$3,245,900	$7,225,600	$16,358,400	*min*	$3,245,900	$13,171,300	-$3,187,100	$16,417,200	*0%*
5	FTV = $1,224,858,600				*75%*	$5,235,700	$13,508,000	-$2,850,400	$18,743,800	*15%*
6	DCF = 1.835				*max*	$7,225,600	$13,659,300	-$2,699,100	$20,884,900	*28%*
7	**SCENARIO C**	$2,493,300	$6,473,000	$16,358,400	*min*	$2,493,300	$13,923,900	-$2,434,500	$16,417,200	*0%*
8	FTV = $940,858,600				*75%*	$4,483,100	$14,317,200	-$2,041,200	$18,800,300	*15%*
9	DCF = 1.835				*max*	$6,473,000	$14,468,700	-$1,889,700	$20,941,700	*28%*
GALENA IS IN YK BOROUGH										
10	**SCENARIO D**	$4,182,900	$14,239,500	$41,402,200	*min*	$4,182,900	$35,866,700	-$5,535,500	$40,049,600	*-3%*
11	FTV = $1,578,453,300				*75%*	$9,211,200	$39,040,800	-$2,361,400	$48,338,700	*17%*
12	DCF = 1.835				*max*	$14,239,500	$39,217,600	-$2,184,600	$53,552,600	*29%*
13	**SCENARIO E**	$4,182,900	$13,646,200	$41,402,200	*min*	$4,182,900	$35,859,800	-$5,542,400	$40,042,700	*-3%*
14	FTV = $1,578,453,300				*75%*	$8,914,600	$36,444,800	-$4,957,400	$45,446,100	*10%*
15	DCF = 1.510				*max*	$13,646,200	$36,624,200	-$4,778,000	$50,365,900	*22%*
16	**SCENARIO F**	$3,355,000	$12,818,400	$41,402,200	*min*	$3,355,000	$36,687,700	-$4,714,500	$40,042,700	*-3%*
17	FTV = $1,266,053,300				*75%*	$8,086,700	$37,332,600	-$4,069,600	$45,506,000	*10%*
18	DCF = 1.510				*max*	$12,818,400	$37,501,400	-$3,900,800	$50,415,300	*22%*
19	**SCENARIO G**	$2,602,400	$12,065,800	$41,402,200	*min*	$2,602,400	$37,440,300	-$3,961,900	$40,042,700	*-3%*
20	FTV = $982,053,300				*75%*	$7,334,100	$38,151,400	-$3,250,775	$45,572,200	*10%*
21	DCF = 1.510				*max*	$12,065,800	$38,304,800	-$3,097,400	$50,466,000	*22%*

*** If Galena is not part of borough (scenarios A-C), FY 17 School Foundation Aid is $1,003,200 (to Tanana SD) + $15,355,200 (to YK SD) = $16,358,400. If Galena is part of borough (scenarios D-G), FY 17 School Foundation Aid is $1,003,200 (to Tanana SD) + $15,355,200 (to YK SD) + $25,043,795 (to Galena SD) = $41,402,161

Table 3 – Yukon Koyukuk Borough (example) Annual Budget

	Scenario and Assumptions	ESTIMATED BOROUGH REVENUE			ASSUMED BOROUGH EXPENSES					BOROUGH SURPLUS OR DEFICIT
		Property Tax Revenue to Borough @ 10 mills	State/Federal Revenue to Borough	Total Revenue to Borough	Borough Contribution to Schools		Expenses to Operate Borough	Borough Pass-Through to Communities/ Tribes [2]		
		A	B	C	D	E		F	G		H
GALENA IS NOT IN BOROUGH										
1	**SCENARIO A**				*min*	$4,073,700				**$7,766,100**
2	FTV = $1,537,258,600	$15,372,600	$1,300,000	$16,672,600	*75%*	$6,063,600	$1,512,800	$3,320,000		**$5,776,200**
3	DCF = 1.835				*max*	$8,053,500				**$3,786,300**
4	**SCENARIO B**				*min*	$3,245,900				**$5,469,900**
5	FTV = $1,224,858,600	$12,248,600	$1,300,000	$13,548,600	*75%*	$5,235,700	$1,512,800	$3,320,000		**$3,480,100**
6	DCF = 1.835				*max*	$7,225,600				**$1,490,200**
7	**SCENARIO C**				*min*	$2,493,300				**$3,382,500**
8	FTV = $940,858,600	$9,408,600	$1,300,000	$10,708,600	*75%*	$4,483,100	$1,512,800	$3,320,000		**$1,392,700**
9	DCF = 1.835				*max*	$6,473,000				**-$597,200**
GALENA IS IN BOROUGH										
10	**SCENARIO D**				*min*	$4,182,900				**$7,918,800**
11	FTV = $1,578,453,300	$15,784,500	$1,300,000	$17,084,500	*75%*	$9,211,200	$1,512,800	$3,470,000		**$2,890,500**
12	DCF = 1.835				*max*	$14,239,500				**-$2,137,800**
13	**SCENARIO E**				*min*	$4,182,900				**$7,918,800**
14	FTV = $1,578,453,300	$15,784,500	$1,300,000	$17,084,500	*75%*	$8,914,600	$1,512,800	$3,470,000		**$3,178,200**
15	DCF = 1.510				*max*	$13,646,200				**-$1,544,800**
16	**SCENARIO F**				*min*	$3,355,000				**$5,622,700**
17	FTV = $1,266,053,300	$12,660,500	$1,300,000	$13,960,500	*75%*	$8,086,700	$1,512,800	$3,470,000		**$891,000**
18	DCF = 1.510				*max*	$12,818,400				**-$3,840,700**
19	**SCENARIO G**				*min*	$2,602,400				**$3,535,300**
20	FTV = $982,053,300	$9,820,500	$1,300,000	$11,120,500	*75%*	$7,334,100	$1,512,800	$3,470,000		**-$1,196,400**
21	DCF = 1.510				*max*	$12,065,800				**-$5,928,100**

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[1] Does not include school revenues not affected by borough formation such as per pupil transportation, PERS/TRS, federal impact aid, grants, or Capital Projects.

[2] Total is determined by a) including $620,000 for villages to pass on state/federal revenue that went to villages directly before borough formation (so no community is harmed financially by borough formation), and, adds in Capital Improvement funding of $150,000 per community. The Borough Assembly will identify a good system for distributing this funding (for example, give a set amount to each village each year, or pool it and rotate among village to fund a few large projects each year, etcetera.