

**FINAL REPORT TO THE LOCAL BOUNDARY COMMISSION CONCERNING  
THE PROPOSED ANNEXATION OF 1.2 SQUARE MILES TO THE CITY OF KETCHIKAN**

## **Introduction**

In its role as staff to the Local Boundary Commission (LBC), State law requires the Alaska Department of Community and Economic Development (DCED) to analyze municipal annexation proposals and make recommendations regarding such to the LBC. The law calls for DCED to prepare both a preliminary and final report on each annexation proposal. The final report is developed after due consideration is given to comments from the public on the preliminary report. (3 AAC 110.530)

On October 4, 1999, DCED distributed its 102-page "Preliminary Report to the Local Boundary Commission Concerning the Proposed Annexation of 1.2 Square Miles to the City of Ketchikan." A 14-page summary of the Preliminary Report was also issued.

The Preliminary Report concluded that the City of Ketchikan's amended annexation proposal satisfied all standards established in law for annexation to a city. Consequently, the Preliminary Report recommended that the LBC approve the amended petition.

The Preliminary Report or summary was provided to 107 interested individuals and organizations. Additionally, approximately 100 copies of the Preliminary Report and summary were furnished to the Ketchikan Public Library, office of the Ketchikan City Clerk, and Ketchikan Gateway Borough for distribution to the public and local officials. Additionally, the report was available for public review on the Internet. A deadline of November 1, 1999 was set for submission of written comments on the Preliminary Report.

Timely comments were received from the City of Ketchikan, Daniel Eichner, Kenneth Eichner, Glenn Lervick, and Rosemary Crowder.<sup>1</sup> Those comments are addressed in this final report. A copy of the comments on DCED's Preliminary Report has been provided to each member of the LBC. The comments are also included in the record

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<sup>1</sup> The letter from Ms. Crowder is more a reiteration of her strong opposition to the annexation proposal rather than commentary on DCED's Preliminary Report.

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of this proceeding available for public review at the office of the Ketchikan City Clerk and the Ketchikan Public Library.

Recent developments concerning the City's annexation proposal are also noted in this final report. Those developments include a pending proposal for the broad expansion of powers to be exercised by the Borough on a service area basis within the territory proposed for annexation to the City.

## **Fairness and Accuracy of DCED's Preliminary Report.**

The City of Ketchikan wrote that it *"concur[s] with the analysis and conclusions stated in the Preliminary Report."* Three other correspondents, however, expressed views that DCED's Preliminary Report was unfair or inaccurate. Kenneth Eichner wrote that, *"I see this report as a very biased [sic] opinion. They see only what they want to see a bureaucratic [sic] way to increase the size of the City."* Glenn Lervick wrote, *"I think this report is very misleading and unresearched. How can this benefit the people in this area. [sic] It will be just another assault on one's [sic] paycheck."* Daniel Eichner wrote *"I would like to point out a few things as I see them. First of all there is no place in the City that has not all the services that I know of. Secondly the Bus Service [sic] is provided by the Borough not the City. Garbage as of Oct. 1, 1999, is also Borough wide including the City (\$15.00 per month)."*

Kenneth Eichner offered nothing to support his allegation that DCED's Preliminary Report was biased. Contrary to the apparent point of his criticism, DCED does not capriciously endorse every annexation proposal.<sup>2</sup> Since the Ketchikan annexation proposal requires approval by two bodies that are independent of DCED (i.e., the Local Boundary Commission and the State Legislature) it would be untenable for DCED to offer anything other than a recommendation based on accurate information and objective analysis.

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<sup>2</sup> For example, DCED has recommended that the Commission reject the annexation of 18 square miles proposed in the pending petition for annexation of territory to the City of Aleknagik.

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Mr. Lervick asserts that DCED's Preliminary Report is misleading, apparently because DCED found the "best interests" standard to be satisfied while he believes annexation would not benefit the people in the territory proposed for annexation. It cannot be overlooked that residents of the territory currently receive the benefit of thirteen basic services and facilities provided by the City. (Preliminary Report, pages 30 – 31) Many of those services are supported by City sales taxes. Because anticipated development in the territory will have a significant adverse impact on City sales tax revenues absent annexation, the City's ability to continue to provide the current level of those services is at risk. (Preliminary Report, pages 48 – 49) It is certainly a benefit, for example, that residents of the territory continue to have access to adequate facilities at the City-owned Ketchikan General Hospital. In addition to supporting the current level of services, annexation will bring municipal road maintenance, improved fire protection, municipal police service, and the prospect of water and sewer utility service. (Preliminary Report, pages 31 – 37) Further, annexation will enfranchise citizens of the territory with respect to affairs of the Ketchikan City government. (Preliminary Report, page 76) Additionally, the City estimates that annexation will reduce insurance premiums for the average homeowner by \$384 annually through 2005. (Amended Petition, Exhibit H, page 9) Based on the figures offered by the City, the projected insurance savings alone is equivalent to a 2.1 mill property tax reduction for the average homeowner.

With respect to Daniel Eichner's comments on this issue, DCED stands behind statements in its Preliminary Report that parts of the City of Ketchikan lack full City services.<sup>3</sup> (Preliminary Report, page 16) These consist of water utility service, sewer utility service, and solid waste collection. Regarding bus service, Mr. Eichner's assertion that DCED's Preliminary Report indicates that the City provides that service is without foundation. The report recognizes that bus service in Ketchikan is provided by the Borough. (Preliminary Report, page 16) Regarding solid waste, even though the Borough exercises solid waste disposal powers on a non-areawide basis, solid waste

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<sup>3</sup> DCED's position is partly corroborated by the statement in the City's petition that "*Large areas of the City's present territory are not served by sanitary sewer or water service.*" (Amended Petition, Exhibit H, page 10).

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collected outside the City of Ketchikan is disposed of at the City's Deer Mountain Landfill.

## **Need for City Services in the Territory Proposed for Annexation.**

In its comments on the Preliminary Report, the City of Ketchikan concurred with DCED's assessment that there is a reasonable need for city services in the territory proposed for annexation. However, the City stressed that its testimony at the December 4 hearing before the LBC on this matter will provide further evidence of the need for City police services and improved fire protection in the territory.

Officials of the City of Ketchikan and the Alaska Department of Public Safety discussed their differing views over the need for police service in the territory proposed for annexation as reflected in DCED's Preliminary Report. Chris Stockard, Captain with the Alaska State Troopers, subsequently contacted DCED to indicate that, as noted in Del Smith's memo of September 9, the Troopers recognize that commercial development in the territory will lead to additional demands for police service. Based on the planned Wal-Mart store alone, Captain Stockard indicated that the number of calls for service in the territory will likely increase by four or five per week (208 to 260 per year). Captain Stockard stressed that the Troopers, however, remain neutral in terms of the City's annexation proposal. (Chris Stockard, personal communication, November 8, 1999)

Kenneth Eichner wrote, *"Most but not all of our roads and services are taken care of by the Property [sic] owners."* Glenn Lervick stated that, *"The roads in this area (North Tongass [sic] Shoreline Drive) etc. [sic] are absolutely [sic] substantial. The potable water and sewer systems are more than adequate and pose no threat to health. In the small amount of property left for development the majority is extremely steep. We have adequate police and fire protection."* Daniel Eichner wrote that, *"We do have maintenance on our secondary roads better than what the City provides-without it my Industrial Park would be out of business."*

DCED indicated in its Preliminary Report that the reduction in State highway personnel in Ketchikan is likely to diminish the quality of maintenance of Shoreline Drive within the territory proposed for

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annexation. (Preliminary Report, pages 31 – 32) Other secondary roads in the territory proposed for annexation receive no State or local government maintenance. Upon annexation, the City would assume responsibility for maintenance of all roads in the territory with the exception of North Tongass Highway. Assertions that there is adequate road maintenance in the territory proposed for annexation are difficult to reconcile with the 'distress' recently expressed by the Ketchikan Gateway Borough regarding cutbacks in road maintenance by the State in the current fiscal year. In a two-page letter to the Commissioner of the Alaska Department of Transportation and Public Facilities, the Borough Manager wrote on July 2, 1999 as follows:

Ketchikan Gateway Borough was distressed to learn of the elimination of one of the positions at the Ketchikan D.O.T. maintenance station effective July 1. Since our station is small, any loss of personnel will effect [sic] the ability of the remaining staff to adequately maintain our area's road system. . .

. . . A two-person crew will not be adequate for winter snow removal/road upkeep to insure safe transport of these school children. Nor will the working citizens be assured of safe transit.

Ketchikan's climate most often produces icy and/or black ice conditions that require constant monitoring by the D.O.T. crews. . . .

We recognize the fiscal necessity of cut-backs, however, we hate to see the safety of the Borough's citizens compromised. . . (emphasis added)

Regarding assertions that there is no need for water and sewer utility service, DCED notes that the Alaska Department of Environmental Conservation (DEC) was expressly invited to review pages 16, 26, 30, 35 -36, 38, 40, 43, and 44 of the Preliminary Report and pages 3, 4, and 6 of the summary regarding the need for water and sewer utilities in the territory. Of course, the report was also provided to the Shoreline Service Area. Neither DEC nor the Shoreline Service Area recanted earlier positions noted in the report expressing the need for water and sewer utilities in the territory. (Preliminary Report, pages 35 – 36)

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In a recent development, the Ketchikan Gateway Borough seems to recognize the need for a broad expansion of local governmental services in the territory proposed for annexation. On November 1, 1999, the Borough Assembly adopted a motion by a vote of 6 to 0 (1 member was absent) introducing Ordinance No. 1123.<sup>4</sup> That ordinance authorizes the Borough to provide several additional fundamental services on a service area basis within the Shoreline Service Area. Specifically, the proposed additional services consist of:

*“The provision of services for the construction, maintenance and operation of roads. . .*

*The provisions [sic] of general property security services. . .*

*The provision of hospital and other public works services.”*

Ordinance No. 1123 would also impose a two and one-half percent “fire, roads and security sales tax” and a one percent “hospital and other public works sales tax” on a service area basis in the Shoreline Service Area. The collective three and one-half percent service area sales tax levy would be identical to the City’s sales tax levy. Imposition of the proposed service area sales taxes would eliminate any differential sales tax rate between the City and the Shoreline Service Area.

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<sup>4</sup> The ordinance was introduced at the request of the Shoreline Service Area Board (Borough Manager’s “Agenda Statement, No. 9 i, meeting of November 1, 1999”). The Shoreline Service Area Board met in executive session “as is provided for in the Borough Code 5.31.08082b” on October 21 for approximately 1.5 hours. After the Board resumed its public deliberations, it adopted Resolution # 99-1 asking the Borough Assembly to levy a 3.5% Shoreline Service Area sales tax. The Board indicated that the adoption of such a tax might lead to the withdrawal of the petition. (Minutes of the Shoreline Service Area Board Meeting of October 21, 1999)

The Shoreline Service Area Board also voted on October 21 to “submit a request to the Borough Assembly to reallocate up to \$100,000 of SSA funds for Legal Services [sic] regarding the Annexation [sic]”. On November 1, the Borough Assembly introduced Ordinance No. 1122 by a vote of 6 to 0 which, in part, appropriates the \$100,000 requested by the Shoreline Service Area Board. In addition, in an undated letter (received by the Borough October 27), the Shoreline Service Area requested “the services of the Borough Attorney to present our case at the LBC meeting.”

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Ordinance No. 1123 is scheduled for a public hearing before the Borough Assembly on November 15. If approved, the expansion of powers in the service area would be subject to ratification by the voters of the service area. The Borough Assembly also adopted Resolution No. 1497 on November 1, 1999 by a vote of 6 – 0 calling for a December 14, 1999 election on those issues in the Shoreline Service Area.

On November 4, 1999, representatives of the Shoreline Service Area Board addressed the City Council concerning the developments noted above. They urged the City to seek a delay of the LBC hearing scheduled for December 4. (Draft minutes of the November 4, 1999 meeting of the Ketchikan City Council, pages 2 - 5)

In a five-page memorandum to the City Mayor and Council dated November 4, 1999, the Ketchikan City Manager expressed a number of significant policy concerns over the proposal relating to the expansion of powers for the Shoreline Service Area. The memorandum concluded, *“My office strongly recommends that the City Council forego consideration of the Shoreline Service Area’s proposal. The City has too much to lose in exchange for marginal gains.”*

In a three-page memorandum to the City Manager dated November 4, 1999, the Ketchikan City Attorney indicated that the Shoreline Service Area proposal *“raises legal issues which particularly concern me.”* The following three principal concerns were outlined in the memorandum:

1. The City would have no discretion concerning the allocation of funds among Shoreline’s road, public works, property protection, and hospital needs. Instead, the City would merely be a contractor obligated to meet Shoreline’s specifications for work authorized by the Service Area Board and Borough Assembly.
2. Proceeds from the service area sales tax would greatly exceed the cost of reasonable road, public works, property protection, and hospital services provided by the City. The difference between the proceeds and the costs is clearly intended as compensation for the withdrawal of the petition. There is no authority for such an expenditure.

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3. The proposed broad expansion of powers of the Shoreline Service Area may be tantamount to the creation of a new service area. Such an expansion of powers of the service area may violate the intent, if not the letter of the constitutional provision that prohibits the creation of a new service area if services can be provided by annexation to a city.

After hearing from the Shoreline Service Area representatives and considering the views of the Ketchikan City Manager and City Attorney, the Ketchikan City Council rejected a motion to seek a delay of the LBC's December 4 hearing. The motion was defeated by a vote of four to two. (Draft minutes of the November 4, 1999 meeting of the Ketchikan City Council, page 8)

The materials concerning this matter that were considered by the Ketchikan Gateway Borough Assembly at its November 1 meeting have been provided to the LBC. The materials relating to this issue that were considered by the Ketchikan City Council at its November 4 meeting, along with the draft minutes of that meeting, have also been provided to the LBC. Those materials are also included in the record of this proceeding available for public review at the office of the Ketchikan City Clerk and the Ketchikan Public Library.<sup>5</sup>

## **Constitutional Policy of Minimum of Local Government Units**

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<sup>5</sup> Specifically, the materials consist of the following twelve documents. (1) Borough Manager's "Agenda Statement, No. 9 i, meeting of November 1, 1999"; (2) Ketchikan Gateway Borough Ordinance No. 1123; (3) Shoreline Service Area Resolution No. 99-1; (4) meeting minutes of the Shoreline Service Area Board Meeting of October 21, 1999; (5) Borough Manager's "Agenda Statement, No. 9 j, meeting of November 1, 1999"; (6) Ketchikan Gateway Borough Resolution No. 1497; (7) letter from the Chris John, Shoreline Service Area Board Chairman (undated, but received by the Borough on October 27, 1999); (8) Borough Manager's "Agenda Statement, No. 9 n, meeting of November 1, 1999"; (9) Ketchikan Gateway Borough Ordinance No. 1122; letter from the Chris John dated October 22, 1999; (10) draft minutes of November 4, 1999 meeting of the Ketchikan City Council; (11) memorandum from Ketchikan City Manager to Ketchikan City Council dated November 4, 1999; (12) memorandum from the Ketchikan City Attorney to the Ketchikan City Manager dated November 4, 1999.



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The prospect of greatly expanding the powers that the Borough is authorized to exercise on a service area basis within the Shoreline Service Area serves to reinforce DCED's views that the constitutional policy of minimizing the number of local government units strongly supports this particular annexation. (Preliminary Report, pages 71 -- 72) Ordinance No. 1123 would create somewhat of a "mini-City of Ketchikan" within the Shoreline Service Area.

DCED believes that those who wrote Alaska's constitution sought to avoid the creation of service areas adjoining city governments, particularly service areas with broad powers similar to those being exercised by adjoining cities. Article X, Section 1 calls for "*a minimum of local government units.*" Article X, Section 5 of the constitution provides that, "*A new service area shall not be established if, consistent with the purposes of this article (i.e., the minimum government units provision of Art. X, Sec. 1), the new service can be provided by an existing service area, by incorporation as a city or by annexation to a city.*"

## **Final Conclusions**

After considering comments on DCED's Preliminary Report and other recent developments, DCED affirms its earlier conclusions regarding the annexation proposal. The pending proposal to expand the Borough's powers in the Shoreline Service Area strengthens DCED's conclusions supporting annexation. DCED's final conclusions in this matter are summarized below.

1. The territory proposed for annexation and the area within the existing boundaries of the City of Ketchikan are compatible in character, thereby satisfying the standard set out in 3 AAC 110.100. That conclusion is supported by the following six principal factors.
  - A The two areas are contiguous and compact. The territory proposed for annexation comprises only 1.2 square miles, more than 1/3 of which is water. The territory is nearly 90% smaller than the average city legislative review annexation approved by the Commission in this decade. The territory proposed for annexation adjoins the 3.8 square miles within the existing boundaries of the City of Ketchikan. Although the City of Ketchikan is the second most populous city

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government in Alaska, the area within its current boundaries is smaller than 80% of the other city governments in Alaska. The compact and contiguous nature of the two areas offers a strong indication of compatibility in the context of the standard at issue.

- B While there are significant relative differences in the population density of the City of Ketchikan and the territory proposed for annexation, each is densely populated. The City of Ketchikan is the most densely populated city government in Alaska. The territory proposed for annexation is more densely populated than 93% of the city governments in the state, including those serving Wrangell, Petersburg, Craig, Cordova, Wasilla, Homer, Kenai, Nome, and 127 other communities that have incorporated city governments.
- C Land use in the 1.2 square mile area proposed for annexation is similar to land use in the adjacent 3.8 square miles within the existing boundaries of the City. Both areas contain a mixture of residential and commercial properties. Further, major commercial development in the territory proposed for annexation is imminent. The two areas also reflect similar subdivision platting characteristics.
- D The territory proposed for annexation and the area within the City contain extensive development or areas suitable for development, as reflected in the per capita value of taxable property in each area. The assessed value of real and personal property in the City of Ketchikan is \$58,284 per capita. The comparable figure for the 1.2 square miles proposed for annexation is \$116,230 per capita – twice that of the City. If projections for development are realized, the assessed value of the territory proposed for annexation will climb by nearly 24% to \$143,957 per capita within five years.
- E Annexation critics assert that the two areas are incompatible, in part, because the territory proposed for annexation allegedly lacks certain services that are available to City residents. Specifically cited were the absence of water and sewer utilities, bus service, street maintenance, and municipal garbage collection. However, many areas within the City of Ketchikan lack

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Borough bus service and some even lack City service with respect to garbage collection, water, and sewer. Current differences in the level of services noted are not a basis to conclude incompatibility. The boundaries for the delivery of such services are flexible. City street maintenance would be extended upon annexation, bus service could be readily extended (the Borough Assembly approved a plan for such on September 20, 1999), and water and sewer utilities could be extended upon funding for capital improvements. The boundaries for City solid waste collection are under the control of the Regulatory Commission of Alaska.

- F Lastly, and perhaps most significantly, the two areas in question are clearly parts of the same community. That community is divided by political boundaries.
2. The territory proposed for annexation exhibits a reasonable need for city government. As such, the standard set out in 3 AAC 110.090(a) is met. This conclusion is supported by the following six principal considerations.
- A On November 1, 1999, the Ketchikan Gateway Borough Assembly voted 6 to 0 to introduce Ordinance No. 1123 adding substantially to the Borough's powers in the Shoreline Service Area. The proposed additional powers consist of the construction, maintenance, and operation of roads; "general property security services", and "hospital and other public works services". Ordinance No. 1123 would also impose a two and one-half percent "fire, roads and security sales tax" and a one percent "hospital and other public works sales tax" on a service area basis in the Shoreline Service Area. The Assembly is scheduled to conduct a hearing on the Ordinance on November 15. The ordinance is subject to ratification by the voters of the Shoreline Service Area at an election to be held December 14.
  - B Officials of the Alaska Department of Public Safety recognize that commercial development in the territory will lead to additional demands for police service. Based on the planned Wal-Mart store alone, Troopers indicated that the number of calls for service in the territory will likely increase by four or five per week (208 to 260 per year).

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However, Troopers maintain a neutral position concerning the City's annexation proposal.

- C The City asserts that once the Ketchikan Wal-Mart store is constructed, National Fire Protection Association (NFPA) standards will require 'at least 3 pumpers, 1 ladder truck (or combination apparatus with equivalent capabilities), other specialized apparatus as may be needed or available, not less than 16 fire fighters, 1 chief officer, and two "rehab" personnel' to provide adequate fire protection in the territory. However, NFPA requirements for adequate fire protection in the territory cannot be independently confirmed without specific plans for the Wal-Mart building. Nonetheless, the City appears to offer a credible assessment of the need for enhanced fire protection services in the territory. That assessment assumes that the Wal-Mart store would encompass 64,000 square feet, that it would be of type I construction, that it would include a sprinkler system, and that it would have a 92,000 gallon water tank for fire suppression. The City stresses that its assessment was based on "NFPA minimums" which are, at least in some instances, substantially less than the NFPA recommended levels of fire protection.
- D The question of the need for city government in the territory warrants consideration of local government service needs that are presently being met, not just those that are unmet. It is significant, therefore, that the City of Ketchikan currently provides extensive services and facilities that benefit the territory in question either directly or indirectly. These include the Ketchikan General Hospital, emergency medical services, emergency dispatch services, mental health and substance abuse treatment, port facilities, harbors, library, museum, civic center, solid waste disposal, cemetery, telephone utility service, and electrical utility service.
- E The territory is in need of local street maintenance. There are an estimated 2.5 miles of roads in the territory that receive no maintenance whatsoever from the State or local governments. Further, safety concerns exist regarding one of the streets which is located along a steep embankment but lacks a guardrail. In addition to the 2.5 miles of secondary streets, the territory includes Shoreline Drive, a 0.9

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mile long roadway that is maintained by the State on a low-priority basis. With recent cutbacks in its highway maintenance staff in Ketchikan, State transportation officials would welcome the transfer of responsibility for the maintenance of that road to the City. The City has expressed its willingness to accept responsibility for maintenance of Shoreline Drive as well as the 2.5 miles of roads in the territory that presently lack maintenance.

- F There is a need for water and sewer utility service in the territory proposed for annexation. The respondent Shoreline Service Area (SSA) conceded, and the Alaska Department of Environmental Conservation (DEC) agreed, that future development in the territory is constrained by the lack of public water and sewer utilities. SSA and DEC also share the view that significant public health risks generally stem from a lack of public sewer and water utilities in areas of concentrated development. Further, several correspondents, including the Borough, were critical of the City for its lack of plans for the extension of water and sewer utility service in the territory. DEC expressed its support for the City's annexation proposal in the hope that it would lead to the extension of City sewer and water utilities into the territory.
3. The City of Ketchikan is best able to serve the local governmental needs described above, thereby satisfying the standard in 3 AAC 110.090(b). The following seven major considerations led to this determination.
- A It appears as though the Borough intends to contract with the City for construction, maintenance and operation of roads, general property security services, hospital, and other public works services in the Shoreline Service Area if the pending proposal for the expansion of service area powers is implemented.
  - B The fact that the City is currently providing thirteen services and facilities that directly or indirectly benefit the territory proposed for annexation is evidence of the City's superior capability to provide those services. No one has effectively rebutted that evidence.

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- C DEC favors the extension of water and sewer services by the City of Ketchikan to the territory over the establishment of an independent water and/or sewer utility operated by the Shoreline Service Area. DEC indicated that its policy recognizes that the expansion of existing utilities generally promotes greater economies of scale and greater rates of success in serving public needs.
- D The City has the infrastructure to extend water and sewer utility service to the territory. Of course, the actual extension of the utilities will require substantial capital funding. Although the competition for grants is keen, the utility extensions would qualify for significant partial funding through State grant programs and perhaps other sources. Local improvement districts, wherein property owners that benefit from capital projects contribute to their funding, are commonly used by municipal governments in Alaska to generate the local share of major capital projects.
- E The City has the capability to extend street maintenance to the territory proposed for annexation. The City plans to spend an average of \$120,000 annually to maintain streets in the territory. The City is also prepared to spend more than three-quarters of a million dollars over three years to upgrade the streets in the territory. In contrast, the Borough currently provides no road maintenance in the territory.
- F While the State Fire Marshal does not take a position favoring or opposing the annexation proposal, he agreed with the City that it is an inefficient use of resources to maintain two fire departments within two miles of one another in Ketchikan, particularly if each met the standards which the City asserts are necessary to provide adequate fire protection in this case under NFPA standards. The City has greater capacity than the Borough (through the Borough's Shoreline Service Area) to provide adequate fire protection to the territory. The City currently exceeds standards which it claims are required, SSA does not. Further, the City plans to hire two additional firefighters to allow full-time staffing of its "west-end fire station" located approximately 2 miles from the center of the territory proposed for annexation. The City plans to spend an average of nearly \$186,000 annually to extend enhanced

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fire protection to the territory, coupled with the initial expenditure of \$37,400 for related capital improvements.

- G While State public safety policy makers are neutral with respect to the City's annexation proposal, the standard at issue requires a comparison of the capacity of the City versus the Borough to provide services. If there were a need for municipal police in the territory, the City would clearly have the greater capacity to serve that need. The Borough does not provide police service whereas the City has a fully operational police department. Upon annexation, the City plans to hire three additional officers incrementally over the course of three years to maintain the current level of service. The City plans to provide 2.9 officers per 1,000 residents within the expanded City limits.
4. The five square mile area within the City's proposed post-annexation boundaries includes the human and financial resources necessary to provide essential services on an efficient, cost-effective level. This satisfies the standard at 3 AAC 110.110. The following four major findings led to this determination.
- A The greater Ketchikan community is one of the more populous communities in the state. Citizens of the City of Ketchikan have successfully operated a city government for the past 99 years. For the past 39 years, the City has exercised home rule powers. The City currently provides an impressive range of services, far more than most cities in Alaska.
  - B It is reasonably projected that the cost of extending City services to the territory will average \$546,118 annually over the first three years (cost for police service is based on third-year budget projections to provide a more realistic estimate of long-term costs). Additionally, the City plans to spend an average of \$279,634 for capital projects annually in the territory during the first three years following annexation. Together, those figures equal an annual expenditure of \$825,752. That total is equal to 1.6 percent of the total current operating and capital budget of the City. Thus, the prospect of extending services to the territory does not represent a substantial financial challenge to the City.

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- C It is reasonably projected that revenues resulting from annexation (net of sales tax revenues from sales shifted to the territory) will equal \$839,078 the first year, \$885,256 the second year, and \$949,101 the third year. Approximately forty-four percent of those projected net revenues will come from sales taxes on purchases within the territory by residents of the greater Ketchikan community and visitors.
  - D The reasonably estimated annual net revenues exceed the reasonably projected annual expenses by an average of \$65,393 during each of the first three years following annexation. Thus, annexation will not be a financial burden on the City. Neither will annexation be a financial windfall for the City.
5. The population within the proposed expanded City boundaries is clearly both large and stable enough to support the extension of City services, thereby satisfying the standard set out in 3 AAC 110.120. The following five predominant considerations support this conclusion.
- A With 8,460 residents, Ketchikan currently ranks as the second most populous city government in Alaska.
  - B The 541 residents of the territory exceed the population threshold for incorporation of first class and home rule cities in Alaska by more than 35%. The combined population of the territory and the City exceeds 9,000.
  - C The population within the proposed expanded City boundaries is stable in the sense that it is not subject to erratic seasonal population fluctuations.
  - D Between 1996 and 1998, the City's population declined by 2.7%. That decline is due largely to the closure of the Ketchikan Pulp Company's operations at Ward Cove. Notwithstanding, from 1990 to 1998, the City's population still increased by 2.4%.
  - E The Borough's non-city population, which includes the territory proposed for annexation, increased 3.8% from 1990 to 1998. Like the City's population, the Borough's non-city population fell from its peak during the 1990s. The 1998 figure is 6.5% less than the apex for the decade reached in



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1995. Again, the recent decline is largely the result of the closure of the Ketchikan Pulp Company's operations at Ward Cove.

6. The proposed boundaries are inclusive of all areas needed to provide essential city services on an efficient, cost-effective level. This satisfies the standard set out in 3 AAC 110.130(a). The standard at issue concerns whether there are areas outside the five square miles encompassed by proposed post-annexation boundaries of the City that are crucial to the City's ability to provide essential city services efficiently and cost-effectively. The respondent Shoreline Service Area criticizes the City's annexation proposal as not addressing the long-term jurisdictional needs of the City. However, it has not shown that areas outside the five square miles in question are essential to the capacity of the City to operate efficiently and effectively. While the City's proposed post-annexation boundaries may not be perfect, the standard is clearly satisfied.
7. The 1.2 square miles proposed for annexation is contiguous to the existing boundaries of the City. Thus, the standard established in 3 AAC 110.130(b) is met.
8. The five square miles within the City's proposed post-annexation boundaries do not extend beyond the existing community plus reasonably predictable growth, development, and public safety needs for the next ten years. Thus, the standard set out in 3 AAC 110.130(c) is met. As noted earlier, the territory proposed for annexation and the area within the City are compact, contiguous, and parts of the same community.
9. The proposed post-annexation boundaries of the City do not include entire geographical regions or large unpopulated areas. This satisfies the standard established at 3 AAC 110.130(d). The following three primary factors support this conclusion.
  - A Although the annexation proposal would expand the jurisdictional territory of the City by 31.6%, Ketchikan's expanded boundaries would remain small in comparison to most other cities in Alaska. Ketchikan's new boundaries would encompass only five square miles. That figure is 82%

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smaller than the average of all 145 cities in Alaska. More significantly, Ketchikan's expanded boundaries would encompass an area that is 93% smaller than the average of the other ten most populous cities in Alaska (all but one of which have substantially smaller populations than Ketchikan).

- B Thirty-nine other cities in Alaska have boundaries encompassing five square miles or less. Of these, only North Pole and Palmer have populations in excess of 900. However, neither of those two cities have populations or development approaching that of Ketchikan.
  - C Even after annexation, the City of Ketchikan would remain the most densely populated city government in Alaska, far out-pacing the second most populous city in the state.
10. Despite widespread opposition among residents and property owners in the territory proposed for annexation, the City's proposal to extend its boundaries serves the balanced best interests of the State of Alaska, the territory proposed for annexation, and all political subdivisions affected by the proposal. Thus, the standard set out in 3 AAC 110.140 is satisfied. The following five major factors led to the conclusion that this standard is satisfied.
- A Residents and property owners within the territory proposed for annexation receive, directly or indirectly, the benefit of city government without commensurate tax contributions and no practical or equitable alternative method is available to offset the cost of providing that benefit.
  - B Annexation will eliminate one borough service area. This serves the principle set out in Article X, Section 1 which favors minimum numbers of local government units in order to promote efficient and effective local government.
  - C Annexation will extend home rule local government powers to the 541 residents of the territory. This circumstance serves the principle set out in Article X, Section 1 favoring maximum local self-government.
  - D Annexation will ensure that the City of Ketchikan maintains the legal jurisdiction necessary to continue to fund a broad

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array of essential services that benefit the residents of the City and outlying areas. Doing so serves the interests of the residents and property owners of the City as well as those of the territory proposed for annexation. It also benefits the State and the Ketchikan Gateway Borough who are relieved of such responsibilities. Absent annexation, the City faces the prospect of significant revenue reductions that threaten its ability to fund the current level of services. It is vital that the State provide local governments with the tools they need to take on greater responsibilities, particularly when they do so willingly. This is especially important in the current era of significant budget reductions for State services and even greater reductions in direct State financial aid to local governments for general services.

E Residents of the territory proposed for annexation will be enfranchised with respect to the City of Ketchikan as a result of annexation. Currently, City officials make many decisions that affect residents and property owners in the territory proposed for annexation. Yet, those residents have no formal voice in the operation of the City. If they are annexed, they will be enfranchised.

11. The City presented a six-page transition plan that outlines its proposal for the assumption of appropriate powers, duties, rights, functions, assets, and liabilities relating to annexation. The plan was prepared in consultation with appropriate Borough officials, including those affiliated with the Shoreline Service Area. Thus, the standard set out in 3 AAC 110.900 is satisfied.

12. Annexation will not deny civil or political rights to anyone because of race, color, creed, sex or national origin. Thus, the standard established by 3 AAC 110.910 is met.

## **Final Recommendation**

Based on the conclusions summarized above, DCED endorses the February 5, 1999 petition of the City of Ketchikan, as amended by the City on May 11, 1999. The amended petition seeks the annexation of approximately 1.2 square miles. Accordingly, DCED recommends

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that the Local Boundary Commission approve the City's amended petition without conditions or amendments of its own.

## **LBC Hearing**

As noted in the Preliminary Report, the LBC has scheduled its hearing on the City's annexation proposal to be held on Saturday, December 4, 1999. The hearing will begin at 11 a.m. at the Ted Ferry Civic Center.

A copy of the hearing notice, hearing agenda and guidelines for testimony are included in the appendix to this report.