Ordinance 2024-07
Calling for a special election to raise the tax revenue cap up to an additional 10 million dollars for education

Bryce J Ward, Borough Mayor
Savannah Fletcher, Assembly Presiding Officer
February 8, 2024
What does Ordinance 2024-07 do?

- Authorizes a special election to be held on April 30, 2024.
- Asks the voters to increase the tax revenue cap by $10 million to increase the local contribution to education funding in the FY 25 budget from $50 million to $60 million.
- Appropriates $125,000 from the General Fund to cover the special election cost.
- Authorizes the Borough to use resources to provide our standard election information to the public and to file with APOC if required.
Ask The Voters:

Shall the Fairbanks North Star Borough be authorized to increase its maximum allowable tax revenue for areawide taxes by $10,000,000 to fund education?
What is Tax Revenue?

Tax revenue includes taxes from any areawide source including property tax, tobacco excise tax, hotel-motel room tax, alcoholic beverage tax, or marijuana and marijuana product sales tax.
Show me the numbers, do we need this?

Over the last decade, local education funding above the required contribution has decreased by roughly $10 million.

The state of Alaska requires 2.65 mills worth of personal and real property tax to go directly to education (required local contribution to education)

The state reduces its funding to the district by the increase in local property value growth each year.

In FY 25, the district funding will be reduced by $1,304,817. The local community is expected to add to its contribution to education every year by the amount the state decreases due to the formula.

Increasing RLC leaves the school with $10 million less than a decade ago. RLC growth without correlating Local funding mean less money overall to the school district.
Last years tax revenue cap calculation

\[(A - B) + D + F = G\]

FNSBC 8.04.290

\[\text{Taxes levied in prior year} \quad \text{Debt service (minus reimbursements)} \quad \text{Consumer Price Index} \quad \text{Exclusions: (new construction or services)}\]

Max Tax Revenue for FY 25
Last years tax revenue cap calculation

\[(A - B) + D + F = G\]

FNSBC 8.04.290

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<tr>
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<td>Taxes levied in prior year</td>
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<td>B</td>
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<td>Debt service (minus reimbursements)</td>
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Maximum tax revenue: $137,620,102
Other taxes: $5,780,000
Maximum Property Tax: $131,840,102
### Last years tax revenue cap calculation

\[(A-B) + D + F = G\]

FNSBC 8.04.290

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Assumes 1.5M New Const.

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## Last years tax revenue cap calculation

\[(A-B) + D + F = G\]

FNSBC 8.04.290

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\[\text{Assumes 1.5M New Const.}\]

\[\text{Tax cap reduced by $19,098,794}\]
## Last years tax revenue cap calculation

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FNSBC 8.04.290

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\[\text{Property tax - sales tax levied in current yr.} = \$108,109,082\]

\[\text{Property tax current yr. - property tax limit in FY25 equals tax cap growth of}\]
\[\$4,632,226\]

\[\text{Property tax portion of the revenue cap reduced by}\]
\[\$19,098,794\]
Major Cost Challenges for the upcoming year

**Wages and Benefits**

The estimated cost for operations will see an increase of $2.5-3.5 million a year.

**Education Funding**

- Taxed Education Funding was set at $50 Million last year.
- The Assembly approved a $4 million in supplemental funding with Ordinance 23-20-1A. (not taxed for)
- The School District FY25 local funding request is at $59 million.

**Required local Contribution**

Increases in the RLC mean that the state funding will decrease by about $1.3 million.

$3.5 million + $9 million + $1.3 million = $13.8 million
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Looking at local contribution to education in 2013, to have the same purchasing power today, considering inflation and RLC decreases the district would need $72,439,752 in local contribution for FY25.

Looking at only two years ago, to have the same purchasing power today considering inflation and RLC the district would need $56,685,845 in local contribution for FY25.
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FY25 Proposed Budget

Board of Education Work Session
Monday, February 5, 2024
General Revenue Trend

In Thousands

*Estimate
Proposed Budget Assumptions

- Base Student Allocation of $5,960
- Decrease in enrollment of 44 students
- Increased Local Contribution of $5.0 Million
Budget Deficit Summary (estimate) $29 Million

$15.0
$9.0
$5.0

Beginning deficit
Increased Expenditures
State/Other Revenue Loss
FY25 General Fund Revenues

$186,991,082

61% Local Revenue
32% State Revenue
7% Federal Revenue

$1.2 M decrease from FY24 Approved Budget
Investments & Reductions
FY25 Elementary Schools

Pupil-to-Teacher Ratio (PTR)

- Kindergarten remains at 25
- Grades 1-5 increased from 25 to 30
FY25 Elementary Schools

**Investments**
- Elementary Districtwide Music Program ($50K)

**Reductions**
- 33.0 FTE Teachers (PTR, including CARES)
- 4.0 FTE ELP Teachers
- 17.0 FTE Kindergarten Aides
FY25 Secondary Schools

Pupil-to-Teacher Ratio (PTR)

- Grades 6-8 increased from 27 to 32
- Grades 9-12 increased from 30 to 35
FY25 Secondary Schools

**Investments**
- 1.0 FTE Activity Coordinator (LTH, WVH, NPH)

**Reductions**
- 38.5 FTE Teachers (PTR, including FY24 CARES)
- 1.0 FTE Teacher (North Star College)
- 2.5 FTE ELP Teachers
- 2.0 FTE Teachers (Hutch small school allocation)
- 2.0 FTE Assistant Principals (LTH, WVH)
- 3.0 FTE Safety Assistants (LTH, WVH, NPH, moved to grant)
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<td>• Educator Laptops ($386K)</td>
<td>• <strong>1.5 FTE</strong> Health Services</td>
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<tr>
<td>• Curriculum Materials ($415K)</td>
<td>• Close 2 schools ($3.6M)</td>
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<td>• Transportation Subsidy ($800K)</td>
<td>• Contract out Custodial Services ($1.5M)</td>
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<td>• Administrative Center ($300K)</td>
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## Districtwide Personnel

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<th>FY25 Proposed Budget</th>
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<td>Total FTE (including FY24 CARES)</td>
<td>1,530.78</td>
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\[ \text{Difference} = 1,530.78 - 1,433.30 = 97.48 \]
FY25 Proposed Budget

LC @ $59 M
- $16 M in reductions required

LC @ $50 M
- $25 M in reductions required
Long Term Sustainability

- Conservative revenue estimates
- Maintain Fund Balance
- Provide an excellent education within our means
Show me the numbers, what does this do to taxes?

Property tax revenue and tax rates were cut too far last year to support sustainable funding to education above $50 million without reductions in other Borough services.

Areawide tax rates are lower than they have been since 1987. (it was 9.692)

Adding one mill would put us at 2016 tax rates, if the entire amount was needed and paid for by property tax payers.

Areawide taxes were reduced by 1.849 mills in the current budget over FY23.

Adding one mill in taxes would still be .849 mills lower than FY23.
Administration Budget Goals

- Stability of government services
- Develop efficiencies to streamline government processes
- Promote development and quality construction
- Lower operating costs and application of downward pressure on the property tax rate
Why do we need to increase the tax revenue cap?

• The tax revenue cap limits the amount of tax revenue that can be generated based on the prior year’s tax revenue; if the budget is less than the maximum tax revenue limit, it is reset the next year to the lower amount.

• The tax revenue cap can only grow for a few very specific reasons. The most impactful is that the revenue cap can grow based on the consumer price index for urban Alaska (CPI), the value of new construction in the borough, and services approved by the voters.

• The tax revenue cap does not grow based on the increase of the value of a property based on market values, only new construction.

• Last year, one-time funding was used to supplement the FNSB School District budget that was not taxed for. ($4 million that was not included in the tax revenue calculation).

• CPI came in low at 1.5%, and we anticipate low new construction values (estimated).

• The total taxable value of the Borough increased by $490 million last year, driving up the required local contribution by roughly $1.3 million.

• It is estimated that the tax revenue cap may grow by roughly 5 million for FY25.
Why do we need to increase the tax revenue cap?

- In the last decade, the Borough Budget has, on average, been $8 million under the tax revenue cap.
- Last year’s budget was $24 million under the revenue cap, resetting it to a lower number that does not allow for “making up” funds that were provided to the district last year from lapsed funds.
Does this invalidate the tax cap formula?

- Other taxing jurisdictions have held tax revenue cap elections without question.
- Increasing the tax revenue cap outside the formula can only be done by the voters.
- Just like with our other taxing jurisdictions, the tax revenue cap is recalculated according to the formula each year; if the funding is not needed, you do not tax to the cap (as we have done repeatedly in the past).
- The tax revenue cap election does not appropriate funds. That can only be done by the assembly.
What would this look like if it was entirely paid for with property tax?

- Property Tax rates were reduced significantly last year.
- Property tax revenue is down to 2019 levels.
- The tax revenue cap is generic to all tax sources, not just property taxes; this includes all other sales taxes such as tobacco, alcohol, bed, and marijuana.
Why have a special election?

• In order for the increase to take effect (if approved) for FY 25, it must be approved and incorporated into the budget by May 31st, 2024.

• Mill levies must be approved by June 15th (after the budget and certified values)

• Special elections require 75 days notice prior to the election

• If the ordinance is approved on February 15th, it provides for 75 days till the April 30th election.

• If the special election is in favor of increasing the tax revenue cap, it will take roughly two weeks to certify the election. (May 16th)

• The final reading of the budget is scheduled for May 16th, providing just enough time to make adjustments based on the outcome of the April 30th election.
What can the increase in the tax revenue cap be used for?

The election to increase the tax revenue cap does not appropriate money for education; it simply allows for the revenue to be generated; it is the intent of the sponsors to increase local education funding from 50 million to 60 million.

We may not need to tax to the cap (if the increase is approved by the voters), but we will certainly not be able to under the current formula cap.

Tax revenue can be used for any purpose as appropriated by the Assembly (and within Borough powers). However, it is the intent of the sponsors to raise these revenues for education alone.
What happens if the ordinance or the election fails?

• In order to fund the district at prior year amounts (no increase), the Administration will need to cut Borough services or may use supplemental one-time or general fund dollars.

• The School Board may need to make additional reductions to education greater than the superintendent’s proposed budget.
Additional options to consider?

- The FY25 tax revenue cap does not have the capacity to increase tax funding for education from 50 million to 60 million.
- Moving the tax revenue increase proposition to the regular election in October would save $125,000 and most likely garner a higher voter turnout than a special election in April.
- Moving the initiative would mean that tax funding would not be available for FY25; an increase to schools could be funded with fund balance, but it would not be sustainable without an increase to the tax revenue cap in FY26.
- It’s possible that the actual increase to the tax revenue cap could be less than the proposed 10 million if additional state funds are made available or if new construction or CPI comes in higher next year.
SUMMARY

• Authorizes a special election to be held on April 30th, 2024.

• Asks the voters to increase the tax revenue cap by 10 million dollars for the purpose of increasing the local contribution to education funding.

• Appropriates $125,000 from the General Fund to cover the special election cost.

• Authorizes the Borough to use resources to provide information to the public and file with APOC as required.

WWW.FNSB.GOV