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**Preliminary Assessment**

**Fiscal Feasibility**

**Of a Potential Western Bristol Bay Borough**

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## **EXECUTIVE SUMMARY**

The purpose of this report is to give a preliminary assessment of the fiscal feasibility of a potential borough for the Western Bristol Bay region. The report also examines the net fiscal impact of borough formation on the SWR Regional Educational Attendance Area (REAA), the cities of Dillingham and Togiak, and other communities.

The findings of this preliminary fiscal feasibility study are necessarily qualified by the time constraints under which it was prepared. Many assumptions were made, much information was quickly compiled and analyzed, and some "guesstimates" were made. Inevitably, a more thorough and leisurely analysis could refine the assumptions, add factual detail, and narrow the range of uncertainty about the major findings. Moreover, different assumptions, about such key factors as borough service levels or future revenues, might alter the findings. The findings and conclusion presented here represent our best judgment, based on the information obtainable and analyzable within the constraints of this preliminary fiscal analysis.

### ***Major Assumptions***

- Borough boundaries coincide with the Dillingham Census Area.
- The home rule borough will be governed by a seven-member elected assembly and mayor, with a seven-member appointed planning commission, based in Dillingham.
- The borough will exercise minimal powers (local education and regional development planning, borough advocacy).
- The borough will be staffed with a part-time manager and a full-time borough clerk/finance officer and regional planner, funded by a minimal operating budget.
- The Dillingham School District and the SWR REAA will transfer their assets and liabilities to the unified borough school district. The borough school district will maintain existing educational service levels after transfer, including Dillingham's excess local contribution to its schools.
- The borough will levy a 4 percent areawide raw fish tax and a 10 percent bed tax outside Dillingham. Otherwise, it will depend on state and federal revenues.
- The borough will not levy areawide property or sales taxes. Cities levying those taxes will continue to collect and retain those revenues.
- The City of Dillingham will drop its effort to annex Nushagak Bay and will forego the raw fish tax revenues it might thereby gain.
- Some means will be found to compensate the City of Togiak and other communities outside Dillingham for lost federal PILT payments and raw fish tax or other revenues.
- Revenues and expenditures are estimated in current dollars (FY2011 and FY2012). It is assumed that existing service levels will be maintained.

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## ***Major Findings***

- Assuming an areawide 4 percent raw fish tax, total general fund operating revenues are estimated at about \$3.1 million annually, with about \$1.7 million from local sources and \$1.4 from state and federal sources.
- Raw fish tax revenues tend to be variable year-to-year. The long-term fate of federal funding for PILT payments, a major source (about \$800,000 annually) of borough revenue, is uncertain.
- Total annual expenditures, including a hold-harmless adjustment for Dillingham schools, are estimated at about \$2.5 million.
- With an areawide 4 percent raw fish tax, the borough would have an excess of revenues over expenditures of about \$614,000.
- However, the City of Togiak and other communities would lose about \$547,000 in federal PILT payments, raw fish taxes, and other revenues to the borough **unless** the borough offsets these losses.
- With a borough offset for these local revenue losses, the borough would have an annual deficit of revenues compared to expenditures of about \$67,000.
- Under the State Foundation Program, the borough would become responsible for the local required contribution, equivalent to a 4-mill levy on all taxable real and personal property in the borough, toward the unified school district's operating expenses.
- Under the State's grant program for school construction and major maintenance projects, the unified district would become responsible for a 10 percent participating share of the cost of qualifying school capital improvements.
- The City of Dillingham would shed about \$1,550,000 annually in school expenses. It would also lose about \$711,000 in raw fish tax revenues, \$410,000 in federal PILT payments, and \$123,300 in fisheries business taxes. In balance, with borough incorporation, the City would enjoy an annual net gain of \$305,700.
- Dillingham schools will lose the City's excess contribution (about \$565,000 annually) to its schools and a reduction in service levels **unless** the borough continues to make an excess contribution to Dillingham's schools.
- Without a steady margin of surplus revenues over expenditures, the borough will not be able to accumulate reserves to cover fluctuations in revenue and other revenue uncertainties.

## ***Conclusion Regarding Financial Feasibility***

Based on the assumptions specified for this report, it appears that:

- **with a 3 percent areawide raw fish tax, a Western Bristol Bay Borough would have a negative balance of \$578,519 annually, and would not be financially feasible.**
- **with a 4 percent areawide raw fish tax, a borough would have a negative balance of \$183,088 annually, and would fall short of financial feasibility.**

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- with a 5 percent areawide raw fish tax, a borough would have a positive balance of \$211,343 annually; this surplus would enhance the borough's year-to-year financial stability and enable it to accumulate some financial reserves against the possibility that revenues fell substantially below an average year.

However, if the City of Dillingham annexation of Nushagak Bay is not finalized, or if the borough does not adopt policies to (a) hold harmless the cities from any revenue loss caused by borough incorporation and (b) continue the City of Dillingham's excess contribution of local funds to support the city schools, then the borough would appear feasible with a 3 percent or 4 percent areawide raw fish tax.

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## ***Purpose of report***

This report presents the findings of a preliminary assessment of the fiscal feasibility of a potential borough government for the Western Bristol Bay region. The report also examines the fiscal impact of borough formation on the Southwest Region Regional Educational Attendance Area (SWR REAA), the City of Dillingham and its City School District, the City of Togiak, and other communities in the region.

## ***Background and previous studies***

Almost since statehood, borough formation has been a frequent and controversial topic in the Greater Bristol Bay Region. The Bristol Bay Borough, which incorporated as a second class borough in 1962, was Alaska's first borough. In 1989, the Lake and Peninsula Borough incorporated as a home rule borough. Before and after the Lake and Peninsula Borough incorporated, there were several proposals and feasibility studies to incorporate the Dillingham Census Area, or parts of it, as a third borough in the Greater Bristol Bay Region. There were also proposals to combine it, or parts of it, in some configuration with the two existing boroughs. There have been numerous local conflicts over suitable borough and city boundaries, often motivated by a desire to obtain municipal jurisdiction over natural resources and local tax assets. As background for the present report, some of these earlier proposals are briefly reviewed here.

- In 1976, the Bristol Bay Borough submitted a petition, later abandoned, to annex most of the territory that was later incorporated as the Lake and Peninsula Borough.
- In 1986, the Local Boundary Commission denied separate petitions by the cities of Dillingham and Clark's Point to annex much of Nushagak Bay (LBC, 1986). At that time, the Commission found that,

If either of the Cities annexes any of the waterways as proposed, that City can expect to receive increased raw fish taxes. This would not only allow the City to obtain additional revenues without the encouragement to pursue borough formation, it would constrain the area in terms of a potential revenue base for any future borough. The ultimate result would be a disincentive for borough formation.

- A 1988 feasibility study by the Department of Community and Regional Affairs concluded that a borough government that encompassed the SWR REAA and the City of Dillingham was "financially feasible and would offer benefits to residents of the region" (ADCRA, 1988). This conclusion was based on the assumption that the borough would levy a one percent sales and use tax that would be applied to general retail sales, services relating to the region's recreational fisheries, and commercial raw fish sales. The study recommended a general sales tax in part to offset the variability of raw fish tax revenue. The study

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also observed that the “local tax burden assumed in this study would be among the lowest of any of the existing boroughs in the state.”

- In 1989, at the request of local residents, the Alaska Department of Community and Regional Affairs prepared a feasibility study for a Northwest Bristol Bay Borough that would include the Western Bristol Bay communities of Aleknagik, Clark's Point, Ekuk, Manokotak, Togiak and Twin Hills, plus the Kuskokwim communities of Goodnews Bay and Platinum. The study concluded that a borough would be financially viable but would probably fail to satisfy other state standards for incorporation (ADCRA, 1989).
- A 1992, as part of its statewide review of “model borough boundaries”, ADCRA examined a wide range of borough options for the Greater Bristol Bay Region, defined to include the Dillingham Census Area plus the existing Bristol Bay and Lake and Peninsula boroughs (ADCRA, 1992b). At that time, the Department concluded that,

(A) super borough which consolidated the existing Bristol Bay and Lake and Peninsula boroughs, along with the communities of the Dillingham Census Area, would be best able to represent the interests of the region. Rather than having a number of relatively small boroughs, cities and unincorporated communities each acting independently, a super borough would be able to represent the entire Bristol Bay region with a single voice. Further, a super borough would have greater financial resources to promote the interests of the region. A super borough would be best able to employ technical staff, lobby and otherwise advocate for the region.

The Department concluded that a stand-alone borough for the Dillingham Census Area, including the City of Dillingham, would also have – but to a lesser extent – the advantages of a super borough.

Finally, the Department found that, in the absence of a super borough, unification of the Bristol Bay and Lake and Peninsula boroughs best met the standards for the model borough boundaries study.

The Department did not advocate for any of these borough options, leaving their pursuit to the initiative of local residents of the region.

- In 1997, the cities of Aleknagik and Dillingham jointly submitted a petition to annex the Dillingham-Nushagak-Togiak Territory to the Lake and Peninsula Borough (City of Aleknagik and City of Dillingham, 1997). The cities ultimately did not pursue the petition. Instead, in 2000, by agreement with the petitioners, the Department updated the revenue projections in the 1997 annexation petition (ADCED, 2000). Ultimately, the sponsors decided not to pursue the annexation.

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- In 2010, the City of Dillingham submitted to the Local Boundary Commission a petition to annex Nushagak Bay, mainly to gain jurisdiction over its untapped raw fish tax revenue potential (City of Dillingham, 2010). The Native Village of Ekuk, located on Nushagak Bay about 16 miles southeast of Dillingham, objected to the proposed annexation on grounds that the annexation, if approved, would unfairly deprive Ekuk and other Nushagak Bay communities of potential revenue and would diminish the fiscal feasibility of a future borough for Western Bristol Bay communities. Ultimately, the Local Boundary Commission approved the City of Dillingham's petition, subject to approval by city voters. The prospect of lost jurisdiction for other Nushagak Bay communities, or shared jurisdiction for a future borough, prompted the Native Village of Ekuk to commission this assessment of whether borough incorporation might be fiscally feasible and more advantageous to the City of Dillingham and other communities in the region than the city annexation.

### ***Assumptions***

Without a settled profile of the features of a potential Western Bristol Bay Borough, it is necessary to make some reasonable assumptions about the boundaries, class of borough, and powers and functions of the prospective borough. Based on these assumptions, an example budget with projected revenues and expenditures can be developed to assess a borough's fiscal feasibility.

### **Boundaries**

This assessment assumes that the upland boundary of the Western Bristol Bay Borough would coincide with the Dillingham Census Area. The offshore boundary would correspond with the State of Alaska's jurisdiction offshore of the Dillingham Census Area.

The 2010 federal census reports that the Dillingham Census Area had 4,847 residents, most of them living in nine settlements (Table 1).<sup>1</sup> Seven settlements (Aleknagik, Clark's Point, Dillingham, Ekwok, Manokotak, New Stuyahok, and Togiak) are incorporated cities; two (Koliganek, and Twin Hills) are traditional villages with tribal governments. Additionally, two traditional villages with few year-round residents (Ekuk and Portage Creek) are recognized under the Alaska Native Claims Settlement Act. There are also some scattered residents outside any of the above settlements.

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<sup>1</sup> As of the 2010 federal census, eight of Alaska's eighteen boroughs (Aleutians East, Bristol Bay, Denali, Haines, Lake and Peninsula, Skagway, Wrangell, and Yakutat) had fewer residents than the Dillingham Census Area.

**Table 1**  
**Population, Dillingham Census Area, 2010**

<b>Community</b>	<b>Population</b>	<b>Percent of Total</b>
Aleknagik	219	5%
Clark's Point	62	1%
Dillingham	2,329	48%
Ekwok	115	2%
Ekuk	N/R	N/R
Koliganek	209	4%
Manokotak	442	9%
New Stuyahok	510	11%
Portage Creek	2	--
Togiak	817	17%
Twin Hills	74	2%
Balance of Census Area	68	1%
<b>Total</b>	<b>4,847</b>	<b>100%</b>

N/R = Not separately reported.  
 Source: ADL&WD, 2011.

### **Class of Borough**

Alaska's statutes allow for three classes of boroughs: home rule, first class, and second class. According to a Local Boundary Commission staff report (LBC, 1994),

(t)he difference in the powers available to and the duties required of home rule, first class, and second class boroughs is minimal. Home rule boroughs, first class boroughs and second class boroughs all have broad capacity to take on various powers.

However, the means by which different classes of boroughs acquire and exercise their powers differ. Home rule boroughs must adopt home rule charters. A charter is, in effect, the local government's constitution. A home rule borough or city may exercise all legislative powers not prohibited by state law or charter. First class or second class boroughs, known as general law municipalities, can only adopt and exercise the legislative powers delegated to them by state law, i.e., Title 29 of the Alaska Statutes. In practice, home rule boroughs have greater flexibility to define and exercise their governmental powers than first and second class boroughs which are more constrained by some elements of Title 29.

This report assumes that a Western Bristol Bay Borough would incorporate as a home rule borough, governed by its own charter, to take advantage of a home rule borough's flexibility to fit itself to this rural region's particular circumstances.

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Because Dillingham is central to the region's transportation, communications, administrative, and other infrastructure, the assumption is the borough would be headquartered there.

### **Powers and Functions**

AS 29.35.150-180 mandates that all boroughs exercise three areawide powers: education, assessment and collection of taxes, and planning, platting, and land use regulation. The manner in which a borough can exercise these mandatory powers, and adopt and exercise other powers, differs for home rule and first and second class boroughs.

This assessment assumes the prospective borough would initially exercise only the minimal powers required by state law, reserving the option to adopt additional powers in the future as called for by circumstances and as allowed by growth in the borough's fiscal and administrative capabilities.

A borough that exercised minimal powers would not materially affect the activities of tribal governments, quasi-governmental organizations, and the private ANCSA regional and village corporations that serve the region's communities and residents. In particular, the prospective borough would not overlap with or replace such existing community service entities as the Bristol Bay Area Health Corporation, the Bristol Bay Economic Development Corporation, the Bristol Bay Housing Authority, and the Bristol Bay Native Association.

### ***Borough Powers and Functions***

Next, the administrative and fiscal implications of borough exercise of the three mandatory areawide powers (education, assessment and collection of taxes, and planning, platting, and land use regulation) are examined.

#### **Education**

Two school districts, the Dillingham City School District and the SWR REAA, now provide local education (kindergarten through high school) in the Dillingham Census Area. A new borough would be mandated to provide local education on an areawide basis. This would be achieved by transfer of the responsibilities, assets, and liabilities of the existing City School District and the SWR REAA to a new unified borough school district. State law allows a two-year transition period after borough incorporation to complete this transfer. After incorporation, administration and funding of local education would be the borough's most important responsibility.

The rest of this section assesses the net fiscal impact of borough formation on the region's school districts. The State of Alaska, through its State Education Foundation Entitlement Program (Foundation Program) is the major source of operating budget

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revenues for Alaskan school districts. The State also provides capital grants and loans that fund most of the capital costs of qualifying school construction and major maintenance projects. Both programs are administered through the Alaska Department of Education and Early Development (ADEED).

This assessment primarily compares statute-based, formula-driven state funding support levels for a unified borough school district to state support for the existing city and REAA school districts. The State's Foundation Program and capital grants or loans are the largest variable revenue sources for local school districts. A changeover from separate city and REAA school districts to a unified borough district would alter the results of the funding formulas used to calculate Foundation Program funds and capital improvement grants and loans. Most other funding sources involve lesser money amounts, and would experience relatively little or no net change following school district unification. For comparability, we have made these simplifying assumptions:

- The unified borough school district will maintain the level of educational services now provided by the City and SWR REAA school districts.
- School district unification will not change overall cost factors.<sup>2</sup>
- Apart from the Foundation Program and state capital grants and loans, borough incorporation will not materially change the amount the borough school district receives from other revenue sources, including federal school aid, compared to the status quo.

The assessment does not develop a comprehensive estimated operating budget for the new unified school district. That task is not feasible within the limits of this report, nor is a comprehensive budget necessary to determine whether school district unification would have a positive or negative net fiscal impact compared with the status quo. The fiscal status quo of the two existing school districts and the fiscal implications of a new unified borough district are next examined in turn.

#### 1. Dillingham City School District

The City of Dillingham is a first class city in the unorganized borough. As such, state law requires it to maintain and help support its own municipal school district.

##### a. FY 2011 and FY 2012 Operating Budgets

Table 2 shows the City School District's audited (actual) operating budget revenues and expenditures for FY 2011 and the operating budget revenues and expenditures adopted for FY 2012. (These operating budgets omit revenues and expenditures for several

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<sup>2</sup> In fact, school unification may bring both added costs and cost savings after the former two districts' administration, curriculum, personnel, facility maintenance, purchasing and other functions are merged. Evaluating these implications are beyond the scope of the present study.

educational and support programs that are funded almost wholly by federal and state grants.) The City School District's FY 2011 average daily membership (ADM) was 478.70 students and its operating budget expenditure per ADM was \$17,181.

**Table 2**  
**Dillingham City School District FY2011 and FY2012 Operating Budgets<sup>1</sup>**

	FY 2011 <sup>2</sup>	FY 2012 <sup>3</sup>
<b>Operating Funds (Revenue)</b>		
City Appropriation	\$1,300,000	\$1,300,000
Less Bond Contribution	(100,000)	(100,000)
State of Alaska Foundation Program	5,641,477	5,695,870
TRS On-Behalf (State)	782,875	923,640
PERS On-Behalf (State)	112,398	85,027
Federal Impact Aid (Federal)	763,262	864,727
E-Rate	286,771	213,358
Interest	1,344	2,000
Other Revenue	211,831	147,000
<b>Total Revenues</b>	<b>\$8,999,958</b>	<b>\$9,131,622</b>
Operating Expenditures	\$8,224,368	\$9,131,622
Excess of Revenues over Expenditures	775,590	
Net transfers out	(335,198)	
Net change in fund balance	420,392	
Fund balance beginning of year	\$1,354,426	
Fund balance end of year	\$1,774,820	

1. The school operating fund budget omits substantial revenues and expenditures for certain educational and support programs funded almost wholly by federal and state grants.

2. Altman, Rogers & Co., 2011a.

3. Dillingham City School District, 2011.

In FY 2011, the Foundation Program was the City School District's largest source of operating budget revenues, accounting for 63 percent of the total. Other state funds for retirement programs (TRS and PERS) accounted for another 11 percent, with the balance coming from the City of Dillingham (13 percent), federal impact aid (8 percent), the E-Rate program<sup>3</sup> (3 percent), and miscellaneous other sources (2 percent).

<sup>3</sup> The Telecommunications Act of 1996 authorizes the Federal Communications Commission to require companies providing telecommunications services to fund discounted telecommunications and internet services for schools and libraries.

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The Foundation Program funding level for each school district is determined by a formula that takes into account numerous factors, including a district cost factor specific to each school district.<sup>4</sup> For FY 2012, the City School District's cost factor was 1.336; it will be 1.346 for FY 2013.

The Foundation Program stipulates a required local contribution at AS 14.17.410(b)(2):

the required contribution of a city or borough school district is the equivalent of a four mill tax levy on the full and true value of the taxable real and personal property in the district as of January 1 of the second preceding fiscal year, as determined by the Department of Commerce, Community, and Economic Development under AS 14.17.510 and AS 29.45.110, not to exceed 45 percent of a district's basic need for the preceding fiscal year as determined under (1) of this section.

Dillingham's full and true value (full value determination or FVD) in FY 2010 was \$158,824,500. By the formula in AS 14.17.410(b)(2), the City of Dillingham's minimum required contribution in FY 2012 would equal a four-mill (0.4 percent) tax levy on its FY 2010 FVD of \$158,824,500 or \$635,298. While the City's required contribution amount is calculated as a property tax levy, it can fund its contribution from any local revenue source, such as a sales tax, bed tax, raw fish tax, or other source.

The City of Dillingham has traditionally appropriated more than its minimum required local contribution to support its schools. For example, in FY 2011 and FY 2012, the City appropriated \$1,200,000 to the City School District's operating budget. For FY 2012, that local contribution exceeds the required contribution of \$635,298 by \$564,702.

For FY 2011, the City District had a net operating surplus of \$420,392 (Altman, Rogers & Co., 2011a). At the end of FY 2011, the district had an operating fund balance of \$1,774,820.

b. School debt and future capital improvements

The City of Dillingham's only school-related debt stems from general obligation school bonds in the original amount of \$15,105,000 issued in 2008 for school improvements. Table 3 summarizes the annual debt service payments required through 2028 to retire these bonds. The annual debt service payment, with minor year-to-year variations, is around \$1,175,000.

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<sup>4</sup> ADEED, September 2011.

**Table 3**

**Annual Debt Service, General Obligation School Bonds, City of Dillingham**

<b>Annual Debt Service</b>			
<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2011	\$520,000	\$657,840	\$1,177,840
2012	545,000	631,840	1,176,840
2013	570,000	604,590	1,174,590
2014	600,000	576,090	1,176,090
2015	630,000	646,090	1,176,090
2016-2020	3,615,000	2,268,550	5,883,550
2021-2025	4,450,000	1,433,263	5,883,263
2026-2028	3,210,000	324,980	3,534,980

Source: Altman, Rogers & Co., 2011a.

Under the State of Alaska's State Aid for Costs of School Construction Debt program,<sup>5</sup> the State absorbs 70 percent of the City of Dillingham's annual debt service payment for its outstanding school debt. Accordingly, in FY 2010, the City paid \$353,481 (30 percent of that year's total debt service payment of \$1,177,590) while the State of Alaska paid \$824,109 (70 percent). For the future, assuming the State continues to allocate funds, the City will be responsible for annual school debt service expenses of approximately \$350,000 annually until 2028.

The State of Alaska also has state grant fund programs for school construction<sup>6</sup> and major maintenance<sup>7</sup> projects. Program funds are used to make grants to local school districts for school construction and major maintenance projects. ADEED annually prepares a statewide list of prioritized school capital improvement projects – both construction and major maintenance projects – according to which appropriated grant funds are awarded. The list is compiled from 6-year capital improvement plans submitted by districts. ADEED's current (as of December 2011) priority lists do not include any projects for the Dillingham School District (ADEED, 2012a and 2012b).

## 2. Southwest Region REAA

The SWR REAA, headquartered in Dillingham, delivers educational services to all the communities in the Dillingham Census Area except Dillingham. It operates kindergarten through grade 12 schools in eight communities, including 6 second-class cities (Aleknagik, Clark's Point, Ekwok, Manokotak, New Stuyahok, and Togiak) and 2 unincorporated communities (Koliganek and Twin Hills).

<sup>5</sup> AS 14.11.100(a)(16)

<sup>6</sup> AS 14.11.005

<sup>7</sup> AS 14.11.007

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A. Operating budget

Table 4 summarizes the audited (actual) SWR REAA's operating budget for FY 2011 and the adopted budget for FY 2012. (These operating budgets omit revenues and expenditures for several educational and support programs that are funded almost wholly by federal and state grants.) The REAA's FY 2011 average daily membership (ADM) was 627.45 students, and its operating budget expenditure per ADM was \$22,716.

As with municipal school districts, the Foundation Program largely funds REAA school district operations, supplemented by various other state and federal governments transfers. Unlike municipal school districts, however, REAAs do not have to make a required local contribution to their operating budgets to qualify for Foundation Program funds.

In FY 2011, the Foundation Program was the SWR REAA's largest source of operating budget revenues, accounting for 54 percent of the total. Federal impact aid amounted to another 29 percent, with the balance coming from other state funds: TRS and PERS (9 percent), the E-Rate program (5 percent), and miscellaneous other revenue sources (2 percent).

For FY 2011, the SWR REAA had a net operating surplus of \$183,177 and its accumulated operating fund balance was \$6,592,540 (Altman, Rogers & Co., 2011b).

**Table 4****SWR REAA School District FY2011 and FY2012 School Operating Budgets<sup>1</sup>**

<b>Operating Funds</b>	<b>FY 2011<sup>2</sup></b>	<b>FY2012<sup>3</sup></b>
City Appropriation	\$ 0	\$ 0
Less Bond Contribution	0	0
State of Alaska Foundation Program	9,062,106	9,026,654
TRS On-Behalf	1,294,998	1,749,162
PERS On-Behalf	182,606	268,434
Federal Impact Aid	4,874,681	4,854,630
E-Rate	884,410	1,132,612
Interest	3,367	1,200
Other Revenue	344,772	65,160
<b>Total Revenues</b>	<b>\$16,646,940</b>	<b>\$17,097,852</b>
<b>Total Operating Expenditures</b>	<b>\$14,253,234</b>	<b>\$17,097,435</b>
Excess of Revenues over Expenditures	2,393,706	
Net Transfers	(2,210,529)	
Net change in fund balance	183,177	
Fund balance beginning of year	\$6,409,363	
Fund balance end of year	\$6,592,540	

1. The school operating fund budget omits substantial revenues and expenditures for certain educational and support programs funded almost wholly by federal and state grants.

2. Altman, Rogers & Co., 2011b.

3. Southwest Region REAA, 2011.

#### B. School debt and future capital improvements

As earlier noted, ADEED annually prepares a statewide ranked list of prioritized school capital improvement projects that qualify for capital grants. ADEED's FY 2013 priority lists identify four projects in the SWR REAA. The Koliganek K-12 School Replacement is priority #2 on the school construction grant fund list. On the major maintenance grant fund list, Twin Hills K-8 School Renovation is ranked #51, the Aleknagik K-8 School Renovation is #82, and Manokotak K-12 School Sewer and Water Upgrades is #116. Table 5 shows ADEED's recommended funding amounts for these projects, including the state share and the local participating share. State grant funds for these projects await future legislative appropriations.

Unlike municipal districts, the required local participating share for REAAs is only two percent of the total cost. That share may be satisfied by local or non-local funding

sources or by local in-kind contributions. Under certain hardship conditions, ADEED may waive even that required share.<sup>8</sup>

**Table 5**  
**School Construction and Major Maintenance Grant Fund Priority, Final List, FY 2013**

Priority	Project Name	ADEED Recommended Amount	State Share	Participating Share
<b>Construction Grants</b>				
2	Koliganek K-12 School Replacement	\$25,425,321	\$24,916,815	\$508,506
<b>Major Maintenance Grants</b>				
51	Twin Hills K-8 School Renovation	\$2,312,424	\$2,266,176	\$46,248
82	Aleknagik K-8 School Renovation	\$4,230,333	\$4,145,726	\$84,607
116	Manokotak K-12 School Sewer and Water Upgrades	\$250,830	\$245,813	\$5,017

Sources: ADEED, 2012a and 2012b.

The state capital budget requested by Governor Parnell in January 2012 included a request for \$24,916,815 for the state share of the Koliganek K-12 school replacement.<sup>9</sup>

### 3. Western Bristol Bay School District

#### a. Required Local Contribution to the Operating Budget

The Foundation Program funding level for each school district is adjusted by a district cost factor established by the legislature for each district. This factor reflects the varying cost by district to deliver educational services. The district cost factors differ for the two

<sup>8</sup> AS 1411.008(c) states,

(c) The required participating share for a regional educational attendance area is two percent. The participating share for any district may be satisfied by money from federal, local, or other sources, or with locally contributed labor, material, or equipment.

(d) If a district with full value per ADM of \$200,000 or less can demonstrate in writing that it is unable to provide the required participating share or that the participating share required under this section will jeopardize receipt of federal assistance, the commissioner may waive all or a portion of the required participating share.

<sup>9</sup> Senate Bill No. 160, Twenty-seventh Legislature, Second Session.

school systems. The City School District's factor is set at 1.336 for FY 2012 and 1.346 for FY 2013; the SWR REAA's at 1.653 for FY 2012 and 1.685 for FY 2013. (The legislature has not yet approved district cost factors beyond FY 2013). It is not possible to predict the district cost factor that the legislature would approve for a unified school district. ADEED staff advise that a reasonable approach would be to use an average of the current district cost factors. This report simply uses the anticipated Foundation Program funding in the adopted FY 2012 budgets for the City School District and the SWR REAA. The result is, in effect, a weighted average of the current district cost factors and Foundation Program funding for the two separate districts.

The Foundation Program would require a unified borough school district, like the current City School District, to make a minimum local contribution equal to a 4-mill levy on the areawide FVD. None of the Dillingham Census Area communities outside Dillingham now assess or tax real or personal property, so their FVD is unknown. Therefore, we estimated the FVD of the territory outside Dillingham, and combined that figure with Dillingham's FVD to estimate an areawide FVD. Based on the FY 2010 average per capita FVD (about \$22,000) for a group of 18 small rural communities<sup>10</sup> with similar levels of economic development in the Lake and Peninsula, North Slope, and Northwest Arctic boroughs, a FY 2010 FVD of \$25,000 per capita seemed reasonable for the territory outside Dillingham.

Finally, based on the REAA's population we estimated the FVD for the REAA and the total FVD for the entire region, including Dillingham (Table 6). For illustration only, Table 6 also shows the FVD for estimated FVDs per capita of \$30,000 and \$35,000 for the territory outside Dillingham.

**Table 6**  
**Estimated Areawide Full Value Determination, Western Bristol Bay Borough**

Full Value Determination			
Estimated FVD P/C SWR REAA	Estimated SWR REAA FVD	City of Dillingham FVD	Estimated Areawide Total FVD
\$25,000	\$65,075,000	\$158,824,500	\$223,899,500
\$30,000	\$78,090,000	\$158,824,500	\$236,914,500
\$35,000	\$91,105,000	\$158,824,500	\$249,929,500

Sources: DCCED, April 2011; consultant estimates.

Next, the 4-mill levy was applied to the estimated areawide FVD to estimate the unified district's required borough contribution. The estimated annual required borough contribution was \$895,598, of which \$635,298 was attributable to Dillingham and \$260,300 to the balance of the region (Table 7). This amount is substantially less than the City of Dillingham's current actual annual contribution of \$1,200,000. (For illustration

<sup>10</sup> The 18 communities were Newhalen, Nondalton, Pilot Point, Port Heiden, Anaktuvak Pass, Atkasuk, Kaktovik, Nuiqsut, Point Hope, Wainwright, Ambler, Buckland, Deering, Kiana, Kobuk, Noorvik, Selawik, and Shungnak.

only, Table 7 also shows what the required borough contribution would be for higher FVDs for the area outside Dillingham.)

**Table 7**  
**Estimated Required Local Contribution, WBB Borough**

<b>Estimated FVD P/C SWR REAA</b>	<b>Estimated Required Local Contribution SWR REAA</b>	<b>Required Local Contribution City of Dillingham City</b>	<b>Estimated Areawide Required Local Contribution</b>
\$25,000	\$260,300	\$635,298	\$895,598
\$30,000	\$312,360	\$635,298	\$947,658
\$35,000	\$364,420	\$635,298	\$999,718

Source: Consultant estimate.

The Foundation Program permits new municipal school districts to make gradually increasing contributions during a three-year transitional period. With some possible adjustments, AS 14.17.410(e) requires the equivalent of a one mill contribution in the first fiscal year, two mills in the second fiscal year, three mills in the third fiscal year, and the full four-mill equivalent beginning the fourth fiscal year. This transitional period may allow the new school district time to ramp up its revenue collections or accumulate operating reserves. This analysis uses the post-transition required local contribution for the example budget as more reflective of the unified district's long-term local school district operating budget obligation.

**b. Required Local Share for School Capital Improvements**

The unified school district would assume the assets and liabilities of the two existing school districts. This would include the City of Dillingham's share (\$350,000) of the annual debt service obligation for its outstanding school bonds. The unified district would continue to qualify for state aid in the amount of 70 percent of the total assumed annual debt service.

The unified school district would also become responsible for planning for future capital projects and for securing funds, including required local funds, to pay for new school construction or upgrades, and for major maintenance projects. It is unlikely that the new borough would be able to bond for major school capital projects. Therefore, it is assumed that the district would seek to take advantage of the State's school construction and maintenance project grants.

As a municipal school district, the new district would become responsible for the participating share toward state capital grants for school construction and major maintenance. AS 14.11.008(b) specifies the participating share of qualifying project costs that a municipal school district must contribute to qualify for state school construction and major maintenance grant funds. In a given fiscal year, the local

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district's participating share is fixed by the placement of the district's FVD divided by its Average Daily Membership (ADM) along the sliding scale shown in Table 8.

Because its FVD per capita is below \$250,000, the unified school district's participating share would be 10 percent rather than the 30 percent that would now be required of the City School District.

**Table 8**  
**Municipal School District Participating Share for State Grants for School Construction and Major Maintenance**

<b>FVD per ADM</b>	<b>District Participating Share</b>
\$1 – \$150,000	5 percent
\$150,001 – \$275,000	10 percent
\$275,001 – \$800,000	30 percent
over \$800,000	35 percent

Source: AS 14.11.008(b).

### **Assessment and Collection of Taxes**

Assessment and collection of areawide property and sales taxes is a mandatory power of home rule boroughs. However, the borough is not expected to levy areawide property or sales taxes. Therefore, it is assumed that by mutual agreement the cities that levy property or sales taxes will continue to administer those functions without the involvement of the borough. This is the practice in several other boroughs that do not levy such taxes but include cities that do.

### **Planning, Platting, and Land Use Regulation**

It is assumed the borough is will focus initially on regional development planning and areawide exercise of the platting function, and will delegate other local planning and land use regulation to cities wishing to exercise those powers.

#### **D. Projected Revenues and Expenditures for Example Year and for Non-recurring Start-up Costs**

For purposes of this preliminary assessment of financial feasibility, we developed an example budget with revenues and expenditures for a typical year. We also identified certain non-recurring expenses and revenues associated with borough start-up period. For comparability and to nullify the effect of inflation, all dollar figures are in current (2012) dollars.

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## ***Potential Sources of Borough Revenues***

### **Rejected Options**

Two potential locally generated sources of revenue for a Western Bristol Bay Borough, an areawide property tax and an areawide sales tax, were examined and rejected.

#### **1. Property Tax**

The City of Dillingham is the only local government in the Western Bristol Bay region that levies a tax on real and personal property. Per City of Dillingham Ordinance No. 2011-05 (Amendment A), the FY 2012 mill rate is currently set at 13 mills.

The imposition of a boroughwide property tax was rejected on the grounds of financial feasibility and fairness. The cost of developing and maintaining a property tax roll for areas outside the City of Dillingham cannot be justified in terms of the very limited revenue that would accrue. Large tracts of land are owned by the federal and State governments, including the Wood-Tikchik State Park and the Togiak National Wildlife Refuge, and by regional and village ANCSA corporations, and are generally exempt from local property taxes. Moreover, imposing a property tax is fundamentally unfair in villages where a large share of land is held under restricted title and is therefore not subject to municipal taxation.

#### **2. Sales Tax**

Sales taxes are currently an important source of municipal revenue for several cities in the region, including the City of Dillingham (6 percent), Aleknagik (5 percent), Clark's Point (5 percent), Manokotak (2 percent) and Togiak (2 percent).

The feasibility of layering a borough sales tax on top of existing municipal sales taxes was examined and rejected on the grounds that it would impose too high a tax burden on households in the region. Given relatively high existing municipal sales tax rates, particularly in Dillingham, Aleknagik and Clark's Point, the amount of additional revenue that could feasibly be derived from this source is very limited. Furthermore, second class cities have very few alternative sources of municipal revenue available to provide a broad range of local government services. It would not be possible for them to defer local sales taxes in favor of a new borough which does not propose to provide those city services on an areawide basis. Dillingham is also heavily dependent on sales taxes, which are currently the City's largest single source of revenue.

If a Western Bristol Bay Borough levied a 2 percent areawide sales tax, Dillingham taxpayers would pay the highest sales tax rates in the State. Furthermore, the new borough would be required to assume areawide responsibility for administering the assessment and collection of sales taxes levied by local governments within its boundaries.

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## Potential Locally Generated Revenue Options

### 1. Raw Fish Tax

#### a. Background

A raw fish tax is a form of sales tax. It is typically collected by the buyer at the time of sale and is applied to all fish caught or harvested within the boundaries of the levying jurisdiction, regardless of the location of the actual sale.

Raw fish taxes are a primary source of borough revenue in the Bristol Bay and Alaska Peninsula / Aleutians region. The Bristol Bay Borough levies a 4 percent raw fish tax plus a local property tax. The Lake and Peninsula Borough and the Aleutians East Borough both levy a 2 percent raw fish tax as their main source of municipal revenue. In Western Bristol Bay, the City of Togiak currently levies a 2 percent raw fish tax, while the City of Dillingham proposes to levy a 2.5 percent raw fish tax.

Raw fish taxes work well as a source of municipal revenue in areas with major fishery resources. However, in the Bristol Bay region, salmon runs fluctuate widely from year to year. Similarly, prices paid for the region's salmon catch also fluctuate according to availability and demand for the product. In particular, competition from farmed salmon has served to depress prices for Alaska wild salmon over the past 20 years. As a result, a raw fish tax is a much less stable and predictable revenue source than property taxes which, barring a major disaster, typically increase from year to year.

There are two commercial salmon fishery districts in the Western Bristol Bay region. The Nushagak District, centered on Nushagak Bay, has boundaries that coincide with the area recently annexed by the City of Dillingham. The Togiak District extends from Cape Newenham to the eastern side of Kulukak Bay. Togiak Bay is within the boundaries of the City of Togiak. Both districts are within the Bristol Bay fishery management area.

In 2010, the total salmon catch in the Nushagak District was 10,203,647 fish (Table 10). Slightly over 80 percent of the catch were sockeye salmon, about 14 percent were pinks and most of the remainder (almost 5 percent) were chums. The total salmon catch from the Togiak District was 862,240 fish. Almost 78 percent were sockeye salmon and most of the rest (about 14 percent) were chums.

By contrast, preliminary 2011 figures indicate a total salmon catch from the Nushagak District of 5,328,833 fish, only about 52 percent of the 2010 total. One factor is the lack of pink salmon in odd years. However, the 2011 commercial sockeye harvest was only about 60 percent that of the previous year. Furthermore, it was 27 percent below the Alaska Department of Fish and Game's forecast.

Preliminary 2011 figures (876,080 fish) for the overall salmon catch in the Togiak District were slightly higher than 2010 (862,240 fish), including 747,727 sockeye

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salmon. It was the only Bristol Bay district that exceeded expectations in 2011, with a sockeye run 9 percent higher than the State forecast.

The Togiak area also has Alaska's largest herring fishery. The Togiak Herring Fishing District covers an approximately 119 square mile area between Cape Newenham in the west and Cape Constantine in the east and south to a line extending west from Cape Menshikof on the Alaska Peninsula. It is a highly seasonal fishery, typically taking place over a 1-2 week period in May.

The total allowable herring harvest is limited to 20 percent of the estimated biomass. A small amount is allocated to a Togiak spawn-on-kelp fishery, although this fishery is seldom utilized. Seven percent of the remainder is allocated to the Dutch Harbor food/bait fishery which takes place outside the immediate Togiak area. The remaining allowable harvest is allocated to the Togiak sac roe fishery. This fishery is managed so that 70 percent of the catch is taken by purse seine (18,134 tons in 2010) and 30 percent by gillnets (7,772 tons in 2010). There are usually about a half dozen processors on the grounds and the processing capacity effectively limits the daily catch.

The total ex-vessel value of the Togiak herring fishery was estimated by the Alaska Department of Fish and Game at about \$3.8 million in 2010 and \$2.3 million in 2011. About half of the biomass in 2011 was recorded in Togiak Bay.

The Department considers the Togiak herring population to be stable. However, there are still significant fluctuations from year to year, with annual biomass estimates since 1990 ranging from 83,000 tons in 1991 to 194,000 tons in 1993. The forecasted 2012 biomass is 123,745 tons, about 16 percent below the recent 10-year average.

#### b. Potential Fish Tax Revenue

Projecting annual tax revenues to be derived from a resource that shows wide fluctuations from year to year is a hazardous exercise. It will be necessary for a local government dependent on those revenues to budget wisely in "good" years and hold funds in reserve for the "bad" years that will surely come.

With the above limitations in mind, the 2000-2009 and 1990-2009 ten and twenty-year averages for the different salmon species caught in the Nushagak (Table 10) and Togiak (Table 11) districts were taken and 2010 weights and values were applied to those averages to derive a "most probable" estimate of fish tax revenues that might be generated. Using a ten-year average, it is estimated that a 1 percent raw fish tax on the Nushagak and Togiak salmon fisheries would yield \$374,110 and \$36,407 per year respectively, for a combined total of \$410,517. Using a twenty-year average, a 1 percent raw fish tax on the same salmon fisheries would result in slightly lower annual revenues of \$308,627 and \$31,804, and a combined total of \$340,431.

Potential fish tax revenue from the Togiak herring fishery was derived by using the average sac roe harvest between 1990 and 2009 of about 21,000 tons, worth an

average of about \$5.4 million per year according to the Alaska Department of Fish and Game. The application of a 1 percent raw fish tax could therefore be expected to yield approximately \$54,000 per year.

Since 1998, the International Pacific Halibut Commission has permitted commercial halibut boats fishing for certain Community Development Quota (CDQ) organizations in Area 4E to retain and sell undersized halibut. In 2010, ten Bristol Bay Economic Development Corporation CDQ fishermen landed 245 undersized halibut weighing a total of 2,155 pounds, primarily at Togiak, plus a minor amount delivered at Naknek. None were delivered to Dillingham, although this has happened in prior years. The CDQ halibut catch is considered to be a subsistence fishery by the International Pacific Halibut Commission and is not considered here.

In projecting "probable" fish tax revenues that could be expected to accrue to a Western Bristol Bay Borough, the more conservative 20-year average salmon catch figures were used for the purposes of this analysis. Including the Togiak area, a 1 percent fish tax could be expected to generate about **\$394,431** in annual revenue from salmon and herring catches. Excluding the Togiak area, the same level of taxation would generate about \$308,627 annually.

**Table 9**

**Commercial Salmon Catch by District and Species, Nushagak and Togiak Districts, 2010 (Numbers of fish)**

River System	Sockeye	Chinook	Chum	Pink	Coho	Total
Nushagak District						
Wood River	5,813,715					
Igushik River	836,767					
Nushagak River	1,658,801					
Total	8,309,283	25,580	509,628	1,289,970	69,186	10,203,647
Togiak District						
Togiak Section	541,953	4,684	105,646	38,293	20,409	710,985
Kulukak Section	128,038	398	18,057	1,441	3,321	151,255
Matogak Section	0	0	0	0	0	0
Osviak Section	0	0	0	0	0	0
Total	669,991	5,082	123,703	39,734	23,730	862,240
Combined Total	8,979,274	30,662	633,331	1,328,704	92,196	11,065,887

Note: Species other than sockeye salmon are not apportioned to individual rivers.

Source: ADF&G, April 2011.

**Table 10****Commercial Salmon Catch by District and Species, Nushagak District, 10 and 20 Year Averages (Numbers of fish)**

Time Period	Sockeye	Chinook	Chum	Pink	Coho	Total
1990-99 Average	4,181,807	60,861	335,844	52,470	16,258	4,647,240
2000-09 Average	6,775,834	44,386	651,303	48,392	39,251	7,559,166
20-Year Average	5,478,820	52,624	744,852	50,431	27,754	6,354,481
2010 Catch	8,309,283	25,580	509,628	1,289,970	69,186	10,203,647

Source: ADF&amp;G, April 2011.

**Table 11****Commercial Salmon Catch by District and Species, Togiak District, 10 and 20 Year Averages (Numbers of fish)**

Time Period	Sockeye	Chinook	Chum	Pink	Coho	Total
1990-99 Average	419,703	10,384	155,666	41,800	25,339	652,892
2000-09 Average	610,237	7,222	162,092	45,091	3,129	827,771
20-Year Average	514,970	8,803	141,371	43,446	14,234	722,824
2010 Catch	669,991	5,082	123,703	39,734	23,730	862,240

Source: ADF&amp;G, April 2011.

Estimated Annual Revenue Per 1 Percent Raw Fish Tax: \$394,431**2. Bed Tax**

A bed tax is a form of sales tax that is widely used by city and borough governments in Alaska. In Western Bristol Bay, the City of Dillingham and the City of Aleknagik currently levy 10 percent and 5 percent bed taxes respectively. The nearby Lake and Peninsula Borough levies a 6 percent tax and Bristol Bay Borough has a 10 percent bed tax.

Provided that some accommodation could be worked out with Dillingham, Aleknagik and other incorporated cities, an areawide bed tax is a potential source of revenue for a Western Bristol Bay Borough. The City of Dillingham currently receives about \$80,000 annually from this source.

The world class sport fishing opportunities available in the region, particularly on the Nushagak River system, have encouraged the establishment of a significant number of remote fishing lodges catering to a worldwide clientele. A bed tax could not generate enough revenue to be the primary source of funds to support a future Western Bristol Bay Borough. However, it could provide a relatively consistent source of supplementary funds.

There is considerable variety in the types of remote lodge facilities in the region, ranging from tent camps to relatively luxurious accommodations. Each lodge operator offers a variety of fishing and, in some cases, hunting packages at prices ranging up to \$7,650 per person per week for fishing trips. The fishing operations are highly seasonal, generally coinciding with the king and silver salmon runs.

A list of lodge facilities located outside Dillingham was culled from online sources and is probably incomplete (Table 12). Given the range of packages offered, it is difficult to determine exactly how much revenue a bed tax might generate.

According to the State Assessor (ADCCED, 2011), the Lake and Peninsula Borough's 6 percent bed tax generated \$141,812 in FY 2010, while the Bristol Bay Borough's 10 percent bed tax generated \$92,863. Given the similarities in the types of lodge operations in these areas, it is calculated that a 10 percent bed tax levied by a Western Bristol Bay Borough would generate at least **\$100,000** per year from areas outside the City of Dillingham.

Estimate Annual Bed Tax: \$100,000

**Table 12**  
**Lodge Operations Outside the City of Dillingham, Western Bristol Bay Area, 2011**

<b>Name of Lodge / Camp</b>	<b>Location</b>	<b>Advertised Rates Per Person</b>
Alaska King Salmon Adventures	Nushagak River	\$3,195 for guided king salmon fishing package (June / July)
Alaska's Legend Nushagak King Salmon Camp	Nushagak River, 20 miles upriver from Dillingham	3 days at Nushagak Camp plus 3 days at Lodge (outside area) - \$2,899
Aleknagik Island Lodge	Wood River / Tikchik Lakes	Lodge with 5 guest rooms. Rates for 6 nights / 5 days \$3,595
Aleknagik Schoolhouse Inn	Aleknagik	\$150 plus tax single per night; \$250 plus tax double per night
Alla's Lodge	New Stuyahok	\$4,000 for 8 days plus \$200-\$300 per day for guiding services

**Table 12****Lodge Operations Outside the City of Dillingham, Western Bristol Bay Area, 2011**

<b>Name of Lodge / Camp</b>	<b>Location</b>	<b>Advertised Rates Per Person</b>
Bearclaw Lodge	Lake Aleknagik	Lodge available for 6 nights / 5 days of fishing but 3-4 day packages also available. Lodge also operates the Nushagak King Camp, a tent operation, in June/July. Rates unknown
Bristol Bay Adventures – Nushagak River Lodge	Nushagak River	\$3,000 - \$3,550 for 5-7 days, king salmon season; \$3,250 for 5 days, silver salmon season
Bristol Bay Lodge	Lake Aleknagik	Lodge / cabins accommodate up to 26 guests. Also 2 outpost camps. Rates, \$7,650 per week. Open June 23 – September 8.
Fishing Bear Lodge	Wood River / Tikchik Lakes	Cabins. Rates 6 days / 6 nights, \$3,950
Ketok Lodge	Koliganek	Lodge and guided fishing tours. Rates unknown
Koliganek Lodge	Koliganek	Services and rates unknown
L & P Enterprises	Ekwok	Guided fishing and hunting trips. Rates unknown
McCanna's Fish On Lodge	Nushagak River	Offers king salmon silver salmon and rainbow / grayling / pike trips for 5, 7 and 9 nights. Prices range from \$1,500 to \$2,300
Nushagak Paradise Lodge	Nushagak River	King salmon (June 13 – July 15) and silver salmon (July 24 – August 20) packages. Rates unknown except that a four-person unguided package costs \$6,500
Nushagak River Camp	Nushagak River	Tent operation for king (June 19 – July 31) and silver (July 18 – September 15) salmon. Rates range from \$2,000 for 3 nights to \$3,950 for 6 nights
Nushagak River Fishing Lodge	Nushagak River	King salmon (June 15 – July 17) and silver salmon (July 24 – September 2) packages. Rates \$3,895 to \$3,995, depending on package

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**Table 12****Lodge Operations Outside the City of Dillingham, Western Bristol Bay Area, 2011**

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<b>Name of Lodge / Camp</b>	<b>Location</b>	<b>Advertised Rates Per Person</b>
Nushagak Wilderness Lodge	Nushagak River	Tent operation. 6 night guided fishing package rate \$2,995; 6 night unguided package rate \$1,600
Northern Wilderness Adventures	Nushagak River	Tent operation. Rates unknown
Royal Coachman Lodge	Nuyakuk River	Lodge and cabins. Can accommodate groups of up to 12 people. Rates, \$7,450 per week
Tikchik Narrows Lodge	Wood River / Tikchik Lakes	Main lodge plus 7 duplex cabins. Rates, \$7,400 per week. Open June 23 through September 15
Togiak Outfitters	Togiak	Guided fishing, eco-tourism and camping operations. Rates unknown
Togiak River Lodge	Togiak River, 6 miles from Togiak Bay	6 double occupancy guest rooms. Rates are \$2,600 for 3-day package; \$4,250 for 5-day package; \$4,400 for 7-day package
Williams Guides & Kennels	Ekwok	Lodge. Guided (\$3,200) and unguided (\$1,600) fishing packages for 6 days / 5 nights. Hunting packages for brown bear (\$12,500) and moose (\$11,500)

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Source: Operator web sites.

### 3. Severance Tax

No significant revenue is projected to accrue immediately from a severance tax levied on mineral and oil and gas resources in the Western Bristol Bay region. However, the region does have some potential for mineral and oil and gas development. It is recommended that a new borough in this region make provision for the collection of revenues from those resources prior to any development activities. At its discretion, a new borough may decide if it wishes to exclude the extraction of sand / gravel resources under its severance tax ordinance.

### 4. Municipal General Grant Land

Under AS 26.65.030, newly incorporated municipalities are entitled to select "10 percent of the maximum total acreage of vacant, unappropriated, unreserved [state] land within the boundaries of the municipality between the date of its incorporation and two years

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after that date.” The process by which municipalities may obtain their state land grants are more fully described in AS 29.65.

The potential value of the prospective borough’s state grant land entitlement, and the ability of the borough to convert that value into cash income at any future date, are very uncertain and are therefore ignored for the present analysis.

### **Other Sources of Revenue**

In addition to revenues generated from sources within the region, a Western Bristol Bay Borough would also receive federal and State funds under several different programs. These include the PILT (Payment in Lieu of Taxes) program administered by the U.S. Department of the Interior, the State Shared Revenue program administered by the Alaska Department of Commerce, Community and Economic Development, and several shared taxes and fees programs administered by the Alaska Department of Revenue. In addition, newly formed boroughs and unified municipalities are entitled to receive organizational grants from the State.

#### **1. State Organizational Grant**

Under the provisions of AS 29.05.190, a borough incorporated after December 31, 1985 is entitled to receive organizational grants totaling \$600,000 over three years to help defray the cost of transition to borough government and to provide for interim governmental operations. The initial grant is \$300,000 for the first full or partial fiscal year; the next is \$200,000 for the second fiscal year; and the last is \$100,000 for the third fiscal year.

Although a State Organizational Grant is not a long-term source of municipal revenue, it can and does play an important role in helping a new borough get through the initial organizational period.

#### **2. Payment in Lieu of Taxes (PILT) program**

Under the PILT program, payments are made by the U.S. Department of the Interior to local governments to help offset losses in property taxes because of non-taxable federal lands within their jurisdiction. In Alaska, the payments are made directly to organized boroughs, regardless of whether or not they levy property taxes. Payments for “counties” (i.e. census areas) in the unorganized borough are made to the State, which then allocates them to city governments.

In FY 2010, the PILT entitlement for the Dillingham Census Area was \$799,182, based on the existence of 3,012,370 acres of federal land, most of it in the Togiak National Wildlife Refuge, within the census area. Because there is no organized borough in the census area, the funds were distributed by the State to seven cities. Dillingham received \$411,446, the City of Togiak received \$140,596, and the cities of Clark’s Point,

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Aleknagik, Ekwok, Manokotak and New Stuyahok shared the remainder. The FY 2011 PILT entitlement for the Dillingham Census Area is \$814,050.

If a Western Bristol Bay Borough was incorporated, it would receive all PILT funds allocated to what is now the Dillingham Census Area. On that basis, a new borough could expect at least **\$800,000** per year from this source.

The long term viability of the PILT program is not assured. With scheduled major budget cuts in federal government spending, this program could very well disappear in the not too distant future. Thus, while it is an important potential source of borough funds, it would not be wise to depend on it in the long term.

Estimated Annual PILT Payment: \$800,000

### 3. Community Revenue Sharing

The State Community Revenue Sharing program is an important source of local government funds in Alaska. The program is currently forward funded at the rate of \$60 million per year by the State Legislature and deposited in the Community Revenue Sharing Fund per AS 29.60.850. The program is fully funded through FY 2013, with reduced amounts available for FY 2014 and 2015. However, the current Administration is supportive of the program and an additional \$60 million in the Governor's FY 2013 budget. As a result, the program's availability as a source of local government assistance seems assured, at least in the short term.

At current funding levels, all boroughs (except for unified home rule boroughs which receive a higher amount) receive a base allocation of \$384,000 per year for FY 2012. To that amount is added a per capita formula based on the amount of funds unexpended after base payments to cities, boroughs and unincorporated communities are made. For FY 2012, that amount is \$49.71 per capita. However, a borough only receives the additional amounts for persons living outside the boundaries of incorporated cities. According to the 2010 Census, only 353 people in the Dillingham census area fell into this category. When the per capita formula is applied, the total amount that a new Western Bristol Bay Borough could currently anticipate receiving would be **\$401,548** per year.

Estimated Annual Community Revenue Sharing: \$401,548

### 4. Other State-Shared Revenue Programs

The Alaska Department of Revenue operates several shared taxes and fees programs. A Western Bristol Bay Borough could expect to share in several of those programs, including the Fisheries Business Tax (AS 43.75.130), Fishery Resource Landing Tax (AS 43.77.060), Electric Cooperative Tax (AS 10.25.570), and Telephone Cooperative Tax (AS 10.25.570) programs.

a. Fisheries Business Tax. Half of the fisheries business tax collected by the State is shared with the municipalities where the fish resources were processed. When processing occurs within a city in an organized borough, the 50 percent local share is split between the city and the borough. Where processing occurs outside an incorporated city, the entire 50 percent local share goes to the borough.

However, for boroughs incorporated after June 16, 1987, the percentage of Fisheries Business Tax to which a new borough is entitled phases in according to a sliding scale. In the calendar year that it is incorporated, a new borough is entitled to 5 percent of the taxes collected. In successive years, the borough's entitlement rises to 10 percent, 15 percent and 20 percent, until by the fifth year it is eligible for its full 25 percent entitlement. State law also includes a provision for cities to be able to transfer a portion of their funds to a new borough should they choose to do so.

The total amount paid out under this program to Alaska cities and boroughs over the past five years ranged from a low of \$16,079,365 in FY 2007 to a high of \$22,216,898 in FY 2011. Three cities in Western Bristol Bay – Clark's Point, Dillingham and Togiak – received funds, averaging a combined annual total of \$387,805 over the five-year period (Table 13). If those cities were located in a borough, they would eventually receive only half that amount. However, because of the "phase-in" requirement, the new borough would initially receive about \$38,780, increasing to \$77,560 in year 2, \$116,340 in year 3, and \$155,120 in year 4. In the fifth year, it would receive its full annual entitlement of **\$193,902**.

**Table 13**

**State Fisheries Business Tax Shared Revenue, Western Bristol Bay Communities, FY 2007 – FY 2011**

	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
City of Clark's Point	\$134,862	\$113,191	\$100,787	\$53,989	\$50,510
City of Dillingham	183,743	176,261	187,259	238,589	446,588
City of Togiak	37,620	40,784	42,595	46,940	85,308
<b>Total</b>	<b>\$356,225</b>	<b>\$330,236</b>	<b>\$330,641</b>	<b>\$339,518</b>	<b>\$582,406</b>

Source: Alaska Department of Revenue.

It should be noted that the Fisheries Business Tax payments vary significantly from year to year, depending on the amount of fish caught and processed. For example, in the FY 1997 – FY 2011 period, payments to the City of Dillingham ranged from a "low" of \$176,261 in FY 2008 to a "high" of \$446,588 in FY 2011.

Estimated Annual Fisheries Business Tax: \$193,902

b. Fishery Resource Landing Tax. Under this program, a borough receives half of the tax revenue collected under this chapter on fishery resources landed in areas outside

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cities. For tax revenue collected from landings in cities within its boundaries, the borough's share drops to 25 percent.

There is a sliding scale of eligibility for boroughs incorporated after January 1, 1994, with 5 percent of the tax revenue collected going to the borough in the first year and increasing incrementally to 25 percent by year five. However, the amount of revenue that would accrue to a Western Bristol Bay Borough would be very small, even at its full entitlement.

Togiak is currently the only city in the region to receive funding under the Fishery Resource Landing Tax program. The amounts it has received are small and have fluctuated widely. During the five-year period from FY 2007 to FY 2011, Togiak received as little as \$455 in FY 2010 and as much as \$15,782 in FY 2008. Even if an average of \$5,072 is used, a new borough in the region would receive no more than **\$2,536** by year five from this source.

Estimated Annual Fisheries Resource Landing Tax: \$2,536

c. Electric Cooperative Tax. Proceeds from the State's electric cooperative tax, minus collection expenses, are refunded to cities and boroughs, with boroughs receiving funds only for areas outside cities. Two electric cooperatives, Nushagak Electric and Telephone Cooperative (Dillingham, Aleknagik, Clark's Point, Ekuk, Manokotak and Portage Creek) and the Alaska Village Electric Cooperative (Ekwok, New Stuyahok and Togiak), currently serve most communities in the region.

In FY 2011, a combined total of \$11,143 was received by the cities of Aleknagik, Dillingham, New Stuyahok and Togiak under this program. Funds received by a new borough in Western Bristol Bay would not come from any city entitlement as they currently go to the State's general fund. However, the funding level would be very modest and unlikely to exceed **\$500** per year.

d. Telephone Cooperative Tax. This program is operated in the same manner as the Electric Cooperative Tax. Cities in the Western Bristol Bay region that currently receive funding under this program are those served by Nushagak Electric and Telephone (Dillingham, Aleknagik, Clark's Point and Manokotak). In FY 2011, eligible cities in Western Bristol Bay collected a combined total of \$73,693 from this source.

A new borough in Western Bristol Bay would receive a limited amount of funding under the Telephone Cooperative program, based on taxes collected on areas outside incorporated cities. The amount collected would likely be slightly higher than that from the Electric Cooperative Tax program, but unlikely to exceed **\$1,000** per year.

Estimated Annual Electric and Telephone Cooperative Tax: \$1,500

## Estimated Total Borough Revenues

Table 14 presents estimates of total borough revenues for raw fish tax rates ranging from three to five percent. All other revenue sources are kept constant. Also, the revenue estimate omits federal and state revenues that must be dedicated for borough school district support. In the following section, these varying revenues estimates will an example year borough budget to determine what level of raw fish tax is required for the borough to be financially feasible.

**Table 14**  
**Estimated Western Bristol Bay Borough Revenues at Three Alternative**  
**Raw Fish Tax Rates**

<b>Estimated Revenues</b>	<b>3 Percent Raw Fish Tax</b>	<b>4 Percent Raw Fish Tax</b>	<b>5 Percent Raw Fish Tax</b>
<b>Local Revenues</b>			
Raw fish taxes	\$1,183,293	\$1,577,724	\$1,972,155
Bed tax	100,000	100,000	100,000
Subtotal	1,283,293	1,677,724	2,072,155
<b>State and Federal revenues</b>			
PILT payment	800,000	800,000	800,000
Community Revenue Sharing	401,548	401,548	401,548
Fisheries Business Tax	193,902	193,902	193,902
Fisheries Resource Landing Tax	2,536	2,536	2,536
Electric/Telephone Tax	1,500	1,500	1,500
Subtotal	1,399,486	1,399,486	1,399,486
<b>Total Revenues</b>	<b>\$2,682,779</b>	<b>\$3,077,210</b>	<b>\$3,471,641</b>

## **Example Year Expenditures Budget and Explanation**

The example annual expenditure budget (Table 15) assumes that the borough will exercise a limited range of powers, initially prioritizing the areawide powers of education and regional development planning, plus advocacy for the region before state and federal governments. As the borough is not expected to levy areawide property or sales taxes, it is assumed that by mutual agreement the cities that levy property or sales taxes will continue to administer those functions. It is also assumed that the borough will delegate local planning functions to cities wishing to exercise that function. Subject to its goals for borough government and available revenues, the borough may decide to exercise additional powers in the future.

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The example budget assumes an elected seven-member assembly, meeting monthly, with an assembly member selected to serve as major. It also assumes an appointed seven-member Planning Commission, meeting bi-monthly.

The example budget assumes a minimum staff, consisting of a half-time borough manager, a full-time borough clerk/finance manager, and a full-time regional planner/grant writer, all based in Dillingham. Depending on borough priorities and the administrative workload, this staff structure could be reconfigured or partly contracted out. Additional staff may be added in the future, if the borough elects to exercise additional powers.

Expenditures consistent with the level of borough operations characterized above are itemized below. The current budgets of the Lake and Peninsula Borough, the Bristol Bay Borough, and the City of Dillingham were reviewed as a basis for establishing reasonable expenditure levels.

The example budget addresses only ongoing expenditures. It does not include non-recurring start-up costs and revenues.

### **Mayor and Assembly**

The seven assembly members, including the mayor, each receive a monthly stipend of \$300 (\$3,600 yearly), with an additional 35 percent benefits expense, for a total of \$34,020.

### **Planning Commission**

Planning commission members receive a meeting stipend of \$100 per meeting.

### **Borough Staff**

Borough staff personnel costs were calculated at \$182,000 in salaries, plus 35 percent benefits expense (\$63,700) for a total personnel cost of \$245,700.

Half-time professional manager @ \$42,000 yearly

Full-time borough clerk/finance manager @ \$75,000 yearly

Full-time regional planner/grant writer @ \$65,000 yearly

### **Legal Support**

The budget assumes that the borough will contract for legal support services on an as-needed basis at \$25,000 annually.

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## **Travel expenses**

For purposes of the example budget, the assembly and planning commission are assumed to meet in Dillingham usually, but in another community occasionally. Three members of each body are assumed to reside in Dillingham. Allowance is included for staff attendance at meetings outside Dillingham. Average intra-regional roundtrip airfare is set at \$250. For travel away from home, lodging expense is estimated at \$120 daily, plus 1.5 days per diem at \$30 daily. Additionally, allowance is made for eight trips to Anchorage or Juneau at average roundtrip airfare of \$600, plus 16 days lodging and per diem expenses.

If the borough was able to make use of teleconferencing facilities, intra-regional travel costs might be reduced.

## **Rent & utilities**

This budget item assumes the borough will rent its own office space. There might be substantial savings, if the borough was able to share office space and support services with the school district.

## **Office equipment and supplies**

This item covers the ongoing cost of maintaining and replacing office equipment, computers, telecommunications equipment, etc.

## **Telecommunications services**

This item, estimated at \$1,500 per month, covers the ongoing costs of telecommunications services and equipment. Use of school district teleconferencing facilities, if practical, might increase this cost, but achieve offsetting savings in travel expenses.

## **Insurance**

As the borough will own limited facilities and equipment, the allowance for insurance beyond that provided in personnel benefits is modest.

## **Contractual services**

This item provides for essential contractual services such as borough lobbyist, audits and professional planning contractual services.

## **Transfer to school district operations and capital projects**

The example budget shows the annual required contribution the borough is required to transfer to school district operations to qualify for Foundation Program funds. The

budget also includes a supplementary hold-harmless contribution of \$565,000 to maintain existing funding levels for Dillingham schools.

The capital project expense partly represents the borough's assumed responsibility for the City of Dillingham's 30 percent share (approximately \$350,000 yearly) of the annual payment toward its outstanding school debt, with the other 70 percent paid by the State of Alaska.

Additional allowance is made for the borough's 10 percent participating share of future school construction or major maintenance projects funded by state capital grants. The actual amount of future state grants is unknown. The example budget assumes an average annual borough commitment of \$400,000, which would match an average annual state grant of \$3,600,000. Together, these amounts would fund an annual average of \$4,000,000 in school capital projects.

**Table 15**

**Example Annual Expenditure Budget, Western Bristol Bay Borough**

<b>Operating expenditures</b>	
Mayor and Assembly	\$34,020
Planning commission	4,200
Borough staff	245,700
Legal support	25,000
Travel	37,080
Rent and utilities	48,000
Office equipment and supplies	4,000
Telecommunication services	18,000
Insurance	12,000
Contractual services	75,000
Subtotal	\$503,000
<b>Education expenditures</b>	
Required contribution to borough school district operations	895,598
Dillingham schools hold-harmless supplement	565,000
School district capital projects	750,000
Subtotal	\$2,210,598
<b>Total Expenditures</b>	<b>\$2,713,598</b>

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## ***Financial Feasibility***

Financial feasibility depends on a Western Bristol Bay Borough's ability to secure a reliable surplus of revenues over expenditures, while accumulating sufficient reserves to weather occasional revenue shortfalls. The example annual expenditure budget (Table 15), after adjustments to offset in-region revenue changes due to borough incorporation (Table 16), can be matched with the revenue scenarios for alternative raw fish tax rates (Table 14) to determine the required local tax revenues needed for feasibility (Table 17).

### **In-Region Revenue Adjustments**

Borough incorporation, with unification of the Dillingham City School District and the SWR REAA into a borough school district, would relieve the City of Dillingham of the burden of supporting its local school system.

Borough incorporation would also redirect the flow of certain local and intergovernmental revenues from city and tribal governments to the new borough. This feasibility assessment assumes that any borough areawide raw fish tax would be in place of, not in addition to, Togiak's existing 2 percent raw fish tax and the 2.5 percent raw fish tax that the City of Dillingham would collect if its annexation of Nushagak Bay were finalized. Moreover, federal PILT payments, now allocated to city governments, would go the borough instead of the cities after borough incorporation. Similarly, state fish business taxes, which are now shared among the cities, would be split between the borough and cities.

As matters stand as of January 2012, the Local Boundary Commission has approved the City of Dillingham's petition to annex Nushagak Bay, subject to approval by city voters. If annexation is approved, the City intends to levy a 2.5 percent raw fish tax. The Native Village of Ekok has a pending appeal of the Local Boundary Commission's decision. If Dillingham's annexation is finally implemented, and the 2.5 percent raw fish tax levied, the City of Dillingham, in its annexation petition, estimates that its raw fish tax levy would raise about \$711,000 annually in new revenue in FY 2013 (City of Dillingham, 2011).

Table 16 summarizes the estimated in-region revenue adjustments related to borough incorporation. Borough incorporation would relieve the City of Dillingham of \$1,550,000 in annual school expenses, but also cause loss of \$1,244,300 in presumptive raw fish tax revenues, PILT payments, and fisheries business taxes, for a net yearly gain of \$305,700 for the City.

The City of Togiak would lose about \$252,300 annually in raw fish taxes, PILT payments, and fisheries business taxes. Other communities would lose about \$249,000 in PILT payments, and the City of Clark's Point would lose \$45,400 in fisheries business taxes. As explained below, the borough feasibility assessment assumes that the borough would employ some means to compensate adversely affected communities for

these revenue losses so that the communities would not experience actual loss of revenue from borough incorporation.

**Table 16**  
**In-Region Revenue Adjustments Related to Borough Incorporation**

<b>Revenue Adjustments</b>	<b>Dillingham</b>	<b>Togiak</b>	<b>Others</b>	<b>Total</b>
Schools – operating	\$1,200,000	\$0	\$0	\$1,200,000
Schools – debt service	\$350,000	\$0	\$0	\$350,000
Raw fish tax revenues	(\$711,000)	(\$86,000)		(\$797,000)
PILT payments	(\$410,000)	(\$141,000)	(\$249,000)	(\$800,000)
Fisheries Business Tax	(\$123,300)	(\$25,300)	(\$45,400) <sup>1</sup>	(\$194,000)
<b>Net Revenue Adjustments</b>	<b>\$305,700</b>	<b>(\$252,300)</b>	<b>(\$294,400)</b>	<b>(\$241,000)</b>

Note:

1. Clark's Point would lose half (\$45,400) of its fisheries business tax revenue.

### **Conclusions Regarding Financial Feasibility**

Table 17 combines selected financial information from the three previous tables to determine the raw fish tax rate that would be required to make a Western Bristol Bay Borough financially feasible. The feasibility assessment assumes that the borough would employ some means to offset the loss of any local governmental revenues losses redirected to the borough as a result of borough incorporation. It is assumed that the City of Dillingham would retain any revenue gains accruing to it from borough assumption of the areawide education power.

Based on the assumptions specified in this report and the figures in Table 17, it appears that:

- with a 3 percent areawide raw fish tax, a Western Bristol Bay Borough would have a negative balance of \$578,519 annually, and would not be financially feasible.
- with a 4 percent areawide raw fish tax, a borough would have a negative balance of \$183,088 annually, and would fall short of financial feasibility.
- with a 5 percent areawide raw fish tax, a borough would have a positive balance of \$211,343 annually; this surplus would enhance the borough's year-to-year financial stability and enable it to accumulate some financial reserves against the possibility that revenues fell substantially below an average year.

**Table 17****Estimated Western Bristol Bay Borough Revenues and Expenditures at Three Raw Fish Tax Rates**

	<b>3 % Raw Fish Tax</b>	<b>4% Raw Fish Tax</b>	<b>5% Raw Fish Tax</b>
<b>Revenues (from Table 14)</b>	<b>\$2,682,779</b>	<b>\$3,077,210</b>	<b>\$3,471,641</b>
<b>Expenditures (from Table 15)</b>	<b>\$2,713,598</b>	<b>\$2,713,598</b>	<b>\$2,713,598</b>
<b>Revenues less Expenditures</b>	<b>(\$30,819)</b>	<b>\$363,612</b>	<b>\$758,043</b>
<b>In-region Revenue Losses (from Table 16)</b>			
Togiak	(\$252,300)	(\$252,300)	(\$252,300)
Others	(\$294,400)	(\$294,400)	(\$294,400)
<b>Total Revenue Losses</b>	<b>(\$546,700)</b>	<b>(\$546,700)</b>	<b>(\$546,700)</b>
<b>Balance After Adjustment for In- region Revenue Loss</b>	<b>(\$578,519)</b>	<b>(\$183,088)</b>	<b>\$211,343</b>

The above conclusions must be immediately qualified by highlighting the effect of two key report assumptions on borough feasibility.

First, the report presupposes that the City of Dillingham's pending annexation of Nushagak Bay will ultimately be approved, entitling the City to levy a 2 ½ percent raw fish tax over the Bay. If, however, the annexation is rejected at local election or as a result of litigation, then the City of Dillingham would not "own" the fish tax revenues, and would not be presumed to forgo \$711,000 in annual fish tax revenues as part of borough incorporation. In that case, that amount would not count as a loss to the City (Table 16) but as an addition to the borough's available revenues.<sup>11</sup> With this revenue shift, borough incorporation would appear financially feasible with a 3 percent or 4 percent raw fish tax. Also, under these circumstances (rejection of the annexation), borough incorporation would become more advantageous to the City of Dillingham.

Second, the report assumes that the newly incorporated borough would adopt policies to (a) recompense the cities for \$546,000 in revenues that would be redirected from the cities to the borough after incorporation and (b) voluntarily continue the excess local contribution of \$565,000 that the City of Dillingham now makes to support the city

<sup>11</sup> That is to say, to the extent that annexation gives the City of Dillingham jurisdiction to levy fish tax revenues, it diminishes the financial feasibility of a Western Bristol Bay Borough.

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school system. Without these hold-harmless policies, which are not required by law, the borough would be financially feasible with a 3 percent or 4 percent raw fish tax.

Finally, it should be noted that the financial figures in this report are presented in current (2012) dollars. Information reviewed during preparation of this report suggests that the cost of local government, particularly the cost of education, has generally been rising at a steeper rate than the value of raw fish sales – the main source of borough local revenues – in the region. If this trend continues, as seems likely, it might pose future fiscal challenges for a new borough and for other local governments in the region as well.

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