

off the record

a bi-weekly legislative
update from
Senator Kim Elton

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Capitol Undercurrents

Will they be crying in their beer?—The initiative to raise taxes on the sale of alcohol in Alaska is being watched carefully by some who have absolutely no dog in the fight over alcohol taxation. Many assumed that only the legislature could tax, and that new taxes or increases in existing taxes could not be done by voter initiative. In fact, only the legislature can appropriate money; raising taxes probably can be done by initiative as long as the initiative does not dedicate the tax receipts. Some believe failure of the September 14 ballot initiative on using permanent fund earnings may prompt voter initiatives on other industries—like oil giants—to forestall future attempts to tax individual Alaskans.

Privatization: more fizz than pop?—The Alaska Economic Report noted in a recent edition that the legislature's joint privatization committee may not amount to much. The report suggests that, though some business people are participating, the effort is driven by a few legislators grinding their political axes.

State role in school facilities faces financial, legal hurdles

“We don’t need no schools.” The inelegant double negative does to grammar what the underlying sentiment does to logic.

Of course we need schools. And Alaskans are willing to pay for them. Juneau voters in the October municipal election validated this premise at the ballot box when they agreed to pay for a new high school and to fix up the old high school if some state funds also are available.

The challenge is how to pay for needed new schools and school repairs. That challenge is tougher than a new math problem when you have a state legislature that only knows how to subtract and doesn’t know how to add.

Alaskans pay for school construction and school repairs in one of two ways.

Direct appropriations for priority schools

The first way is through direct legislative appropriations. Those appropriations are supposed to be for school construction or school renovation projects that make their way to the top of priority lists developed by the Alaska Department of Education. Over the past six years, the legislature has been exceedingly stingy with this approach. The number 1 priority school on the construction list is a new school for Chevak. It’s been number one on the list for several years and still hasn’t been funded.

Debt reimbursement

The second school-funding alternative is through a debt reimbursement program. Municipalities bond for school construction or repairs and the state reimburses a portion of the costs. In the 1998 legislative



Schools face financial & legal hurdles (cont.)

session, the legislature funded a debt reimbursement program authorizing \$357 million in school construction. The state picked up 70 percent (about \$260 million) of the costs and municipalities paid for 30 percent (about \$97 million). The money authorized in the 1998 legislative session is already allocated—mostly to railbelt school districts.

When Juneau voters approved the new high school during the recent election, there was a caveat—it would be built only if the state agreed to share at least 50 percent of the expenses. Chances the state will directly appropriate general fund dollars for the new school are less than the chances the Beav will ever get an ‘A’ in compartment. **A new Juneau high school is 53rd on the priority list and, remember, the legislature hasn’t directly appropriated for the 1st priority, Chevak, yet.**

That leaves the second funding alternative, debt reimbursement, as the most likely avenue for the state to participate in funding a new high school in Juneau. This is more promising but there are two hurdles: the first financial; the second legal.

Financial hurdles

The financial hurdle arises because general fund revenues are drying up and there’s no longer a couple hundred million dollars just lying around for a new debt reimbursement program like the 1998 or previous direct pay debt reimbursement programs.

This hurdle (how do we pay for a debt reimbursement program?) is simply a question of will. As our mothers reminded us, “where there’s a will there’s a way.” Next year is an election year for 50 of the 60 state legislators—that provides a reservoir of “will” (it’s funny how an election can focus legislative attention on delivering for constituents). In this case, the “way” may be for the state to use its debt capacity to bond for school projects. That’s what municipalities with a tax base do to pay for their school construction obligations.

The state’s bonded debt capacity is in the neighborhood of \$300 million over the next six years. Issuing revenue or general bond debt to that level

is do-able and protects the state’s credit rating. If a new debt reimbursement program is predicated on the \$300 million, and if the reimbursement program is 50 percent state and 50 percent municipal, that provides \$600 million for schools.

Legal hurdles

The legal hurdle arises because an Alaska Superior Court judge just ruled the debt reimbursement program discriminates against rural Alaska because only communities with a tax base can participate. The judge says the effect of not funding the priority list with direct appropriations, while providing money for debt reimbursement, discriminates against rural (mostly Native) students.

The legal hurdle facing a debt reimbursement program is not be insurmountable but may require an artful package of school projects to ensure that rural, as well as urban, projects are funded. (It remains to be seen if a legislature, frozen by indecision on the fiscal gap and unable to resolve subsistence, can set aside politics and craft a fair rural/urban schools package.) The legislature will have to mix and match funding mechanisms to ensure rural

students participate in the state’s largesse when it comes to new schools or fixing old schools.

One way of mixing and matching is to use some of the state’s debt capacity for direct funding of prioritized projects in the parts of Alaska without a tax base, while reserving some of the debt capacity to match municipal funds for schools in urban areas. For example, if we have state debt capacity of \$300 million, we might use half—or some other fraction—of the \$300 million to match municipal debt for urban schools and the rest for direct funding of projects in areas of Alaska that can’t support debt may work.

If we can do that, the legislature will be able to deliver on basic school construction needs around the state. If we can do that, we meet our constitutional obligation “to establish and maintain a system of public schools.” If we can do that, chances are good the state will help pay for the new Juneau high school.

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