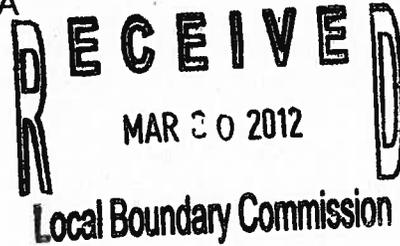


LOCAL BOUNDARY COMMISSION

STATE OF ALASKA

In re Petition to the Local Boundary)
Commission for Incorporation of the)
Petersburg Borough)
_____)



**PETITIONERS' COMMENT TO FEBRUARY 2012 PRELIMINARY REPORT TO THE
LOCAL BOUNDARY COMMISSION**

The petitioners for incorporation of the Petersburg Borough agree with the analysis and recommendations of the Department contained in the Preliminary Report. The following comments address (1) updated budgetary information and other new information affecting the merits of the petition, (2) what petitioners perceive to be minor errors in the Report and (3) other significant new and intervening developments affecting the petition, including potential reinstatement of some form of district coastal zone management (CZM) state laws and the filing of an annexation petition by the City and Borough of Juneau.

I. Budget and Capital Projects.

Much of the Preliminary Report, including its attached Appendix A, addresses and analyzes the current City and proposed Borough budgets, to reach the conclusion that the statutory (AS 29.05.031(a)(3)) and regulatory (3 AAC 110.055) requirements regarding necessary human and financial resources are met. To provide further and more current information to the Commission and its staff, an updated conceptual Borough budget, with updated Notes, is attached hereto as Exhibit 1.¹ As the updated budget demonstrates, the Borough would maintain the sound fiscal policies established by the City, and experience healthy net revenues for each year of the first four years following borough incorporation.

This budget updates the budget found in the petition, and now commences in FY 12/13, rather than FY 11/12. Adjustments have been made for anticipated higher costs of certain items, and for cost-saving measures since instituted. For example, the Assisted Living payment out of the General Fund has decreased by \$98,000², the Administration

¹ The budgets presented, here and in the petition, include the Borough's general fund only, and do not include debt service or the various enterprise funds, such as the electric utility, water, wastewater, sanitation, harbor, elderly housing and assisted living funds.

² An annual payment of \$198,000 was previously budgeted for in the general fund. That amount has since been added to the City's debt service (increasing it by .77 mills) and the payment out of the General Fund established at \$100,000. The recent passage by City residents of a \$1.5 million bond for a new \$7 million library (the bulk of which is being paid for by state funding and a Rasmussen Foundation grant) will result

expense figure has decreased by approximately \$100,000³, the expenses of the Police Department have decreased by \$75,000, and the City's Information Technology costs has decreased by over \$80,000.⁴ Certain transition expenses have increased, to account for more recent estimates received by the City.⁵ In conclusion, the anticipated expenses for the first year of the Borough are estimated at \$8,970,774, a decrease of \$212,654 from the initial budget found in the petition at page 35. Projected revenues have also decreased, by \$270,362, most notably by 1) utilizing a 9 mill real property tax rate, versus a 10 mill, within Service Area 1 (see, Note 1 to updated budget)⁶, 2) anticipating that the increase in state community revenue sharing due to borough formation (as set forth in AS 29.60.855) would likely begin in year two of the borough, rather than year one, and 3) decreasing anticipated investment income. Administrative contributions from the enterprise funds, into the general fund, are increasing however, beginning in FY 12/13, due to a new cost allocation formula. The end result is positive. Revenues exceed expenses by \$189,334 in FY 12/13, year one of the conceptual borough budget. The other three years of the proposed borough budget also provide for substantial net revenues -- \$450,029 in FY 13/14, \$550,921 in FY 14/15 and \$492,369 in FY 15/16.

in an increase of .14 mills in debt service next year and .44 mills in the following years. As noted in the Preliminary Report (pp. 21-22), this will be paid for by the residents of Service Area 1 only, despite the fact that the library is frequently used by those currently living outside City boundaries. See, Section 19.07(A) of the proposed Borough Charter, which states that "Bonded indebtedness of the former City of Petersburg will, following borough formation, be the obligation of Service Area 1 only." Any amendment to this provision would require voter approval.

³ This corrects a benefit cost figure which had erroneously been included twice.

⁴ The City has outsourced its IT department, resulting in substantial savings.

⁵ Comprehensive planning expenses have been increased by \$60,000 and assessor fees by \$20,000. The assessor has already commenced pulling status and subdivision plats for the area, and establishing legal descriptions and ownership. He has already traveled through a number of areas of the proposed Borough, by boat and by plane, including Wrangell Narrows, Duncan Canal and areas on the mainland. He estimates that there are approximately 220 taxable parcels in private ownership located within the Borough boundaries, and outside the existing City limits, and that the assessment inspections would take approximately one month to complete. The substantial majority of lands outside the existing City limits are in federal or Alaska Native corporation ownership. Conversations with Mike Renfro, March 13 and 20, 2012. As part of the process to inform area residents in regard to future borough assessments, several residents living outside the existing City limits volunteered to have assessments conducted on their properties, at the City's expense, and the assessor completed those 8 assessments in January of 2011.

⁶ The proposed Borough Charter caps the permitted ad valorem tax at 10 mills, excluding debt service. See, Section 12.03, proposed Borough Charter. The Borough Assembly would annually establish the mill rate, subject to the 10 mill cap. Any increase above the 10 mills would require an amendment to the Borough Charter, under Article 18, which requires voter approval. See, Section 18.02. Any suggestion that the Assembly could by ordinance establish a mill rate exceeding 10 mills is incorrect. See, Preliminary Report, p. 29, 4th paragraph.

While this would allow for any necessary increase in the general fund reserve (see, Preliminary Report, p. 23), those reserves are in fact now already well within the range of the Unrestricted Fund Balance Policy adopted by the City Council in February of last year. See, Exhibit 2. In City Council Resolution #1959, the Council, to protect the City against unexpected revenue shortfalls or expenses, established a target range of no less than four months' operating expenses, and no more than six months' operating expenses, for the unrestricted fund balance of the general fund.⁷ As of June 30, 2011, the end of the fiscal year, the Unassigned General Fund balance equaled \$3,625,460, and the Total Fund Expenditures equaled \$8,280,322, resulting in a reserve account totaling 5.25 months' operating expenses, well within the targeted range. See, audited financial statements of the City of Petersburg, pp. 20, 22, relevant portions of which are attached hereto as Exhibit 3.⁸

The budget slightly increases the amount being paid to the Petersburg School District (PSD) from the Forest Receipts Fund.⁹ The total contributions to the PSD would equal \$1.8 million in FY 12/13 and FY 13/14, increasing to \$1,850,000 in FY 14/15 and FY 15/16, with \$600,000, or about 1/3rd of each payment, being paid from the Forest Receipts Fund and the remainder coming from general fund monies (i.e. real property taxes). These payments far exceed the minimum required local contribution.¹⁰ For

⁷ The Government Accounting Standards Board (GASB) recommends a one to two month target range. Thus, the policy adopted by the City exceeds that recommended, and establishes a prudent and fiscally conservative policy for the City.

⁸ If one includes transfers out of the general fund to other City funds, including enterprise funds, or to City capital projects, the expenditures total \$8,999,448, resulting in a reserve account totaling 4.8 months' operating expenses, still suitably within the targeted range. The Unassigned Fund Balance (\$3,625,460) vis-à-vis Total Fund Revenues (\$8,177,267) for the City, year ending June 30, 2011, was 44.3%, also far exceeding the recommended 5-15% range established by the GFOA. Id. If transfers into the general fund from the Timber Receipts Fund are included, the Total Fund Revenues figure would equal \$8,777,128, and the ratio would be 41%, still greatly exceeding the target range. Id.

⁹ This is the Fund which holds the payments received from the Forest Receipts/Secure Rural Schools program, and which currently has a balance of \$3,976,137. As was set out in Petitioners' earlier reply brief, this Fund was set up a number of years ago in order to save a portion of each forest receipts payment, as the City anticipated the eventual loss of this federal program.

¹⁰ The report, at p. 23, last paragraph, states that the education contribution "should not change from what the city is already contributing, as the student population is not expected to change as a result of borough formation." This is not technically correct. The required local contribution portion of the school funding mechanism mandates that a municipality contribute to its school district an amount equal to a 4 mill tax levy on the taxable real and personal property value within that municipality, with a base year adjustment. See, 14.17.410(b)(2). Since the taxable property value will increase upon borough formation, the required local contribution will increase accordingly. However, the amount budgeted for contribution by the borough, as set out in Exhibit 1, (and in fact, the amount already being contributed by the City) exceeds the borough's anticipated required local contribution, which would total approximately \$1.3 million. Another commenter alleges that the increase in borough funding would be wholly offset by a reduction in the state's educational contribution, and thus "there is no increased educational benefit", attaching a pie chart to support that allegation. See, G. Cole comment, March 30, 2012. However, the

budgetary purposes, receipt of Secure Rural Schools (SRS) funding is anticipated for FY 12/13 only, though continued funding for the SRS program, at least for the immediate future, appears guardedly promising at this time. The SRS program is contained in the FY 2013 federal budget proposed by President Obama, and one year's program funding is also included in the Transportation Bill currently pending in the US Senate via a recent amendment proposed by Senator Baucus, which passed with an 82-16 vote. Additionally, there is apparent bipartisan support in the Senate for a five year continuation of the program. E-mails with Bob Weinstein, Office of Senator Mark Begich, Field Representative, Southern Southeast Alaska, March 9, 2012.

The Forest Receipts Fund is one of a number of "savings accounts" established outside the City's general fund. These include the Economic Development Fund, with a current balance of \$4 million, the Motor Pool Fund, with a current balance of \$3.5 million¹¹, and the Harbor Special Revenue Fund, with a current balance of \$2.93 million.¹² The funds in the Harbor account are slated to be used on a large harbor improvement project, getting underway in the next several months.

The Preliminary Report notes a number of on-going and future capital improvement projects, which demonstrate a vibrant community (see, Preliminary Report, p.18). The planned harbor improvements are good examples of such projects, which support both area residents and vital commercial interests. Harbor-related projects constitute two of the top three Capital Improvement projects, as submitted to the Alaska Legislature, and include the North Harbor Reconstruction Project, the Commercial Dock Drive Down Facility, the Scow Bay Haulout and Wash Down Pad, the South Harbor Maintenance Dredge, and the Crane Dock Upgrade.

commenter erroneously fails to take into account the base year adjustment contained in the funding formula (AS 14.17.510), and thus significantly overstates the Petersburg Borough anticipated required local contribution, while understating the State's contribution. Proper calculations would show that the increased funding resulting from borough formation is only partially offset by a reduction in the state's contribution, and that the 4 mill property tax to be collected outside of Service Area 1 exceeds that reduction. This information will be presented in detail at the May, 2012 hearing.

¹¹ This is the fund out of which the two police patrol cars, discussed in the petitioners' reply brief (p. 10), were purchased. Each City Department which utilizes vehicles contributes a portion of their budget to this fund, so that a reserve is established for the purchase of future vehicles. These include vehicles for the police department, as well as vehicles and trucks for the public works department, the fire department, and the various enterprise funds (including the water and sanitation departments and the harbor).

¹² There is also a fund from which RAC (USFS Resource Advisory Committee) money is administered, and there are several ongoing projects at this time, including three located outside the current City limits. These include improvements at Green Camp, Banana Pt. Boat Launch Improvements, and Wilson Creek access site improvements. These are all located on south Mitkof Island, and these improvements will benefit residents on an areawide basis.

Work is now commencing on the North Harbor Reconstruction Project.¹³ The Army Corps of Engineers is in the process of putting out for bid a \$3.4 million dredging contract for Phase 1 of the project, and the City is positioned to receive a \$3.5 million Municipal Harbor 50/50 match grant from the State, to complete Phase 2, which involves demotion and reinstallation of the float system and public access improvements. \$2.3 million in Phase 3 funding is currently being sought, which would complete the project. Phase 3 involves uplands improvements, including parking. Attached as Exhibit 4 is a conceptual site plan for a portion of this project.

The City is also in the process of funding a \$16 million Commercial Dock Drive Down Facility, which will be located a short distance south of the South Harbor. This facility will include a new heavy duty vehicle transfer bridge and vehicle accessible float, which will allow direct transfer of equipment and goods from a vehicle onto a boat or skiff. This type of facility is to the substantial benefit to not only Petersburg's commercial fishing and tourist charter fleet but to residents of outlying areas of the proposed borough, as it would enable them to transfer larger pieces of equipment and furniture directly onto their vessels from vehicles, for transport to outlying residences. The sum of \$5.2 million has already been secured for this project, which will pay for Phase 1 and a portion of Phase 2. \$5.6 million is currently being requested from the State for completion of Phase 2, and this project is number three on Petersburg's CIP list. A conceptual drawing of this facility is attached hereto as Exhibit 5.

Three other harbor-related projects are in the planning stages – a South Harbor dredging project, an upgraded and widened Crane Dock facility, which will increase efficiency for the commercial fishing fleet and improve public access to the north end of the South Harbor (a drawing of which is attached hereto as Exhibit 6), and a Scow Bay Haulout and Wash Down Pad. This last project will allow for haul out and pressure washing of vessels up to 100 tons, with full environmental protections in place. Like many other marine communities, Petersburg is currently relying upon tidal grids for this type of work, and is planning for the future, anticipating future restrictions or prohibitions on use of grids.

These projects demonstrate a City improving its infrastructure in order to support both local area residents and vital local industry, namely the commercial fishing fleet, but also its growing tourist charter business. The commercial fishing fleet fishes throughout the boundaries of the proposed Borough, and dominates the various fisheries in the Stephens Passage area.

II. Coastal Zone Management Plan.

Another development since submission of the petition is the significant potential for reinstatement of a Coastal Zone Management Program in Alaska. As the Commission

¹³ The North Harbor is one of the City's three harbors.

Members and staff are probably aware, this vital program was allowed to expire last year, leaving Alaska as the only maritime state without such a program, and with no voice at the federal level to be heard on coastal lands and water development. A state-wide initiative which would reinstate an Alaska Coastal Zone Management Program has now been certified by the Lt. Governor's office, and a bill has been introduced in the Alaska Legislature (House Bill 325) which, if enacted, would reenact a coastal management program and likely obviate the need for the initiative to be addressed.

Under House Bill 325 and the proposed initiative, a statewide Coastal Policy Board would be established within the Department of Commerce, Community and Economic Development, charged with implementing a coastal management program in conformity with the Coastal Zone Management Act of 1972 (16 USC 1451-1464). This would include establishing the criteria and process for preparation and approval of district coastal management plans¹⁴, and subsequent review and approval of such plans. The program will allow a municipality to establish a comprehensive plan or statement, setting out its objectives and standards governing the use and conservation of resources within the coastal area of the municipality, establishing enforceable policies where not otherwise preempted by federal or state law. Before permitting by a federal or state agency can occur within the coastal area of a municipality, a consistency review would occur within the newly established Division of Coastal Management, giving the proposed borough the opportunity to consult and comment.

A Coastal Zone Management Program would be of substantial benefit to the proposed Borough. The establishment of permitted Borough policies, and participation in the consistency review, would give the Borough a voice in the process of coastal area permitting. The economy of the area is dominated by commercial fishing, and having a say in coastal matters, especially those affecting fisheries and fisheries watershed protection, would be of considerable advantage.¹⁵

¹⁴ In the past, district boundaries were concurrent with borough boundaries.

¹⁵ Under HB 325 and the initiative, coastal zone boundaries of areas of the State located within the Unorganized Borough would be based upon the boundaries of Regional Educational Attendance Areas (see, HB 325, Sec. 46.40.400, and the initiative, Sec. 46.41.110), with the ability to divide an existing REAA into two or three different 'coastal resource service areas.' Id. In Southeast Alaska, and in the region encompassed by the proposed Petersburg Borough, there are two REAAs – Chatham REAA and Southeast Island REAA, each of which covers a large geographical area. The boundaries of Chatham REAA run from Cape Fairweather, to the north, down to Kupreanof Island, including Glacier Bay, Icy Straits, Stephens Passage and part of Frederick Sound, and includes the communities of Gustavus, Angoon and Tenakee Springs. Southeast Island REAA includes Kupreanof Island and portions of the mainland, all the way to the southern tip of Prince of Wales Island, and includes the communities of Coffman Cove, Kasaan and Hyder, among others. Conceivably, if a Petersburg Borough is not formed, Stephens Passage, an area of the proposed borough which is most heavily used by Petersburg residents and the Petersburg commercial fishing fleet, could be encompassed within a coastal resource service area which will not include the City of Petersburg.

III. Communications and Transportation.

The Preliminary Report, at pp. 15-16, discusses the existing communications media and transportation facilities, and, noting that the proposed borough is similar to other existing Southeast boroughs, finds that the statutory and regulatory requirements are satisfied. In that discussion, the reports suggests that "perhaps some assembly meetings could be held early in the day to allow off-islanders to get to the meetings and back during daylight" (*Id.* at p. 16), responding to several comments discussing the potential difficulty of some individuals in attending evening Assembly meetings. There is in fact no prohibition against this in the Borough Charter, and there is support for this idea among existing City Council members and City staff, especially as to meetings at which subjects are going to be addressed which may present special interest to those residents outside Service Area 1.

Several other ideas for facilitating participation in Borough government by off-island residents have been raised and discussed by the Council, including 1) making available for public use two sleeping areas, located in the new Fire Hall, for those who wish to attend an evening Assembly meeting, and who cannot return to their homes via boat until the following morning due to darkness; and 2) establishing a central location, off island and potentially in the Keene Channel/Beecher Pass area, at which teleconferencing capabilities could be established by the Borough, and which could serve as a satellite facility for participating in a Borough Assembly meeting.¹⁶ Communications capabilities within the proposed Borough will continue to improve as new towers are installed, internet connections are improved, and new audio and visual teleconferencing technology, such as Skype, is developed.

Upon Borough formation, these are the types of ideas and requests which can be presented to, and discussed with, members of the Borough Assembly, and the Assembly can work with the residents to best ascertain what is both most feasible and cost effective.

IV. City and Borough of Juneau Annexation Petition.

A. CBJ's Proposed Annexation, Even If Approved By The Commission, May Not Be Approved By A Majority Of Voters In The Area To Be Annexed.

Petersburg petitioners have been aware for some time that the City and Borough of Juneau ("CBJ") intended to file a petition for annexation; CBJ announced this intention in its opposition brief, indicating that it opposed the Petersburg petition insofar as it

¹⁶ At the present time, some Keene Channel residents have both cellular phone and internet connections, and existing coverage can be improved. Existing technology reportedly can provide reliable communications through antennas and booster units. Aside from furthering participation in local government matters, such a centralized facility would serve public safety purposes.

extended northward beyond Cape Fanshaw. However, after CBJ's petition was submitted to DCRA for technical review, the CBJ annexation petition was not made available to the Petersburg petitioners until March 16, 2012. At that time, they first learned that CBJ is not pursuing a typical "legislative review" type annexation, but rather a "local action" by election petition which requires approval by a majority of voters residing in the area to be annexed. See A.S. 29.06.040(c)(2). This method of annexation is rarely used, because it is rarely the case that voters who reside outside of a city or borough are agreeable to annexation so as to thereby become subject to local government taxation or regulation.¹⁷ The Petersburg petitioners are surprised that CBJ elected to choose this unusual method of annexation.

Under a local action by election annexation petition, approval of the annexation by the LBC is subject to being rejected if a majority of the voters in the area to be annexed vote against annexation. In this case, the Juneau petition itself (p. 4) represents that

The population of the territory proposed for annexation is estimated to be 1, who is reported to be a Goldbelt employee who acts as a caretaker at Hobart Bay. (The State Division of Elections reports there are two people claiming a physical residence in Hobart Bay, both with Juneau mailing addresses, and no other persons claiming residence in the proposed annexation area.)

Assuming this to be true, and that by the time of an election following any LBC approval of an annexation of the area sought by CBJ, there will be at least one voter residing in the annexation area, then if that voter participates in the election, he or she would need to vote in favor for the annexation to occur. If there are two voters, both of them would have to vote in favor of annexation to constitute a "majority" approval as required by statute. Given the general propensity of rural/remote Alaskan residents to oppose being included in a municipal government and thereby become subject to local taxes and regulation, it seems improbable that any LBC approval of annexation which includes Hobart Bay will be approved by its few voters. If the LBC disapproves inclusion of this area in a Petersburg Borough incorporation, in favor of including it within a CBJ

¹⁷ A review of all of the LBC's online annual reports to the Legislature since 1998 reflects that, of the 24 city or borough annexations during the last 14 years, only 2 were attempted through a "local action" by election petition. In these 2 cases, the results are instructive. A 2010 city of Dillingham annexation was approved by the LBC in December, 2011, and is now awaiting an election; however, because there are no voters in the area to be annexed, it will presumably be approved. By contrast, the City of Kodiak filed a local action by election annexation petition in 1999. It was approved unanimously by the LBC, but was rejected by an 88%/12% vote by the voters residing in the area to be annexed. In the other 22 annexation efforts, all of which were successful, 10 were done by legislative review method, and 12 annexations were accomplished through the local action by "unanimous consent" method under AS 29.06.040(c)(4), in which an area adjoining the municipality may be annexed by ordinance without an election if all property owners and voters in the area petition the governing body for annexation.

annexation, it is likely that the area will remain in *neither* borough, frustrating the Alaska Constitution's purpose of favoring inclusion of more areas of Alaska into boroughs.¹⁸

As previously discussed, the CBJ refused for many years to grasp its opportunity to extend local government into the contested area, notwithstanding the LBC's encouragement for such annexation by identifying model borough boundaries, and notwithstanding Petersburg's lengthy and public effort to bring its borough incorporation petition before the LBC. Even now, however, the annexation petition which CBJ seeks to juxtapose against the Petersburg petition is half-hearted and uncertain. If the Commission denies the contested area to Petersburg and instead approves its annexation to CBJ, this may well come to naught, in that CBJ has selected an annexation method which is conditioned upon approval by the voters in the annexation area, which is unlikely to occur. It is both unfortunate and unnecessary that the Commission's resolution of this contentious issue should be subject to such uncertainty.¹⁹

If the Commission adopts the northern Petersburg Borough boundary recommended by the Department, CBJ's annexation of the remaining Tracy Arm area would not be subject to this same election uncertainty. There are no voters residing in the Tracy Arm annexation area, threatening to defeat the annexation in an election.

B. DCRA's Recommended Northern Boundary of a Petersburg Borough Is Sensible.

The Petersburg petitioners have previously indicated that it would be reasonable for the LBC to redraw the petition's proposed northern boundary to cede all of Tracy Arm to the CBJ while leaving areas southward, including Holkham Bay, Endicott Arm and other southward areas on the east side of Stephens Passage in the Petersburg Borough. This is because (1) the current southern boundary of the CBJ is an arbitrary straight line

¹⁸ See Mobil Oil Corporation v. Local Boundary Commission, 518 P.2d 92, 99 (Alaska 1974), stating

We read [Article X, Section 1 of the Alaska Constitution] to favor upholding organization of boroughs by the Local Boundary Commission whenever the requirements for incorporation have been minimally met.

The courts further stated that "[O]ur constitution encourages their [borough governments] creation. Id. at p.101.

¹⁹ It is true that the petition for incorporation of a Petersburg Borough, if approved by the Commission, will also be subject to voter approval, but this was not a matter of choice to the Petersburg petitioners; this is the only procedure for incorporating a borough short of a "mandatory borough" enacted by Legislature. Moreover, the Petersburg borough will be subject to approval by a majority of the total number of voters in the proposed borough, lumping together voters from within the existing city of Petersburg with those outside the City. CBJ, on the other hand, had the option of filing a legislative review petition, which would not have been subject to the uncertainties of voter approval, particularly an approval which must be given by a majority of voters in the area to be annexed.

which does not confirm to natural geography, (2) Juneau's tourism business connection with the area contested between Juneau and Petersburg is primarily concentrated in Tracy Arm and (3) Petersburg's strong commercial fishing ties with the contested area are relatively small within Tracy Arm.

The Department's recommended modification to the boundary, reflected in Appendix B3 of its Preliminary Report, is acceptable to the Petersburg petitioners. After crossing the mouth of Tracy Arm from Pt. Coke, the staff's proposed boundary would follow the watershed ridge line eastward on the continent to the Canadian border, conforming to natural geography in a manner consistent with the Commission's recent decisions utilizing watershed dividing ridges as borough boundaries. The watershed divide method is particularly sensible in Southeast Alaska, where much human activity is oriented toward coastal shorelines and adjacent bays, and is affected by the creeks and rivers draining the watersheds. The City of Petersburg's mapping technician believes that the line drawn by the Department accurately depicts the watershed divide.

The watershed issue is also addressed in CBJ's recently-filed Petition for Annexation, at pp. 64-68. DCRA's proposed boundary between CBJ and the Petersburg borough would, in fact, place the entire watersheds of Port Snettisham, the Whiting River and Tracy Arm in the CBJ. The entire watersheds of Endicott Arm, Windham Bay, Hobart Bay and Port Houghton would be included in the Petersburg borough. No watershed area would be divided between the two boroughs.

The Preliminary Report correctly describes Petersburg's predominant economic interest in commercial fishing in the entire contested area including Holkham Bay²⁰ and Endicott Arm, and notes that the bulk of the fish harvested in the contested area are also processed in Petersburg. In addition to the commercial salmon and shellfish harvesting in the contested area, as described in the Preliminary Report, substantial groundfish (halibut and black cod) volumes are harvested by Petersburg fishermen in the contested area districts; these are depicted as groundfish statistical areas 335732, 335733, 335731, 335734, 335701, 335704 and 335703, as shown on Attachment 12 (ADF&G Groundfish Districts) to Petitioner's Reply Brief. These areas include the east shore of Stephen's Passage as well as Holkham Bay, Endicott Arm, Windham Bay, Hobart Bay and Port Houghton. As shown by the statistical analysis performed by the State Commercial Fisheries Entry Commission (Attachment 13, Petitioner's Reply Brief), 93.1% of the commercial fishing harvest of salmon, crab, shrimp and groundfish in the

²⁰ The only quibble Petersburg has with the statements from ADF&G representatives at pp. 26-27 of the Preliminary Report is that there is, in fact, a salmon gillnet fishery in Holkham Bay, in which Petersburg fishers participate. See area 11C (statistical area 111-20), depicted on Attachment 11, Exhibit 3 (ADF&G Petersburg Management Areas Statistical Districts) to Petitioners' Reply Brief dated November 15, 2011. Testimony will be presented regarding this at hearing.

contested area is by Petersburg-based fishers, with 88.8% of the value of all fish, crab and shrimp harvested in this area being processed in Petersburg.²¹

C. Commercial Fisheries.

The CBJ annexation petition (p. 64) arbitrarily asserts that the northern Southeast Alaska management districts for groundfish are "Juneau waters", without basis for this assertion. Nearly all of these harvests are by Petersburg fisheries, delivering the halibut and black cod to Petersburg for processing. With regard to salmon fishery regulation, *all* of the waters in the contested area are within what ADF&G characterizes as the "Petersburg Management Area".²² Because commercial fisheries are easily the largest economic activity in the contested area, this is significant.

D. Other Administrative Boundaries.

Less significant are the various administrative boundaries related to USFS Ranger Districts, ADF&G Game Management Units and US Census Tracts, the purposes of which bear no resemblance to the purposes of borough boundaries and to natural geography and which, in any case, each also depart markedly from the proposed CBJ boundaries set forth in its annexation petition. The CBJ's petition also asserts that all of the Tracy Arm-Fjord's Terror Wilderness Area should be contained within one borough; this is not supported by any rationale or precedent. The Admiralty Island National Monument-Kootznoowoo Wilderness exists partly within the City and Borough of Juneau, and partly in the remainder of Admiralty Island outside of any borough. The Stikine Leconte Wilderness area lies partly within the City and Borough of Wrangell, and partly in the area now sought for inclusion in the Petersburg Borough. Part of Glacier Bay National Park is in the City and Borough of Yakutat, and part is south of and outside that borough. The entire Tongass National Forest is divided among a number of Southeast Alaska boroughs.

E. CBJ's Asserted Economic Ties With The Contested Area.

The CBJ's annexation petition (p. 46) simply repeats the same assertions of tourism activity by "Selected Small Operators" as was contained in CBJ's prior brief filed in opposition to the Petersburg borough petition. Petersburg previously responded in detail to these assertions²³, demonstrating that CBJ's asserted economic connections were (1) grossly exaggerated, overstating tourism revenues in the area that are properly

²¹ These percentages are based upon a Petersburg vs. Juneau ratio, not against all fishers or processing ports.

²² See Petitioners' Reply Brief, exhibit 3, ADF&G map of "Southeast Alaska Petersburg Management Area."

²³ See Petersburg Reply Brief, pp.40-43 and Attachment 14 thereto.

associated with Juneau, (2) misrepresentative in claiming greater Juneau connections based upon some operators who had equal or greater connections with Petersburg and (3) primarily based upon information regarding operators whose primary connection is with Tracy Arm, rather than with the remainder of the contested area. The annexation petition also asserts that most privately-held properties in the Holkham Bay area is owned by Sealaska Corporation, failing to note that this consists of only subsurface ownership. Finally, the annexation petition fails to note that the small private lodge structure in Windham Bay has been closed for some years and is for sale. While it may be purchased by Allen Marine, this is a company based in Sitka, not Juneau.

F. Native Territory.

The CBJ annexation petition substantially revises its prior assertion that most or all of the territory on the east side of Stephens Passage in the contested area was the territory of Juneau area tribes. Petersburg has previously pointed out that the Taku Tribe, unlike the Auk Tribe, was not associated with the Juneau area, in that the Taku occupied territories further east and south. Even if one includes Taku territory, however, CBJ now acknowledges that with respect to areas south of Tracy Arm, the historical territory of the Taku Tribe is "less clear". (Annexation petition, p. 62.) Now citing only to a recognized historical/anthropological source, rather than to a far less credible ADF&G subsistence study, CBJ acknowledges that the Taku Tribe has a tenuous historical connection with the lands in the contested area. The Goldschmidt and Haas treatise states that no Taku witness claims territory further south than Holkham Bay area where the old village Sumdum was situated.²⁴

G. CBJ Erroneously Claims That It Will Bear Public Service Costs For Commercial Development In The Contested Area Even If Not Annexed To The CBJ.

In its Annexation Petition, at p. 54, the CBJ asserts that upon expanded commercial development in the contested area, there will be a likely increase in the demand for services and that "[S]hould" that occur without annexation, the residents of the CBJ would be forced to subsidize any public service costs." There is no support for this assertion.

Directly following this, at pp. 55-56 of its petition, the CBJ lists the "following services" it anticipates providing to the contested area if it is annexed. The first is fire services, which it does not provide now and would not provide if the area is not annexed to the CBJ. Second is police services, for which, even if there is an annexation, "no additional identifiable costs" are identified. Third is the transportation costs associated with assessment of properties, but this would obviously not be incurred by the CBJ if the contested area is not annexed to it. Fourth, the petition notes that there would be no

²⁴ Haa Aani, Our Land, Tlingit and Haida Land Rights and Use, Goldschmidt and Haas (1998), excerpt included in Attachment 4 to Juneau Annexation Petition.

additional costs associated with sales tax, which obviously would be the case if the area is not annexed to the CBJ. Fifth and finally, the petition notes that there would be costs associated with planning, zoning and permitting, but that these would all be recovered from the developers. If the area is not included in the Juneau annexation, these costs would not be incurred by the CBJ in the first place.

V. Goldbelt.

Goldbelt is a Juneau-based urban ANCSA corporation. Four years ago, Goldbelt issued a letter of support for inclusion of its Hobart Bay properties in the proposed Petersburg Borough, expressing its "desire that our lands at Hobart Bay be part of the proposed Petersburg Borough and not part of the City and Borough of Juneau." See, Exhibit 7. Goldbelt based its statement upon,

a great many reasons including geography, historical ties, the abilities of the CBJ and the proposed Petersburg Borough to provides services, and past support by the City of Petersburg and the support of Petersburg businesses of our past logging operations in Hobart Bay. Id.

Now, under different leadership, Goldbelt is objecting to the Preliminary Report's recommendation that its Hobart Bay properties be included in the Petersburg Borough, precisely what it was supporting four years ago. Instead, it is now requesting that the LBC 'carve out' its property in Hobart Bay from the Petersburg Borough leaving it in the Unorganized Borough. Goldbelt states that its property could later be included in a borough "that could be organized to include the territory of Kake, Angoon, and Hoonah...." See, Goldbelt's March 28, 2012 comment to Preliminary Report.

Goldbelt's argument for remaining in the Unorganized Borough is based upon an artificial effort to tie together (1) the Juneau corporation's Hobart Bay landholdings with (2) Kake's historic, but not contemporaneous connections with the contested area on the east (mainland) side of Stephens Passage. These are actually two separate and distinct matters, neither of which warrants withholding portions of the contested area from the Petersburg Borough. Furthermore, a Chatham-Icy Strait Borough has been under discussion for many years, has never been seriously pursued and remains unlikely to be voluntarily formed any time in the foreseeable future.

The two connections of Kake-Angoon-Hoonah asserted by Goldbelt are addressed separately.

A. Goldbelt Ownership of Hobart Bay Lands.

The landholdings of Goldbelt in Hobart Bay have nothing to do with cultural or economic connections with the contested region of Kake, Angoon or Hoonah. Goldbelt is not the

village corporation for these villages. Each of these villages have their own village corporations: Kake Tribal Corporation, Huna Totem Corp (Hoonah) and Kootznoowoo, Inc. (Angoon). Assuming, as Goldbelt asserts, that its shareholders include members of "virtually every one of Alaska's indigenous groups", this does not convert Goldbelt into the representative village corporation for Kake, Angoon and Hoonah, each of which have their own village corporations.

Moreover, Goldbelt itself admits that its landholdings in Hobart Bay were not based upon customary and traditional use. Instead, as is set out at p. 4 of its comment, Goldbelt selected ANCSA land on Admiralty Island, on the opposite (western) side of Stephens Passage, based upon its customary and traditional use of that area, but these lands were exchanged for lands in Hobart Bay to resolve legal and political issues.

In short, Goldbelt's ownership of Hobart Bay lands was not a product of even its own customary and traditional use, much less of such use by Kake, Angoon or Hoonah tribes. Land ownership by the Juneau-based corporation is certainly no basis for reserving this territory to a speculative future Chatham-Icy Strait Borough.

B. Kake, Angoon, Hoonah Traditional Use/Territory.

The Petersburg petitioners acknowledge the assertion that Kake (as opposed to Angoon and Hoonah, both of which are distant from the subject area) is recognized as having made some traditional use of the contested area south of Tracy Arm, contrary to CBJ's assertion that this was traditional territory of the Taku Tribe. However, such historical and non-contemporary connections are insufficient on their own to support reserving this area for a potential Chatham-Icy Strait Borough, in the face of an existing Petersburg Borough petition based upon strong contemporary economic connections.

The Goldschmidt and Haas treatise upon which all parties rely was based upon a report made by the authors in 1946, which was generally based upon 19th century writings and upon recollections of elders regarding usages up to the early 20th century. The traditional usages describe therein thus concerned activities more than a century ago. The Petersburg petitioners are respectful of this history and acknowledge that, if there were a bona fide petition to incorporate a Chatham-Icy Strait Borough, this would have had some relevance to the A.S.29.05.031(a)(1) standard that a borough be interrelated and integrated as to its social, cultural and economic activities. However, historical connections have less relevance to this standard than current, contemporaneous "social, cultural and economic activities", and Goldbelt has not identified any contemporary connections between Kake or the other villages and the subject area. No current commercial or subsistence activities of Kake residents in this area are set forth.²⁵

²⁵ Goldbelt attached the Chatham Region Model Borough Boundaries adopted by the LBC in 1990 but, interestingly, this included only parts of Admiralty, Kupreanof and Kuiu Islands, and not the subject area on the mainland east of Stephens Passage.

The primary modern connection of the virtually uninhabited contested area is with commercial fishing and processing, based in Petersburg. Goldbelt characterizes this as “some” connection which is “tenuous at best”, yet the petitioners have documented Petersburg’s domination of this industry and the economic value of the fishery created there by the residents of Petersburg.²⁶ Goldbelt further asserts that the Petersburg petitioners have made an “...admission that fishing does not occur within the mainland bays”. This is flatly *untrue*. There are in fact substantial Petersburg-based commercial fisheries activities within each of the bays in the contested area. Petersburg will present testimony at hearing as to commercial fishing in each of the subject bays, addressed from south to north as follows:

Port Houghton

Salmon Seining
Halibut Fishing
Dungeness Crab Fishing
Herring fishing
Pot Shrimping

Hobart Bay

Dungeness Crabbing
Salmon Seining (Ordinarily open to seiners into where the bay narrows, with special periodic seine openings into the inner bay)
Sac Roe Herring Gillnetting (Some but not all years.)

Windham Bay

Dungeness Crabbing
Salmon Seining (Ordinarily open to seiners into where the bay narrows, with special periodic seine openings into the inner bay)
Sac Roe Herring Gillnetting (Some but not all years.)

Endicott Arm

Tanner Crabbing
Some Halibut Fishing²⁷

²⁶ The Preliminary Report notes the “strong” Petersburg fishing connections with this area. See, Preliminary Report, p. 26. Goldbelt claims that the landings in the Bays are “so limited in number” that disclosure of the numbers would violate the confidentiality rules of ADF&G. In fact, the agency’s confidentiality rules, when utilizing CFEC data, apply a “rule of four” and relate to permits, vessels and processors, not landings. For example, in order for catch data to be disclosable, there must be at least four permits, by each gear type, reporting data for each particular statistical subdistrict. Goldbelt’s statement that the landings are “so limited in number” as to trigger confidentiality constraints should not be taken to mean that the overall number of vessels, permits and processors harvesting the contested area is small; it is not.

²⁷ The above information is based upon a conversation with Mark Jensen, 3/29/2012; and a conversation with Troy Thynes, ADF&G Petersburg, 3/29/2012. As previously stated, upland usages directly affect

In short, Goldbelt's assertions are based upon an insufficient understanding of the Petersburg fisheries and the fisheries data.

In any case, it is highly questionable whether a Chatham-Icy Strait Borough will ever be formed, resulting in an area of the mainland with significant current economic ties to Petersburg being left as an enclaved remnant of the Unorganized Borough between the Petersburg Borough and the CBJ. In June, 2006, the City of Hoonah prepared an "Initial Feasibility Study" for what it termed a "Glacier Bay-Chatham Borough", excerpts of which are attached hereto as Exhibit 8. The Feasibility Study explored two different options, one a small borough and one (which is mapped as Figure 2 in the Exhibit hereto) which would have included Kake and Angoon, extending south to include parts of Admiralty, Kupreanof and Kuiu Islands, but not eastward across Stephens Passage to the mainland "contested area" now at issue. According to the Feasibility Study, at p. 5, representatives of Kake participated in the meeting to discuss the proposed Glacier Bay-Chatham Borough depicted in Figure 2 of the Exhibit. According to p. 4 of the Feasibility Study, one "organizing principle" for the borough was, at item 8, "No borough property tax." Unsurprisingly, the Feasibility Study did not result in the filing of an actual borough petition.

VI. Demonstrative Exhibits at Hearing.

The Petitioners anticipate the use of a number of demonstrative exhibits at the scheduled hearing which are large, poster-sized charts and maps which are not appropriate for attachment to a brief or comment. While these exhibits are not "evidence" under 3 AAC 110.560(e), the petitioners herein provide a list of these demonstrative exhibits so that other interested parties may view them prior to the hearing date. Exhibits may be added or deleted as work on the Petitioners' hearing presentation proceeds.

- Nautical Chart No. 17360, Etolin Island to Midway Islands, (www.charts.noaa.gov/OnLineViewer/17360.shtml);
- Nautical Chart No. 17375, Wrangell Narrows; Petersburg Harbor (www.charts.noaa.gov/OnLineViewer/17375.shtml);
- Tongass National Forest, Alaska 2005, United States Forest Service;
- United States Geological Service, Alaska Topographic Series, quadrant maps titled Petersburg, Alaska-Canada, Sumdum, Alaska-Canada, and Taku River, Alaska-Canada, scale 1:250,000;
- United States Geological Service, Southeastern Alaska, Sheet No. 37 (compiled 1967, revised 1972);

drainages, fish streams and maritime habitats, and therefore have a direct connection with Petersburg's important economic activities in the contested area.

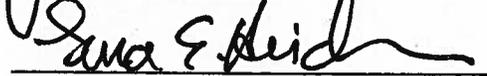
- DCCED map, **Communities and Regions of Alaska**, issued August 5, 2010;
- Two maps prepared by City of Petersburg Mapping Technician, showing Southeast Alaska boroughs and the proposed Petersburg Borough, and the DCRA staff recommended northern boundary.
- Map of revised northern boundary line, as recommended by LBC staff, prepared by City of Petersburg Mapping Technician.
- Map of a portion of the proposed borough, generally including the entirety of Mitkof Island, the mainland up to Pt. Agassiz and the most easterly portion of Kupreanof Island, prepared by City of Petersburg Mapping Technician.

Respectfully submitted this 30th day of March, 2012.

Hedland Brennan & Heideman
Attorneys for Petitioners



James T. Brennan



Sara E. Heideman

Exhibit 1

Four-Year Borough Operating & Transition Estimated Budgets

Projected Principal Revenues

	Adopted City Budget FY 11/12	Conceptual Borough Budget				Note #
		FY 12/13	FY 13/14	FY 14/15	FY 15/16	
Property Tax (minus exemptions and debt service pymnts)	\$2,319,977	\$2,337,395	\$2,337,395	\$2,521,395	\$2,521,395	1
Federal PILT	\$500,000	\$510,000	\$510,000	\$510,000	\$510,000	2
Sales Taxes	\$2,857,256	\$2,832,028	\$2,931,921	\$2,961,240	\$2,990,853	3
Transient Occupancy Tax	\$43,000	\$42,347	\$45,662	\$45,662	\$45,662	3
Penalties and Interest	\$11,000	\$15,000	\$15,000	\$15,000	\$15,000	4
Licenses & Permits	\$9,300	\$10,650	\$10,650	\$10,650	\$10,650	5
Federal Grants	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	6
State Shared Revenue	\$1,044,529	\$1,014,500	\$1,314,500	\$1,314,500	\$1,314,500	7
State Grants for Operating Expenses	\$239,522	\$591,089	\$491,089	\$306,250	\$206,250	8
State Revenues for Local Services	\$298,837	\$344,449	\$344,449	\$344,449	\$344,449	9
Charges for Services	\$237,900	\$250,000	\$250,000	\$250,000	\$250,000	10
Fines & Forfeits	\$16,550	\$17,000	\$17,000	\$17,000	\$17,000	11
Misc. Revenues/Land Leases and Sales	\$154,000	\$100,500	\$150,500	\$150,500	\$150,500	12
Contributions from Enterprise Funds	\$368,077	\$539,450	\$544,845	\$550,293	\$555,796	13
Motor Vehicle Registration	\$36,000	\$34,000	\$34,000	\$34,000	\$34,000	14
Proceeds of General Fixed Assets	\$1,700	\$1,700	\$1,700	\$1,700	\$1,700	15
Transfer in from Forest Receipt Fund to Pay for School	\$599,861	\$600,000	\$600,000	\$600,000	\$600,000	16
Total Operating Revenue	\$8,797,509	\$9,300,108	\$9,658,710	\$9,692,639	\$9,627,754	

Projected Operating Expenditures

	Adopted City Budget FY 11/12	Conceptual Borough Budget				Notes
		FY 12/13	FY 13/14	FY 14/15	FY 15/16	
City/Borough Council	\$142,043	\$140,000	\$145,000	\$145,000	\$145,000	17
Administration	\$374,225	\$382,967	\$386,797	\$390,665	\$394,572	18
Attorney	\$65,000	\$80,000	\$50,000	\$50,000	\$50,000	17B
Information System	\$167,424	\$81,452	\$82,267	\$83,089	\$83,920	17C
Finance	\$592,957	\$584,424	\$540,268	\$545,671	\$551,128	19B
Police	\$1,123,817	\$1,175,570	\$1,187,326	\$1,199,199	\$1,211,191	19
Jail	\$317,967	\$333,342	\$336,675	\$340,042	\$343,443	19
Fire/EMS (less SAR)	\$513,927	\$489,489	\$494,384	\$499,328	\$504,321	19
Public Works	\$1,217,545	\$1,229,720	\$1,242,018	\$1,254,438	\$1,266,982	19
Community Development	\$179,297	\$181,090	\$182,901	\$184,730	\$186,577	19
Facilities Maintenance	\$448,482	\$452,967	\$457,496	\$462,071	\$466,692	19
Community Services	\$209,000	\$211,090	\$213,201	\$215,333	\$217,486	19
Library	\$283,863	\$286,702	\$289,569	\$292,464	\$295,389	19
Parks & Recreation	\$651,877	\$658,396	\$664,980	\$671,630	\$678,346	19
Non-Departmental	\$206,500	\$223,565	\$225,801	\$228,059	\$230,339	20
State PERS Relief	\$150,000	\$200,000	\$200,000	\$200,000	\$200,000	
Disaster Planning/ Emergency Response Search & Rescue	\$7,000	\$10,000	\$10,000	\$10,000	\$10,000	21
Assisted Living	\$0	\$100,000	\$100,000	\$100,000	\$100,000	22
Harbors & Ports - Fish tax	\$300,000	\$350,000	\$350,000	\$350,000	\$350,000	23
***Contribution to Petersburg Public Schools	(\$599,861 + \$1,200,139) \$1,800,000	(\$600,000 + \$1,200,000) \$1,800,000	(\$600,000 + \$1,250,000) \$1,850,000	(\$600,000 + \$1,250,000) \$1,850,000	(\$600,000 + \$1,250,000) \$1,850,000	
Total Operating Expenses	\$8,750,924	\$8,970,774	\$9,008,682	\$9,071,718	\$9,135,386	

TRANSITION EXPENDITURES (Capital and Operating)	Adopted City Budget FY 11/12	Conceptual Borough Budget		
		FY 12/13	FY 13/14	FY 14/15
Borough Comprehensive Plan Update	\$0		\$50,000	\$50,000
Borough Zoning update	\$0		\$30,000	
Updating maps /integrating into Borough GIS system	\$0	\$75,000	\$25,000	
Purchase of new Property Data Software. Update borough land/parcel records for taxes & planning	(\$50,000 in finance budget)	(\$50,000 in finance budget of operating expense)	\$20,000	
Transition contract to assessor	\$0	\$45,000	\$45,000	\$10,000
Transition legal fees	(\$25,000 in attorney budget)	(\$40,000 in FY12/13 attorney budget)	\$10,000	
Communications, Meeting Travel & Public Noticing	(\$20,000 in Council Budget)	\$10,000	\$10,000	
Disaster Planning & Response/Search & Rescue	\$0	\$10,000	\$10,000	\$10,000
Total Transition Expenditures	\$0	\$140,000	\$200,000	\$70,000

NET CONCEPTUAL BOROUGH BUDGET

	Adopted City Budget FY 11/12	Conceptual Borough Budget			
		FY 12/13	FY 13/14	FY 14/15	FY 15/16
Annual Operating Revenues	\$8,797,509	\$9,300,108	\$9,658,710	\$9,692,639	\$9,627,754
Annual Operating Expenditures	\$8,750,924	\$8,970,774	\$9,008,682	\$9,071,718	\$9,135,386
Transition Expenditures	\$0	\$140,000	\$200,000	\$70,000	\$0
NET	\$46,585	\$189,334	\$450,029	\$550,921	\$492,369

BUDGET NOTES

General:

The projected borough budget has been prepared with very conservative, but likely to be realized, estimates for revenues with little or no projections for inflation or increased land values. The expenditure portion of the budget has been prepared in most areas anticipating some inflation of an approximate 1% increase in operation costs. The four year borough budget projects that the borough will have generally the same financial position as currently experienced by the city, or slightly better.

Note 1:

Property Tax: The property tax revenue for the Petersburg Borough will increase. The additional revenues from property tax will likely not be realized until year three of Borough formation, depending upon when Borough formation occurs. It is estimated that the real property value for taxable lands outside of the current City of Petersburg (future Service Area 1) is \$46,000,000.00. A 4 mill levy for this assessed value is \$184,000.00 in FY 14/15. Property values within the City of Petersburg are beginning to stabilize, so no expectation of increased property values are shown after the first year of borough revenues. The revenue figures used for property tax income is a net total for area wide services after deducting all existing debt obligations of the City of Petersburg (future Service Area 1) and considering State mandated senior and disabled veteran tax exemptions. The budgeted property tax revenue figure assumes a 9 mill base levy in Service Area 1 in fiscal year 12/13 and beyond. As of January 2012 Gross Assessed property value in the City was \$288,811,500 and exemptions \$29,100,855. 9 mills of \$259,710,645 is \$2,337,395.

Note 2:

Payment in Lieu of Taxes: The City of Petersburg receives payment in lieu of taxes from the State of Alaska annually, as would the Borough.

Note 3:

Sales and Transient Room Taxes: These taxes will be an immediate area wide tax at 6% (sales) and 4% (room). Taxable sales outside the current City of Petersburg are expected to generate an additional, yet modest, borough income of \$148,358 annually (\$141,728 sales tax and \$6,630 room tax). FY 12/13 Sales Tax anticipates a base sales tax of \$2,761,164 (which is a 5% increase from FY 2011 City actuals) plus 50% of \$141,728 representing ½ year. FY 13/14 consists of \$2,761,164 + 141,728 + 1%. For years three through four, an annual 1% increase in Sales Tax has been considered. Transient room tax for FY 12/13 anticipates a 5% increase from FY 2011 City actual revenue plus 50% of the projected \$6,630, and 100% of the projected \$6,630 in FY 13/14. No 1% increase is projected for the following years.

Note 4:

Penalty and Interest income are based on City of Petersburg's penalties and interest received for late payment and filing of property and sales taxes. It is expected this figure will be relatively constant after borough formation, fluctuating slightly up or down in any given year dependent on area economy.

Note 5:

Licenses & Permits: This revenue is generated from fees for a variety of licenses and permits, such as building, zoning, variance, and/or special use permits and transient merchant and driver's license fees. The revenue is not expected to increase much over current city income levels,

Note 6:

Federal Grants: The City has a contract to perform some public safety activities on Forest Service land. In addition, the City receives pass-through federal money to fund drug enforcement operations in Southeast. It is expected that these services and funds will continue at approximately the same level after borough formation.

Note 7:

State Shared Revenue includes fisheries business taxes (DPOR, DCCED), liquor licenses and state revenue sharing, the latter of which is estimated to increase by \$300,000 beginning in FY 13/14 based upon borough formation.

Note 8:

The City of Petersburg receives a small grant (\$8,000-\$10,000) each year for library operations. This line item also includes the borough formation grants for the first three years of borough incorporation - \$300,000 in FY12/13, \$200,000 in FY 13/14, and \$100,000 in FY 14/15. Also included are grant funds for an additional police officer the State will be funding for the first two years of the budget (\$84,000); In FY 14/15, the borough will have to fund the position. State PERS relief in the amount of \$200,000 is also included in this figure, to draw down the municipality's PERS unfunded liability

Note 9:

The City has contracted with the State to provide limited incarceration services. In the last two years the contract has increased from approximately 202,000 to \$250,000. Also included in this line is approximately \$90,000 for the police to provide additional security at the airport during flights.

Note 10:

Charges for Services represent the revenues received from collection of user fees for services from departments that are mostly supported by general tax dollars. This income consists of, but is not limited to: recreational activity fees, ambulance fees, contracted police services and miscellaneous public works charges. This revenue is expected to increase from its current level, not due to borough formation but rather to inflationary increased costs of operation.

Note 11:

Fines and Forfeits represent revenues received from court and library fines; and animal and vehicle impoundment. This income is projected to remain approximately the same after borough formation because the fines and forfeits received from the animal and vehicle impoundment services will only be provided in Service Area 1 (former City of Petersburg).

Note 12:

Miscellaneous income represents income earned from borough (prior city) investments as well as existing land leases and sales at the time of borough formation. Miscellaneous income is expected to decrease in FY12/13 because of continued low interest rates on investments and lost revenue of the Romiad building leases. An increase of \$50,000 per year after that is provided, as the borough begins to sell off or lease entitlement lands received from the state due to borough incorporation.

Note 13:

Each Enterprise Fund/Operation of the City of Petersburg (all utilities; harbor, elderly & assisted living) contribute money to the General Fund to represent their costs for overall general administration, information services and financial accounting for the departments (i.e., each fund contributes to pay for city administration, computer assistance, finance personnel and other cost associated with them). Beginning in FY 12/13, a new cost allocation formula has been adopted by the City, which result in increased payments. It is anticipated that this will be retained after borough formation. The proposed budget contains a 1% annual increase to represent expected increased labor contract provisions.

Note 14:

Motor Vehicle Registration: Proceeds from State on vehicle registrations.

Note 15:

Each year the city conducts an auction for the disposal of no longer needed surplus equipment. This surplus auction is expected to continue after borough formation. The budgeted figure is the average annual dollars collected at the auction.

Note 16:

Secure Rural School Funding (National Forest Receipts): Like all communities in Southeast Alaska located within the National Forests, the Petersburg area has been reliant upon federal subsidy to compensate for the loss of local economy related to the near non-existent timber industry. The long term possibility of this funding source, that many communities have become dependent upon to supplement their education needs, has been, and continues to be, in jeopardy. At this time the Senate just passed the Baucus Amendment to extend Secure Rural Schools for one year at 95% of last year's level. At this time the City's Timber Receipts fund contains approximately \$4 million. Currently, the City has decided to keep the transfer at a flat amount of \$600,000 each year into the General fund due to this new development.

Notes 17, 17B and 17C:

A small increase over current city costs is included, beginning in FY 13/14, to provide for the expected added expense of elected borough officials. The increase in attorney fees is due to Borough Attorney costs in FY 12/13. The General Fund is in the process of restructuring their IT department and is contracting out this service to create more efficiencies and save on personnel costs.

Note 18:

This figure is approximately \$100,000 less than that provided in the initial borough budget, as a benefit cost was originally included twice. A 1% annual increase in the new figure has been provided, and \$5,000 additional election expenses anticipated.

Notes 19 and 19B:

A 1% annual increase is provided for. The Finance budget includes a \$50,000 expenditure for property tax software in FY 12/13; the budget should drop back down by \$50,000 the next year.

Note 20:

A 1% annual increase is provided, plus an added \$15,000 annual increase for liability insurance.

Note 21:

It is anticipated that additional funding will be needed to provide better emergency communication and coordination throughout the borough, including the emergency command center at Mt. View Manor.

Note 22:

Mt. View Manor Assisted Living is a new facility constructed in 2003 and opened for services in 2004. It provides both subsidized and non-subsidized room, board and assisted living services to qualified individuals as well as independent living apartments to the older adult population. The accounting for the facility was established on an "Enterprise" basis, whereas the facility's charges for services were expected to pay for the facility's total operating and debt costs. Since its opening, the facility has not raised revenues sufficient to pay for all costs of operations. The City has been providing General Fund funding up to \$280,000 annually to address the facility's 24 hours cost of service needs. \$198,000 annually will be paid by tax payers as of FY 2012, in a property tax additional debt service millage amount, but the Assisted Living Fund still requires an annual payment of \$100,000 from the General Fund.

Note 23:

In fiscal year 2008/09 the City implemented a new policy of transferring any Fish Tax Revenue (traditionally a general fund revenue) above \$400,000 annually to the Harbors & Ports operating budget. This policy was established to alleviate the need to further increase moorage and user fees at the harbors. Use of the Raw Fish Tax for harbor purposes was justified, as the City's fishing fleet is the main economic resource of the region. This new policy may or may not remain in practice in the future, dependent on other burdens upon the General Fund (education and basic services). However, the new policy has been carried over to the borough budget.

Exhibit 2

City of Petersburg's Resolution # 1959

CITY OF PETERSBURG, ALASKA

RESOLUTION # 1959

**A RESOLUTION ESTABLISHING POLICY ON THE UNRESTRICTED FUND BALANCE
THAT IS DESIRED TO BE MAINTAINED IN THE GENERAL FUND**

WHEREAS, to protect the City against potential shock of unanticipated circumstances and events, such as revenue shortfalls or unexpected expenditures, and

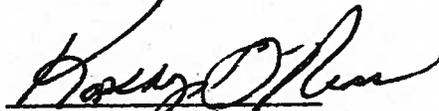
WHEREAS, to act as a guide to be used in the budgeting process, and

WHEREAS, the City Auditor has recommended a Fund Balance Policy be established.

THEREFORE BE IT RESOLVED that the City Council of the City of Petersburg by this resolution implements an unrestricted fund balance policy for the General Fund. It is desired that the unrestricted Fund Balance of the General Fund be maintained in the target range of no less than four months and no more than six months of operating expenses.

RESOLVED FURTHER, this policy may be amended by future resolutions.

ATTEST:


Kathy O'Rear, City Clerk


Mark Jensen, Vice Mayor

Passed: 2/2/2011

Exhibit 3

**Basic Financial Statements, Supplementary Financial Information,
and Single Audit Reports for the Year Ended June 30, 2011
(excerpts)**

CITY OF PETERSBURG, ALASKA

**Basic Financial Statements,
Supplementary Financial Information, and
Single Audit Reports**

Year Ended June 30, 2011

CITY OF PETERSBURG, ALASKA

Governmental Funds

Balance Sheet

June 30, 2011

<u>Assets</u>	<u>Major Funds</u>				<u>Total Govern- mental Funds</u>
	<u>General</u>	<u>National Forest Receipts - School Special Revenue</u>	<u>Fire/EMS Facility Capital Project</u>	<u>Nonmajor Funds</u>	
Cash and investments	\$ 2,812,952	3,316,214	-	6,450,805	12,579,971
Receivables, net of allowance for doubtful accounts:					
Property taxes	33,601	-	-	-	33,601
Sales taxes	313,128	-	-	-	313,128
Grants and shared revenues	-	-	686,287	215,502	901,789
Accounts	94,430	-	-	-	94,430
Interest	-	-	-	4,209	4,209
Prepaid insurance	51,699	-	-	-	51,699
Due from other funds	637,517	-	-	-	637,517
Total assets	\$ 3,943,327	3,316,214	686,287	6,670,516	14,616,344
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	112,065	-	282,474	46,241	440,780
Accrued payroll and related liabilities	150,311	-	-	543	150,854
Deferred revenue	3,792	-	-	30,668	34,460
Due to other funds	-	-	378,531	40,044	418,575
Total liabilities	266,168	-	661,005	117,496	1,044,669
Fund balances:					
Nonspendable	51,699	-	-	-	51,699
Restricted	-	3,316,214	-	247,186	3,563,400
Committed	-	-	25,282	6,190,645	6,215,927
Assigned	-	-	-	123,479	123,479
Unassigned (deficit)	3,625,460	-	-	(8,290)	3,617,170
Total fund balances	3,677,159	3,316,214	25,282	6,553,020	13,571,675
Total liabilities and fund balances	\$ 3,943,327	3,316,214	686,287	6,670,516	14,616,344

See accompanying notes to basic financial statements.

CITY OF PETERSBURG, ALASKA
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2011

	<u>Major Funds</u>				<u>Total Govern- mental Funds</u>
	<u>General</u>	<u>National Forest Receipts - School Special Revenue</u>	<u>Fire/EMS Facility Capital Project</u>	<u>Nonmajor Funds</u>	
Revenues:					
Property taxes	\$ 2,653,336	-	-	-	2,653,336
Sales taxes	2,638,867	-	-	-	2,638,867
Other taxes	72,067	-	-	-	72,067
Intergovernmental	1,958,400	1,357,487	2,197,247	884,169	6,397,303
Licenses and permits	20,266	-	-	-	20,266
Charges for services	338,420	-	-	-	338,420
Fines and forfeitures	27,316	-	-	-	27,316
Overhead charges	341,105	-	-	-	341,105
Investment income	100,608	29,806	-	633,247	763,661
Sale of property	-	-	-	44,935	44,935
Other	26,882	-	-	64,905	91,787
Total revenues	<u>8,177,267</u>	<u>1,387,293</u>	<u>2,197,247</u>	<u>1,627,256</u>	<u>13,389,063</u>
Expenditures:					
Current:					
General government	1,758,851	-	-	-	1,758,851
Public safety	1,806,087	-	-	45,396	1,851,483
Public works	1,735,673	-	-	2,811	1,738,484
Community services	225,564	-	-	258,116	483,680
Culture and recreation	954,147	-	-	35,899	990,046
Education - contribution to school distri	1,800,000	-	-	-	1,800,000
Debt service	-	-	-	816,506	816,506
Capital outlay	-	-	2,197,247	359,388	2,556,635
Total expenditures	<u>8,280,322</u>	<u>-</u>	<u>2,197,247</u>	<u>1,518,116</u>	<u>11,995,685</u>
Excess of revenues over (under) expenditures	(103,055)	1,387,293	-	109,140	1,393,378
Other financing sources (uses):					
Transfers in	599,861	-	-	5,163,775	5,763,636
Transfers out	(719,126)	(599,861)	-	(4,982,485)	(6,301,472)
Net other financing sources (uses)	<u>(119,265)</u>	<u>(599,861)</u>	<u>-</u>	<u>181,290</u>	<u>(537,836)</u>
Net change in fund balances	(222,320)	787,432	-	290,430	855,542
Fund balances at beginning of year	<u>3,899,479</u>	<u>2,528,782</u>	<u>25,282</u>	<u>6,262,590</u>	<u>12,716,133</u>
Fund balances at end of year	<u>\$ 3,677,159</u>	<u>3,316,214</u>	<u>25,282</u>	<u>6,553,020</u>	<u>13,571,675</u>

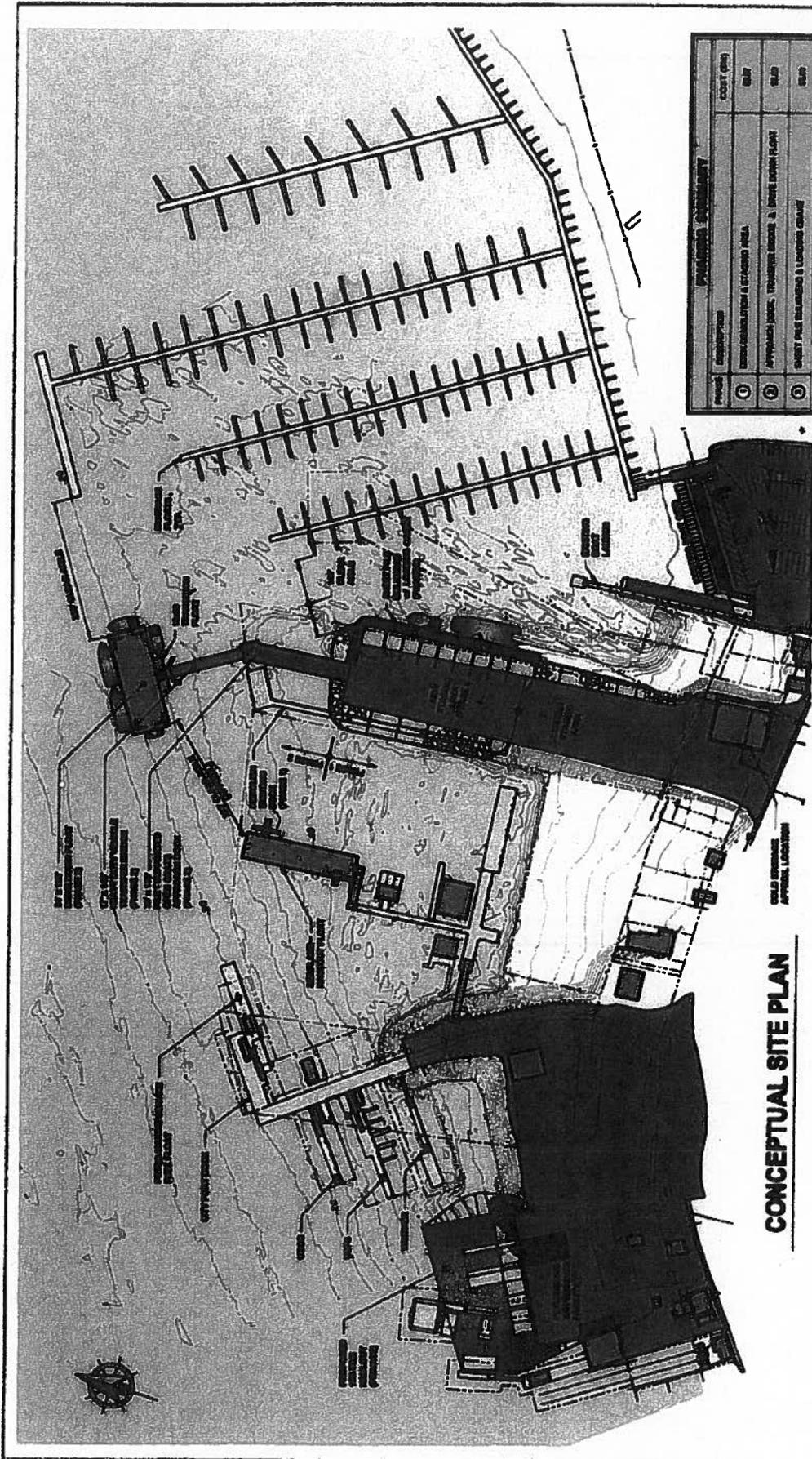
See accompanying notes to basic financial statements.

Exhibit 4

North Harbor Reconstruction Concept No. 6 Phase 3 Site Plan

Exhibit 5

Conceptual Site Plan for Drive Down Facility Development Plan



CONCEPTUAL SITE PLAN

SCALE: 1" = 40'

Symbol	Description	Notes
①	DRIVE-DOWN FACILITY	SEE PLAN
②	APPROACH JAMS, TRUCKS, TRUCKS, TRUCKS	SEE PLAN
③	TRUCK WASH	SEE PLAN
④	STREET LIGHTS	SEE PLAN
⑤	TRUCK	SEE PLAN

PRELIMINARY
DRIVE-DOWN FACILITY DEVELOPMENT PLAN
 COMPANY NO. 6 SITE PLAN



PROJECT NO. 12345
 SHEET NO. 1 OF 1
 DATE: 12/31/2011

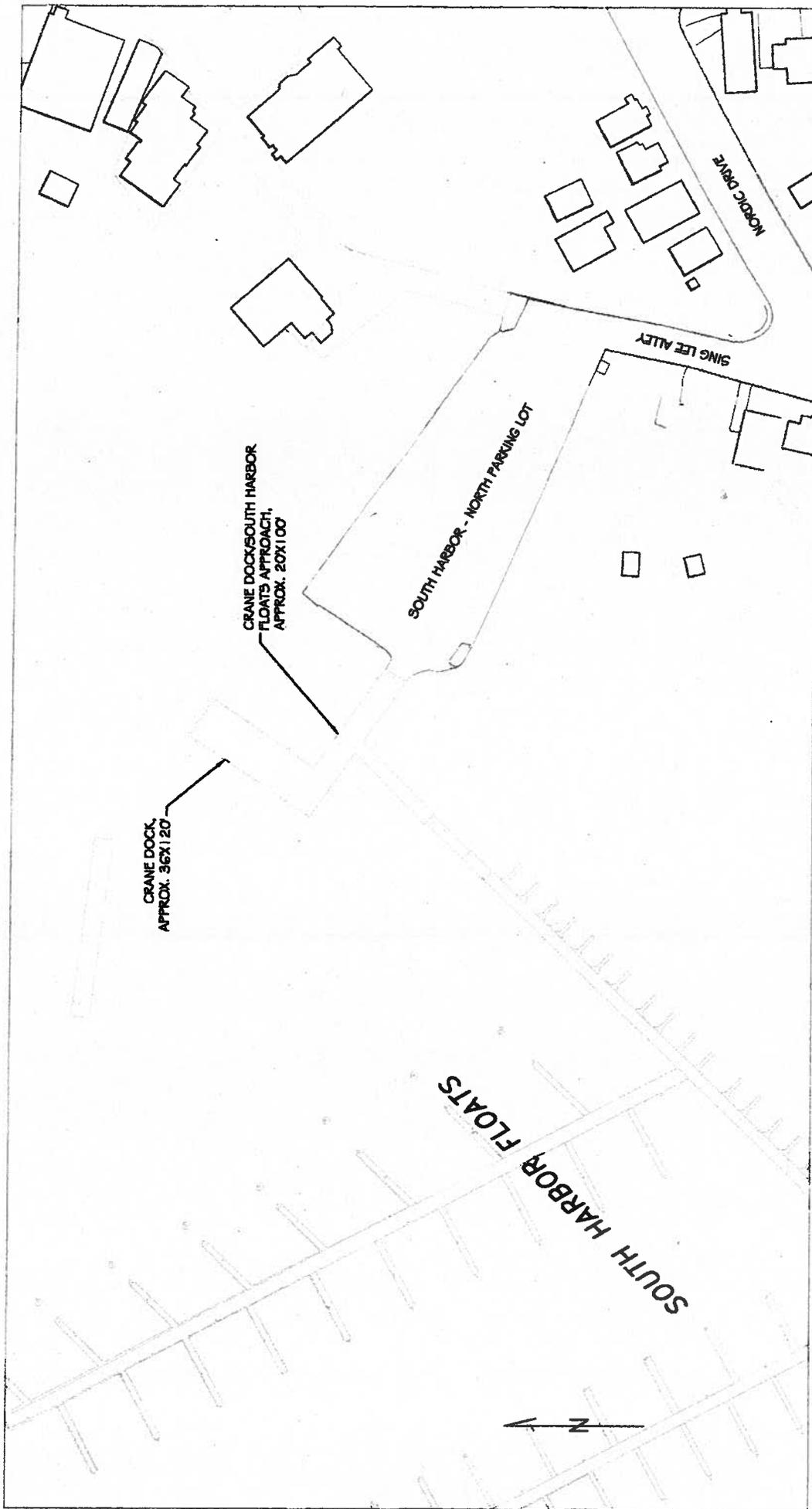
NO.	DATE	REVISIONS

REVISIONS

ENGINEER, INC.
 12345 MAIN ST.
 SUITE 100
 SAN FRANCISCO, CA 94102
 (415) 555-1234
 WWW.ENGINEER.COM

Exhibit 6

South Harbor Crane Dock Drawing



SOUTH HARBOR CRANE DOCK
City of Petersburg, Alaska

Drawn by SJC City of Petersburg Dept. of Community Development January, 2011

Exhibit 7

December 13, 2007 Letter to City of Petersburg from Goldbelt



Goldbelt

3075 Vintage Blvd., Suite 200, Juneau, Alaska 99801-7109 (907) 790-4990 Fax (907) 790-4999

December 13, 2007

Ms. Kathy O'Rear
Acting City Manager
City of Petersburg
PO Box 329
Petersburg, Alaska 99833

Dear Ms. Rear:

As expressed to Mr. Jones and to the Alaska Local Boundary Commission, and as directed by our Board of Directors, Goldbelt, Incorporated hereby expresses its desire that our lands at Hobart Bay be part of the proposed Petersburg Borough and not part of the City and Borough of Juneau.

We express this desire for a great many reasons including geography, historical ties, the abilities of the CBJ and the proposed Petersburg Borough to provide services, and past support by the City of Petersburg and the support by Petersburg businesses of our past logging operations in Hobart Bay.

We remain open to discussion and will be available to answer any questions you may have.

Sincerely,

J. Gary Droubay
President and CEO
Goldbelt, Incorporated

copies: Alaska Local Boundary Commission
City and Borough of Juneau

Exhibit 8

**Glacier Bay – Chatham Borough Initial Feasibility Study,
June 2006, Prepared by City of Hoonah**

Glacier Bay - Chatham Borough INITIAL FEASIBILITY STUDY

June 2006

*prepared for review
and discussion within our region*

1.0 Questions for Review and Consideration

The City of Hoonah is planning to prepare a petition to form a borough in late 2006. We recognize that we must work together on this effort and that ultimately the majority in our region must support this idea. We are proposing a meeting of our region in late September (immediately preceding the Southeast Conference annual meeting) to get together to discuss borough formation. We hope to have funding to help subsidize some travel and lodging. Following are some questions to keep in mind as you read this report. If you would like to send comments on these questions or this report for consideration before or at this meeting, please send them to the City of Hoonah, P.O. Box 360, Hoonah, AK 99829.

1. Section 2 - Introduction and Background, Section 3 - Organizing Principles for Our Borough, and Section 4 – Why a Glacier Bay-Chatham Borough, lay out the case for forming a borough in our region. Do you agree with the material presented? Why or why not?
2. Borough finances are much stronger, including state and federal funding, and our regional 'clout' is higher when we join together to form the Glacier Bay-Chatham Borough, rather than forming two separate boroughs. However, this will make movement and communication within our borough more challenging. Two ways we propose to address this are installation and allocating operating funds to run high speed video-conferencing equipment (like what SEARHC and some Chatham REAA school sites have) in each community to be used for assembly and school district meetings as well as other borough meetings. Second, we have funding for assembly and planning commission travel in the borough budget. What are your thoughts?
3. What questions do you have regarding the proposed borough budget? Do you favor the \$1.9 or \$2.5 million dollar option, why? Which local tax option do you find least objectionable and why?
4. Are there services or powers besides the required education, taxation and planning that it would be beneficial for the borough to provide to your community? This study suggests that economic development be added so the borough is empowered to advocate and seek funding for projects our region and community's desire. What about transportation, trails and recreation, or solid waste?

3.0 Organizing Principles for Our Borough

The eight principles below are important to people in the Glacier Bay-Chatham region. Our borough will be formed around and promote these ideals.

1. High quality education;
2. Keep our communities independent and unique;
3. Use our strong regional voice to advocate for both borough and each community's priority capital needs and projects;
4. Use borough resources to foster and support our communities and our regional needs;
5. Continued ability of residents to engage in subsistence harvesting and gathering activities;
6. Regional emphasis on reducing electrical rates, high quality docks and harbors, and a strong, sustainable marine highway ferry system;
7. Install and maintain high speed video-conferencing capability in all communities to support and enhance Assembly, School Board and citizen communication; and
8. No borough property tax.

Finally, it is safe to say that every resident of every community in the region, including Hoonah, is leery about creating multiple layers of government. How do we create a borough that has functioning cities within it and prevent this? Here are some ideas:

Make sure, from day one, that duties and responsibilities between the borough and cities do not overlap.

Learn from other Alaskan boroughs that are doing this. Aleutians East Borough, Kenai Peninsula Borough, Kodiak Island Borough, Matanuska Susitna Borough, North Slope Borough and Northwest Arctic Borough are all boroughs that have cities and villages within them like what we are proposing (some are 2nd class boroughs, others are home rule boroughs). We need to hear from them about what is working well and what could be better and use these ideas as we write our petition and set our rules.

We should consider co-locating the main borough offices with city offices in the communities where they are located. We should be able to share rent and some administrative and overhead expenses between cities and the borough, and hopefully between schools and the borough school district.

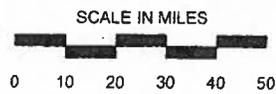
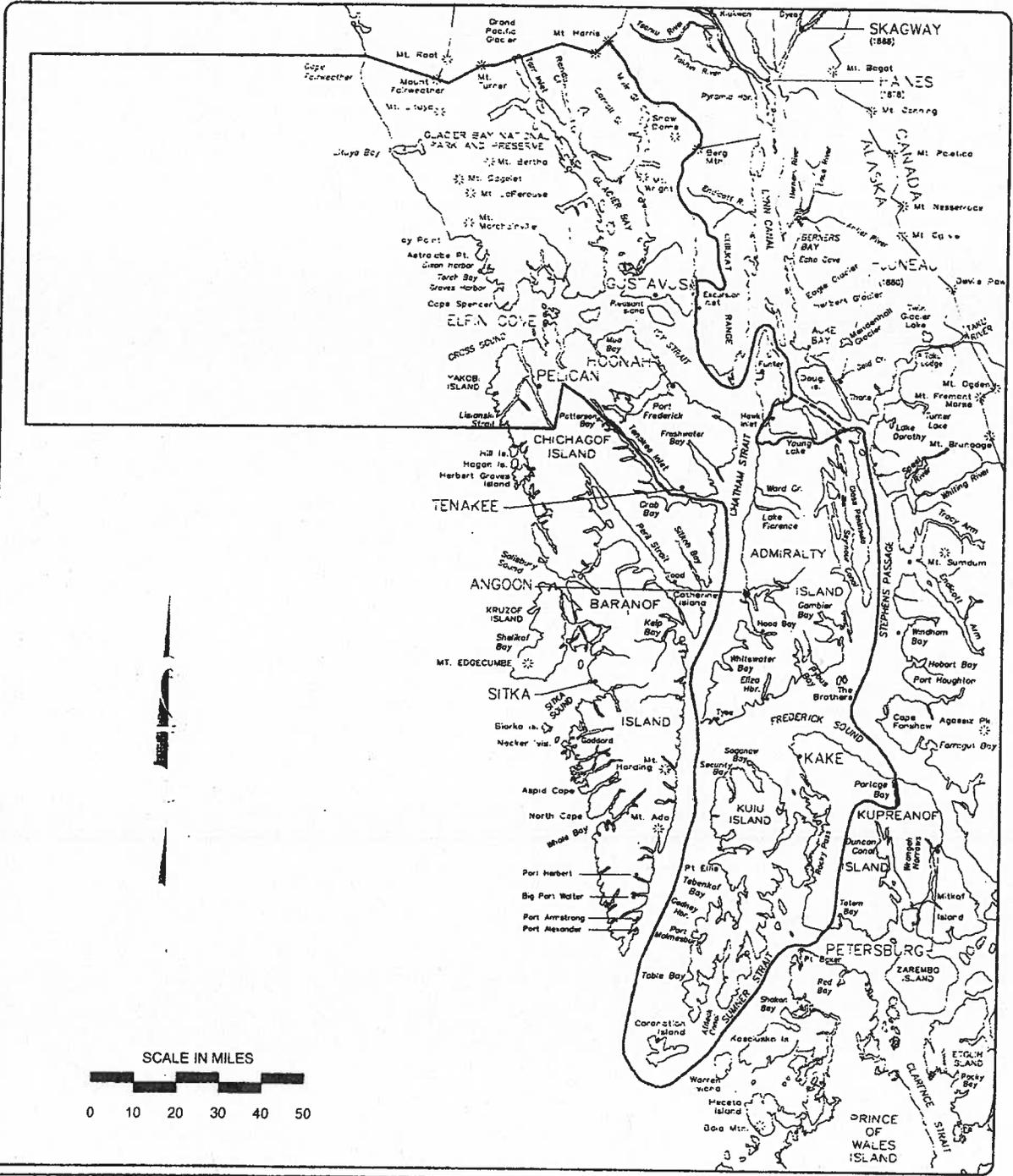
4.0 Why a Glacier Bay - Chatham Borough?

Initially, we were focused on the Glacier Bay Borough. This is the area depicted on Figure 1 and includes Pelican, Elfin Cove, Gustavus, Hoonah, Tenakee Springs and Glacier Bay National Park and Preserve. This is one of the state's "model boroughs" for Southeast Alaska. Instead, we are now strongly considering pursuit of a borough that also includes Angoon, Kake and all of Admiralty and Kuiu Islands as well as that part of Kupreanof Island that is home to Kake. This Glacier Bay-Chatham Borough is seen in Figure 2. Representatives from all involved communities had an opportunity to discuss this idea together for the first time in late March 2006 in Juneau. This borough would combine two of the state's model boroughs plus some additional territory. We think this makes more sense for three main reasons:

- More people and territory gives depth and strength to support borough government. This borough option results in significantly more state and federal revenue for our region and a larger borough land entitlement. Since there will be local taxation to support education (and other borough responsibilities) this option allows distributing this burden/responsibility out over more people and territory and thereby reducing it for any one individual or business.
- Joining several traditional Tlingit areas and people together under the umbrella of one regional government would create a strong Alaska Native voice in this part of Southeast Alaska.
- Some communities in this region have more economic activity going on than others, however, major activities and opportunities are similar throughout:
 - Subsistence Harvest and Gathering: Hoonah, Kake, Angoon, Gustavus, Pelican, Tenakee Springs, Elfin Cove
 - Sport fishing: Hoonah, Kake, Angoon, Gustavus, Pelican, Tenakee Springs, Elfin Cove
 - Commercial Fishing: Hoonah, Kake, Angoon, Gustavus, Pelican, Tenakee Springs, Elfin Cove
 - Fish Processing: Hoonah, Kake, Gustavus, Pelican
 - Large cruise ship tourism: Hoonah, Glacier Bay
 - Independent tourism: Hoonah, Kake, Angoon, Gustavus, Pelican, Tenakee Springs, Elfin Cove and Glacier Bay
 - Industrial Support (timber, mining): Hoonah
 - Significant Government Sector Employment (school, local, tribal, state, federal): Hoonah, Kake, Angoon, Pelican

Finally, you may notice a dashed line around the Greens Creek mine area on Admiralty Island (Figure 2). This small part of Admiralty Island is already in the City and Borough of Juneau. Angoon residents have very strong historic and cultural ties to this area; many have not forgiven the state Local Boundary Commission for assigning this piece of their traditional territory and island to Juneau for governmental purposes. Our borough formation petition could include asking that this area be detached from Juneau and become part of our borough. However, this would likely generate strong objection from Juneau, and there are ties now between mine operation and Juneau. Our proposal does not include this option, but we are interested in the region's views on this matter. (We also have not talked yet with the mine owner about this option.).

Figure 2
PROPOSED
Glacier Bay-Chatham Borough



**PROPOSED GLACIER BAY
CHATHAM BOROUGH**