



Tony Knowles, Governor

# Alaska Department of Community and Economic Development

## Municipal & Regional Assistance Division

550 W. 7th Avenue, Suite 1790, Anchorage, AK 99501-3510  
Telephone: (907) 269-4580 • Fax: (907) 269-4539 • Text Telephone: (907) 465-5437  
Email: questions@dced.state.ak.us • Website: www.dced.state.ak.us/mra/Home.htm

March 10, 2000

In 1997, the City of Dillingham petitioned for annexation of an estimated 25,000 square miles of land and additional offshore waters to the Lake and Peninsula Borough. The area proposed for annexation generally corresponds to the Southwest Region School District. The 1997 petition was never accepted for filing by the State for a number of reasons. These included interest by State policy makers in exploring alternatives to the particular annexation proposal. They also included an expressed intent by the City of Dillingham to confirm that other communities in the Southwest Region REAA supported the annexation proposal.

Last year, this agency asked the City of Dillingham to either withdraw the petition or declare that it wanted to pursue the proposal. The City of Dillingham responded by asking this agency to first examine revenue projections in the 1997 petition in light of a number of significant developments that occurred after the petition was submitted.

Part 1 of the enclosed report (pages 1 - 13) chronicles the rich history of borough evolution in the Bristol Bay region, including the 1997 annexation proposal from the City of Dillingham. Part 2 (pages 14 - 27) examines revenue projections in the City of Dillingham's 1997 petition. Part 2 also examines revenue projections made in a 1993 study of the feasibility of forming a Southwest Region borough.

Table 7 (page 20) compares revenue projections in the 1997 petition with more contemporary figures. The 1997 petition estimated revenues of \$2,967,882 for six particular components. The more contemporary estimates for those same six components total \$2,004,082. The latter figure is \$963,800 (32.5%) less than the projections in the 1997 petition.

Table 11 (page 27) compares revenue projections in the 1993 Southwest Region borough study with more contemporary figures. For the six particular components listed, the 1993 study estimated revenues of \$677,287 (based on a low-price scenario for commercial fisheries). The contemporary estimates for the same six components total \$1,067,487. The latter figure is \$390,200 (57.6%) more than the projections in the 1993 study.

Questions and comments concerning the enclosed report may be directed to Dan Bockhorst at the address listed in the letterhead. Mr. Bockhorst may also be reached by telephone at 269-4559 or by e-mail at Dan\_Bockhorst@dced.state.ak.us

Cordially,

A handwritten signature in black ink, appearing to read "Patrick K. Poland", is written over a white background.

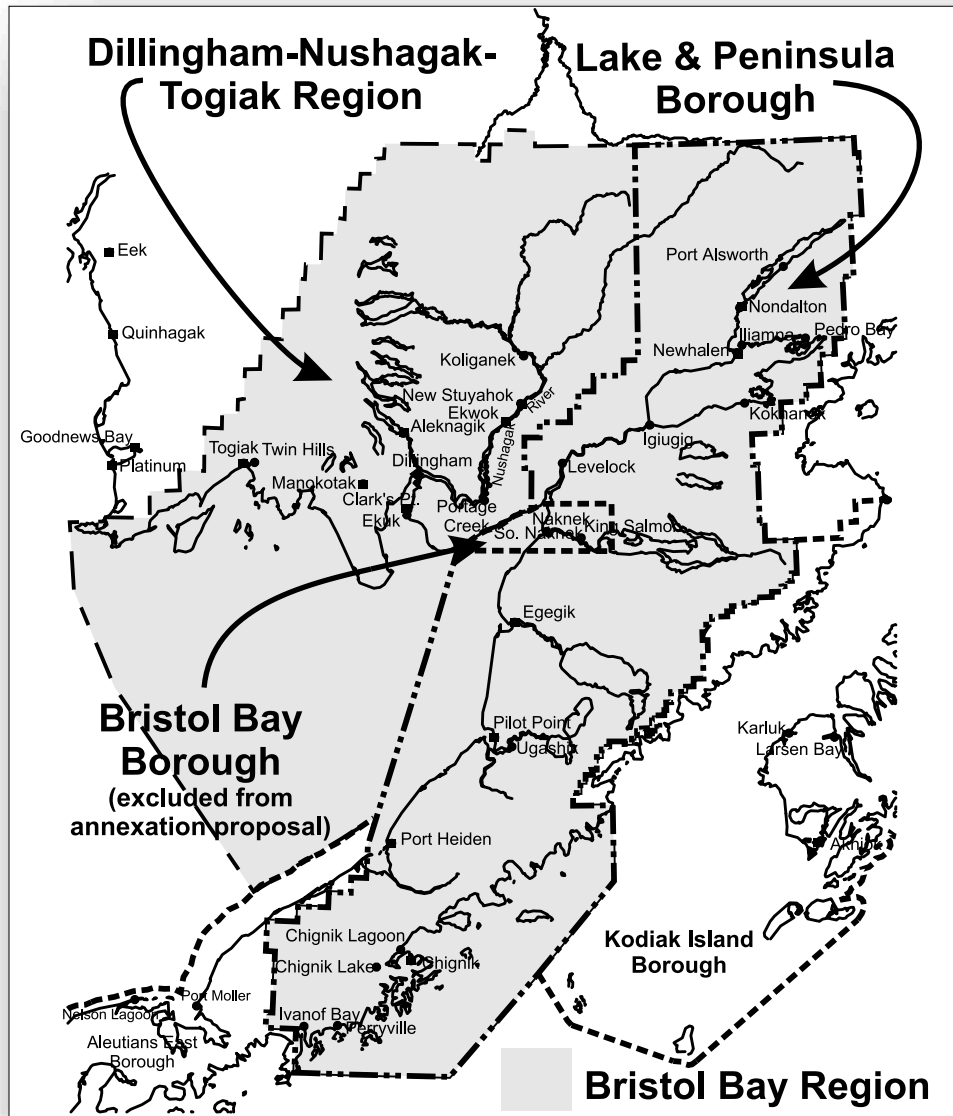
Patrick K. Poland  
Director

*"Promoting a healthy economy and strong communities"*

# Chronicle of Borough Developments in the Bristol Bay Region and

## Update of Revenue Projections Concerning the Proposed Annexation to the Lake and Peninsula Borough

March 2000



Deborah Sedwick  
Commissioner

---

**Prepared by:**

- Dan Bockhorst, Alaska Department of Community and Economic Development

---

**Page layout by:**

- Jennie Morrison, Alaska Department of Community and Economic Development

---

**Assistance and information provided by:**

- Eddy Jeans, Alaska Department of Education and Early Development
- Gene Kane, Alaska Department of Community and Economic Development
- Scott Reynoldson, Alaska Department of Education and Early Development
- Bill Rolfzen, Alaska Department of Community and Economic Development
- Herman Savikko, Alaska Department of Fish and Game
- Steve Van Sant, Alaska Department of Community and Economic Development



The Department of Community and Economic Development complies with Title II of the Americans with Disabilities Act of 1990. Upon request, this report will be made available in large print or other accessible formats. Requests for such should be directed to the Department of Community and Economic Development at 907-269-4560.

# Introduction

---

**A**t the request of the City of Dillingham, the Alaska Department of Community and Economic Development (DCED), in cooperation with two other agencies, has updated revenue projections presented in the City of Dillingham's 1997 petition for annexation of the Dillingham-Nushagak-Togiak area to the Lake and Peninsula Borough.

The 1997 petition is the latest in a series of often contentious developments concerning borough government in the Bristol Bay region over the past several decades. As local officials in the region and other citizens contemplate options concerning borough government, DCED takes the view that it is important that consideration be given to the activities which have occurred regarding such matters over the past many years. A chronicle of these developments is outlined in Part I of this report.



## Part I – Background

---

Public policy issues regarding borough government in the Bristol Bay region have existed at the local and state level for the past 38 years. Major developments in that regard are summarized in this part of the report.

---

### **Section A. Incorporation of the Bristol Bay Borough.**

Controversy regarding borough government in the Bristol Bay region first arose with the 1962 incorporation of the Bristol Bay Borough. The Bristol Bay Borough is Alaska's first organized borough. Certain recognized experts on Alaska local government have criticized the Bristol Bay Borough as lacking the fundamental characteristics of an organized borough as conceived in Alaska's Constitution.

Hugh Wade, Alaska's Secretary of State in 1962, was among the first to level such criticism when he wrote the following to then Governor William A. Egan on July 9, 1962:

I have been following the proceedings in connection with the hearings on this proposed borough and have discussed from time to time the proposed action with the Local Affairs Agency. The proposed borough just doesn't make sense to me. In fact, its defects were so obvious to me that I felt that the Boundary Commission would never approve it. I was mistaken, and apparently after hearings in Dillingham, Naknek, and King Salmon the Boundary Commission followed the recommendation of the Local Affairs Agency and reduced the area of the borough even smaller than it was originally proposed, and now we are confronted with holding an election in the area embraced within the proposed boundaries for this borough and undoubtedly it will be favorably voted upon.

My objection to the proposed borough, of course, is that it takes the principal tax resources in the area and makes that tax resource available only to a limited number of people – less than 600 I believe — to the exclusion of all other people in the Bay area. They even excluded from the area the Village of Levelock which is only a few miles north of the boundary line. . .

I know the Local Affairs Agency is very anxious to establish a borough and I, too, am anxious to get a start in establishing them throughout the State, but I just can't help but feel that this will get us off to a poor start. It is bound to be met with great resistance in the Bristol Bay area, and in my opinion it is fundamentally wrong to allow this relatively small area to grab this rich tax resource and set up a borough government which will be financed entirely by the tax revenue from the raw fish packed by the canneries at Naknek. Local people will not be required to contribute in any way to a local government, and when the other areas in Bristol Bay start looking for some sort of a tax base to establish local government, they are going to find that this relatively small area has taken all of the rich tax resource for the benefit of a relatively few people.

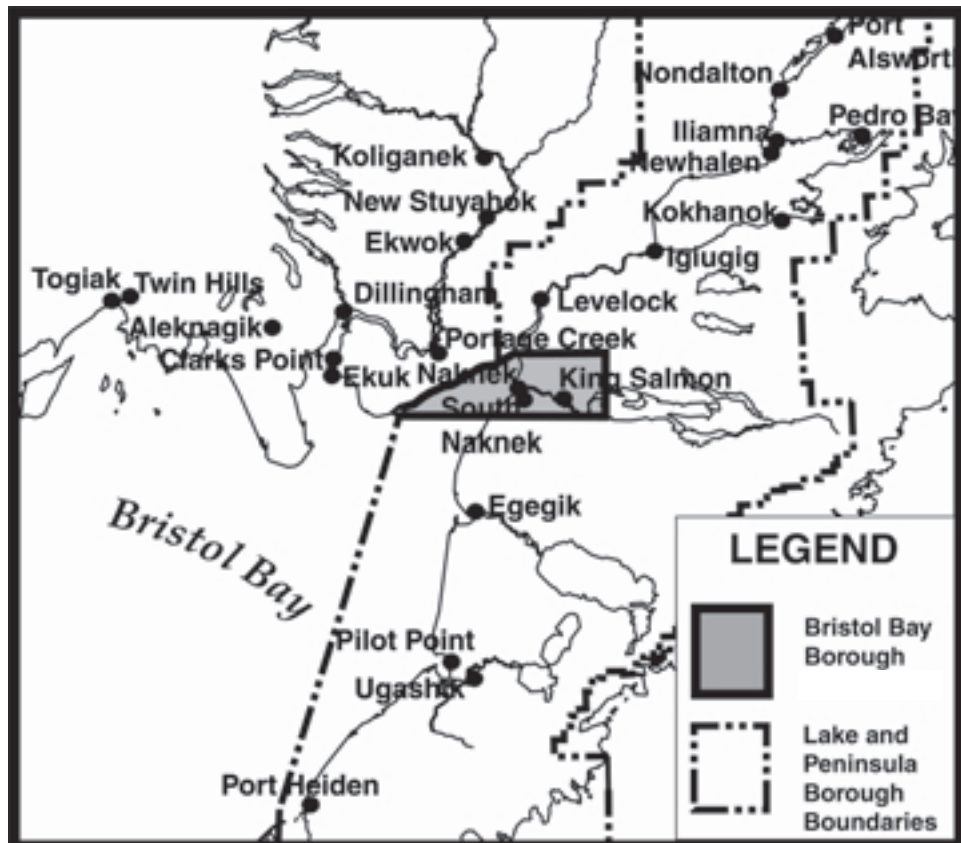
. . . It is my understanding that the Local Affairs Agency is urging that the election be held early in September. Personally, I am disposed to take the full time allowed me under the law for fixing the date of the election, because I think that the people in that area should be given all time pos-

sible to take whatever action they may now take at this late date to enjoin creation of this borough.

It is difficult for me to conceive of a borough established in the Bristol Bay area that did not include the community of Dillingham and the other villages in that area that are now excluded from this proposed borough.

Victor Fischer, a delegate to Alaska's Constitutional Convention, Secretary to the Constitutional Convention's Local Government Committee, former State legislator, and recognized expert in Alaska local government matters, expressed similar concerns about the nature of the Bristol Bay Borough. Mr. Fischer wrote as follows to the Local Boundary Commission on October 11, 1991 in the context of the constitutional intent concerning the configuration of boroughs:

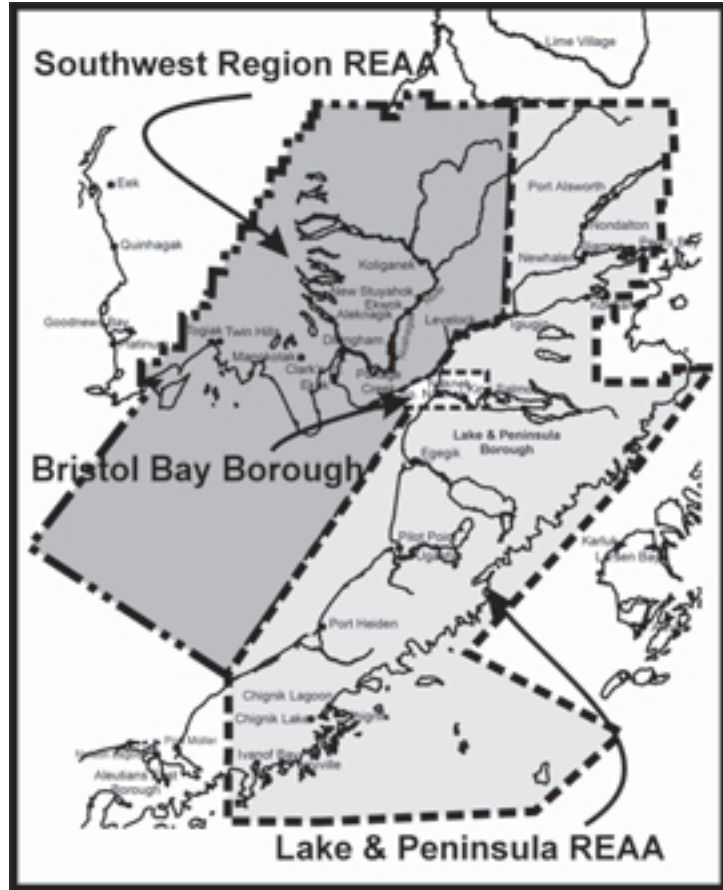
**Figure 1 - Bristol Bay Borough**



In drafting the constitution, Local Government Committee members certainly had in mind that boroughs would be regional in character. They discussed the concept in terms of its application to such areas as northwest Alaska, Bristol Bay, Anchorage, the Valdez area, Southeast, and others, and it seemed to work well in the various disparate regions. However, implementation did not follow their ideas.

The first violation of the regional concept came with establishment of the very first borough. In creating the Bristol Bay borough, the Local Boundary Commission took a tiny part of a real region and gave it borough status under the constitution. This gross error was not rectified when the Lake & Peninsula Borough was recently created. (And, for that matter, [neither] did the LBC then establish the truly inter-related and integrated Bristol Bay region as a single borough, as I am sure the convention delegates would have conceived.)

Bristol Bay certainly underlines the staff conclusion about the difficulty of dealing with small boroughs once established.



**Figure 2 - 1975 boundaries of the Southwest Region REAA and the Lake and Peninsula REAA**

**Section B. Unorganized Portion of Bristol Bay Region Divided into two Educational Service Areas.**

Thirteen years after the Bristol Bay Borough was formed, the 1975 Alaska Legislature enacted a law requiring that the unorganized borough, including more than 98% of the Bristol Bay region, be divided into State service areas for education called regional educational attendance areas (REAs).

The former Alaska Department of Community and Regional Affairs (DCRA) was assigned the task of drawing REAA boundaries in consultation with the Department of Education and local

communities.<sup>1</sup> Standards for drawing REAA boundaries, like the constitutional requirements for borough boundaries, called for areas to be established on the basis of common interests with respect to social, cultural, economic, geographic, and transportation considerations.

<sup>1</sup> Effective July 1, 1999, DCRA merged with the former Department of Commerce and Economic Development to become the Department of Community and Economic Development. The new agency has the same duties with regard to staff support to the Commission as the former DCRA.

The standards for REAA boundaries set out in AS 14.08.031(b) provide as follows:

As far as practicable, each regional educational attendance area shall contain an integrated socio-economic, linguistically and culturally homogeneous area. In the formation of the regional educational attendance areas, consideration shall be given to the transportation and communication network to facilitate the administration of education and communication between communities that comprise the area. Whenever possible, municipalities, other governmental or regional corporate entities, drainage basins, and other identifiable geographic features shall be used in describing the boundaries of the regional school attendance areas.

Standards for borough formation set out in Article X, Section 3 of Alaska's Constitution provide as follows:

The entire State shall be divided into boroughs, organized or unorganized. They shall be established in a manner and according to standards provided by law. The standards shall include population, geography, economy, transportation, and other factors. Each borough shall embrace an area and population with common interests to the maximum degree possible. . .

Further, borough incorporation standards set out in 3 AAC 110.060(c) provide as follows:

The proposed borough boundaries must conform to existing regional educational attendance area boundaries unless the commission determines, after consultation with the commissioner of the Department of Education, that a territory of different size is better suited to the public interest in a full balance of the standards for incorporation of a borough.

The unorganized portion of the Bristol Bay region was divided into two REAAs – the Southwest Region REAA headquartered in Dillingham and the Lake and Peninsula REAA

whose seat of operations was in the Bristol Bay Borough community of King Salmon.<sup>2</sup> DCED has been offered an anecdotal account that the unorganized portion of the Bristol Bay region was divided into two REAAs because it would have been difficult or impractical to provide educational services to the area in question through a single REAA.<sup>3</sup>

### **Section C. Bristol Bay Borough Sought Major Annexation in 1976.**

In 1976, the year after the legislature provided for the establishment of REAAs, the Bristol Bay Borough attempted to remedy – at least in large measure – previously-noted perceptions of shortcomings regarding the extent to which it had achieved the regional nature of borough government. The Bristol Bay Borough petitioned the Local Boundary Commission for the annexation of an estimated 40,000 square miles as shown in Figure 3 on page 5. Bristol Bay Borough Assembly Resolution No. 76-12, which authorized the annexation proposal, stated as follows:

. . . annexation of un-organized Borough land area's (sic) contiguous to the present Bristol Bay Borough boundaries is both desirable and necessary for the orderly development of the area . .

2 The City of Dillingham operates a city school district as required by AS 14.12.010 and AS 29.35.260(b) for all first class cities and home rule cities in the unorganized borough.

3 Walt Wrede, Manager of the Lake and Peninsula Borough, recently indicated that such views were expressed by Frank Hill, former School Superintendent of both the Lake and Peninsula REAA and the Lake and Peninsula Borough.



**Figure 3 - 1976 proposal for annexation to the Bristol Bay Borough**

... expansion of the Bristol Bay Borough will result in a more economically viable municipality ...

... The Bristol Bay Borough has the ability to promote orderly development and expansion necessary to meet the service needs of the affected citizens in an efficient manner. . .

... The peoples to be affected are in definite need of updated service provisions and these must be met by that governmental authority best able to satisfy their needs. The Bristol

Bay Borough is the logical entity primarily due to its location and its immediate ability to satisfy the service requirements indicated. . .

... As the State of Alaska continues to develop, the areas not included in organized boroughs may be placed in the jurisdiction of various governmental entities without prior preparation. Therefore, the Borough wishes to be considered as the logical authority able to meet the needs of the affected area.

The expansion potential of the Bristol Bay Borough solidly supports this proposal. To properly develop an area there must be advance planning. Through preparation of annexation programs, etc. the Borough is effectively planning for this area's future development in an orderly and efficient manner.

Although the annexation petition was filed with the former DCRA, the Local Boundary Commission never had the opportunity to render a formal determination on the merits of the proposal. After

conducting a technical review of the petition, DCRA, which served as staff to the Local Boundary Commission, had asked the Borough to supplement the petition with additional information. DCRA also asked the Borough to conduct public informational meetings concerning the proposal in communities within the territory proposed for annexation. The Borough did not comply with either request, and the petition was considered by DCRA to be, in effect, abandoned.

---

## **Section D. Aleutians East Borough Incorporates Portions of Lake and Peninsula REAA.**

Relatively small portions of the Lake and Peninsula REAA were incorporated into the Aleutians East Borough when it formed in 1987. These consisted of areas in and around Strogonof Point and Stepovak Bay as shown in Figure 4.

The Lake and Peninsula REAA filed a legal challenge over the perceived wrongful incursion, but the legal challenge was unsuccessful.



**Figure 4 - Portions of the Lake & Peninsula REAA Annexed to the Aleutians East Borough and Kodiak Island Borough in the 1980's**

---

## **Section E. Two Borough Studies Undertaken.**

In 1988, DCRA prepared a study of the feasibility of forming an organized borough in the Southwest Region REAA. The study concluded that an organized borough in the region was financially viable.

At the request of officials of certain communities in the Southwest Region REAA, in 1989, DCRA examined the prospect of forming a borough in what was termed the "Northwest Bristol Bay Region." The area in question included much of the Southwest Region REAA, but excluded Dillingham. DCRA concluded that such a proposal would be financially viable, but considered the

exclusion of Dillingham to be problematic in terms of satisfying the standards for borough formation.

---

## **Section F. Kodiak Island Borough Annexes Portion of Lake and Peninsula REAA.**

In 1989, the Kodiak Island Borough annexed parts of the Lake and Peninsula REAA. These consisted of lands on the Alaska Peninsula which drain into Shelikof Strait and the Pacific Ocean ranging from the Kenai Peninsula Borough to Cape Kilokak and the islands and waters offshore as shown in Figure 4.

## **Section G. Lake and Peninsula Borough Incorporates.**

Concerned over the prospect of further adverse borough incorporations and annexations, Lake and Peninsula REAA residents petitioned for incorporation of a borough shortly after the Kodiak Island Borough filed its petition for annexation. The Lake and Peninsula Borough was incorporated on April 24, 1989.

The boundaries of the Lake and Peninsula Borough followed those of the remnant Lake and Peninsula REAA, except that the village of Levelock was also included. Prior to incorporation of the Borough, Levelock had been part of the adjoining Southwest Region REAA.

As noted previously under Part I, Section A, Victor Fischer was critical of the incorporation of the Lake and Peninsula Borough in that it did not result in the consolidation of the Bristol Bay Borough with the new government. Again, he wrote as follows:

The first violation of the regional concept came with establishment of the very first borough. In creating the Bristol Bay borough, the Local Boundary Commission took a tiny part of a real region and gave it borough status under the constitution. This gross error was not rectified when the Lake & Peninsula Borough was recently created. (And, for that matter, [neither] did the LBC then establish the truly interrelated and integrated Bristol Bay region as a single borough, as I am sure the convention delegates would have conceived.)

The Commission had, in fact, considered the consolidation of the two governments into one borough during the course of the Lake and Peninsula Borough incorporation proceedings. The Commission concluded in its decisional document that it “rejects the

argument that the Constitution precludes the two areas from forming separate boroughs.” However, the Commission went on to state that, “Notwithstanding, the Commission believes that the prospect of consolidation of the two areas in question merits consideration in the future. . . . a larger unit of government may bring improved education and other services through greater economies of scale.” Arguments had also been made during the course of the Lake and Peninsula Borough incorporation proceedings that consolidation of the two governments would result in more equitable sharing of resources.<sup>4</sup>

In its order approving incorporation of the Lake and Peninsula Borough, the Local Boundary Commission stipulated as follows:

The Department of Community and Regional Affairs is requested to investigate the merits of including the Bristol Bay Borough and the area approved for incorporation as the Lake and Peninsula Borough as one borough government. The investigation should be carried out in cooperation with the Bristol Bay Borough and the Lake and Peninsula Borough (if one is approved for incorporation by the voters) or the Lake and Peninsula REAA and the Bristol Bay Coastal Resource Service Area (if the Borough is not incorporated). The Department is further requested to issue a report and recommendation on the matter to the Commission on April 1, 1991. The Commission will conduct one or more hearings on the matter within three months of receipt of the report and recommendation.<sup>5</sup>

4 See: Statement of Decision in the Matter of the Proposed Incorporation of the Lake and Peninsula Borough, pages 10 – 14, Local Boundary Commission, December 28, 1988.

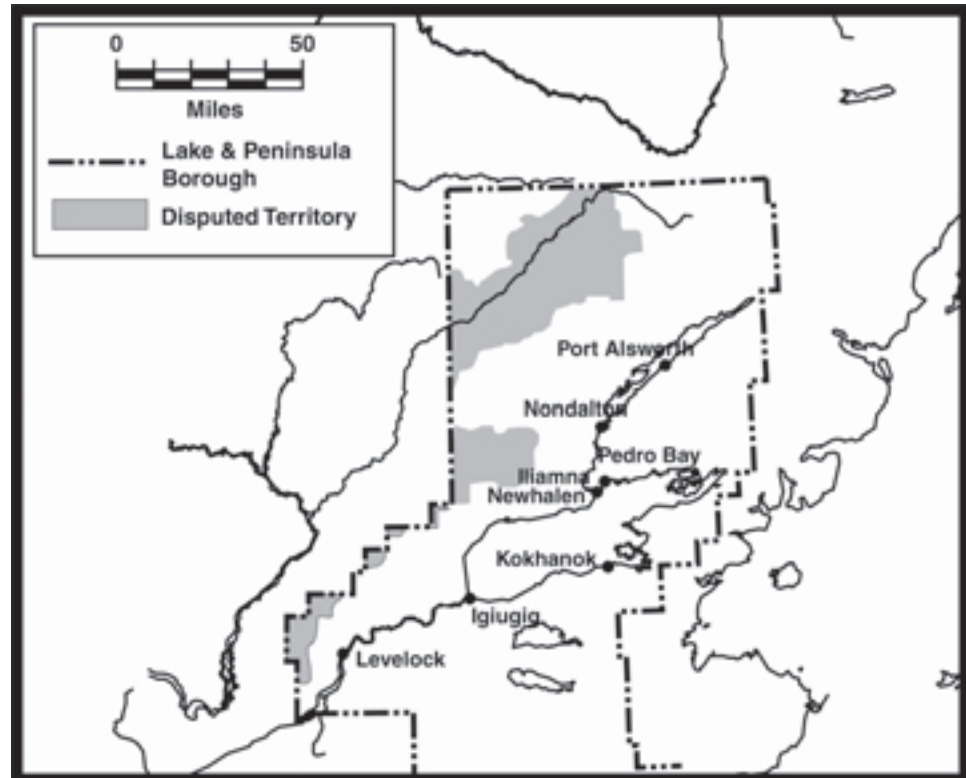
5 Id., page 20.

## **Section H. Southwest Region Officials Challenge Lake and Peninsula Borough Boundaries.**

The upper Nushagak-Mulchatna drainage had been part of the Lake and Peninsula REAA since the REAA's creation 14 years before the formation of the Lake and Peninsula Borough. When the Lake and Peninsula Borough incorporated, that area was also included in the new borough. The northwest boundaries of the borough were identical to those of the former Lake and Peninsula REAA.

Officials in the Dillingham region had not expressed specific interest in the upper Nushagak-Mulchatna drainage during the 1988 borough studies noted in Section E. However, they objected to the inclusion of that area in the new Lake and Peninsula Borough.

Dillingham region communities subsequently filed a legal challenge of the procedures used to incorporate the Lake and Peninsula Borough. As discussed later in Section L, the challenge was successful.



**Figure 5 - Portion of the Lake and Peninsula Borough contested by adjoining Dillingham area.**

## **Section I. Greater Bristol Bay Region Borough Options Study Conducted.**

In 1992, DCRA conducted a study of borough government options for the Greater Bristol Bay region. The study was undertaken for the following reasons:

1. To examine the merits of merging the Lake and Peninsula Borough and the Bristol Bay Borough as requested by the Local Boundary Commission during the course of the Lake and Peninsula Borough incorporation proceedings.
2. To assist the Commission in defining model borough boundaries for the unorganized borough.

3. To examine, at the request of the City of Dillingham, the merits of creating the so-called “super borough” — a single borough encompassing the entire 50,000 square mile Bristol Bay region.

The report concluded as follows:

In the context of the “model boundaries” project, DCRA believes that the super borough offers many important advantages and perhaps best meets the standards for borough incorporation. Before endorsing this as the “model”, however, DCRA wants further input from local officials and residents.

It may be that separate western and eastern “model boroughs” are more appropriate. In that event, DCRA recommends that the Bristol Bay Borough and the Lake and Peninsula Borough be linked for purposes of the “model boundaries” project. However, again, DCRA does not endorse any action by the State of Alaska to force borough incorporation or consolidation in the region. For change to be most effective, it must be initiated at the local level. Under existing law, such change may be initiated by local residents or by one or more political subdivisions, city or borough.

---

### **Section J. Commission Defines Model Boundaries for the Region.**

In November of 1992, the Local Boundary Commission conducted public hearings on model borough boundaries for the Bristol Bay region. Hearings were held in Dillingham, Naknek, and Togiak. The Communities of Kokhanok, Pilot Point, Chignik, Chignik Lake, Levelock, Egegik, Newhalen, and Nondalton participated by teleconference.

On December 4, 1992, the Commission identified the Dillingham Census Area as a “model borough” separate from the rest of the Bristol Bay region. In doing so, the

Commission expressed a preference for that option over the alternative of a single borough encompassing the entire region.<sup>6</sup>

---

### **Section K. Further Study of Dillingham Region Borough Undertaken.**

In 1993, a private consultant was retained by the Dillingham-based Bristol Bay Coastal Resource Service Area to conduct another study of the viability of forming a borough in the area encompassed by the Southwest Region REAA. The 1993 study affirmed the conclusions reached by DCRA in 1988 that a borough government for that area would be financially feasible.

---

### **Section L. Reconsideration of the Northwest Boundary of the Lake and Peninsula Borough.**

On July 23, 1994, the legal challenge noted in Part I, Section H, over the inclusion of the upper Nushagak-Mulchatna drainage in the Lake and Peninsula Borough ended with an order by the Alaska Supreme Court for the Local Boundary Commission to reconsider the northwest boundary of the Lake and Peninsula Borough.

The reconsideration process was completed in March of 1995. After examining the issue in detail, the Commission affirmed the northwest boundary of the Lake and Peninsula in a 39-page decisional statement.

6 Model Borough Boundaries, page 7, Local Boundary Commission, June 1997 (revised).

## **M. City of Dillingham Petitions for Annexation of “Dillingham-Nushagak-Togiak” Area to Lake and Peninsula Borough.**

In April 1997, the City of Dillingham prepared a petition for annexation of the Dillingham-Nushagak-Togiak region to the Lake and Peninsula Borough. Figure 6 shows the existing boundaries of the Lake and Peninsula Borough and the territory proposed for annexation by the 1997 petition.

On June 12, 1997, the petition was submitted to the former DCRA for technical review. On June 24, 1997, the technical review was completed. DCRA noted that there were “minor deficiencies” in the form and content of the petition and the petitioner’s representative was asked to remedy those deficiencies.

Additionally, DCRA raised two major policy issues in its June 24 review. The first was a concern that the boundaries proposed in the petition were fundamentally flawed and that it would be irresponsible on DCRA’s part to ignore other options. The second expressed the need to explore alternatives to annexation. Details about those issues are provided below:

***Fundamental Concerns Over Boundaries.*** DCRA expressed concern in its June 24, 1997 letter that the Bristol Bay Borough had been omitted from the proposal and that other boundary scenarios were not considered. DCRA acknowledged that the petitioners excluded the Bristol Bay Borough because they believed that its inclusion in the annexation proposal would have involved a more procedurally complicated process.

However, DCRA stressed that under the proposal submitted, the Bristol Bay Borough would become an 850-square mile enclave in the middle of the 50,000-square mile expanded Lake and Peninsula Borough (see Figure 6). Borough annexation standards presume that the existence of an enclave surrounded by an organized borough is counter to the broad public interest.<sup>7</sup> Further, such a boundary configuration would have added to long-standing criticism that the Bristol Bay Borough does not truly satisfy the standards for borough government. That criticism stems from the concentration of regional economic resources in the Bristol Bay Borough coupled with the exclusion of all but a relatively tiny portion of the geographic region along with most of its residents.<sup>8</sup>

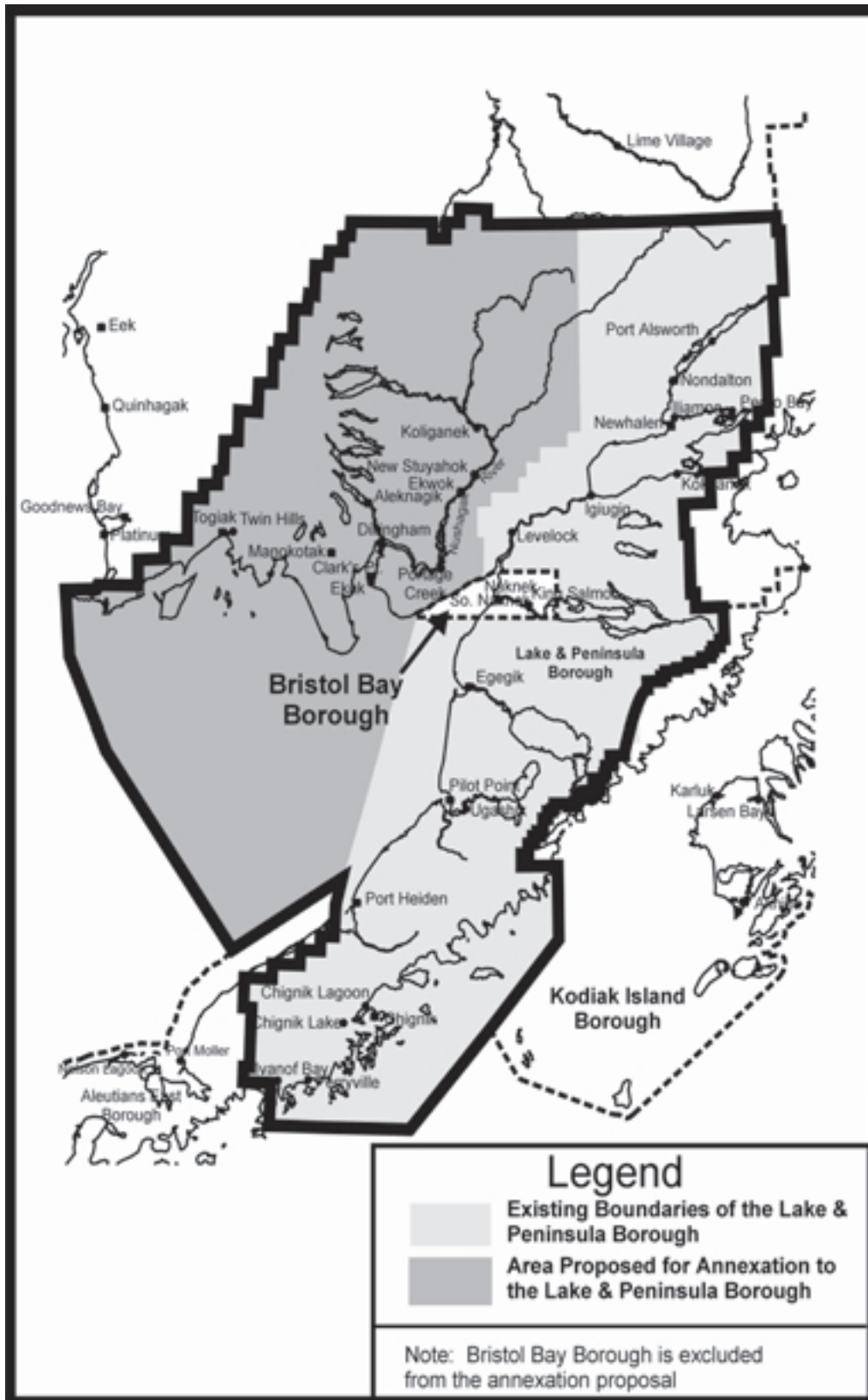
DCRA stressed in its June 24, 1997 letter that it had “no preconceptions” regarding the most appropriate borough structure for the region; however, all options should be available for consideration. In addition to the annexation petition, DCRA noted that those

7 3 AAC 110.200(2), which was numbered as 19 AAC 10.200(2) at the time the petition was filed, states that:

Territory that meets the annexation standards specified in 3 AAC 110.160 – 3 AAC 110.190 may be annexed to a borough or unified municipality by the legislative review process if the commission also determines that annexation will serve the balanced best interests of the state, the territory to be annexed, and all political subdivisions affected by the annexation. In this regard, the commission will, in its discretion, consider relevant factors, including whether the . . .

(2) territory is an enclave surrounded by the annexing borough or unified municipality.

**See page 12 for Footnote 8**



**Figure 6 - Existing Lake and Peninsula Borough boundaries and territory proposed for annexation**

included a single borough encompassing the entire region; consolidation of the Lake and Peninsula Borough with the Bristol Bay Borough, and annexation of the Dillingham region to the Bristol Bay Borough.

***Need to Explore Alternatives to Annexation.*** The second major policy concern expressed in DCRA's June 24, 1997 letter related to the expectation that pursuit of the annexation proposal at that time would be extremely divisive. DCRA expressed the hope that efforts to address conflicts that were certain to be generated by the proposal might save all parties significant amounts of money, time, and other resources. Specifically, DCRA's letter stated as follows regarding this particular issue:

. . . we believe it is safe to assume that the subject petition will be viewed by the Lake and Peninsula Borough and the Bristol Bay Borough as extremely provocative and divi-

8 For example, the Bristol Bay Borough had the highest per capita personal income in 1995- 1997 (latest statistics available) among the 16 organized boroughs and 11 census areas in Alaska. 1997 per capita income in the Bristol Bay Borough was \$33,769 compared to \$23,292 for the Dillingham Census Area and \$17,889 for the Lake and Peninsula Borough. Property values offer another example of the relative wealth of the Bristol Bay Borough. In 1999, The Bristol Bay Borough had a per capita property tax base of \$161,947, (among Alaska's 16 organized boroughs, it was second only to the anomalous North Slope Borough). In comparison, the 1999 per capita values of taxable property in the Lake and Peninsula Borough and the City of Dillingham were, respectively, \$37,087 and \$62,722. The concentration of wealth is reflected in the fact that the Bristol Bay Borough encompasses less than 2% of the Bristol Bay geographic region and less than 17% of its population.

sive. The Lake and Peninsula Borough has indicated for years that it would spare no effort to oppose such a proposal if one were ever filed. The Bristol Bay Borough has expressed similar sentiments.

It is apparent from the petition that a substantial effort has been expended to prepare the document. However, it is our experience that addressing the petition will demand *significantly* more resources and attention on the part of the Petitioners, respondents, the Department of Community and Regional Affairs, and the Local Boundary Commission. Additionally, in the event that the petition or some alternative scenario is approved, that list will grow to include the Alaska legislature – and in all likelihood the courts.

If conflicts inherent in this matter can be resolved or diminished, the principal parties noted in the preceding paragraph stand to save significant amounts of money, time, and other resources. For that reason, the Department believes that the auxiliary efforts should be pursued. The Department has no preconception about the form that the auxiliary efforts would take – they could entail a series of round-table discussions among the principal parties that is assisted by an objective facilitator who has expertise in the region and/or in the field of borough government. The auxiliary efforts could also entail community meetings on the topic.

If the Petitioners and officials from the Lake and Peninsula Borough and the Bristol Bay Borough are willing to work together in good faith to address their differences involving this matter, the Department is willing to provide limited financial assistance to the parties and other aid towards this end. We anticipate that such auxiliary efforts would begin no earlier than September of this year.

I stress that we are not suggesting these auxiliary efforts as an alternative to the petition process and hope that you do not construe our suggestion as being intrusive to that process. Instead, we view it as a way to facilitate consideration of the unique nature of the petition that has been submitted in this matter.

On August 7, 1997, the City of Dillingham submitted written materials to correct the minor technical deficiencies in the form and content of the petition.

On November 13, 1997, DCRA staff discussed the annexation proposal with the Dillingham Mayor and City Manager during the Alaska Municipal League convention. Based on that discussion, DCRA staff gained the understanding that City officials were committed to assuring that the other communities in the Dillingham-Nushagak-Togiak region supported the annexation proposal before the matter would be pursued.

On February 5, 1998, at the invitation of City of Dillingham, DCRA presented information to the Dillingham City Council about the possible reclassification of the City of Dillingham as a second class city. At the same meeting, staff also addressed the City's petition for annexation of the Dillingham-Nushagak-Togiak region to the Lake and Peninsula Borough. Some members of the City Council suggested that a weakening of the economy in the region may provide an incentive to reconsider the annexation proposal.

A member of the public who had been a leader in the development of the annexation proposal urged the City Council at the February 5, 1998 meeting to deliberate carefully before considering any possible withdrawal of the petition. The individual stressed that significant funds had been expended developing the annexation petition and that the proposal had merit.

In regard to DCRA's letter of June 24, 1997, certain residents of Dillingham suggested to DCRA immediately after the February 5, 1998 meeting that detachment of the Nushagak and Mulchatna Rivers corridor from the Lake and Peninsula Borough and the inclusion of that area within a Dillingham regional borough should be considered. DCRA noted that State law would allow a petition to be filed for incorporation of a Dillingham-Nushagak-Togiak region borough that included the territory in question. Specifically, 3 AAC 110.060(d) provides as follows:

If a petition for incorporation of a proposed borough describes boundaries overlapping the boundaries of an existing organized borough or unified municipality, the petition for incorporation must also address and comply with all standards and procedures for detachment of the overlapping region from the existing organized borough or unified municipality. The commission will consider and treat such an incorporation petition as also being a detachment petition.

On January 8, 1999, the City of Dillingham was asked to advise DCRA whether it wanted to pursue annexation or withdraw its petition. The City responded by asking DCRA to update relevant financial data in the petition before making its determination.

Part 2 of this document reflects current financial data to assist the local elected officials of the City of Dillingham in determining whether to pursue or withdraw the 1997 annexation petition.

## Part 2 – Relevant Financial and Economic Developments (1997 – 2000)

Since the City of Dillingham submitted its annexation petition in June of 1997, there have been a number of developments that affect borough government funding in the region. In particular, these include the following:

- substantial fluctuations in the commercial salmon harvest in the region;
- changes in education funding enacted by the State legislature; and
- a 40 percent reduction in funding for State Revenue Sharing and Safe Communities programs since 1997.

These and other relevant considerations are addressed in part 2 of this report.

### Section A. Changes in the Bristol Bay Commercial Salmon Harvest (1997 – 1999).

In 1997, the commercial sockeye salmon catch in the Bristol Bay region suffered a dramatic decline. Compared to the annual average catch since 1980, the decline amounted to a loss of \$80 million for the region. Some areas of the Bristol Bay region were affected more than others. As is shown in Table 1, the Naknek-Kvichak District suffered a reduction of nearly \$53 million or 95% of the value of the sockeye salmon harvest in that district during 1997 as compared to the annual average in that district for the previous 17 years.

Fishing District	Borough or Census Area	Value of 1997 Catch	Annual Average Value 1980 – 1996	Reduction 1997 vs. 1980-1996
Naknek-Kvichak	Bristol Bay Borough	\$3,166,342	\$55,935,295	\$52,768,953 or 94.3%
Ugashik	Lake & Peninsula Borough	\$7,673,495	\$17,969,167	\$10,295,672 or 57.3%
Nushagak	Dillingham Census Area	\$13,376,462	\$21,049,664	\$7,673,202 or 36.5%
Egegik	Lake & Peninsula Borough	\$40,390,017	\$47,353,157	\$6,963,140 or 14.7%
Togiak	Dillingham Census Area	\$830,879	\$3,152,490	\$2,321,611 or 73.6%
Totals		\$65,437,195	\$145,459,773	\$80,022,578 or 55.0%

As is shown Table 2, the value of the sockeye salmon harvest in Bristol Bay increased only slightly in 1998 over the previous year (an increase of \$3.8 million or 5.8%). The 1998 harvest was still less than half the annual average from 1980 – 1996 (harvest of \$69,222,865, which was 47.6% of the annual average for 1980-1996).

In 1999, the Bristol Bay sockeye salmon catch improved substantially over the previous two years (an increase of \$45 million or 68.8% over 1997). However, the 1999 harvest was still 24.1% below the annual average from 1980 – 1996. As is shown Table 2, the sockeye harvest in the Nushagak district was \$6.2 million or 29.6% *above* the annual average for that district during 1980 – 1996. All other districts in the Bristol Bay region were below their previous averages.

Detailed statistics concerning the sockeye salmon harvest for each of the five Bristol Bay fishing districts from 1980 – 1999 are provided in the Appendix (A-1 through A-5). Information about the ex-vessel value of the fish during that 20-year period is also provided in the Appendix (A-6).

Declines in the Bristol Bay fisheries mean that local governments that depend on the fisheries resources for revenues have also suffered. The City of Dillingham’s 1997 annexation proposal projected that an *expanded* Lake and Peninsula Borough would receive \$1,747,300 annually from a 2% fish tax.

The \$1,747,300 tax revenue projection in the City’s petition assumed a taxable commercial fish harvest of \$87,365,000 in the expanded Lake and Peninsula Borough. DCED estimates that the average value of the commercial fish harvest in the area in

<b>Fishing District</b>	<b>Annual Average Value 1980 – 1996</b>	<b>Value of 1997 Catch</b>	<b>Value of 1998 Catch</b>	<b>Value of 1999 Catch</b>
Naknek-Kvichak	\$55,935,295	\$3,166,342	\$17,785,668	\$40,362,647
Ugashik	\$17,969,167	\$7,673,495	\$5,332,343	\$9,763,019
Nushagak	\$21,049,664	\$13,376,462	\$20,000,797	\$27,298,225
Egegik	\$47,353,157	\$40,390,017	\$24,615,115	\$31,145,302
Togiak	\$3,152,490	\$830,879	\$1,488,942	\$1,904,299
<b>Totals</b>	<b>\$145,459,773</b>	<b>\$65,437,195</b>	<b>\$69,222,865</b>	<b>\$110,473,492</b>

question during the past three years was on the order of \$72 million.<sup>9</sup> Thus, at least for the past three years, it appears that the projected revenues from the Borough's 2% fish tax were overstated in the annexation petition by \$307,300 annually or 17.6%.

The Alaska Department of Fish and Game estimates that the 2000 inshore harvest at Bristol Bay will be 22.3 million sockeye salmon. That figure is 3.8 million (14.6%) less than the harvest last year, but is 6.2 million (38.5%) greater than the annual average for the period 1997 – 1999. The Department of Fish and Game states with regard to its projection:

We do not know why Bristol Bay sockeye salmon returns in 1996-1998 were poor and whether decreased production will persist in the near future or this was a only a short-term anomaly. The 1999 return to Bristol Bay

(41 million) suggests poor returns in 1996-1998 were anomalies. However, last season's relatively large return is insufficient evidence to conclude that the 1977-95 production will continue. We are actively working with scientists inside and outside the department to develop better techniques for forecasting sockeye salmon returns to Bristol Bay.<sup>10</sup>

Table 3 on page 17 compares fisheries-related revenue projections listed in the City of Dillingham's 1997 annexation petition with projections based on data recorded since the petition was submitted. Specifically, data in the petition concerning the Borough's 2% fish tax and the Alaska Department of Revenue's (DOR) shared fish tax payments are compared with data based on the 1997 – 1999 fisheries harvests in Bristol Bay.<sup>11</sup> The table also compares the estimates for DCED's extraterritorial fish tax program listed in the petition with projections based on current year data for that program.<sup>12</sup>

<sup>9</sup> Alaska Department of Fish and Game data indicate that the annual average value of the sockeye harvest in the Bristol Bay region, excluding the Naknek-Kvichak District, was \$61,272,965. Based on analysis in the previously noted 1993 borough study ("Supplemental Borough Feasibility Study – Southwest Region School District and City of Dillingham" Table 3-2), DCED estimates that the annual average value of salmon species other than sockeye for the area in question was \$6,058,684. The Alaska Fish and Game website lists the 1999 and 1997 values of the Togiak herring fishery at, respectively, \$4,737,250 and \$5,448,400. No value for the Togiak herring fishery in 1998 was listed on the website. Fish and Game staff in the Dillingham office advised DCED that the 1998 Togiak herring fishery was valued at \$4 million. The average of those figures for the herring fishery is \$4,728,550. When the averages of the three fisheries components are totaled (sockeye at \$61,272,965, other salmon species at \$6,058,684 and herring at \$4,728,550) the result is \$72,060,199. For purposes of this analysis, DCED will use the figure of \$72 million.

<sup>10</sup> <http://www.cf.adfg.state.ak.us/region2/finfish/salmon/bbay/brbfor00.htm>

<sup>11</sup> DCED is not necessarily suggesting that the average of the 1997-1999 seasons is an appropriate basis for estimating future revenues. Rather, the City of Dillingham requested that DCED "update" the numbers presented in the petition. Given the uncertainty of harvest levels and market prices, DCED offers no projection for future revenues at this time.

<sup>12</sup> This approach was recommended by the DCED manager of that program given the variables that determine funding for particular regions.

Table 3 Comparison of Fisheries Related Revenues Projected in Petition vs. Projections Based on 1997 – 1999 or Current Year Data			
Revenue Component	Petition	Based on 1997-1999 or Current-Year Data	Difference
Borough Fish Tax	\$1,747,300	\$1,440,000	-\$307,300
State (DOR) Share Fish Tax	\$464,600	\$382,890	-\$81,710
State (DCED) Shared Fish Tax	\$63,543	\$30,907	-\$32,636

## Section B. Changes in Education Funding.

Two years ago, the Alaska Legislature enacted substantial amendments to the manner in which public education is funded in Alaska (Chapter 83, SLA 1998). The 1997 annexation proposal projected that State foundation aid would amount to \$15,822,912 annually. That figure was based on FY 1995 data.

For purposes of this contemporary analysis, the Department of Education and Early Development (DEED) projected that State foundation aid for an expanded Lake and Peninsula Borough would be \$16,232,221. That figure was based on FY 1999 data.

Although the current education funding projection is \$409,309 (2.6%) greater than the estimate in the 1997 petition, DCED does not consider the two sets of data to be necessarily comparable. The increase in funding may be attributed to increased school enrollment or other factors that would bring about accompanying increased

costs for operating schools. Without further analysis, DCED takes the view that it may be misleading for purposes of this examination to include the comparisons of 1997 and current education funding projections. Therefore, DCED refrains from further comparison of the education funding figures in the 1997 petition and current estimates.

It is noteworthy, however, that contemporary projections by DEED indicate that the level of funding for operation of schools in the expanded Lake and Peninsula Borough would be \$756,604 or 3.4% *greater* when compared to the sum of funding for the three districts separately. These comparisons are provided in Table 4 shown on the next page.<sup>13</sup>

<sup>13</sup> DCED adjusted the projections provided by DEED to reflect an increased local contribution following annexation based on an estimated full and true value of taxable property in the Southwest Region amounting to \$45 million.

Funding Component	Existing Structure				With Annexation	
	Dillingham School District	Southwest REAA School District	Lake & Peninsula School District	Total	Consolidation	Difference
Foundation State Aid	\$3,763,795	\$5,794,334	\$6,099,260	\$15,657,389	\$16,232,221	\$574,832
Local Contribution	511,310	0	270,788	782,098	962,098	180,000
Deductible PL-874	115,789	2,650,623	399,778	3,166,190	1,674,680	-1,491,510
Balance of PL-874				2,317,911	3,809,421	1,491,510
Quality Schools Grant	17,831	34,294	27,492	79,617	81,389	1,772
<b>Total</b>	<b>\$4,408,725</b>	<b>\$8,479,251</b>	<b>\$6,797,318</b>	<b>\$22,003,205</b>	<b>\$22,759,809</b>	<b>\$756,604</b>

### Section C. Other Matters Regarding Education Funding.

DCED notes that the City of Dillingham’s petition states on page 48, Exhibit G as follows:

To ensure a balanced Borough budget post-annexation, Dillingham begins making an annual revenue contribution to the Greater Lake and Peninsula Borough of approximately \$440,000 beginning in Year Three. The contribution will be needed through Year 10 after annexation. At Year 11, the interest received from the School Endowment Fund will be sufficient to pay the Required Local Minimum Contribution for education, thus adding a new revenue source to the Greater Lake and Peninsula Borough budget.

That statement indicates to DCED that the City of Dillingham envisioned making a voluntary financial contribution to the expanded Lake and Peninsula Borough for educational services of some \$440,000 each year for a period of eight years. The total contribution would amount to more than \$3.5 million. The Dillingham City Manager

confirmed DCED’s interpretation. Questions exist regarding the City’s authority to make such contributions. AS 29.35.010(9) authorizes municipalities “to expend money for a community purpose, facility, or service for the good of the municipality *to the extent the municipality is otherwise authorized by law to exercise the power necessary to accomplish the purpose or provide the facility or service*” (emphasis added). Since the City of Dillingham would no longer have public education powers if it were annexed to the Lake and Peninsula Borough, doubts exist that the City of Dillingham could then legally make such expenditures. Further, DCED notes that the proposed contributions would be entirely voluntary on the part of the City of Dillingham. As such, even if it were permissible for the City to make such contributions, it might be unwise for the expanded Lake and Peninsula Borough to rely on them.

Accordingly, DCED makes the adjustment to the budget shown in Table 5 on the following page.

<b>Table 5</b>			
<b>Elimination of “Dillingham” Contribution for Education</b>			
<b>Revenue Component</b>	<b>Petition</b>	<b>Adjusted Figure</b>	<b>Difference</b>
Dillingham Contribution	\$440,000	\$0	-\$440,000

**Section D. Reduction in Revenue Sharing and Safe Communities Funding.**

Since the City of Dillingham’s petition was filed, State Revenue Sharing and Safe Communities program funding has been cut by approximately 40.5%. Further cuts in program funding are possible. Table 6 compares current funding levels to those projected in the petition.<sup>14</sup>

**Section E. Summary of Revenue Update.**

Table 7 on the following page offers a summary of the funding comparisons made in Sections A – D of Part 2 of this report.

<b>Table 6</b>			
<b>Comparison of Revenue Sharing and Safe Communities Funding 1997 Petition vs. Estimates Based on Current Levels of Funding</b>			
<b>Revenue Component</b>	<b>Petition</b>	<b>Based on Current-Year Data</b>	<b>Difference</b>
Revenue Sharing	\$201,128	\$119,738	-\$81,390
Safe Communities	\$51,311	\$30,547	-\$20,764

<sup>14</sup> The City’s 1997 petition included program funding for all cities in the existing and proposed expanded borough. DCED adjusted the figure listed in the petition as reported in Table 6 to exclude entitlements to cities.

<b>Table 7 - Summary of Revenue Comparisons</b>			
<b>Revenue Component</b>	<b>Petition</b>	<b>Comparison Figure</b>	<b>Difference</b>
Borough Fish Tax	\$1,747,300	\$1,440,000	-\$307,300
State (DOR) Share Fish Tax	\$464,600	\$382,890	-\$81,710
State (DCED) Shared Fish Tax	\$63,543	\$30,907	-\$32,636
Dillingham Education Contribution	\$440,000	\$0	-\$440,000
Revenue Sharing	\$201,128	\$119,738	-\$81,390
Safe Communities	\$51,311	\$30,547	-\$20,764
<b>Total</b>	<b>\$2,967,882</b>	<b>\$2,004,082</b>	<b>-\$963,800</b>

**Section F. Payment in Lieu of Taxes.**

Subsequent to the filing of the City’s petition in 1997, funding for federal payments in lieu of taxes under 3 AAC 152.010 and PL 97-258 was extended to cities in the unorganized borough. During FY 2000, the seven cities in the Dillingham Census Area received \$222,219 in program payments. During the same fiscal year, the Lake and Peninsula Borough received \$88,567 in program funding.

If annexation occurred, the cities in the Dillingham Census Area

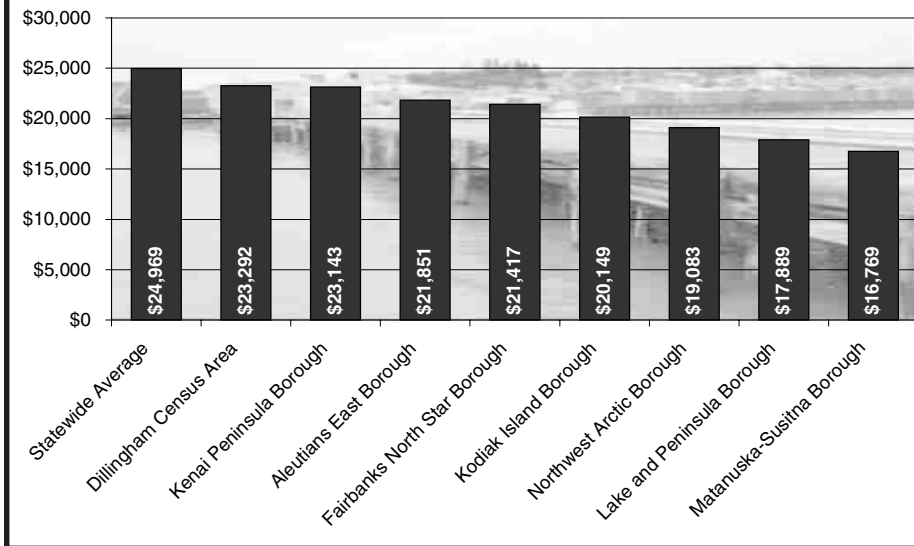
would no longer receive program funding directly. The expanded Lake and Peninsula Borough, however, would received an increased entitlement. Based on 2000 data, DCED projects that an expanded Lake and Peninsula Borough would have been entitled to \$280,177.

A few words about regional cost differentials . . . when discussing economic data in Section G, it is important to keep in mind that living costs vary substantially in different parts of the state. For example, a December 1998 study by the University of Alaska Cooperative Extension Service indicated that the cost of food in Dillingham was 71% higher than Anchorage. The same study indicated that food costs in Naknek, headquarters for the Bristol Bay Borough, was 79% higher than Anchorage.

**Section G. Regional Economic Comparisons.**

This section of the report presents certain fundamental economic data for periods following the submission of the City of Dillingham’s annexation petition in June of 1997. While not specifically called for by the requested update of revenue figures in the 1997 petition, this

**Figure 7 - The Dillingham Census Area had higher per capita personal income than seven of Alaska's sixteen organized boroughs.**



organized boroughs and 10 census areas of the unorganized borough in Alaska.

**1997 Per Capita Personal Income from all Sources.**

At \$23,292, per capita personal income in the Dillingham Census Area was 6.7% below the statewide average of \$24,969 for 1997. Still, the Dillingham

information may be helpful to local officials and others in the Bristol Bay region as they explore borough options. The data include:

- 1997 per capita personal income from all sources (earnings, interest and dividends, transfer payments, etc.);
- 1998 employment per 1,000 residents; and
- 1998 per capita earnings from employment.

Comparisons are also made in this section with respect to these data among the Dillingham Census Area, Lake and Peninsula Borough, Bristol Bay Borough, and the remaining fourteen

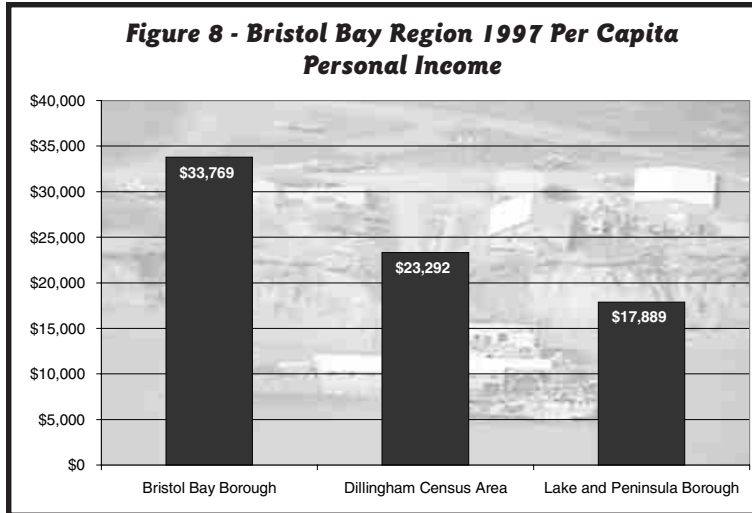
Census Area ranked higher than seven of Alaska's sixteen organized boroughs as shown in Figure 7.

The Bristol Bay Borough ranked highest among all twenty-seven regions of the State in terms of 1997 per capita personal income. As shown in Figure 8, at \$33,769, the per capita personal income in the Bristol Bay Borough was \$10,477 (45.0%) greater than it was for the Dillingham Census Area. 1997 per capita personal income in the Dillingham Census Area was \$5,403 (30.2%) greater than it was in the adjoining Lake and Peninsula Borough.

Table 8 presents the complete listings for 1997 per capita personal income from

**Table 8**  
**1997 Per Capita Personal Income**  
(Source: Alaska Economic Trends, June 1999, page 20, Alaska Department of Labor and Workforce Development)

<b>Bristol Bay Borough</b>	<b>33,769</b>
Ketchikan Gateway Borough	30,396
Municipality of Anchorage	29,765
Haines Borough	29,190
City and Borough of Juneau	28,811
Valdez-Cordova Census Area	26,743
Denali Borough	25,467
City and Borough of Sitka	24,995
North Slope Borough	23,725
City and Borough of Yakutat	23,620
Aleutians West Census Area	23,522
Wrangell-Petersburg Census Area	23,503
<b>Dillingham Census Area</b>	<b>23,292</b>
Kenai Peninsula Borough	23,143
Aleutians East Borough	21,851
Skagway-Hoonah-Angoon Census Area	21,729
Fairbanks North Star Borough	21,417
Kodiak Island Borough	20,149
Southeast Fairbanks Census Area	19,870
Northwest Arctic Borough	19,083
Nome Census Area	18,383
<b>Lake and Peninsula Borough</b>	<b>17,889</b>
Yukon-Koyukuk Census Area	17,826
Prince of Wales - Outer Ketchikan Census Area	16,953
Matanuska-Susitna Borough	16,769
Bethel Census Area	15,752
Wade Hampton Census Area	11,169



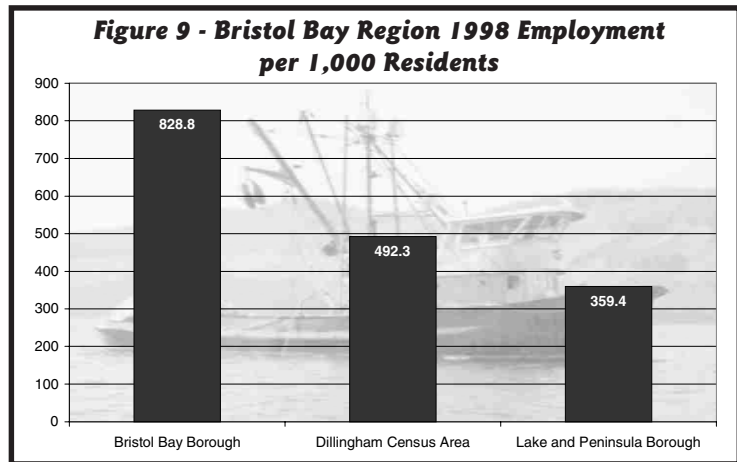
per 1,000 residents during 1998. That figure was virtually identical to the figure for Anchorage (492.8 vs. 492.3).

The comparable figure for the Bristol Bay Borough was 828.8 jobs per 1,000 residents, which was 68.4% greater than it was for the Dillingham Census Area. In turn, 1998 employment per 1,000 residents in the Dillingham Census Area was 37.0% greater than it was in the adjoining Lake and Peninsula Borough (see Figure 9).

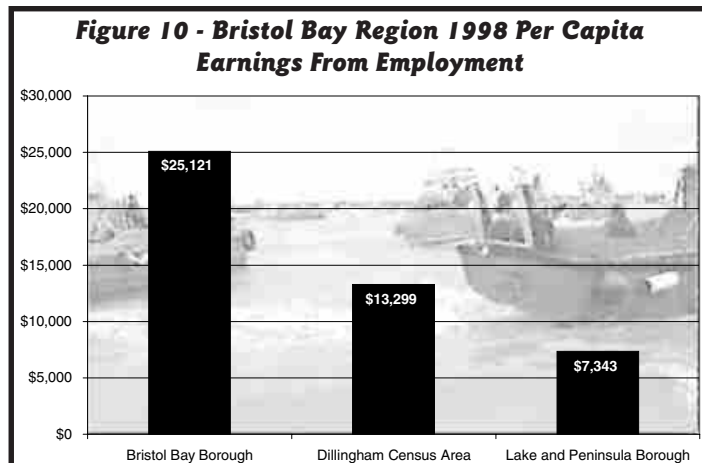
all sources for Alaska's sixteen organized boroughs and eleven census areas. The Dillingham Census Area ranked thirteenth among the twenty-seven regions in terms of per capita personal income.

**1998 employment per 1,000 residents.**

Figures extrapolated by DCED from employment data obtained from the Alaska Department of Labor and Workforce Development indicate that employment in the Dillingham Census Area averaged 492.3 jobs



The Dillingham Census Area had greater employment per 1,000 residents during 1998 than eight of Alaska's sixteen organized boroughs and nine of Alaska's eleven census areas. Detailed 1998 employment figures in the Dillingham Census Area, Lake and Peninsula Borough, and Bristol Bay Borough are included in the Appendix (A-7 through A-9). Table 9 on page 23 lists summary 1998 employment figures for the 27 regions in Alaska.



<b>Table 9 – 1998 Employment in Alaska</b>					
(Source: Alaska Department of Labor and Workforce Development)					
(employment per 1,000 residents extrapolated by DCED)					
Borough or Census Area	Private Sector Employment	Government Sector Employment	Total Employment	1998 Population	Employment Per 1,000 Residents
North Slope Borough	6,447	2,068	8,515	7,268	1171.6
Denali Borough	1,422	310	1,732	1,868	927.2
<b>Bristol Bay Borough</b>	<b>698</b>	<b>372</b>	<b>1,070</b>	<b>1,291</b>	<b>828.8</b>
Aleutians East Borough	1,454	271	1,725	2,145	804.2
Aleutian Islands West Census Area	2,903	536	3,439	5,346	643.3
Juneau Borough	9,667	6,793	16,460	30,021	548.3
Yakutat Borough	325	97	422	775	544.5
Ketchikan Gateway Borough	5,225	1,800	7,025	14,143	496.7
Anchorage, Municipality of	99,173	27,603	126,776	257,260	492.8
<b>Dillingham Census Area</b>	<b>1,701</b>	<b>606</b>	<b>2,307</b>	<b>4,686</b>	<b>492.3</b>
Valdez-Cordova Census Area	3,591	1,172	4,763	10,274	463.6
Sitka Borough	2,821	1,054	3,875	8,722	444.3
Kodiak Island Borough	4,616	1,121	5,737	13,716	418.3
Skagway-Hoonah-Angoon Census Area	1,010	511	1,521	3,642	417.6
Northwest Arctic Borough	1,798	937	2,735	6,817	401.2
Fairbanks North Star Borough	22,082	10,254	32,336	83,045	389.4
Haines Borough	751	182	933	2,461	379.1
Nome Census Area	2,145	1,380	3,525	9,341	377.4
Bethel Census Area	3,522	2,358	5,880	15,935	369.0
<b>Lake and Peninsula Borough</b>	<b>473</b>	<b>189</b>	<b>662</b>	<b>1,842</b>	<b>359.4</b>
Wrangell-Petersburg Census Area	1,678	865	2,543	7,165	354.9
Kenai Peninsula Borough	12,360	4,226	16,586	48,532	341.8
Prince of Wales-Outer Ketchikan Census Area	1,428	773	2,201	6,830	322.3
Yukon-Koyukuk Census Area	861	1,140	2,001	6,411	312.1
Wade Hampton Census Area	763	1,178	1,941	7,044	275.6
Southeast Fairbanks Census Area	925	709	1,634	6,349	257.4
Matanuska-Susitna Borough	8,505	2,863	11,368	54,153	209.9

**Table 10– 1998 Earnings from Employment**  
 (Source: Alaska Department of Labor and Workforce Development)  
 (earnings per capita extrapolated by DCED)

Region	1998 Earnings from Employment	1998 Population	1998 Employment Earnings Per Capita
North Slope Borough	\$520,522,220	7,268	\$71,618
Denali Borough	\$55,286,386	1,868	\$29,597
<b>Bristol Bay Borough</b>	<b>\$32,431,012</b>	<b>1,291</b>	<b>\$25,121</b>
Aleutian Islands West Census Area	\$108,882,321	5,346	\$20,367
Aleutians East Borough	\$41,027,273	2,145	\$19,127
Juneau Borough	\$531,813,449	30,021	\$17,715
Anchorage, Municipality of	\$4,487,741,618	257,260	\$17,444
Valdez-Cordova Census Area	\$177,367,744	10,274	\$17,264
Yakutat Borough	\$12,342,015	775	\$15,925
Ketchikan Gateway Borough	\$225,062,306	14,143	\$15,913
Northwest Arctic Borough	\$106,716,798	6,817	\$15,655
<b>Dillingham Census Area</b>	<b>\$62,319,552</b>	<b>4,686</b>	<b>\$13,299</b>
Sitka Borough	\$107,681,583	8,722	\$12,346
Fairbanks North Star Borough	\$993,377,321	83,045	\$11,962
Kodiak Island Borough	\$156,034,213	13,716	\$11,376
Skagway-Hoonah-Angoon Census Area	\$38,853,608	3,642	\$10,668
Nome Census Area	\$97,044,435	9,341	\$10,389
Kenai Peninsula Borough	\$498,373,187	48,532	\$10,269
Wrangell-Petersburg Census Area	\$70,592,857	7,165	\$9,852
Haines Borough	\$22,964,855	2,461	\$9,332
Bethel Census Area	\$145,680,722	15,935	\$9,142
Prince of Wales-Outer Ketchikan Census Area	\$62,291,076	6,830	\$9,120
Yukon-Koyukuk Census Area	\$54,484,780	6,411	\$8,499
<b>Lake and Peninsula Borough</b>	<b>\$13,525,967</b>	<b>1,842</b>	<b>\$7,343</b>
Southeast Fairbanks Census Area	\$45,337,691	6,349	\$7,141
Matanuska-Susitna Borough	\$311,684,727	54,153	\$5,756
Wade Hampton Census Area	\$34,879,176	7,044	\$4,952

### **1998 Per Capita Earnings from Employment.**

Figures extrapolated by DCED from data obtained from the Alaska Department of Labor and Workforce Development indicate that earnings from employment in the Dillingham Census Area amounted to \$13,299 per capita during 1998.

The comparable figure for the Bristol Bay Borough was \$25,121, which was 88.9% greater than it was for the Dillingham Census Area. In further comparison, 1998 per capita earnings from employment in the Dillingham Census Area was 81.1% greater than it was in the adjoining Lake and Peninsula Borough (see Figure 10).

As shown on Table 10 on page 24, the Dillingham Census Area had greater per capita earnings from employment during 1998 than seven of Alaska's sixteen

organized boroughs and eight of Alaska's eleven census areas. Detailed figures for 1998 per capita earnings from employment in the Dillingham Census Area, Lake and Peninsula Borough, and Bristol Bay Borough are included in the Appendix.

---

### **Section H. Conclusion.**

DCED was not asked by the City of Dillingham to make any judgement or to offer any recommendation concerning whether the City of Dillingham should pursue or withdraw its 1997 annexation proposal. At this point, it would be premature for DCED to do so even if it were asked.<sup>15</sup>

In addition to requesting an update of the revenue projections in its 1997 annexation petition, Dillingham City officials also expressed interest in considering the alternative of a Dillingham region borough.<sup>16</sup>

15 As staff to the Local Boundary Commission, DCED offers its recommendations concerning formal petitions only after interested parties have had the opportunity to file responsive briefs in support of or in opposition to the petition in accordance with 3 AAC 110.480 and after the petitioner has had an opportunity to file a reply brief in accordance with 3 AAC 110.490.

16 It is certainly appropriate for officials of the City of Dillingham and others in the Bristol Bay region to explore various borough government options. The current flexibility to consider such alternatives may be constrained in the not-too-distant future. Officials of the City of Dillingham and other residents of the unorganized borough have perhaps grown accustomed to recurrent unsuccessful legislative proposals to mandate borough formation and annexation over the past two decades. However, the prospect may be growing for successful legislative action to promote borough incorporation and annexation in those areas of the state that meet appropriate standards. Developments that may increase the potential for successful legislative action in this field include:

(1) Reapportionment of the 2002 Alaska legislature based upon the 2000 census. From 1990 – 1999, the population of the unorganized borough grew by only 2.5%. That is contrasted with population growth in the Matanuska-Susitna Borough, Municipality of Anchorage, and Kenai Peninsula Borough amounting to, respectively, 40.3%, 29.6%, and 20.0%. Such disparities in population growth will result in significant shifts of legislative power to Anchorage, the Matanuska-Susitna region, and Kenai Peninsula in 2002. Previous proposals for legislative reform concerning borough incorporation and annexation have often been initiated by legislators from those areas.

**Footnote continued on next page.**

As noted in Part I, Sections E and K of this report, studies conducted in 1988 and 1993 indicated that a Dillingham region borough would be viable. Specifically, the 1993 study conducted on behalf of the Bristol Bay Coastal Resource Service Area (BBCRSA) concluded as follows:

The cost of operating a borough which provides only mandatory powers is financially feasible. It would require a borough to institute a raw fish [tax] of two percent to insure adequate funding even at a price scenario of \$.65/LB for sockeye salmon. It would also require a two percent hotel or lodge tax as well. With the establishment of these two taxes, a property tax would not be necessary to support a borough.

The 1993 study projected average annual revenues of \$354,534 from a 2% Dillingham area borough fish tax based on a low-price scenario of \$0.65 per pound for sockeye. The low-price scenario used in the study assumed that the taxable value of the fisheries harvest in the prospective borough would be \$17,726,700 annually.

The actual annual average value of the harvest *for sockeye salmon alone* in the Nushagak and Togiak fishing districts during 1997 – 1999 was \$21,633,201. The estimated annual average harvest for herring and salmon species other than sockeye during the same three years amounted to an additional \$6,867,646, bringing the estimated total annual average value of the commercial fisheries in the region during 1997 – 1999 to \$28,500,847.<sup>17</sup> That figure is \$10,774,147 (60.1%) higher than the low-price scenario outlined in the 1993 study. A 2% borough fish tax on \$28,500,847 would generate \$570,017.

The 1993 BBCRSA study projected that a Dillingham region borough would receive an annual average payment of \$144,670 in State shared fisheries business taxes based on a low-price scenario of \$0.65 per pound for sockeye salmon. For purposes of this report, DCED adjusted that figure in the same proportion as was done for the 2% borough fish tax addressed in the previous two

**Footnote continued from previous page.**

(2) The prospect for adoption of the statewide initiative to limit property tax levies by municipalities to 10 mills. Presently, 11 of the 18 home rule and first class cities in the unorganized borough levy property taxes. Since all home rule and first class cities in the unorganized borough are required to make local contributions in support of schools, the ability of the 11 home rule and first class cities to levy property taxes will be severely curtailed if the initiative is approved by the voters this November. If boroughs existed in those regions, the impacts would be relieved since the borough and cities within the borough could then each levy a property tax up to 10 mills.

(3) Increasing calls for reform. Interest in reforming the laws to promote borough incorporation and annexation in those areas of the state that meet appropriate standards is growing. For many years, the Local Boundary Commission has urged the legislature to address disincentives for borough incorporation and annexation. The Alaska Municipal League's current policy statement expresses similar sentiments. Others have expressed support for action as well. For example, in December of last year, the City of Cordova brought forward a proposal for legislative reform to promote borough formation and annexation in areas of the unorganized borough that met appropriate standards.

<sup>17</sup> See footnote # 9 for method of estimating the value of herring and salmon species other than sockeye.

<b>Revenue Component</b>	<b>1993 BBCRSA Study</b>	<b>Contemporary Projections</b>	<b>Difference</b>
Borough Fish Tax (low price scenario)	\$354,534	\$570,017	+\$215,483
State (DOR) Share Fish Tax (low price scenario)	\$144,670	\$232,599	+\$87,929
State (DCED) Shared Fish Tax	\$25,000	\$2,928	-\$22,072
Revenue Sharing	\$28,333	\$30,299	+\$1,966
Safe Communities	\$24,750	\$9,425	-\$15,325
Payments in Lieu of Taxes	\$100,000	\$222,219	+\$122,219
<b>Total</b>	<b>\$677,287</b>	<b>\$1,067,487</b>	<b>+390,200</b>

The 1993 study estimated that Municipal Assistance funding for a prospective Dillingham region borough would be \$24,750. Based on present funding levels, DCED estimates that the level of financial aid for that program (now called Safe Communities) would amount to \$9,425 annually.

paragraphs This results in projected annual average revenues from the State shared fisheries business tax program of \$232,599.<sup>18</sup>

The 1993 BBCRSA study estimated that funding from the extraterritorial fish tax now administered by DCED would generate \$25,000 for a Dillingham region borough. Based on current funding levels, DCED estimates that the funding would amount to only \$2,928 annually.

The BBCRSA borough study conducted seven years ago projected that the prospective Dillingham region borough would receive an annual average Revenue Sharing payment of \$28,333. Based on current year data, DCED estimates that a Dillingham region borough would receive an annual payment of \$30,299.

The seven-year old BBCRSA borough study estimated that federal payments in lieu of taxes would amount to \$100,000 annually. Using present funding levels, DCED estimates that the figure would be \$222,219.

Lastly, DCED notes that although the 1998 legislature increased the required local contribution in support of schools for some districts, the increase would not affect a Dillingham region borough.<sup>19</sup>

Table 11 presents a summary comparison of the revenue projections in the 1993 Dillingham region borough study with contemporary revenue projections.

18 All figures are based on funding under AS 43.75.130(a)(3) following the four-year transition period provided by AS 43.75.130(d).

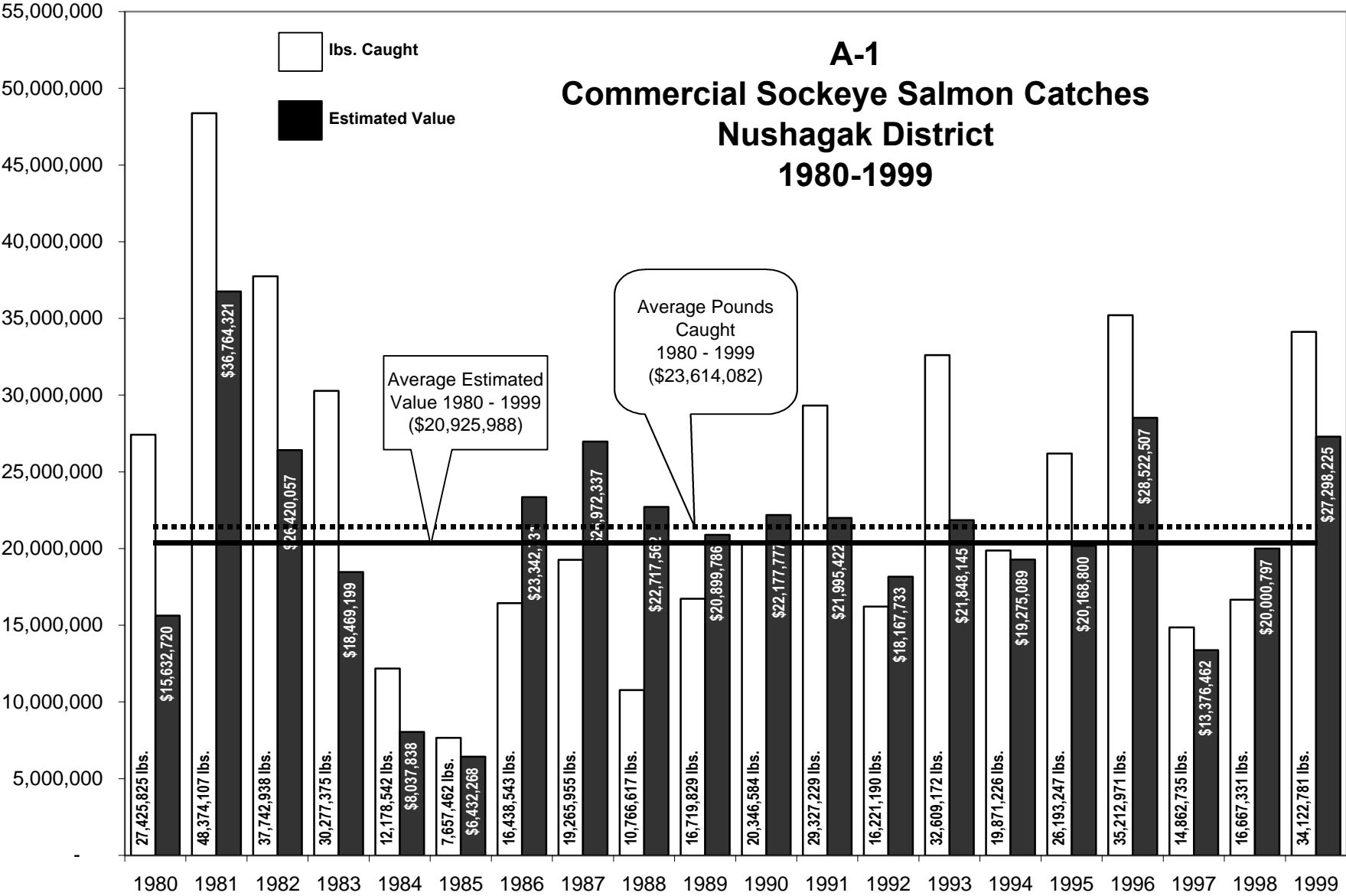
19 Prior to 1998, *municipal* school districts were required to contribute 'at least the lesser of the equivalent of a four mill tax levy on the full and true value of the taxable real and personal property in the district as of January 1 of the second preceding fiscal year or 35% of basic need for the preceding year.' The 1998 change requires a local contribution from municipal districts of 4 mills not to exceed 45% of basic need. A four mill equivalent figure for a Dillingham area borough would be on the order of only five to seven percent of basic need. Consequently, the 1998 legislative changes in education funding did not affect the local contribution that would be required of a Dillingham region borough.



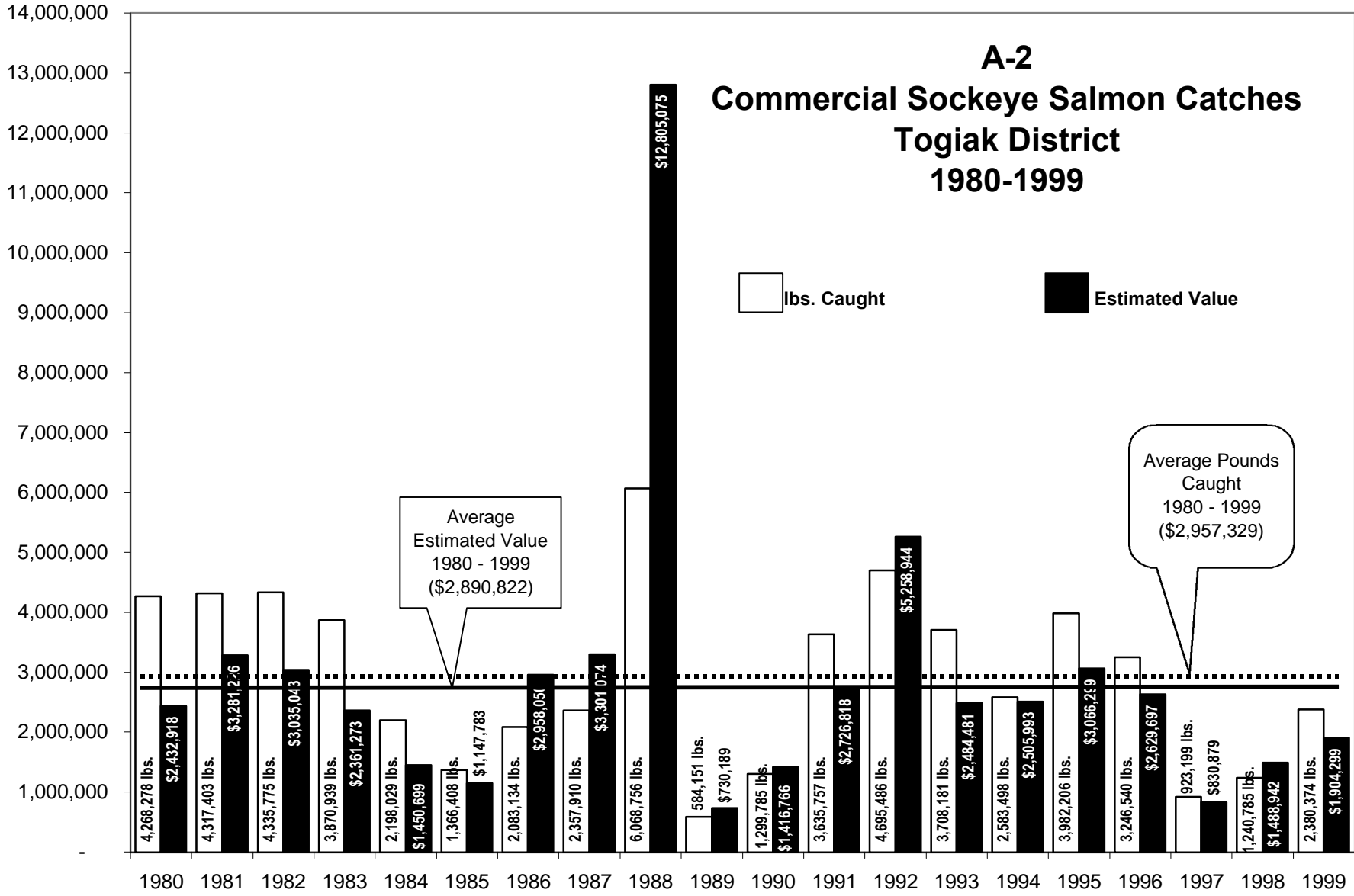
# APPENDIX

Sockeye harvest from 1980 – 1999 in the Nushagak Fishing District in terms of weight and value .....	A-1
Sockeye harvest from 1980 – 1999 in the Togiak Fishing District in terms of weight and value .....	A-2
Sockeye harvest from 1980 – 1999 in the Egegik Fishing District in terms of weight and value .....	A-3
Sockeye harvest from 1980 – 1999 in the Ugashik Fishing District in terms of weight and value .....	A-4
Sockeye harvest from 1980 – 1999 in the Naknek-Kvichak Fishing District in terms of weight and value .....	A-5
Price per pound for sockeye salmon in the Bristol Bay region from 1980 – 1999 .....	A-6
Detailed 1998 employment and earnings data for the Dillingham Census Area .....	A-7
Detailed 1998 employment and earnings data for the Lake and Peninsula Borough .....	A-8
Detailed 1998 employment and earnings data for the Bristol Bay Borough .....	A-9

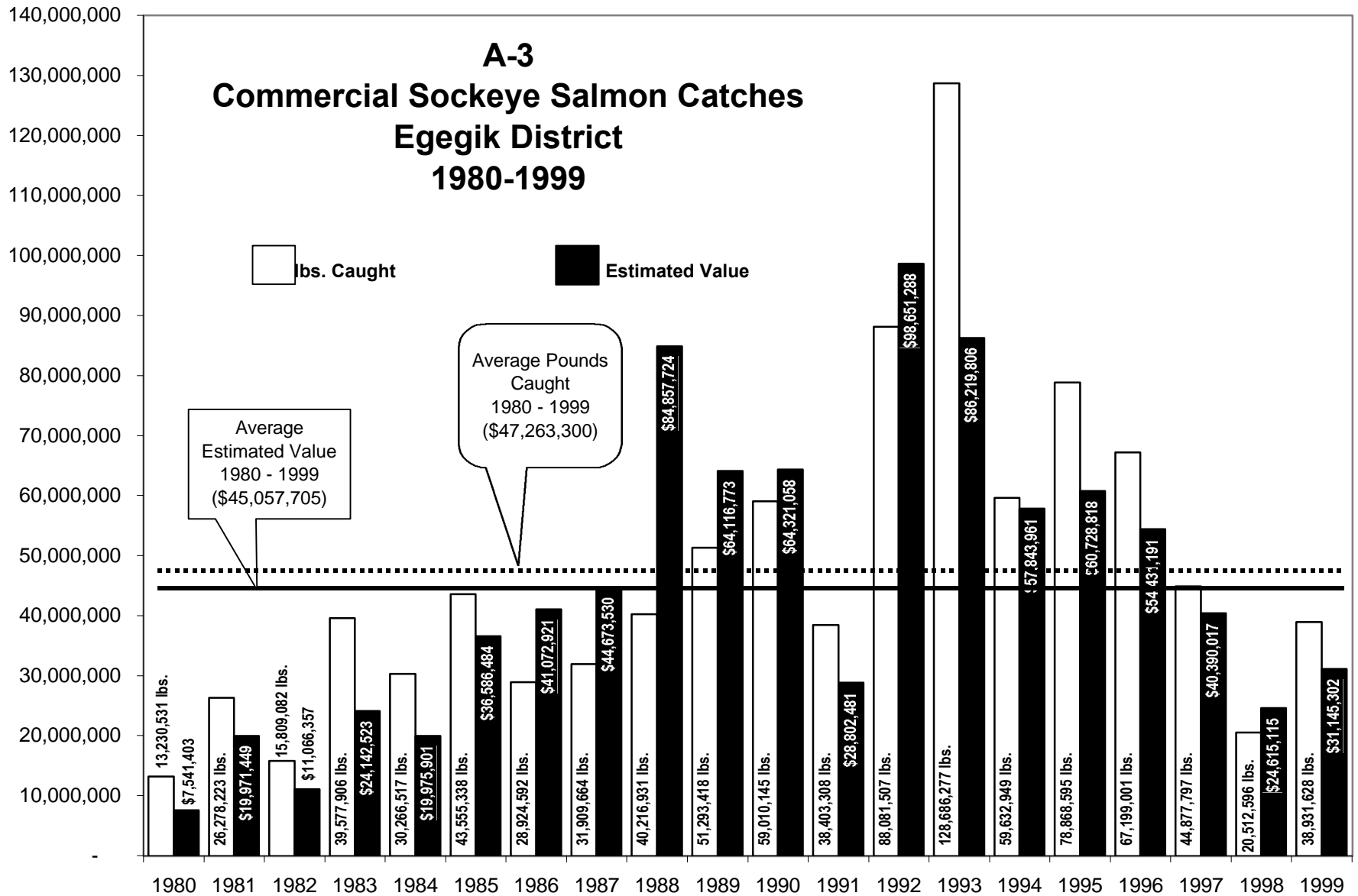
# A-1 Commercial Sockeye Salmon Catches Nushagak District 1980-1999



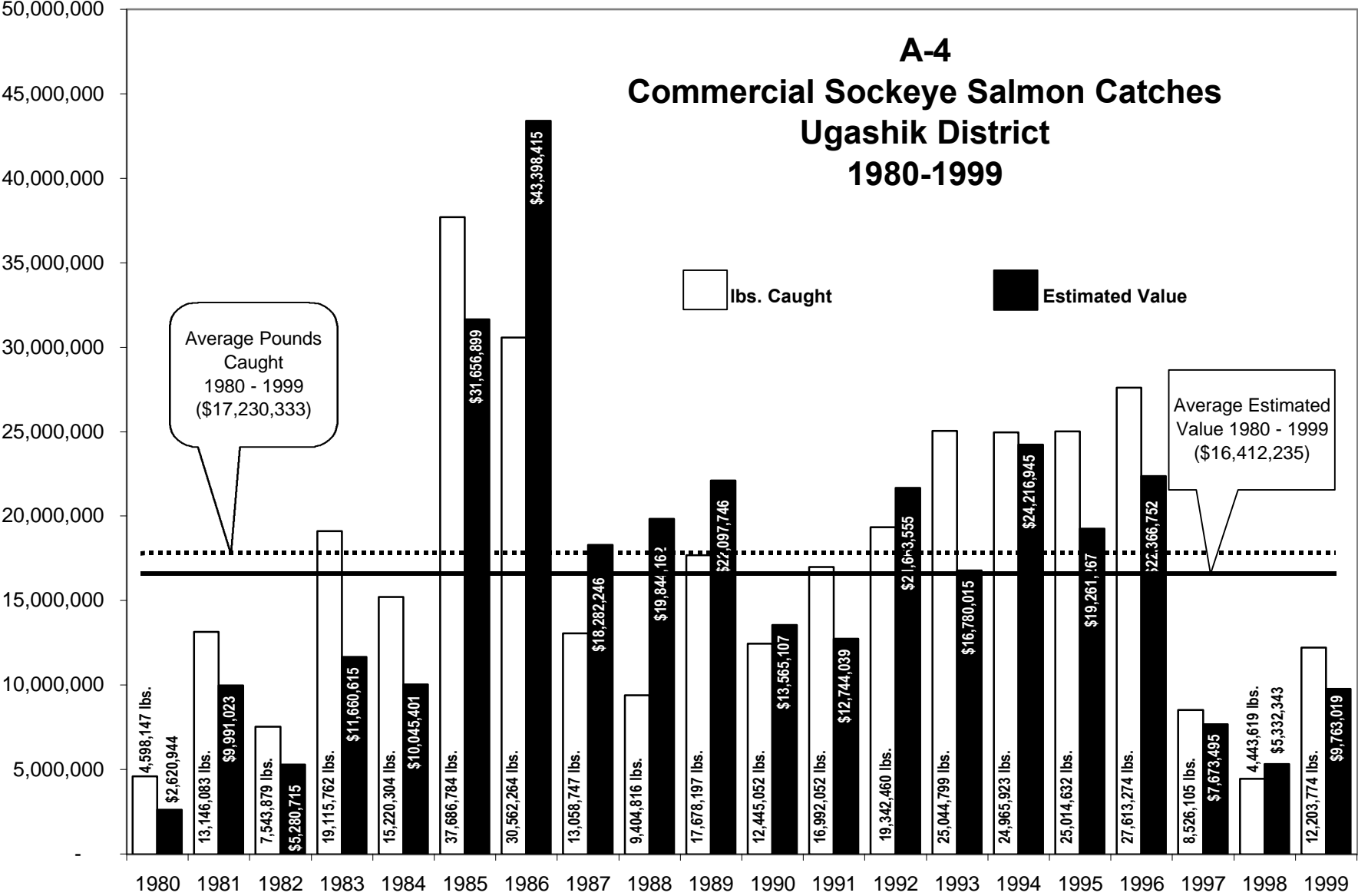
# A-2 Commercial Sockeye Salmon Catches Togiak District 1980-1999



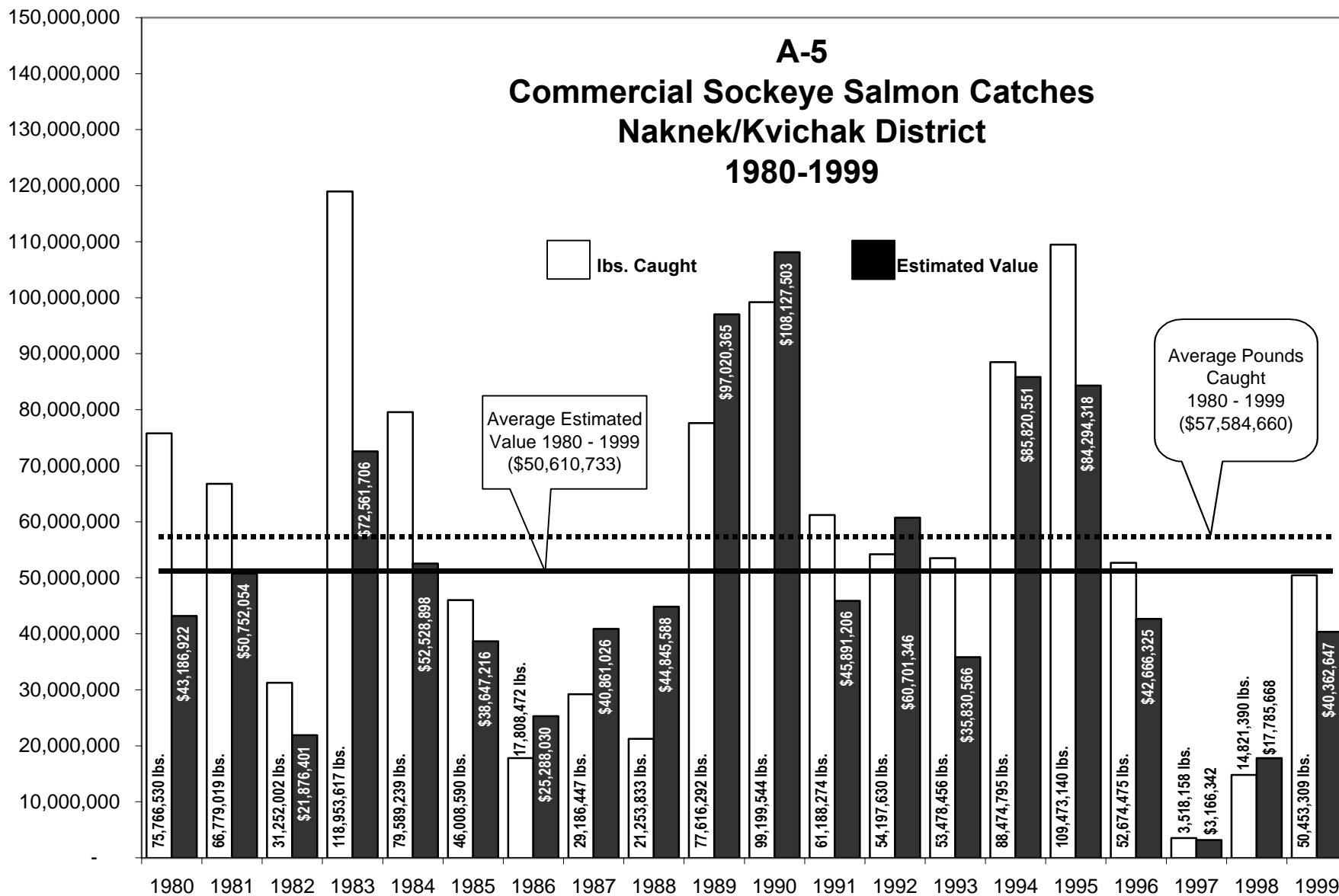
### A-3 Commercial Sockeye Salmon Catches Egegik District 1980-1999

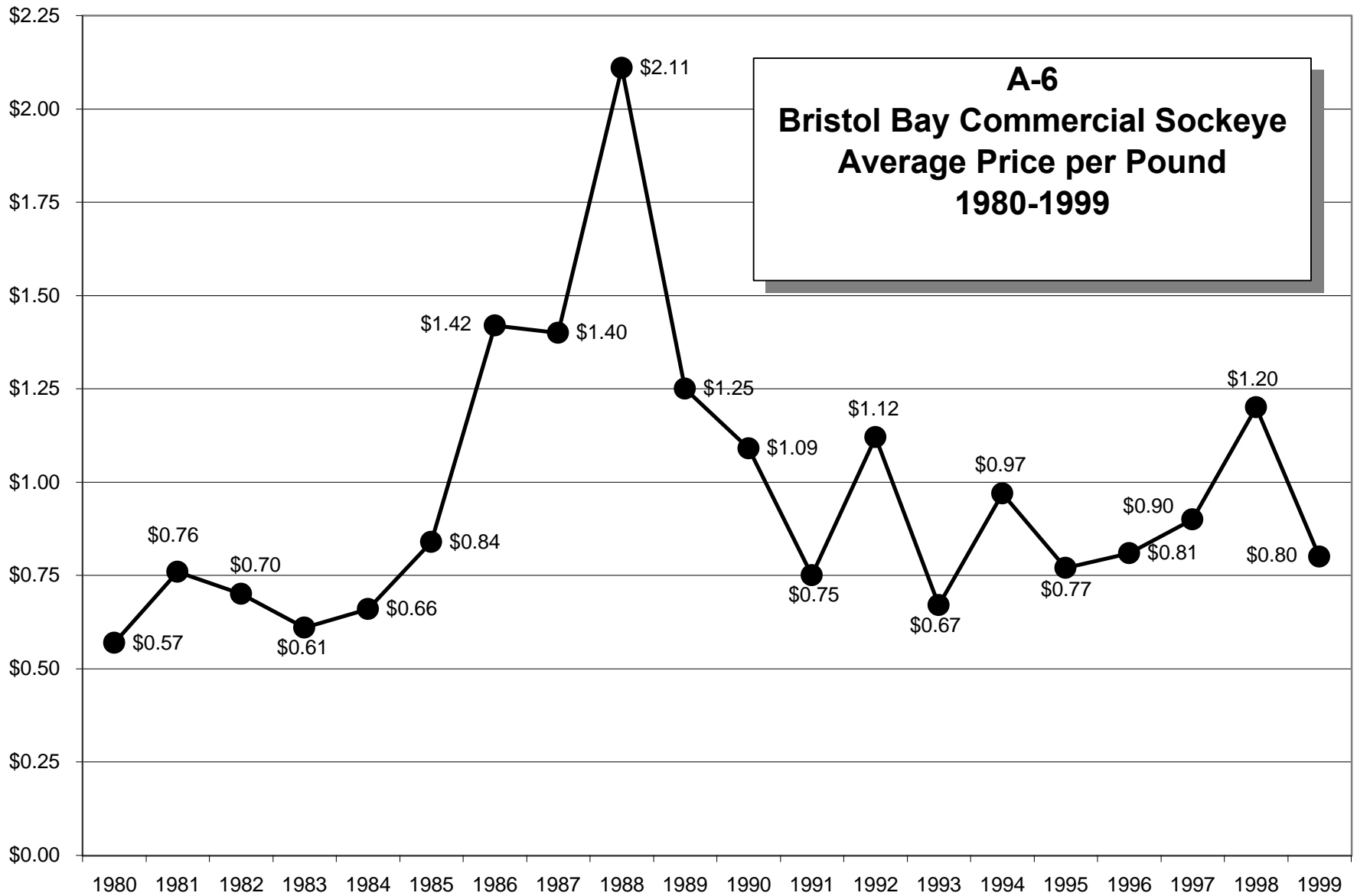


# A-4 Commercial Sockeye Salmon Catches Ugashik District 1980-1999



## A-5 Commercial Sockeye Salmon Catches Naknek/Kvichak District 1980-1999





## A-7

### Detailed 1998 Employment & Earnings Data for the Dillingham Census Area

INDUSTRIAL CLASSIFICATION	ANN AV MO EMP	YEARLY EARNINGS (\$)	ANN AV MO EARN (\$)
<b>TOTAL INDUSTRIES</b>	<b>2,308</b>	<b>62,319,552</b>	<b>2,251</b>
<b>PRIVATE OWNERSHIP</b>	<b>1,701</b>	<b>44,170,245</b>	<b>2,164</b>
<b>TOTAL GOVERNMENT</b>	<b>606</b>	<b>18,149,307</b>	<b>2,494</b>
<b>AGRICULTURE, FORESTRY &amp; FISHING</b>	<b>1</b>	*	*
09 Fishing, hunting & trapping	1	*	*
<b>MINING</b>	<b>3</b>	*	*
14 Nonmetallic minerals ex fuels	3	*	*
<b>CONSTRUCTION</b>	<b>17</b>	<b>462,274</b>	<b>2,212</b>
15 General building contractors	15	314,731	1,720
16 Heavy construction contractors, ex building	1	*	*
17 Special trade contractors	2	69,994	3,500
<b>MANUFACTURING</b>	<b>462</b>	<b>8,371,734</b>	<b>1,511</b>
<b>NONDURABLE GOODS</b>	<b>462</b>	<b>8,371,734</b>	<b>1,511</b>
20 Food & kindred products	460	8,296,845	1,504
27 Printing & publishing	2	*	*
<b>TRANS., COMM. &amp; UTILITIES</b>	<b>168</b>	<b>4,213,535</b>	<b>2,087</b>
41 Local & interurban passenger transit	36	*	*
42 Trucking & warehousing	2	*	*
44 Water transportation	17	*	*
45 Transportation by air	74	1,481,395	1,664
47 Transportation services	3	*	*
49 Electric, gas & sanitary services	36	*	*
<b>TOTAL TRADE</b>	<b>221</b>	<b>3,829,852</b>	<b>1,445</b>
<b>WHOLESALE TRADE</b>	<b>14</b>	<b>335,574</b>	<b>1,986</b>
51 Wholesale trade-nondurable goods	14	335,574	1,986
<b>RETAIL TRADE</b>	<b>207</b>	<b>3,494,278</b>	<b>1,408</b>
52 Building materials & garden supplies	32	*	*
53 General merchandise stores	62	1,008,613	1,357
54 Food stores	50	*	*
55 Automotive dealers & service stations	2	*	*
58 Eating & drinking places	38	461,730	1,013
59 Miscellaneous retail	24	382,178	1,346
<b>FINANCE, INS. &amp; REAL ESTATE</b>	<b>83</b>	<b>2,412,205</b>	<b>2,429</b>
60 Depository institutions	11	*	*
62 Security & commodity brokers	1	*	*
65 Real estate	37	*	*
67 Holding & other invest. offices	34	601,217	1,492
<b>SERVICES</b>	<b>746</b>	<b>24,764,891</b>	<b>2,766</b>
70 Hotels & other lodging places	69	2,112,765	2,542
73 Business services	2	*	*
75 Auto repair, services & parking	4	*	*
79 Amusement & recreation services	3	109,167	3,639
80 Health services	358	*	*
81 Legal services	0	*	*
83 Social services	39	851,681	1,836
86 Membership organizations	269	5,533,522	1,713
87 Engineering & management services	2	50,507	2,020
<b>TOTAL GOVERNMENT</b>	<b>606</b>	<b>18,149,307</b>	<b>2,494</b>
Federal Government	51	1,657,852	2,722
State Government	76	3,252,455	3,558
Local Government	480	13,239,000	2,301

## A-8

### Detailed 1998 Employment & Earnings Data for the Lake and Peninsula Borough

INDUSTRIAL CLASSIFICATION	ANN AV MO EMP	YEARLY EARNINGS (\$)	ANN AV MO EARN (\$)
<b>TOTAL INDUSTRIES</b>	<b>662</b>	<b>13,525,967</b>	<b>1,702</b>
<b>PRIVATE OWNERSHIP</b>	<b>473</b>	<b>9,872,509</b>	<b>1,740</b>
<b>TOTAL GOVERNMENT</b>	<b>189</b>	<b>3,653,458</b>	<b>1,607</b>
<b>CONSTRUCTION</b>	<b>1</b>	<b>*</b>	<b>*</b>
15 General building contractors	0	*	*
16 Heavy construction contractors, ex building	1	*	*
<b>MANUFACTURING</b>	<b>185</b>	<b>4,379,354</b>	<b>1,973</b>
<b>NONDURABLE GOODS</b>	<b>185</b>	<b>4,379,354</b>	<b>1,973</b>
20 Food & kindred products	185	4,379,354	1,973
<b>TRANS., COMM. &amp; UTILITIES</b>	<b>52</b>	<b>1,189,129</b>	<b>1,915</b>
41 Local & interurban passenger transit	1	*	*
44 Water transportation	0	*	*
45 Transportation by air	30	734,118	2,017
48 Communication	2	*	*
49 Electric, gas & sanitary services	18	381,265	1,765
<b>TOTAL TRADE</b>	<b>24</b>	<b>319,358</b>	<b>1,097</b>
<b>WHOLESALE TRADE</b>	<b>6</b>	<b>108,845</b>	<b>1,625</b>
51 Wholesale trade-nondurable goods	6	108,845	1,625
<b>RETAIL TRADE</b>	<b>19</b>	<b>210,513</b>	<b>940</b>
53 General merchandise stores	17	181,151	915
54 Food stores	2	*	*
59 Miscellaneous retail	1	*	*
<b>FINANCE, INS. &amp; REAL ESTATE</b>	<b>6</b>	<b>53,908</b>	<b>759</b>
67 Holding & other invest. offices	6	53,908	759
<b>SERVICES</b>	<b>205</b>	<b>3,907,973</b>	<b>1,589</b>
70 Hotels & other lodging places	77	2,529,105	2,746
72 Personal services	1	*	*
73 Business services	1	*	*
79 Amusement & recreation services	2	69,998	2,800
83 Social services	1	15,270	898
86 Membership organizations	122	1,275,269	870
87 Engineering & management services	0	*	*
<b>TOTAL GOVERNMENT</b>	<b>189</b>	<b>3,653,458</b>	<b>1,607</b>
Federal Government	48	1,680,150	2,922
State Government	8	319,828	3,297
Local Government	133	1,653,480	1,033

## A-9

### Detailed 1998 Employment & Earnings Data for the Bristol Bay Borough

INDUSTRIAL CLASSIFICATION	ANN AV MO EMP	YEARLY EARNINGS (\$)	ANN AV MO EARN (\$)
<b>TOTAL INDUSTRIES</b>	<b>1,071</b>	<b>32,431,012</b>	<b>2,525</b>
<b>PRIVATE OWNERSHIP</b>	<b>698</b>	<b>19,579,017</b>	<b>2,337</b>
<b>TOTAL GOVERNMENT</b>	<b>372</b>	<b>12,851,995</b>	<b>2,876</b>
<b>CONSTRUCTION</b>	<b>33</b>	<b>1,338,452</b>	<b>3,432</b>
17 Special trade contractors	33	1,338,452	3,432
<b>MANUFACTURING</b>	<b>279</b>	<b>7,662,083</b>	<b>2,287</b>
NONDURABLE GOODS	279	7,662,083	2,287
20 Food & kindred products	279	7,662,083	2,287
<b>TRANS., COMM. &amp; UTILITIES</b>	<b>142</b>	<b>5,431,358</b>	<b>3,186</b>
41 Local & interurban passenger transit	1	*	*
42 Trucking & warehousing	19	*	*
45 Transportation by air	78	2,613,748	2,804
48 Communication	23	*	*
49 Electric, gas & sanitary services	21	*	*
<b>TOTAL TRADE</b>	<b>113</b>	<b>1,946,370</b>	<b>1,437</b>
<b>WHOLESALE TRADE</b>	<b>11</b>	<b>184,178</b>	<b>1,395</b>
51 Wholesale trade-nondurable goods	11	184,178	1,395
<b>RETAIL TRADE</b>	<b>102</b>	<b>1,762,192</b>	<b>1,442</b>
52 Building materials & garden supplies	7	*	*
53 General merchandise stores	9	*	*
54 Food stores	19	*	*
55 Automotive dealers & service stations	7	103,682	1,329
56 Apparel & accessory stores	0	*	*
57 Furniture & homefurnishings stores	3	*	*
58 Eating & drinking places	35	498,481	1,190
59 Miscellaneous retail	23	450,968	1,646
<b>FINANCE, INS. &amp; REAL ESTATE</b>	<b>16</b>	<b>*</b>	<b>*</b>
60 Depository institutions	5	*	*
67 Holding & other invest. offices	10	*	*
<b>SERVICES</b>	<b>116</b>	<b>2,727,346</b>	<b>1,962</b>
70 Hotels & other lodging places	71	1,618,847	1,902
73 Business services	4	*	*
76 Miscellaneous repair services	0	*	*
79 Amusement & recreation services	8	159,147	1,576
80 Health services	8	*	*
86 Membership organizations	20	223,129	954
87 Engineering & management services	5	*	*
<b>TOTAL GOVERNMENT</b>	<b>372</b>	<b>12,851,995</b>	<b>2,876</b>
Federal Government	46	2,358,376	4,296
State Government	29	1,279,021	3,697
Local Government	298	9,214,598	2,578