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**Commission, Boundary (CED sponsored)**

**From:** Ione and Bob Lynn [iblynn@alpineclimbs.com] **Sent:** Tue 10/25/2011 4:06 PM  
**To:** Commission, Boundary (CED sponsored)  
**Cc:**  
**Subject:** Lynn electronic brief on Petersburg's petition in electronic format  
**Attachments:**  [Bob Responsive Brief Final.doc\(2MB\)](#)

The electronic version of Robert Lynn's Responsive Brief related to the Petersburg borough is attached. Two copies of the brief were hand delivered to the City of Petersburg on 10/24 as stated in the affidavit.



October 17, 2011  
P.O. Box 231  
Petersburg, AK 99833

Local Boundary Commission Staff  
550 West Seventh Avenue  
Suite 1770  
Anchorage, Alaska 99501-3510

Subject: Responsive Brief of Robert Lynn against the Petition submitted to the Local Boundary Commission For Incorporation of a Petersburg Borough and Dissolution of the City of Petersburg.

To: Boundary Commission Staff

The Responsive brief of Robert Lynn against the City of Petersburg's proposal for Incorporation of a Petersburg Borough and Dissolution of the City of Petersburg is attached.

To the best of my knowledge, information, and belief, formed after reasonable inquiry, the responsive brief and exhibits are founded in fact and are not submitted to harass or to cause unnecessary delay or needless expense in the cost of processing the petition.

Two copies of the brief will be hand delivered to the City of Petersburg on October 24, 2011.

Sincerely,

  
R.E. Lynn

State of Alaska 1st Judicial District  
Signed before me on this 17 day of October, 2011  
By Theresa S  
My Commission Expires 3/7/2012



## Responsive Brief

### Petition

For incorporation of a Petersburg Borough  
And  
Dissolution of City of Petersburg

Submitted By:

Robert Lynn

P.O. Box 231

Petersburg, Alaska 99833

E-mail: [rblynn@alpineclimbs.com](mailto:rblynn@alpineclimbs.com)

Member of the Petersburg Borough Charter Commission

October 12, 2011

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### **Section 1: Respondent**

Robert and Ione Lynn are the owners of Lot 2 in the Duncan Canal Subdivision and full time residents in Duncan Canal. The Subdivision is located in S2, T61S, R79E of the Copper River Meridian, Alaska. It is one of the more remote locations in the proposed borough. The Subdivision was plated and approved in 1981. Travel time to Petersburg from this Subdivision is a minimum of an hour on a good day. All travel is by boat or airplane for half the distance. There are at least 70-100 days annually where travel is not possible without major concern for ones safety. For one-third of the trip, there are no channel markers. During the winter months when daylight hours are very short, the window for travel to and from Petersburg is 5-6 hours. Tides further restrict travel.

No services are provided by the City of Petersburg. Law enforcement is provided by the Alaska State Troopers. There is no reliable telephone service. Satellite internet and television can be purchased. Radio reception from Petersburg requires a booster. Medical emergencies are generally taken care of by the family and/or with the help of friends.

Robert Lynn was a member of the 2006 Petersburg Borough Charter Commission, Page 98, Exhibit H, Petition to the Local Boundary Commission for Incorporation of Petersburg Borough, a Home Rule Borough and Dissolution of the Home Rule City of Petersburg.

Robert Lynn was also United States Forest Service, Forest Supervisor of the Stikine Area, Tongass National Forest which included all the area the City of Petersburg proposes for borough formation except for the area north of Hobart Bay. The Stikine Area also included most of the area now within the Wrangell Borough. As Forest Supervisor, I was responsible for implementing and enforcing all Federal laws and regulations on the National Forest and for all the personnel and budgets associated with that charge. In that capacity, I was also the responsible official to coordinate with the State of Alaska, other federal agencies, and all the included municipalities.

### **Section 2: General Description of the Proposed Action**

The City of Petersburg submitted a proposal on October 14, 2004, which was accepted by Department of Community and Economic Development on December 13, 2004, to annex a large portion of Mitkoff Island. On May 15, 2006, the City Council for the City of Petersburg passed Resolution #1795, a resolution that withdrew the City's petition to the Local Boundary Commission to annex 34.2 square miles on Mitkoff Island and informing them of the intent to seek borough formation. On June 19, 2006, the City Council with unanimous consent appointed nine individuals to the Petersburg Borough Charter Commission. After 10 public meetings and work sessions the Charter Commission on October 2, 2006, submitted its work to the City Council. On March 5, 2007, the City of Petersburg passed Resolution #1813 and accepted the Charter as amended by the City Council. The City completed the petition and solicited signatures. Sufficient signatures were never gathered and the petition was dropped at that time. September 16, 2010,

Petersburg Pilot, page 1 announced “New borough petition released with updates and changes”. A public notice in the October 7, 2010, Petersburg Pilot states, “The Petersburg City Council has approved that the Petition to the Local Boundary Commission for incorporation of Petersburg Borough ...be circulated for signatures.”

### **Section 3: General Description of the Area Proposed For Borough Incorporation**

The area the City of Petersburg proposes to incorporate into a Home Rule Borough covers an area of 4,347 square miles. That’s roughly an area 90 miles long by 50 miles wide. It contains portions of three nationally designated Wilderness areas. The majority of the remaining area has little or no developed access. Land ownership from largest to smallest would be the Federal government, State of Alaska, private, and municipalities.

### **Section 4: Statement of Reasons For This Opposition**

The City of Petersburg asserts to the Local Boundary Commission in its Petition for Incorporation of the Petersburg Borough, a Home Rule Borough and Dissolution of the Home Rule City of Petersburg (hereafter referred to as the Petition), that they meet all the standards established in Sec. AS 29.05.031 Incorporation of a borough or unified municipality. The following statement of reasons will address each of the four AS 29.05.031 standards and describe why the City of Petersburg’s Petition does not meet these standards.

*AS 29.05.031 (1) the population of the area is interrelated and integrated as to the social, cultural, and economic activities, and is large and stable enough to support borough government; AS 29.05.031(1)*

#### **Petersburg’s lack of economic diversity**

Petersburg’s economy is comprised primarily of the fishing industry, government, and tourism. Fish are a public resource and subject to major swings in fish populations. State and federal policies and the collection of taxes from this industry are then subject to major swings.

Petersburg is home to several federal agencies. The U.S. Forest Service is the largest followed by the U.S. Coast Guard. There are also other federal agencies such as Homeland Security and the National Marine Fisheries. State agencies include Alaska Department of Fish and Game, Alaska Department of Transportation, Alaska Marine Highways, and the Alaska State Trooper.

The U.S. Forest Service budget continues to be reduced as does the personnel stationed in Petersburg. The Coast Guard budget is not keeping up with inflation and there has been a major shift in its duties. With that shift economic realities may dictate changes in ship berthing. Nationally, there is a huge deficit that must be addressed. When the deficit is addressed, Petersburg can expect further reductions in federal agency personnel, federal funding, as well as project funding.

At the State level, oil revenues are on the decline and there is no replacement for those lost revenues. That will translate to reductions in state personnel, less money to municipalities including funding and maintenance support to local projects.

Tourism is seasonal and cyclic, depending greatly on the economy and the availability of fish resources. The country continues to go through a major recession which has translated into a substantial reduction in tour ship visits and tourism in general in Petersburg.

Almost all the durable goods and all the fuel are imported into Petersburg. The only export is fish. As a result, the majority of money earned in Petersburg is spent on imported goods and immediately leaves the local economy. The same can be said for employment in the fishing industry. Cannery workers are seasonal with most of them coming from outside the State. A large portion of their earnings go with them. The canneries have a very busy three months and then go into maintenance mode. Most of the durable goods they purchase come from outside the State. Some trade services are purchased locally.

Petersburg is home to a sizeable fishing fleet. Some boat repair and maintenance can be done locally. Larger and more specialized work requires that the boat be taken elsewhere. The employment and income generated from work on the fishing fleet help stabilize the local economy but the earned income is then subject to the same multiplier effect as described above. Many of the fishermen leave their boats in Petersburg but live in the lower 48 states during the rest of the year. Again, most of the income leaves Petersburg. The majority of the goods and services they do purchase must be imported.

The next 5-year forecast for job creation and even maintenance of existing jobs does not bode well for Petersburg. The seasonal nature of two of the three job sectors will probably become more tenuous leaving meager opportunities for a stable year-round job market. Other than high paying jobs in government (including local government) the remaining jobs will be mostly low-wage rates. Current unemployment rates are nationally at nine percent and are not forecast to go below 7.5% for a long time. At the same time globalization and technological innovation are bringing about long term changes that will have profound future effects on the U.S. job market and an even greater impact on lower income earners and age groups.<sup>1/</sup>

If anyone of the three job sectors suffers funding reductions or job losses, the local revenue stream is greatly affected. There are no back-up sources to fill the funding gaps other than to increase the taxes on local residents or reduce services. Goods and services would become more costly. Unit costs to bring goods into the city would increase and probably lower wages in the job sector would result.

The Petersburg economy is not healthy. In the Petition on page 49, 5.0 Extending non-areawide powers beyond Service Area 1, Petersburg lists 11 services they propose could be expanded. Given the lack of economic diversity in Petersburg's economy and poor revenue forecast, the services they propose to expand (they never define either the area or

proposed scope of those services) could not be done without raising taxes or reducing services in Service Area 1. There remains an important question whether those services, even with an increase in taxes, could be implemented or sustained.

### **Geographic and weather barriers to social and cultural integration**

The New Oxford American dictionary defines social as of or relating to society or its organization; needing companionship. The dictionary defines culture as the customs, arts, social institutions, and achievements of a particular nation, people, or other social group.

Page 64 of Petersburg's Petition states "The City of Petersburg is the regional hub for the area proposed for borough incorporation, and has strong historic and contemporary social, cultural, economic, communication and transportation connections with the entire area." They do not elaborate why this is so.

Once an individual, couple or family decides to reside off Mitkoff Island their social and, cultural needs change. They no longer have the daily ties to Petersburg community residents. They depend on one another and form close-knit groups of like-minded people who share the same lifestyle. The lifestyle focuses the social and cultural interactions. They do not depend on Petersburg to provide services or security. They are self reliant and independent. When and if they travel to Petersburg to purchase something would be no different than Petersburg residents buying products from Juneau, Anchorage or Seattle. Does that make Juneau, Anchorage, or Seattle the "hub" for Petersburg?

Most people who live outside Petersburg are no longer culturally tied to Petersburg. They do not have a strong identification with Petersburg's Norwegian culture. Weather, tides, and daylight hours prevent these people from participating in most cultural events and in City Government. In most of the area off Mitkoff Island it would be almost impossible to hold a job that would require daily travel to Petersburg. Their economic livelihood must be made elsewhere. That further divorces social and cultural ties to Petersburg. Many of us do business in Wrangell and recreate in the Wrangell borough as well. Yet there are no strong social or cultural ties with Wrangell.

Most issues find the City of Petersburg residents on the opposite side from those living off grid. For example, bonding for new facilities would find the majority of people in Petersburg in favor and those living outside the city opposed. The recent Library bond election found Petersburg in favor of increasing taxes while the majority of people outside were opposed. The people living outside Service Area 1 would always be in the minority in the proposed borough. The differences in lifestyle will pit one part of the proposed borough against Service Area 1 without common ground most of the time. Then the statement on page 3 stating "incorporation will strengthen our area's regional voice"... cannot be true and the standard cannot be fulfilled.

## **No demonstrated need for more local government**

The City of Petersburg's Petition to form a borough does not demonstrate in any way why there is a need for more local government. The City published their first notice in the Petersburg Pilot that the Petition was ready for signatures on October 7, 2010. They previously had hired Mr. Robert Purnella (Petersburg Pilot, May 6, 2010, "Prunella hired to aid in information of Petersburg borough") to update and sell the idea of borough formation. Signature gathering was slow outside Petersburg. The February 10, 2011, Pilot reports that a former mayor "has made signature collection a personal challenge" to help collect signatures outside the City. Finally in April 2011, the door to door campaign succeeded in garnering enough signatures. The process took 7 months indicating to me that more government outside the present incorporated City limits is neither wanted nor needed.

The March 17, 2011, Petersburg Pilot reported that although Alaska gained 83,000 people in population from 2000 to 2010 Petersburg's population dropped from 3224 to 2948. (The City's Petition on page 2, Section 5 uses a figure of 3365 people.) Southeast Alaska dropped population thereby triggering a redistricting of Alaska's legislative districts. The drop of 276 people in Petersburg's population will result in less City revenues. Assuming 4 people per household the City stands to lose property tax revenues from 69 families. In addition, sales tax revenues are lost from the same 276 people. Using an average of \$2000 per household for tax revenue, annual loss amounts to a total of \$136,000. Yet the Petition Page 10, Section 18, k. asserts they are economically healthy. Why is there a need for more government with fewer people? One of the standards is economic stability. With the reduction of population, lack of job sector diversity, strong potential for future job losses and outside source funding, the Petition falls far short of meeting any kind of stability standard.

Pages 69-71 lists 75 incidents where emergency assistance has been given outside the city limits. Twenty-eight of those incidents were on Mitkoff Island where Petersburg is located; another 15 of the incidents were at Papke's landing also on Mitkoff Island. Summarily, more than half of the incidents were on Mitkoff Island. Although there is no way to tell from the data presented, I would estimate that more than 1/2 of the incidents off Mitkoff Island involved Petersburg residents.

Anyone who lives off the grid can list numerous incidents when they have responded to or assisted someone. Collectively our list would probably be as big or bigger than Petersburg's list. Some that I have been involved with have been very serious, and yes, I have requested ambulance assistance at Papke's landing for individuals. I've also been involved with incidents involving the Alaska State Trooper, U.S. Coast Guard, and U.S. Forest Service, none of which draw funding from the City of Petersburg. I am sure that many of you have also provided assistance in emergency situations. To offer assistance does not mean we need a borough to do so. We understand there is a cost associated with responding to calls and that's why many of us living off the grid donate to the Petersburg Volunteer Fire Department. The City under its Home Rule status can and should implement a charge associated with responding to incidents outside the City. Providing

emergency assistance should never be used as a standard to qualify Petersburg to form a borough.

### **Lack of Support For People and Projects Outside Petersburg**

Petersburg in its Petition attempts to make the case that residents outside Petersburg are socially and culturally tied to their community. If Petersburg has the interest of residents in the proposed borough in mind, there should be a clear track record of Council actions and actions by other groups such as the Petersburg Chamber of Commerce that supports services and infrastructure projects beneficial to outside residents. I've asked others who live out, and collectively, we can think of none. One situation vividly comes to mind that demonstrates just the opposite. Papke's landing has a boat ramp and a parking lot built by the U. S. Forest Service and transferred later to the state into Mental Health Trust ownership. The facility is a major hub for boat traffic used by Petersburg residents and those who live out. The Trust, almost overnight, threatened legal action against individuals for parking their vehicles there, which has been done for more than 30 years. Although Petersburg had a stake in this action, they sat idly by while outside residents dealt with the problem. On an October 6, 2011 KFSK local radio station discussion of the borough, the subject of Papke's landing arose. The comment from a city official was that they could not get involved with the issue but a borough would allow involvement. To my knowledge there are no state statutes or regulations prohibiting the city from taking a position on issues outside their boundaries. In this case, their residents were affected which would make it a greater reason for their involvement.

Another example also brings a lack of support to mind. The October 21, 2010, Petersburg Pilot, page 1 states "Bertagnoli also told the council that the union was looking into filing an unfair labor practice complaint against a city councilwoman for accosting a city employee at work over the negotiations." "This is wrong, she came in and told this employee 'you're lucky to have a job, you live outside the city limits – you shouldn't be working for the city,'" Bertagnoli said. If the council was in support of people living outside the city, this action would never have occurred.

During the time the Charter Committee was deliberating, I was approached by two out-of-town business owners on separate occasions who made cases for a lower sales tax outside Petersburg. They asked if I could have that written into the Charter. I was not able to get a lower tax rate into the Charter but I did make an argument that the business owners outside of town should be able to interact with the borough assembly and make their own case for a lower sales tax. That was written into the draft Charter. The Petersburg City Council by Resolution #1813 amended the Charter to "reflect a borough wide 6% sales tax at the time of borough formation." If the City of Petersburg truly has the interests of people and businesses outside Petersburg in mind, it would do everything possible to have an interactive government that represents all residents.

Historical actions must play a big part in establishing the AS 29.05.031 (1) standard for social and cultural integration. In this case, Petersburg's past actions do not support their

position and I believe, are a strong indicator of what can be expected in the future if a borough is formed.

*AS 29.05.031 (2) the boundaries of the proposed borough or unified municipality conform generally to the natural geography and include all areas necessary for full development of municipal services, AS 29.05.031(2)*

### **Boundaries exceed prudent economic feasibility**

The City of Petersburg proposes to incorporate an area of 4347 square miles, provide no services outside Service Area 1 except to implement the mandatory areawide powers of education, assessment and collection of a 4 mil tax, and land use regulation (AS 29.35.130-180).

The Petition, page 7 and 8, proposes to provide 25 powers and functions areawide (19 at full service, 6 at lesser levels) and 30 powers and functions in Area 1 (28 at full service, 2 at lesser levels). Once one leaves Mitkoff Island there are very few roads so servicing these areas would be difficult and in places impossible. The powers and functions have little value to those that live off the grid. The proposal allows Petersburg to shift funds that were going to these functions to other uses or to slightly reduce the Area 1 mill rate. There is no need to form a borough to provide many of these services. As an example, a user fee could be charged to those outside Petersburg to use the library. Another example is fire protection. To respond to a fire off the island will require additional equipment and personnel. Realistically even traveling across or down Wrangell Narrows is possible only in a narrow window of time. Daylight hours, tides, and weather dictate that window. How will that happen when there are only a limited number of people in the volunteer fire department and emergency medical response? Adding 234 full time residents will not add sufficiently to the cadre to provide adequate off island service. Even travel times out the road on Mitkoff island are excessive to give appropriate response time. It is argued that the people out the road can pay and build a new fire station. When there are not sufficient people to man the equipment and facility, why build it at all?

Many of the powers and functions the City proposes to assume in its petition could never be provided to areas across Frederick Sound, or across Wrangell Narrows. Distances, geographic factors, weather, tides, limited budget and manpower are never reasonably considered in the Petition. As a simple example, assume the assessor is doing an on-the-ground assessment in Farragut Bay. That would be a days trip by boat or plane providing the weather cooperates. The cost of travel is at least \$800. Repeat that same scenario many times on the outlying islands and the costs become prohibitive. The Petition is not realistic.

In the criteria, as presented in AS 29.05.031(2) there must be a reasonable standard applied to borough boundary formation. Factors as described above make the proposed boundary economically unjustifiable. Environmental constraints as described above make it almost impossible to actively participate in borough government.

*AS 29.05.031 (3) the economy of the area includes the human and financial resources capable of providing municipal services; evaluation of an area's economy includes land use, property values, total economic base, total personal income, resources and commercial development, anticipated functions, expenses, and income of the proposed borough or unified municipality, AS 29.05.031(3)*

### **Service area boundaries and tax rates not consistent or supportable**

The Petition proposes Service Area 1 which would include all of the current area within the City of Petersburg be subject to 11.02 mil rate while the rest of the proposed borough would be a 4 mil rate. Driving south on Mitkoff Highway we come to a City of Petersburg boundary sign. Stop at this point and take a look. To the north of the sign is a 11.02 mil rate; to the south is a 4 mil proposed rate. The services provided on both sides of that sign are the same. Is it equitable for residents on one side of the sign to pay 7.02 mils more for the same services when both have equal access to city services? The decision to draw this line is arbitrary and unfair as any court would determine. The Petition should be rejected accordingly.

The Charter Commission of which I was a member looked at numerous scenarios for Service areas. The Commission attempted to draw potential Service area boundaries based on a set of defensible criteria. What is presented in the Petition is not defensible.

Taking another step back, let's look at the tax equity question within the City of Petersburg. The February 24, 2011, Petersburg Pilot contains a front page article from a former Petersburg mayor pointing out disparities and inequities currently existing within the City of Petersburg. Mr. Koenig's states " Those living past 4.5 mile of Mitkof Highway and those living on East Frederick Point are paying the full mil rate (10.25 mils) while not receiving all the services that come with living within the City, including water and sewer." He goes on in the article to make a proposal to the City Council to fix this inequity. The estimated tax loss to fix this inequity is about \$52,000 and may require the city to purchase new tax software at a cost of \$60,000. To initiate action on his proposal would require that the Petition be redone and the signatures sought once again. To my knowledge action was never taken on his proposal.

Before solving its current inequities the City proposes to incorporate into a Home Rule Borough and tax a huge area of land. No where in the Petition are the tax inequities stated or the costs to resolve the inequities. The Petition definitely does not meet the standard as intended in AS 29.05.031 (3).

### **Petersburg's past actions don't support the petition**

In 1978, the city petitioned to annex Scow Bay and Frederick Point with a differential tax rate based on specific services to be provided. Shortly after annexation the City Council changed the mill rate so that all properties paid full rate, regardless of services received. There still are areas in Frederick Point that receive no services but yet pay the full mill rate. History leads me to believe that the current Petition will follow the same path as the 1978 proposal.

In 2003 the City had Sheinberg and Associates do a study on making a Class 2 Borough but leaving the Cities of Petersburg and Kupreanof intact.<sup>3/</sup> The study shows that portions of the money received by Petersburg would migrate to the borough. Petersburg decided to drop that idea. Now they propose to dissolve the city and to become a Home Rule borough which gives them greater powers of control over a larger area and a greater flow of funds to Service Area 1 which is the current City of Petersburg.

### **Petition expenses/revenues inconsistent with published information**

Presented below is a comparison of information in the Petersburg Pilot with the information presented in the Petition.

The Petition on Pages 4-7 and Pages 34-40 portrays a fairly healthy and vibrant economic base. It is these pages which this section will address. The bottom line of the table "All Revenue, less Operating and Transitional Expense p.32 shows the 2010/2011 City budget to be deficit as were the Petersburg budgets in the three previous fiscal years. (See the quote below, April 29, 2010, Petersburg Pilot). The statement made in the Petersburg Pilot and Petition, p.32 are consistent. However, that is where the consistency stops. Petersburg Pilot articles on the City's, the Hospital's, and the School's budgets from FY 2011/15 all tell a different story than presented in the Petition. The city manager states there is a substantial decline in sales and bed tax. He states that insurance rates are dramatically increasing for the city, the schools, and the hospital. There is concern by the school and the city on loss of timber receipts money. The school officials estimate a 34 pupil reduction in students with a corollary \$284,000 estimated reduction in funding from the state. This year the City implemented a .77 mil increase in property taxes to help reduce the projected deficit. See quotes below from the Petersburg Pilot.

April 29, 2010, Petersburg Pilot, page 1 states, "Preliminary Budget shows another deficit." "If the preliminary budget released by city manager Scott Hahn is accepted by the city, Petersburg will have a budget deficit on its hands for the fourth year in a row." "The budget shows a deficit of \$435,401 for the 2010/2011 fiscal year, compared to \$723,451 and \$1,060,043 the previous years respectively."

May 6, 2010, Petersburg Pilot, Page 1, states "Prunella said he would be contacting the same attorneys that represented Wrangell. He said Petersburg needs the revenue stream that a borough would contribute."

May 20, 2010, Petersburg Pilot, Page 7, states "City Schools face second consecutive budget deficit". "The 2011 budget shows a deficit of \$138,401, about \$20,000 more than the 2010 deficit of \$118,475."

October 21, 2010, Petersburg Pilot contains a front page article, "PMEA union rejects final city offer". "Hahn [City Manager] brought up sales tax in Petersburg as one of the main reasons for the city's revenue loss over the last five years. "Our biggest issue is sales tax. The last five years the average decreases," Hahn said. "It would be nice if we got back to five years ago," he said. "We could then say we were at least affording being

able to afford the same salary as we agreed to finance five years ago—but we're not. We keep dropping.””

October 21, 2010, Petersburg Pilot, page 6 article “Sales tax collections down from last year” states “The City of Petersburg has collected just about \$120,000 less in sales and bed tax so far this year compared to the same period last year.”

January 20, 2011, Petersburg Pilot, page 3 “Budget: City manager declares things even tighter this year.” “Sales tax came in pretty weak for the calendar year.”

February 3, 2011, Petersburg Pilot, page 12 states “School Board and City Council meet to discuss school budget requests.” “The district is having to face a significant reduction in funding from secure rural schools or timber receipt funding in the future. The funding which makes up \$657,011 in fiscal year 2010 and \$599,861 in fiscal year 2011 completely goes away in fiscal year 2013.”

March 17, 2011, Petersburg Pilot front page “2010 Census data released: Petersburg, Southeast districts see population decline”. “Numbers released by the U.S. Census Bureau show that Petersburg’s population dropped to 2,948 people from 3,224 in 2000.”

March 17, 2011, Petersburg Pilot, pages 1 and 2 states “School District budget balanced so far, difficult decisions ahead”. “Einerson said. “All in all we’re looking very good this year.” Einerson estimated the district would face an approximately \$200,000 budget deficit next year as a number of revenue sources dry up and operating costs increase.” “The district also projects losing 34 students, the equivalent of one grade level. That loss in perstudent funding –as well as a decline in the number of intensive needs students—could drop funding from the state by \$284,000.”

The April 7, 2011, Petersburg Pilot headlines state, “City, school district, hospital could face 50 percent health insurance cost increase.” The article goes on to state the City would pay an additional \$357,985 for insurance. Petersburg Medical Center, Chief Financial Officer, Leon Walsh expects the hospital costs would increase \$450,000 if the hospital stayed on the same plan.

The June 23, 2011, Petersburg Pilot, Page 3 states “Council adopts FY2011-2012 city budget with \$8.7 million general fund.” “This year to retire debt for City-run Mountain View Manor assisted living center, the council implemented .77 mills into property taxes, an action that was supported by the voters in 2003 when a general obligation bond was approved.”

On October 6, 2011, Petersburg Pilot, Page 1 states Petersburg voters approves \$1.5 million bond chose to build a new library. That adds another .44 mills to their property taxes.

## **Financial picture not complete and inaccurate**

As a former Forest Supervisor for the Stikine Area of the Tongass National Forest, I have experience trying to service an area of this magnitude. The Petition does not begin to recognize the real costs. To travel from one end of this borough to the other will have to be done by boat or plane. Without providing any services to outlying residents there still is a cost. Here are some of the items the Petition fails to provide for:

- On the ground review of entitlement lands they propose to receive upon borough formation.
- Safety of employees that do off island work.
- Periodic reconnaissance of Borough lands to assure trespass has not occurred. Follow up addressing the trespasses.
- Survey and monument those lands.
- Equipment needed to do off island work including employee safety equipment and training.
- Additional employees needed to do the land use regulation.
- Increased costs associated with coordination with State and Federal Agencies
- Increased costs associated with public participation—Petition, Preamble, Page 99.
- Overtime costs associated with trips off Mitkoff Island.
- Six pac boat to haul employees outside of Petersburg.
- Licensed six pac operator.
- Increased cost of lobbyists.
- Small boats to ferry people ashore.
- Insurance on equipment.
- New and updated software, computer systems, and network costs. (See quote above in February 24, 2011 Petersburg Pilot)
- Cost associated with the review and revision of all ordinances.

The above list although not complete provides some idea of the magnitude of the omissions.

Recently the City of Petersburg published a Notice of Existing Bond Indebtedness in the Petersburg Pilot. That figure added to the Property tax shown on page 34, of the Petition is approximately \$4.1 million (The Property Tax figure shown on page 34 excludes bonded indebtedness.) which does not come close to the \$2,318,913 estimate at a 10 mill tax rate for the existing value of real property. That's a \$1.6 million dollar difference. There can be 4 possible explanations for the difference. 1) The City's figure on Page 34 is grossly incorrect with the budget being \$1.6 million deficit; 2) the city has already projected a personal property tax of 10 mills to be added to the revenue stream; 3) the city has not provided a complete financial picture; 4) there is some other explanation. The GO bond for schools deferred maintenance p.7, Petition shows the States share as 70%. Whether the 70% has already been subtracted from the \$2.745,000 principal shown, the Petition does not say. Even if that is the case only \$150,000 of the deficit is accounted for. See Appendix A for the detailed analysis.

The financial tables and notes in the Petition are not consistent. Note 1, page 37, the Petition states "the budgeted property tax revenues assume a 10 mill base levy in Service Area 1 in fiscal years 11/12 and beyond." However, the table in Subsection 11-E, page 6 shows 12 mills in Service Area 1 at Borough Incorporation and through year 1 then 11.02 mills in year 2. The June 23, 2011, Pilot states the 2011/12 mill rate will be 10.77. Petersburg voters just passed another .44 mill property tax addition.

Petersburg being a Home Rule city has maximum flexibility to move monies around to fit their situation and need. There are five different budgets that come into play including the schools, city, harbors, hospital, and senior center. To provide an accurate existing and projected financial picture these budgets need to be shown in some detail, certified to their accuracy, follow generally accepted accounting principles, and accurately show the true cost of borough formation. The current petition does not contain sufficient information to determine the capability of providing municipal services in a borough the size Petersburg proposes.

### **Petersburg's revenue sources at risk**

Exhibit C, Page 34 lists 17 sources of income for the City of Petersburg. Some sources are sound and fairly predictable while others are not so sound. Ten of those sources are locally generated and probably more stable. Four of the sources come from the State of Alaska, and three from the Federal government. To properly assess what a future revenue stream might be Appendix B contains a very simple risk analysis. In summary there is approximately 11% or \$1 million of the City's budget that is at a very high risk of being lost in future years. Nationally, unemployment averages 9% and the job market is and will be going through structural changes for a long time into the future. 1/ Repeatedly we hear that oil revenues in the state will decline with reductions in oil production. Nationally we have a huge deficit that must be addressed and will result in lower state funding. More than 10% of the homes in Alaska are in negative equity. 2/ Is

it reasonable to assume the City can replace these funds through other sources without raising property taxes? The answer is both a reduction in services and an increase in property taxes. The Petition, page 5, also leaves the door open for the implementation of a personal property tax throughout the proposed borough. The November 4, 2010, Petersburg Pilot, page 3 defines personal property as “business machinery and equipment, motor vehicles, boats and vessels, business inventory and aircraft.

Page 36 of the Petition contains a table “Net Conceptual Borough Budget”. For FY 11/12 the bottom line shows a net positive of \$222,000. That same positive carries on through 2014. That positive instantly disappears without the money the City receives under AS Sec. 29.05.190. Page 14 of this document displays a list of activities, equipment, and personnel needed to effectively implement a borough the size Petersburg proposes. Costs of these items are not included in the Petition cost estimates. As a former U. S. Forest Service Supervisor for the National Forest lands included in the Petition as well as the entire Wrangell borough, I have experience in what it costs to do business in an area this size. Although the Petition promises nothing to area wide residents other than existing services and property tax collection, there still is a base cost just to keep the doors open and answer the questions. That base cost was about \$.20 per acre. Being very conservative and using only the land area of 3,365 square miles (Page 2, Petition) the base cost would exceed \$430,000 annually. The Petition, Page 37 estimates a property tax collection at 4 mils of \$184,000 and a sales and transient room tax collection of \$148,000 annually. Total tax collection would be around \$332,000 which is substantially less than an estimated base borough cost of \$430,000. Or to add it to the bottom line of the Net Conceptual Borough Budget, p.36 would result in a \$200-400,000 deficit for the same years.

AS Sec. 29.05.031(3) establishes economic criteria as a standard for borough incorporation. Any proposal should be substantially net positive with healthy financial reserves and minimal risk. Any proposal should present financial information that would meet generally accepted accounting principles. Any proposal should be inclusive and define the true costs of implementing the proposal. The Petersburg Petition fails on every point.

### **Inconsistent and incomplete information extending powers beyond service area 1**

Pages 7 and 8 of the Petition lists 19 Areawide services and 6 partial areawide services/powers proposed for the new borough. Pages 49-54 provide more detail. A comparative analysis in Appendix C shows some inconsistencies. Five services are not shown as a power but the narrative shows expansion by service area or local improvement district. Three areas show services as existing yet the narrative says they will be expanded by services areas. For two of the areas Service area expansion is not addressed. Obviously some detailed thought has been applied to what can reasonably be accomplished and what the City would like to see occur. Where are the details and the estimated costs to make it happen?

*AS 29.05.031 (4) land, water, and air transportation facilities allow the communication and exchange for the development of integrated borough government. AS 29.05.031(4)*

## **Boundaries exceed ability to provide integrated borough government**

Petersburg on p.2 of its petition states, "Borough incorporation will unite the area and its residents within a single home rule borough government that emphasizes individual rights and public participation." Most of the area Petersburg proposed to incorporate contains no roads. Access to Petersburg is by boat or airplane. For any resident residing in Duncan Canal, Point Agassiz or Farragut Bay at least a two day commitment of time would be required to participate in each local government event. Weather and sea conditions can and do change suddenly. Most of these areas do not have reliable communications so telephonic or internet interaction is not an option. While Section 3.02 of the proposed Charter attempts to increase the time interval for passage of a resolution by reading and advancing the proposed ordinance at three separate meetings, it does not recognize the major differences in the ability of those that choose to live in town versus those that live out.

Moving closer to Petersburg but still off-island requires a substantial commitment of personal time to participate in borough government. Again there are numerous times particularly in the fall/winter/spring months that travel across the Narrows is not advisable in a skiff. If travel in a skiff is not safe surely travel by plane would be the same since a float plane would need to land on the same water. Costs to participate in any borough government would be much higher for those living off Mitkoff Island since Section 1.03 of the Charter defines the Borough seat as the area having the largest population and the largest number of businesses per square mile. The petition does not recognize any of the above costs.

## **The petition process is flawed**

Petersburg hired Mr. Prunella to update the petition and to garner signatures for the petition. They further solicited people to help work on the petition. Several former Commissioners approached Mr. Prunella for the purpose of understanding what was wanted and whether the city was open to major changes. When he learned that I was probably not in favor of Borough incorporation, I was told in bureaucratic nuances my help was really not wanted. To my knowledge no one living off the grid or no person opposed to borough formation participated in developing a petition that could represent the lifestyle and values of those living off the grid. Also, no person representing the City of Kupreanof participated. On September 16, 2010, the Petersburg Pilot, p.1 announces "New Borough Petition released with updates and changes". "The document contained very few changes, mostly just updates and wording corrections." A paid advertisement by the City in the Petersburg Pilot on October 7, 2010, states in the headlines, "Petersburg Borough, Ready for Signatures". No public meetings were held to solicit comments and make adjustments in the Charter or petition between October 2, 2006, and October 7, 2010.

Two informational meetings one October 25 and one October 28 were held to explain the petition and Charter. Although there were valid points made at these meetings, no changes could be made to either document. To do so would require restarting the signature process. Four years have passed since the original petition and charter were prepared. The country has experienced a major recession; most states and many local governments operate with major deficits. Locally, halibut quotas have again substantially been reduced (Page 1, December 2, 2010, Petersburg Pilot article); Southern Southeast Sea Otter Population has doubled (Page 3, December 2, 2010, Petersburg Pilot article) which reduces crab populations; the City Manager declares Petersburg will have a budget deficit on its hands for the fourth year in a row (Page 1, April 29, 2010 Petersburg Pilot article); Petersburg residents just approved a .44 mill property tax increase. While I've just scratched the surface of changes that have occurred and are still occurring, the City of Petersburg did not find any need to take another critical look at their proposal.

### **Section 5. Conclusion**

Five years have passed since the Charter Commission handed the draft Charter to the Council who then promptly made significant amendments to it that benefit Petersburg. Five years have also given this Commissioner a chance to study the Charter and Petition that we left with the Council. In my view, the Charter and Petition keep the status quo in Petersburg with all the change forced upon those outside the City. Promises made in the Petition are not carried into the Charter. The Petition was not prepared by a group that represents the interests of all parties. There is not sufficient detail in the Petition for an interested individual to make a reasonable decision whether they are for or against borough formation. Promises made in the Petition are hollow.

Petersburg's financial situation is very serious. The Petition proposes to take on an area more than 40 times larger than the current city. All this can be done at a 4 mill property tax rate, a 6% sales tax, and 4% transient occupancy tax. The Petition estimates total new revenues around \$330,000.

On the debit side of the ledger as presented in this brief they fail to point out the following:

- Current inequities in property tax rates in Petersburg that if corrected would reduce revenues \$52,000 annually and may require \$60,000 of new software.
- A \$1.4 million principal and interest on debt service. Now higher with the recent voter approval of a \$1.5 million bond for a new library.
- A total debt within \$8 million of their debt ceiling (Q & A's, New Library Project 8/1/11).
- An estimated \$70,000-100,000 increase in maintenance costs for the new library and fire station.
- Property values that are not increasing.
- A 34 student reduction in school enrollment which reduces state revenues by up to \$284,000.
- Up to an \$800,000 increase in insurance costs.

- Three recent past years of deficit spending.
- Ultra conservative estimate of borough costs at \$430,000.
- Potential loss of \$1 million in state and federal funding.
- Forecast of a longer and deeper recession. 4/

Petersburg's bank account is significantly short of meeting its own needs. The projections made in the Petition don't begin to reflect the true financial picture.

Page 4, October 6, 2011, Petersburg Pilot has an editorial by the publisher that reinforces the financial position presented in this brief.

...Petersburg, along with the school district, cannot keep banking on \$7 million state grants for fire stations and federal funding for boat harbors and banner fishing years like 2011 was.

Absent new jobs to bring more people to town, we see continued fiscal belt tightening to fund municipal employee raises, maintain new and larger buildings like the aquatic center, fire station, and soon, a library.

The city council needs to chart a fiscal course that realistically deals with our continued decline in population. ...

Petersburg has lost approximately 276 residents so the burden to pay off their debt falls to fewer people who already pay 12 mills in property tax. So where would the Assembly look for money to pay for borough government? We all know it would fall on the residents outside the city. Is that fair? Is it consistent with promises made in the Petition? Is that what was intended by Alaska's Constitution? The answer to the three questions is "no"!

What needs to be done? If Petersburg really wants a borough, they need to be willing to compromise. They must work hand in hand with those outside the City to produce a Charter and Petition that truly represent both groups. Outside the State of Alaska governments at all levels are making significant cut backs. Here, Petersburg proposes more government. We are already in a borough, albeit an unorganized borough which the Alaska constitution established and recognizes. A decision to reject the Petition and keep the unorganized borough preserves future options; allows Petersburg time to handle their financial situation; provides time for the City to build trust and show that a borough is in the best interest of all residents. The original model borough boundary study may in the future be the logical way to proceed.

Clearly, the Petition does not meet the requirement of Article X, Section 3 of the Alaska Constitution that each borough embrace an area and population with common interests to the maximum degree possible. As stated in each section above, the Petition as presented falls far short of meeting any of the AS 29.05.01 standards. The Commission is urged to reject the Petition.

**Footnotes**

1/ The Economist, September 10-16, 2011, Special Report pp. 3-5.

2/ The Economist, October 23<sup>rd</sup>, 2010, Economics Focus, p.94.

3/ Report to the City of Petersburg, Sheinberg Associates-January 2003

4/ Investor's Business Daily, Vol. 28, No. 122, October 3, 2011

## Appendix A Borough Property Tax

On September 8, 2011 the City published a Notice of Existing Bond Indebtedness (as of June 30, 2011) in the Petersburg Pilot. The table below displays the information from that table for four fiscal years. The first years were selected to correspond to the Petition Budget Projects years 2012 to 2015, page 34, Petition. Column 2 and 3 below shows the remaining bond principal and interest. Column 4 is the total of the principal plus the interest.

<b>Fiscal Year Ending June 30</b>	<b>Bond Principal</b>	<b>Interest on Bonds</b>	<b>Total Principal and Interest</b>
2012	780,000	664,054	1,444,054
2013	800,000	635,392	1,435,392
2014	840,000	602,654	1,442,654
2015	870,000	566,498	1,436,498

Exemptions are not defined in the Petition unless senior and disabled veteran tax exemptions are what was intended, Page 37, Note 1, Petition.

Let's assume a 10 mill property tax rate for purposes of financial analysis although the true rate is 12.44 mills. In the table below, column 1 shows the same fiscal years as the above table. Column 2 is simply a repeat of the bond principal and interest shown in the table above. Column 3 displays the property tax (minus Exemptions and debt service payments) Page 34, Exhibit C, Petition. The debt (principal plus interest) from the table published in the June 30, 2011 Petersburg Pilot (Column 2) is added to the Property Tax minus Debt Service Payments (Column 3) to arrive at the true property tax collections (Column 4).

<b>Fiscal Year Ending June 30</b>	<b>Total Principal and Interest On Debt</b>	<b>Property Tax after Debt Service Payments Exhibit C, Page 34</b>	<b>True Property Tax Collections</b>
2012	\$1,444,054	\$2,568,913	\$4,196,967
2013	\$1,435,392	\$2,752,913	\$4,188,305
2014	\$1,442,654	\$2,752,913	\$4,195,567
2015	\$1,436,498	\$2,752,913	\$4,189,405

Armed with the information from Column 4 let's compare it to the estimated true value of property in Section 11-A, page 4, Petition. That table estimates the full and true value of property in Service Area 1 at \$282,000,000. Using the 10 mill rate would put property tax collections at \$2,820,000 million for the year.

Two conclusions can be made from this analysis. Actual property tax collections are about \$200,000 less than the full and true value of property in Service Area 1. There is a \$1.6 million difference between property tax after debt service and property tax with debt service included (Column 4 minus Column 3 above). There can be 4 possible explanations for the difference. 1) The City's figure on Page 34 is grossly incorrect; 2) the city has already projected a personal property tax of 10 mills to be added to the revenue stream; 3) the city has not provided a complete financial picture; 4) there is some other explanation. If the Petition were to follow "generally accepted accounting standards" the Bonding Debt and Interest would be shown on the cost/expenditure side of the ledger. The Petition does not show a complete and accurate financial picture.

## Appendix B

### Petersburg's Budget Risk Analysis

To properly assess what a future revenue stream might be let's do a very simple risk analysis. City revenue sources from the Petition, p.34 will be divided into three categories with the following definitions.

Category 1—The City has some control over these sources which are fairly stable and easier to predict and adjust. Revenue estimates can range +/- 10%.

Category 2—The City has less control over these sources which are subject to outside factors such as decreases in oil production. Revenue estimates may keep up with inflation but can also take a significant dip, +5%/-20%.

Category 3—The City has no control over these sources and may entirely lose the funding.

In the following table each revenue source has been assigned a category based on available information of what might happen to that source in the future. Using FY11/12 as the base a very conservative estimate was made of the amount of funds the city has that are at a moderate to high risk of losing.

Revenue Sources	FY 11/12 Projected Revenues p.34	Risk Analysis Categories Increases/Decreases	Amount Of Revenue at Risk
	Dollars	See Above For Definitions	Dollars
Property Tax (minus Exemptions and Debt Service Payments)	\$2,568,913	Cat 1--stays constant	
Federal PILT	\$510,000	Cat 2--decreases	\$51,000
Sales Taxes	\$2,825,557	Cat 2--decreases	\$282,000
Transient Occupancy Tax	\$45,630	Cat 1--stays constant	
Penalties and Interest	\$13,000	Cat 1--stays constant	
Licenses and Permits	\$13,000	Cat 1--stays constant	
Federal Grants	\$60,000	Cat 1--stays constant	
State Share Revenue	\$1,225,000	Cat 2--decreases	\$125,000
Sate Grants for Operating Expenses	\$640,000	Cat 2--decreases	\$64,000
State Revenues for Local Services	\$300,000	Cat 1--stays constant	
Charges for Services	\$230,000	Cat 1--stays constant	
Fines and Forfeits	\$16,000	Cat 1--stays constant	
Misc. Revenues/Land Leases & Sales	\$200,000	Cat 1--stays constant	
Contributions from Enterprise Funds	\$344,516	Cat 1--stays constant	
Motor Vehicle Registration	\$37,000	Cat 1--stays constant	
Proceeds of General Fixed Assets	\$2,000	Cat 1--stays constant	
Forest Receipts Used for School Operations	\$539,854	Cat 3--disappears	\$539,854
<b>Total</b>	<b>\$9,570,470</b>		<b>\$1,061,854</b>

There is approximately 11% of the City's budget or approximately \$1 million that are in a moderate to high risk of being lost in future years.

## Appendix C

### Petition Comparison of Services and Service Areas

Pages 7 and 8 of the Petition lists 19 Areawide services and 6 partial areawide services/powers proposed for the new borough. Pages 49-54 provide more detail. A comparative analysis of the information contained on the seven pages shows some inconsistencies.

<u>Services</u>	<u>Page 7 &amp; 8 Area-wide Services</u>	<u>Page 49-54 Narratives—Extending Services Beyond Service Area 1</u>
Light & Power	In Parts as Existing	Extension will continue slowly As demand and Economic Feasibility warrant
Police	In Parts at Lesser Levels	Extended or Expanded by New Service Areas
Fire	In Parts at Lesser Levels	Expansion Beyond Current not Addressed
EMS	In Parts at Lesser Levels	Expansion Beyond Current Not Addressed
Solid Waste & Refuse Collection	In Parts as Existing	Expansion Beyond Current not Addressed
Water	not listed	Extension will continue slowly By local Improvement district Or Service Area
Sewer	not listed	Extension will continue slowly By local improvement district Or Service Area
Road Construction & Maintenance	not listed	Determined by Service Area
Parks & Recreation	In Parts as Existing	Look at on Service Area Basis
Animal Control	not listed	Look at on Service Area Basis
Building Code Enforcement	not listed	Look at on Service Area Basis

Page 7 and 8 does not show five services as a power but the narrative shows expansion by service area or local improvement district. Three areas show services as existing yet the narrative says they will be expanded by services areas. For two Service areas expansion is not addressed.

It's obvious by the narrative that the City has an idea in mind of what they would like to see occur after borough formation. The Petition lacks the detailed information for affected individuals to be fully informed. If the Petition and Charter are going to act as a contract between parties, then the terms of the contract should be spelled out at least for the next ten years. The Petition falls far short of meeting contract criteria.