

HOMER CITY COUNCIL  
491 E. PIONEER AVENUE  
HOMER, ALASKA  
[www.cityofhomer-ak.gov](http://www.cityofhomer-ak.gov)



**WORKSESSION**  
**5:00 P.M. MONDAY**  
**MARCH 21, 2016**  
**COWLES COUNCIL CHAMBERS**

MAYOR BETH WYTHE  
COUNCIL MEMBER DAVID LEWIS  
COUNCIL MEMBER BRYAN ZAK  
COUNCIL MEMBER GUS VAN DYKE  
COUNCIL MEMBER CATRIONA REYNOLDS  
COUNCIL MEMBER DONNA ADERHOLD  
COUNCIL MEMBER HEATH SMITH  
CITY ATTORNEY THOMAS KLINKNER  
CITY MANAGER KATIE KOESTER  
CITY CLERK JO JOHNSON

### **WORKSESSION AGENDA**

**1. CALL TO ORDER, 5:00 P.M.**

Councilmember Smith has requested excusal.

**2. AGENDA APPROVAL** (Only those matters on the noticed agenda may be considered, pursuant to City Council's Operating Manual, pg. 5)

**3. REVENUES FOR THE CITY**

**4. COMMENTS OF THE AUDIENCE**

**5. ADJOURNMENT**

Next Regular Meeting is Tuesday, March 29, 2016 at 6:00 p.m., Committee of the Whole 5:00 p.m., and a Worksession 4:00 p.m. All meetings scheduled to be held in the City Hall Cowles Council Chambers located at 491 E. Pioneer Avenue, Homer, Alaska.





# City of Homer

[www.cityofhomer-ak.gov](http://www.cityofhomer-ak.gov)

Office of the City Manager

491 East Pioneer Avenue  
Homer, Alaska 99603

[citymanager@cityofhomer-ak.gov](mailto:citymanager@cityofhomer-ak.gov)

(p) 907-235-8121 x2222

(f) 907-235-3148

## Memorandum 16-051

TO: Mayor Wythe and Homer City Council  
FROM: Katie Koester, City Manager  
DATE: March 16, 2016  
SUBJECT: Revenue Outlook for City of Homer

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The Council has asked to look at the revenue situation for the City of Homer holistically in a series of work sessions. The City does not have the staff or experience to come up with economic projections far into the future; however, we can look at our historical trends and analyze externalities that have the potential to affect the economy of Homer and future revenue for the City of Homer. Revenue comes from two main sources: property taxes and sales taxes. The health of property value and taxable sales are both related to the general health of the economy, which makes looking at outside factors that could affect revenue valuable. As you can see from the attached chart, both property taxes and sales taxes have increased over the years until 2016 when we estimated a 1% decrease in taxable sales.

### **Opportunities**

#### Growth in Tourism

Low oil prices have helped spur an increase in tourism. According to the Kenai Peninsula Tourism Marketing Council, 2<sup>nd</sup> and 3<sup>rd</sup> quarter sales for primary tourism businesses is up by over 8%.

#### Growth in Healthcare

Statewide, healthcare is the largest employer and is expected to grow despite downturns in other sectors. With Homer's aging population the demand for health care services is likely to increase.

#### Alaska LNG

If Alaska LNG takes off, it has the potential to positively affect the Homer economy, especially in the marine trades and during the construction phase.

#### Diversity

Relative to the rest of the state, the Kenai Peninsula has a diverse economy, which is strongly reflected in Homer. According to the Department of Labor our top employers are government (including the school district), leisure and hospitality (proxy for tourism), retail trade and education and health services. Commercial fishing also has a large impact on the economy but is not included in DOL statistics.

### Potential Action from the Borough to Clean up Tax Code

The Kenai Peninsula Borough has engaged in a process to clean up their tax code. Though many of the proposed changes may be revenue neutral, the Assembly has postponed action on items like increasing the sales tax cap until this review has taken place. The earliest the Borough anticipates these changes taking effect is July 1, 2017. Nevertheless, now could be a good time for the City to put the wheels in motion to encourage the Borough to consider certain changes.

### **Potential Threats/Unknowns**

The Legislature is looking for funds under every rock and will continue to target municipalities. There has already been much chatter in Juneau about raising the percentage municipalities contribute into PERS. Every percent it is raised equals \$61,000 to the City. If the state removed the cap on municipal PERS contributions it would be devastating to local budgets - the normal cost has fluctuated up to 44% in the past (that would double our contribution rate from \$1.35M to \$2.7M). Obviously this has a direct and substantial impact to Homer.

### Aging Population

There are many positive economic impacts to retirees including that they infuse new money into the economy with their pensions/retirement and contribute significantly to the volunteer workforce. However, one impact of the population over 65 increasing is declining property tax base because of the mandatory senior property tax exemption. From 2012 to 2027 – in 15 years, the population of residents over 65 in Homer is expected to double. In 2012 the mandatory senior property tax exemption equated to \$216,000 in lost revenue. This figure will continue to increase.

### Uncertainty

The uncertainty of Alaska's economic climate, the price of oil, and what, if anything, the legislature is going to do to address the budget has left businesses and investments in a holding pattern. This is a statewide problem.

### State Budget Cuts

State budget cuts will put pressure on local municipalities to fill in the gap in services. There will be job losses in communities as education, municipalities, and state departments struggle with reduced budgets.

### State Revenue Options

The State needs new revenue to pay for basic services. Ideas being thrown around range from capping the PFD, sales tax, fuel tax, sin tax, and income tax. Depending on which combination of these revenue sources the State chooses will affect both the voters appetite for taxes and the City's need for them (for example, a statewide sales tax would be devastating to municipalities).

### Reductions in Oil and Gas Employment

We all have friends or neighbors who work on the North Slope. Many oil and gas companies have either cut positions or indicated drastic cuts in their Alaska workforce. Those are high paying jobs, and some of these people live in Homer.

In summary, the revenue forecast for the City of Homer is uncertain, but we are not alone. The Council is aware that the state budget crisis will continue to impact municipalities and has scheduled these worksessions to tackle that very issue. To what extent could revenue decline? That is difficult to gauge with the unknowns: state taxes, state budget cuts, and how a potential economic downturn will affect the greater Homer economy. Controlling spending will need to be a persistent and painful part of the conversation. However, if we are going to get there by the time the suspension of HART runs out without wholesale and drastic reductions in services, new revenue will be necessary. I sincerely appreciate the Council's recognition of this issue and willingness to devote time and attention to solving it.

Enc:

City of Homer Revenue/Expenditures Chart

Excerpt from Alaska Business Magazine, "Alaska's Economy: Historical Trends and Future Outlook," January 2016.



# Closing the Gap: Town Hall Meeting and Online Survey Results



## Closing the Gap: Results

### Town Hall:

The Town Hall meeting was held July 20th in City Hall. We had a great turn out with approximately 100 attendees. The community members in attendance were provided an opportunity to share their opinions on City provided service and City departments. Participants were broken up into 4 separate groups, they were given stickers to indicate “Level of Importance” and “Level of Service” of 51 City provided services and 12 City departments. Department representatives and Council members were present in each group in order to answer questions community members had throughout the evening. The mood of the evening was very positive and constructive. Many thoughtful comments were made by the public, City representatives, and Council members. If there was an overarching theme to the evening it was that the community enjoys and appreciates the vast majority of the services the City provides and is willing to incur new or increased taxes in order to pay for them.

The 5 most ‘CRITICAL’ City provided services:

- 1-Fire Services and Protection
- 2-South Peninsula Haven House (Shelter & Child Advocacy Center Investigative Interviews)
- 3-Police Enforcement of all City, State, and Federal laws and COH ordinances
- 4-Emergency Medical Services (Ambulances)
- 5-Public Works Winter Road Maintenance (Snow Plowing, Snow Removal, Sanding, Culvert Clearing)

The 3 revenue streams the community is most ‘In Favor’ of:

- 1-Introduction of a Bed Tax (71% In Favor, 81% positive response)
- 2-Raising the Sales Tax Cap from \$500 to \$1,000 (64% In Favor, 80% positive response)
- 3-Reinstating the Seasonal Sales Tax on Non-Prepared Foods (55% in Favor, 82% positive response)

If we solely look at positive responses and not just votes on the highest end it shifts slightly. This encompasses ‘In Favor’, ‘Mostly in Favor’, and ‘Somewhat in Favor’

The 3 revenue streams with the most ‘Positive’ responses:

- 1-Raising the Sales Tax by 0.5% (85% positive response)
- 2-Reinstating Seasonal Sales Tax on Non-Prepared foods (82% positive response)
- 3-Introduction of a Bed Tax (81% positive response)

**Online Survey:**

The intent of this survey was to gather information from the public on which City provided services are consider to be Core Services, what areas the public would like to see reduced, and what, if any, new or increased taxes they would be in favor of supporting. The survey was comprised of 5 questions and was open for 4 weeks. Over that time period was received nearly 500 responses which is approximately 40% of the total votes received in the last ballot measure. The theme is quite similar to the Town Hall meeting; we like our services and are willing to incur new or increased revenue streams to support them.

**Top 6 City-Provided Services**

City Resident	Non-City Resident
1-Police and Public Safety	1- Fire and EMS
2-Fire and EMS	2- Police and Public Safety
3-Winter Road Maintenance	3- Winter Road Maintenance
4-Airport	4- Airport
5-Summer Road Maintenance	5- Library
6-City Administration	6-Parks and Rec

There were only 2 City-Provided services that 50% or more of the City residents recommended reducing. Both of these services are estimated at roughly 2% of the entire general fund.

City Resident	Non-City Resident
1-Boards and Commissions (59%)	1- Boards and Commissions (58%)
1-City Support of Non-Profits (50%)	2- Planning and Zoning (53%)

When looking at revenue the theme was similar to the Town Hall. Nearly 91% of respondents were in favor of seeing some form of new revenue or increasing existing taxes in order to support City-Provided services.

- 1-Introduction of a Bed Tax (65% City Resident ) (69% Non-City Resident)
- 2-Ending the Seasonal Non-Prepared food Tax Holiday (47%CR) (51%NCR)
- 3-Increasing Sales Tax Cap from \$500 to \$1,000 (40%CR) (41%NCR)
- 4-Increasing Sales Tax (35%CR) (35%NCR)

We received 74 comments regarding cuts and 184 comments for additional revenue. Many of the comments are valuable and should be considered. There were a few themes that stood out; attracting new business to the area, not moving forward with new buildings and projects, increasing fines and fees library/harbor/parking/beach, increase of taxes that affect all people who use city services, sin taxes alcohol/ marijuana/tobacco/junk food, and many others.

For additional documents on the survey:

<http://www.cityofhomer-ak.gov/citymanager/closing-gap-town-hall-meeting-and-online-survey-results>





# Closing the Gap



2015 Homer City Town Hall Meeting

City- Provided Services			Level of Importance			Level of Service		
General Fund Supported Services		FY 2015	CRITICAL	MEDIUM	LOW	TOO LITTLE	ABOUT RIGHT	TOO MUCH
<b>MAYOR-COUNCIL</b>	4.7%	\$567,253	2	1	0	0	5	0
General Council and Legal Services for the City			25	17	3	1	15	10
Annual Audit Services			27	7	4	1	21	0
Lobbying Capital Projects and Legislation			6	25	14	2	13	14
Council Stipend			8	12	11	3	20	4
<b>CITY CLERK</b>	3.6%	\$430,035	0	0	0	0	0	0
Keeper of the Records – Catalog, Retention, Storage, Records Requests			30	11	1	1	24	0
Provide Information to the Public – Notice of Meetings, Agendas, Public Hearings, Newsletters			27	11	1	0	25	1
Attend and take minutes of Council, Commission, and Committee Meetings			24	10	3	1	20	0
Administer Elections			29	10	2	0	22	1
Manage Special Assessment Districts, Bids & Proposals			26	14	0	1	21	2
<b>CITY ADMINISTRATION</b>	8.3%	\$997,946	0	0	0	0	7	0
Implement Policy Directives from Council and Oversee all City Activities and Staff)			29	9	0	1	18	0
Land Management			17	13	1	2	17	2
IT (Telecommunications, Servers, Workstations, Help Desk)			23	5	1	2	21	0
Personnel (Manages Personnel, Health Insurance, FMLA, Workers Comp, Evaluations, Retirement)			20	9	3	0	18	1
Economic Development			12	15	8	3	12	12
<b>CITY SERVICES PROVIDED BY NON-PROFITS</b>	1.4%	\$164,875	0	0	0	0	0	0
Pratt Museum (Cultural Heritage Collections Care, Lifelong Learning Opportunities)			31	17	2	5	21	4
Chamber of Commerce & Visitor Center (Promotes Business Growth via Cooperative Marketing)			22	15	10	5	14	15
City Mini Grant Program for Area Non-Profits (Administered by The Homer Foundation)			22	16	3	11	17	4
Homer Hockey Association (Winter Visitor Draw)			7	18	16	9	8	13
South Peninsula Haven House (Shelter & Child Advocacy Center Investigative Interviews)			39	8	1	15	15	2
<b>General Fund Supported Services</b>		<b>FY 2015</b>	<b>Level of Importance</b>			<b>Level of Service</b>		
			<b>CRITICAL</b>	<b>MEDIUM</b>	<b>LOW</b>	<b>TOO LITTLE</b>	<b>ABOUT RIGHT</b>	<b>TOO MUCH</b>
<b>FINANCE</b>	7.0%	\$837,025	3	0	0	0	21	0
Budget			34	2	1	0	22	1
Accounts Payable & Receivable, Customer Service ( Water& Sewer, SAD Billings, Harbor Billing)			26	3	1	0	22	2
Payroll			31	5	1	0	18	1
Grant Management			26	6	1	4	16	3
General Accounting & Treasury Management			31	3	1	2	23	0
<b>PLANNING &amp; ZONING</b>	3.9%	\$465,315	0	1	0	0	0	0
Provide Development Information and Guidance to Builders, Businesses and Land Owners.			15	16	3	2	17	4
Review Zoning Permits, Conditional use Permits, and New Subdivisions.			18	13	1	6	15	2
Staff the Planning Commission, Parks & Recreation Comm, and Cannabis Advisory Comm.			9	16	3	3	18	3
Respond to Citizen Complaints and Code Violations.			14	16	5	5	14	7
Staffs City and Community Projects (Old Town Improvements, MAPP, Woodard Creek, NG Project)			11	13	10	4	17	4
<b>LIBRARY</b>	7.9%	\$954,685	0	0	0	0	0	0
Circulates Books and Media to Public (Acquire, Process, Maintain Collection)			34	6	2	3	26	3
Reference and Technology Assistance to Public (Computers, Internet, Videoconference)			25	7	2	1	24	4
Children's programs (Story time, Summer Reading, others)			29	12	1	4	23	4
Building Loan Repayment (\$99,824 per year)			29	8	3	1	26	3
<b>General Fund Supported Services</b>		<b>FY 2015</b>	<b>Level of Importance</b>			<b>Level of Service</b>		
			<b>CRITICAL</b>	<b>MEDIUM</b>	<b>LOW</b>	<b>TOO LITTLE</b>	<b>ABOUT RIGHT</b>	<b>TOO MUCH</b>
<b>FIRE &amp; EMERGENCY MEDICAL SERVICES</b>	8.5%	\$1,025,484	0	0	0	7	15	0
Fire Services and Protection			44	0	0	8	22	0
Emergency Medical Services (Ambulances)			37	0	0	5	21	0
Public Education/Injury Prevention			27	13	1	7	15	4
Community Emergency Management			32	6	0	3	21	4
<b>POLICE &amp; PUBLIC SAFETY</b>	29.0%	\$3,481,657	0	0	0	0	0	0
Enforcement of all City, State, and Federal laws and COH ordinances			38	1	0	12	16	0
Conduct Investigations, Apprehension, Arrest and Booking of Defendants			33	5	0	6	18	0
Develop and Participate in Community Relation/Education Programs (DARE, Project Drive)			22	17	4	6	16	0
Jail (Prisoner Welfare, Maintaining Prisoner Records, & Court Arraignments)			30	2	2	5	21	1
911 and Dispatch Calls (Coordinates Police, Fire, & EMS Response to Protect Life and Property)			15	1	0	6	21	1
Animal Control			21	16	5	8	20	4
<b>General Fund Services</b>		<b>FY 2015</b>	<b>Level of Importance</b>			<b>Level of Service</b>		
			<b>CRITICAL</b>	<b>MEDIUM</b>	<b>LOW</b>	<b>TOO LITTLE</b>	<b>ABOUT RIGHT</b>	<b>TOO MUCH</b>
<b>AIRPORT</b>	1.9%	\$222,743	16	11	10	2	15	5
Airport Facilities- O&M of the Building			8	14	4	1	20	2
<b>PUBLIC WORKS COMBINED</b>	19.2%	\$2,303,985	1	0	0	0	1	0
City Building Maintenance (Animal Shelter, Airport Terminal, City Hall, Fire, HERC, Library, Police)			30	10	3	8	19	3
Vehicle Maintenance/Repair (EMS, Fire, Police, Port, and Public Works Vehicles)			34	4	2	2	21	1
Capital Improvement Projects (Planning, Design, Inspection, Permit Issuing)			15	17	9	2	16	7
Summer Road Maintenance (Repairs, Sweeping, Gravel Road Grading, Dust Control, Ditching)			27	12	2	3	23	0
Winter Road Maintenance (Snow Plowing, Snow Removal, Sanding, Culvert Clearing)			34	7	1	1	26	2
<b>PARKS &amp; COMMUNITY RECREATION</b>	4.7%	\$560,961	0	0	0	0	2	0
Parks & Grounds Maintenance/Beautification (Cemetery, City Buildings, Campground, Restroom)			24	19	3	7	24	1
Educational and Recreational Programing			24	12	9	5	25	3
		100.0%						\$12,011,964.00

\* Note General fund only, The Enterprise and Water & Sewer are not included due to the Self-Sustaining nature of their operations.



# Closing the Gap



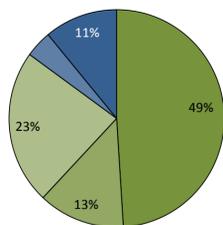
2015 Homer City Town Hall Meeting

## Key Pad Polling - REVENUE GENERATION

REVENUE	\$ VALUE	In Favor	Mostly in Favor	Somewhat In Favor	Mostly not in Favor	Not In Favor
<b>Raise Property Tax 1 Mill</b>	\$660,000	33	8	23	5	30
Currently COH taxpayers pay 4.5 COH, 4.5 KPB and 2.3 SPH (total 11.3). The next opportunity to make a mill rate increase effective would be July 2016.						
<b>Raise Sales Tax 0.5%</b>	\$854,434	49	13	23	4	11
Based on 2014 sales tax revenue. Requires voter approval. Earliest impact 2017 budget. Current Sales Tax; Borough 3%, City of Homer 4.5%						
<b>Reinstate Seasonal Sales Tax on Non-prepared Food</b>	\$833,473	56	8	19	6	12
Sales tax that would have been generated from 9/1 to 5/31: 2010-2011 \$735,501; 2011-2012 \$794,163; 2012-2013 \$812,065; 2013-2014 \$833,473						
<b>Raise Sales Tax Cap from \$500-\$1000</b>	UNKNOWN	65	6	10	4	16
KPB is considering putting this on the October ballot. A public hearing will be held on 07/07/15. If voters approve raising the cap, no other action by the City is required. Earliest impact 2017 budget. \$37.50 - \$75.00						
<b>Eliminate COH \$20,000 Property Tax Exemption for Primary Residence</b>	\$94,000	26	4	16	20	44
Currently COH exempts the first \$20,000, but could exempt less.						
<b>Increasing Fines for Code Violations</b>	NEGLIGIBLE	51	6	10	4	29
2014 'fines and forfeiture' revenue was \$20,142, including the animal shelter. Most of the HPD issued fine amounts are mandated by the State. The main city issued fine we can control is parking violations. Levying fines is staff intensive, and therefore costly.						
<b>Bed Tax</b>	\$120,000 PER 1%	71	4	6	2	17
Estimate provided by KPTMC in 2012. 4.5% would generate \$540,000						

### Raise Sales Tax 0.5%

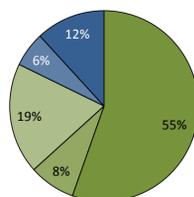
85% of Responses Were Positive



- In Favor
- Mostly in Favor
- Somewhat in Favor
- Mostly not in Favor
- Not in Favor

### Reinstate Seasonal Sales Tax on Non-prepared Food

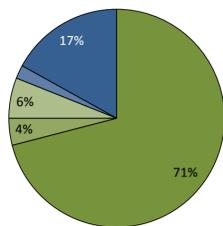
82% of Responses Were Positive



- In Favor
- Mostly in Favor
- Somewhat in Favor
- Mostly not in Favor
- Not in Favor

### Bed Tax

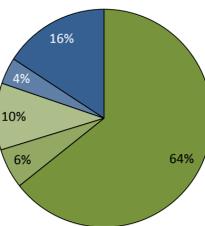
81% of Responses Were Positive



- In Favor
- Mostly in Favor
- Somewhat in Favor
- Mostly not in Favor
- Not in Favor

### Raise Sales Tax Cap from \$500-\$1000

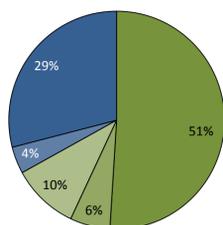
80% of Responses Were Positive



- In Favor
- Mostly in Favor
- Somewhat in Favor
- Mostly not in Favor
- Not in Favor

### Increasing Fines for Code Violations

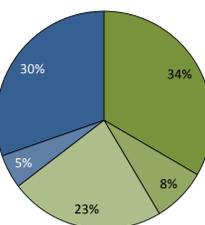
67% of Responses Were Positive



- In Favor
- Mostly in Favor
- Somewhat in Favor
- Mostly not in Favor
- Not in Favor

### Raise Property Tax 1 Mill

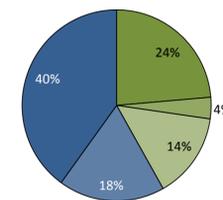
65% of Responses Were Positive



- In Favor
- Mostly in Favor
- Somewhat in Favor
- Mostly not in Favor
- Not in Favor

### Eliminate COH \$20,000 Property Tax Exemption for Primary Residence

58% of Responses Were Negative



- In Favor
- Mostly in Favor
- Somewhat in Favor
- Mostly not in Favor
- Not in Favor

# Alaska's Economy

## Historical Trends and Future Outlook

BY MOUHCINE GUETTABI AND GUNNAR KNAPP

In this article we review recent trends in Alaska's economy and the economic outlook for the near-term and longer-term future. We begin with a brief description of the structure of Alaska's economy and key factors that drive it. Next we review historical trends in the economy. We then discuss factors likely to affect the economy in the near-term future, including the dramatic decline in oil prices and state oil revenues and the state's response to the resulting very large deficits. Finally, we discuss the longer-term outlook for the Alaska economy, including the potential economic impacts of an LNG (liquefied natural gas) export project.

Alaska's economy is complicated. In this brief article we have to omit important details due to lack of space. In particular, we do not address regional variation in the economy, which is significant, or the significant changes occurring in many industries.

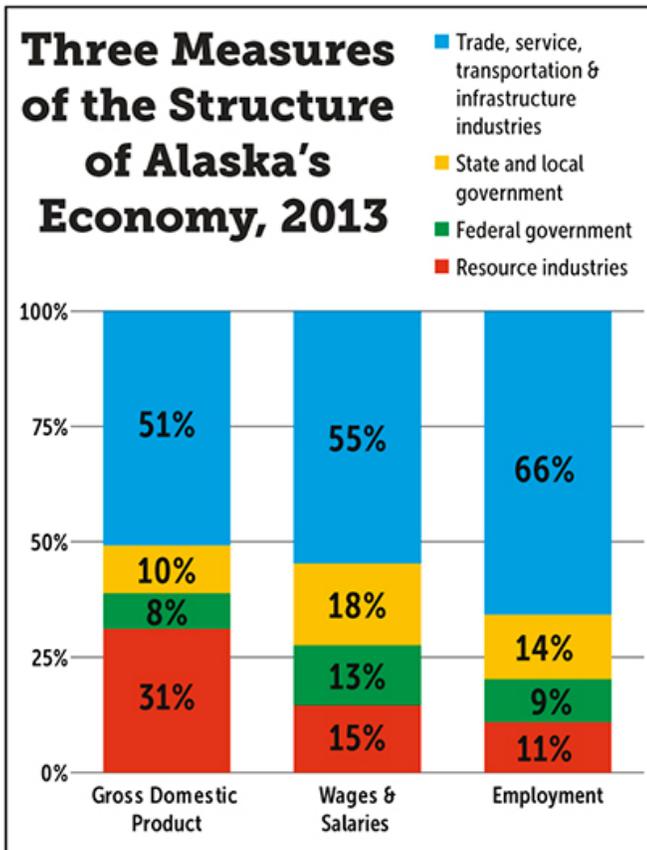
Alaska's future economic outlook is uncertain. We can't predict with certainty the combined effects of the many factors which may affect it. Our primary goal is to describe potential implications of factors which we know will affect it.

### Alaska Economic Structure and Trends

It is useful to group Alaska industries as "basic" or "support" and further into the four major "sectors" shown in the table below—which vary in what drives them, how they have changed in the past, how they are likely to change in the future, and in their relative importance for different regions of Alaska. Basic sectors and industries sell goods and services primarily to markets outside Alaska and thus bring money into the economy (the federal government is "basic" because federal spending in Alaska is paid for from outside Alaska). Support sectors and industries sell goods and services primarily to markets inside Alaska and thus recirculate money in the economy.

There is no single measure which fully describes the structure of Alaska's economy and the relative economic importance of different sectors and industries. Three useful measures are employment, wage and salary income, and contribution to gross domestic product. The relative significance of different sectors varies across these measures, reflecting the fact they measure different things. Employment measures how many people work in a sector, wages and salaries measure how much they earn, and GDP measures how much value they create.

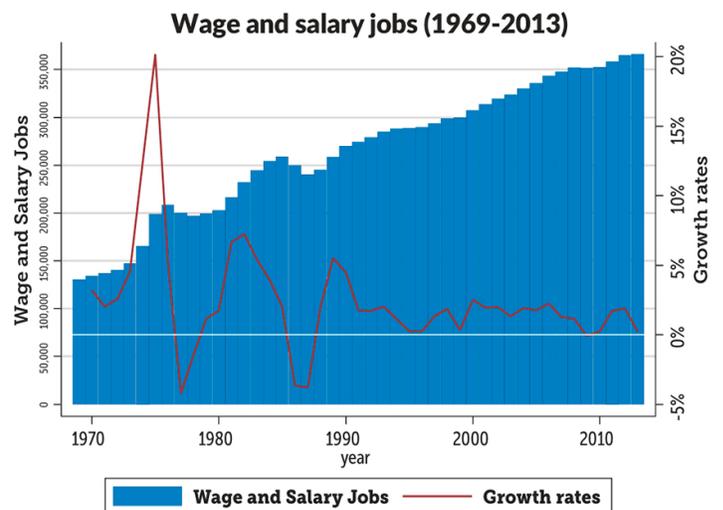
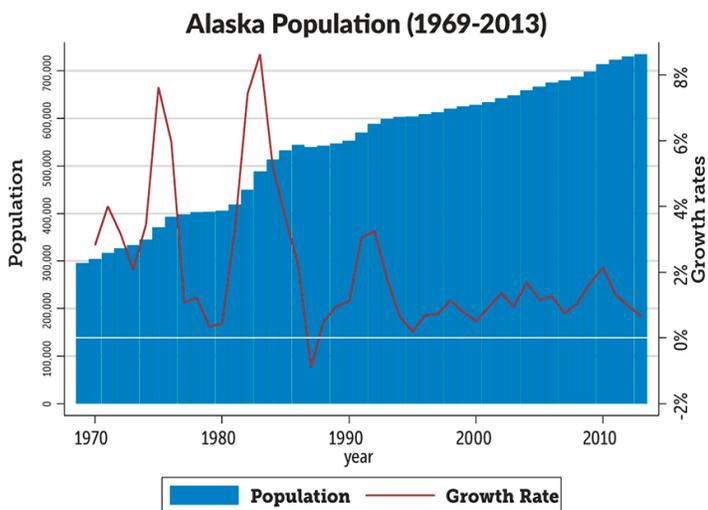
As shown in the graph below, in 2013 (the most recent year for which detailed GDP estimates are available) resource industries accounted for 31 percent of gross domestic product but only 11 percent of total employment. In contrast, trade, service, transportation, and infrastructure industries accounted for 51 percent of GDP but 66 percent of employment. State and local government accounted for 14 percent of employment but 18 percent of wages and salaries. The federal government accounted for 9 percent of employment but 13 percent of wages and salaries.



Total Alaska employment in 2013, as estimated by the Bureau of Economic Analysis and including non-wage and salary employment, was 461,112. Employment for 2015, for which data are not yet available, would be slightly higher. A useful rule of thumb to remember is that 4,600 jobs would be about 1 percent of Alaska employment and 46,000 jobs would be about 10 percent of Alaska employment. The six largest Alaska industries in 2013, as measured by employment, were healthcare and social assistance, retail trade, local government, accommodation and food services, federal military, and state government.

Long-time Alaskans may remember Alaska as a state with rapidly rising employment and population, characterized by periods of boom and bust such as the construction of the trans-Alaska oil pipeline in the mid-1970s, the recession following completion of the pipeline in the late 1970s, the government-spending and construction-driven boom of the early 1980s, and the oil price-crash-driven deep recession of the late 1980s. While true once—as shown in the graphs below—that picture is no longer true. For the past quarter-century, Alaska's economy has been characterized by relatively slow and steady growth in population and employment—driven by growth across many sectors such as the federal government, mining, tourism, air cargo, healthcare, and retail trade, and with significant regional variation.

More recent data suggest that this long period of gradual growth may be ending. From July 2013 through June 2015, year-over-year growth in monthly employment averaged 0.93 percent for private sector employment, 0.46 percent for total employment, 0.18 percent for state government, -0.79 percent for local government, and -3.64 percent for federal government employment. This suggests that declining government employment—which accounts for 23 percent of Alaska employment and 31 percent of total wage and salary income—may end or reverse a long period of growth in Alaska employment.



### Factors Affecting Alaska's Near-Term Economic Outlook

In the near term—over the next few years—three factors appear most likely to drive change in Alaska's economy, all of which are uncertain and difficult to project. First, the decline in federal spending and employment of recent years appears likely to continue, although we don't know what specific cuts may occur, and particularly whether or not significant reductions will occur to military units based in Alaska. National politics, including the outcomes of next year's presidential and congressional elections, will likely influence how much money the federal government spends in Alaska and what it spends it on.

A second important factor will be the response of Alaska's oil industry to likely continued low oil prices and to potential reductions in state oil and gas tax credits. To date, Alaska has not yet experienced the dramatic decline in oil industry employment that has occurred in most other US oil-producing states. This reflects in part the larger scale of Alaska oil fields and investments and the increased difficulty of oil extraction from aged fields which requires more labor. However, Shell's recent decision to stop further offshore oil exploration on its Chukchi Sea leases—in which low oil prices were almost certainly a contributing factor—was a reminder that oil prices affect profitability and investment in remote, high-cost areas such as Alaska. Moreover, the recent further slide in oil prices to below \$40/barrel (as of early December) will further test the oil industry's ability and willingness to invest in Alaska exploration and development.

A third important factor—and likely the largest driver of near-term economic changes—will be how the state adjusts to dramatically lower oil revenues. After rising for many years, state revenues have fallen dramatically since 2012, the combined result of declining oil production, increasing tax-deductible costs of oil production, and a drastic fall in oil prices from more than \$100/barrel in August 2014 to below \$40/barrel in early December 2015. State spending has also fallen since 2013, but not as far or as fast as revenues, resulting in large deficits which the state has funded by drawing down savings reserves. Current deficit levels—likely to exceed \$3.5 billion in FY16—cannot be sustained as they would drain available state savings in the state's Constitutional Budget Reserve Fund (projected to be about \$7.7 billion at the end of FY16) within a few years.

Unless oil prices rise dramatically and unexpectedly, within a few years the state will have to reduce the deficit by either reducing spending or finding new ways to pay for spending. The only "fiscal options" which could significantly reduce the deficit are some combination of:

- Further cuts in state spending
- Broad-based taxes such as income or sales taxes
- Reallocating spending of Permanent Fund earnings from dividends to state government
- Spending other Permanent Fund earnings

The Alaska Legislature faces difficult choices between these options, none of which are popular.

The table below shows estimates of the potential short-run economic impacts of selected options for reducing the deficit by \$100 million. The estimates are based on input-output analysis, which tracks how the "direct" impacts of a cut in state spending or a reduction in household income are "multiplied" in the economy. The short-run economic impacts of larger spending cuts or new revenues would be proportional: the impacts of cuts or new revenues of \$1 billion would be ten times as large.

The estimated employment and income impacts include both "direct" and "multiplier" employment and income. Direct impacts are changes in employment and income of employees of state government and state contractors. Multiplier impacts are changes in employment and income in other industries due to ripple effects in the rest of the economy as households, which lose income, and businesses, which lose sales, spend less.

The estimated impacts are based on generic assumptions about how state spending cuts would be made and how income taxes or lower Permanent Fund Dividends would affect household spending. They should be considered approximate estimates of the initial short-run impacts of these fiscal options, as well as indicators of how the relative economic impacts of fiscal options may differ. They do not show potentially important indirect or longer-term impacts of fiscal options, such as how they might affect state services on which the economy depends, economic confidence, investment, and real estate prices. They also don't show how the relative effects of different options may vary by region, or their relative impacts on different income groups. (We are currently studying these other potential economic impacts.)

## Estimated Short-Run Economic Impacts of Selected Options for Reducing the Deficit by \$100 Million

How the \$100 million is cut	Employment Impacts (full-time equivalent jobs in Alaska)			Income Impacts (millions of \$ of income earned in Alaska)			Impacts as % of Alaska total	Deficit reduction per lost job	
	Direct	Multiplier	Total	Direct	Multiplier	Total			
Spending cut: state workers	962	715	1677	95.0	42.8	137.8	0.50%	0.81%	\$59,622
Spending cut: across the board	505	755	1260	67.5	47.7	115.2	0.38%	0.67%	\$79,346
Spending cut: capital projects	506	425	931	41.7	22.3	63.9	0.28%	0.37%	\$107,449
Income tax	0	971	971	0.0	53.9	53.9	0.29%	0.32%	\$103,033
Permanent Fund Dividend reallocation	0	727	727	0.0	43.3	43.3	0.22%	0.25%	\$137,476
Spend other Permanent Fund earnings	0	0	0	0.0	0.0	0.0	0.00%	0.00%	NA

Source: Preliminary calculations for an ongoing ISER study of economic impacts of state fiscal options, using IMPLAN economic impact model, December 2015. Note that economic impacts of fiscal options may vary substantially depending on what kinds of spending are cut (payments to workers of different income levels, utilities, contracts, capital spending, etc.) or how taxes are structured.

Here are some approximate rules of thumb about potential short-run employment impacts of state fiscal options:

Cutting state spending by \$1 billion by cutting the state workforce could cause a loss of about 17,000 Alaska jobs, or about 5 percent of total employment: each lost job would reduce the deficit by about \$60,000.

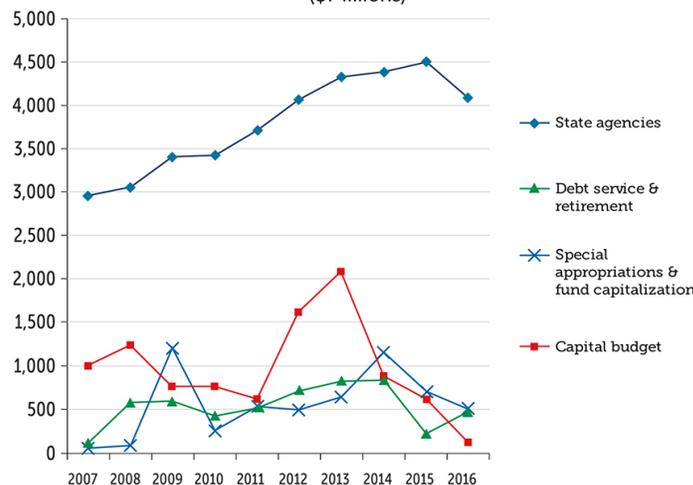
Cutting state spending in other ways would have smaller employment and income impacts. For example, across the board cuts of \$1 billion might cause a loss of about 13,000 jobs, or 4 percent of employment: each lost job would reduce the deficit by about \$80,000.

Reducing the deficit by collecting income taxes or reallocating Permanent Fund Dividend payments to pay for state government would have smaller total impacts on employment and income than cutting state government—because there would be no direct cuts to jobs or income of state employees or contractors. There would be “multiplier” impacts due to impacts on household disposable income and spending. Collecting \$1 billion in income taxes or Permanent Fund Dividend reallocations could cause a loss of about 10,000 jobs or 7,000 jobs, respectively.

Reducing the deficit by spending other Permanent Fund earnings would not have any short-run impacts on the economy: it would not reduce payments to state workers or contractors or reduce household disposable income.

Note that the relative economic impacts of different fiscal options would vary significantly by region. The relative economic impacts of cutting the state workforce would be highest in regions where state government accounts for a relatively higher share of employment, such as Juneau and Fairbanks, and where state-funded local government (particularly K-12 education) accounts for a relatively high share of employment, such as rural western Alaska. In contrast, the relative economic impacts of an income tax would be highest in wealthier urban areas such as Anchorage.

State General Fund Budgets, FY07-FY16  
(\$Millions)



Clearly the short-term economic impacts of significantly reducing the state deficit—which will exceed \$3.5 billion this year—could be significant. How large they will be, and how and when they will be felt, will depend on how and when the state reduces the deficit. It will not be possible to avoid significant impacts: Permanent Fund earnings over and above those used to fund dividends are insufficient to close the deficit. While the economic impacts of different fiscal options will surely play a role in the political debate over how to close the deficit, significant economic impacts of the decline in state revenues since 2012 are already inevitable—because of the effects of budget cuts that have already been made but not yet reflected in lower state spending. Since 2013, the state budget has been cut by \$2.7 billion, or by 34 percent. Of this cut, \$1.9 billion, or 73 percent, was in cuts to the capital budget. Because capital projects take time—often several years—to plan and build, the full impacts of the large cuts that have already been made to the capital budget have not yet been felt as cuts to state spending. When they are felt, they will have significant economic impacts. If, for example, the impacts of \$1 billion in capital spending cuts remain to be felt, the estimates shown in the table above suggest that they could cause a total loss of about 9,000 Alaska jobs, or about 3 percent of total employment.

The state faces a difficult economic tradeoff in how rapidly it reduces the deficit. Clearly the impacts would be very large if the entire deficit of more than \$3.5 billion were to be closed in one year—regardless of how it is closed. For this and other reasons, it is likely that the deficit will be reduced more gradually, spreading the economic impacts out over time.

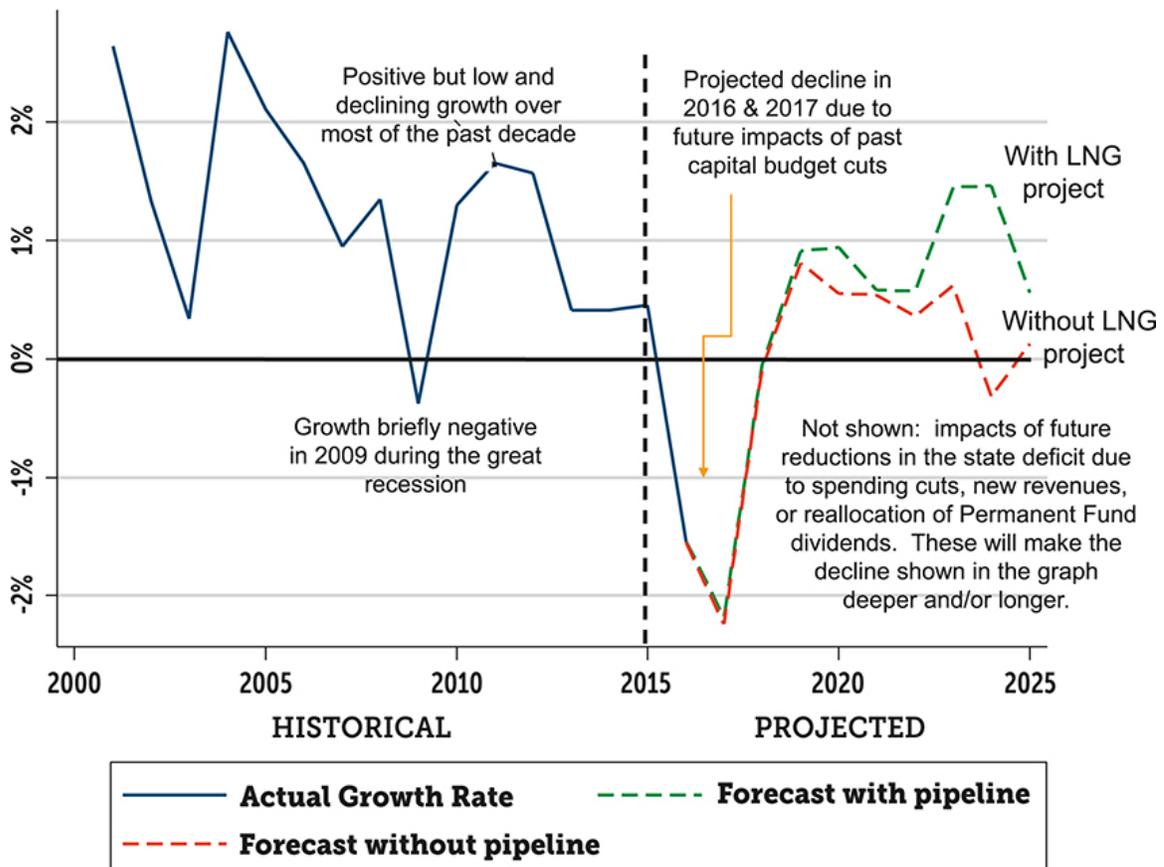
However, there are also significant potential negative economic consequences to delay in significantly reducing the deficit. Continued deficits of more than \$3.5 billion could drain state savings in as little as two years—forcing major adjustments with major economic impacts all at once. Delay in reducing the deficit could harm business confidence, reducing business investment and availability of credit to home-buyers and businesses.

It could also harm the state’s credit rating. In August, Standard & Poor’s Ratings Services affirmed its “AAA” rating for state bonds but revised its outlook from stable to negative, stating that “the negative outlook reflects that the large structural deficit in the state’s unrestricted general fund could render its overall fiscal position inconsistent with our ‘AAA’ rating. We expect that if lawmakers do not enact significant fiscal reforms to reduce the imbalance within the next year, the state’s rating could begin transitioning downward. The rating migration lower would likely persist and accelerate if lawmakers continued to fail to act as the state’s budget reserves (not including the Permanent Fund) approached depletion.”

### Longer-Term Economic Outlook

Over the longer term, once the state has adjusted to significantly lower average oil revenues, the most important factor potentially driving change in Alaska’s economy would be the development of an Alaska LNG export project—combining a North Slope gas conditioning plant, a natural gas pipeline, and a Southcentral Alaska liquefaction plant. If built, these would be huge projects, with a combined total cost currently estimated at between \$45 billion and \$65 billion. If the project proceeds on the currently envisioned schedule, construction employment might peak in 2024 and 2025 at about 6,500 jobs. Subsequent revenues to the state from its project ownership share and LNG sales could approach \$2 billion, further stimulating the economy over the longer term.

**Annual Percentage Change in Total Alaska Employment: Historical and Projected**



However, whether or when an LNG project will be built remains far from certain. The project is still in the pre-front-end engineering and design (pre-FEED) phase, with the decision about whether to proceed to the much more expensive front-end engineering and design (FEED) phase still at least a year away. Many issues remain to be resolved between the state and the three multinational oil companies participating in the project, and many uncertainties remain about the project cost, markets, and potential economic returns. Given the scale of the project, the fact that hundreds of millions of dollars have already been spent and are planned on pre-FEED studies does not necessarily mean that the project will be built as currently scheduled or built at all. Thus the LNG export project remains a very large economic opportunity, but also an uncertainty, over the coming decade.

**Beyond the potential LNG project, other important drivers of change in the Alaska economy will continue to be the federal government, the oil industry, the seafood and mining industries, the tourism industry, air cargo, and (over time) newer service industries such as engineering and environmental consulting.**

It is very difficult to predict how these industries will change over time, given their dependence on highly variable international market conditions as well as federal and state political and regulatory decisions. What is most certain is that there will be changes and surprises—but there is no obvious reason to expect either dramatic long-term growth or decline.

## Conclusions

The graph above shows historical annual growth rates of Alaska employment over the period 2000-2015 as well as our projections for 2016-2025. We calculated our projections using ISER's econometric model of Alaska's economy, population, and finances. The projections are based on two economic scenarios which consist of numerous assumptions about levels of future basic industry activity (both generic and project specific), national economic variables, and state fiscal policy variables. Both scenarios assume constant oil prices of \$55/barrel. The difference between the scenarios is that one assumes that no LNG export project occurs, while the other assumes that a project occurs with the schedule and impacts described above.

As discussed earlier, growth in total Alaska employment was positive but low and declining over most of the past decade, with a small decline in employment in 2009 during the great recession. As shown in the graph, we project a decline in total employment of about 2 percent during 2016 and 2017 as a result of cuts to the state capital budget which have already occurred but have not yet been reflected in actual capital spending.

What the graph does not show is the economic impacts of the inevitable further state adjustments to the budget deficit over the next few years, which will have to include some significant combination of spending cuts, new revenues, and/or reallocation of Permanent Fund dividends. These adjustments will make future employment declines either deeper or longer-lasting than shown in the graph. However, when the deficit has been significantly reduced, employment rates should rebound to continue the low but positive historical trend—with significantly higher growth rates if an LNG project occurs.

Our projections are of course speculative. There are many reasons for which they could appear foolish within a few years or even months from now, in response to events we cannot foresee, ranging from major oil discoveries to natural disasters to global economic or political crises which might drive prices for oil and other Alaska resources unexpectedly higher or lower. However, our goal is not to argue that the projections will necessarily come true. Rather our goal is to suggest a way of thinking about the factors that may drive Alaska's near and longer-term economic future—which may be a useful starting point for thinking about the implications of alternative assumptions about these factors.



***Mouhcine Guettabi is an assistant professor of economics at the University of Alaska Anchorage Institute of Social and Economic Research (ISER). He holds a PhD in economics from Oklahoma State University, where he specialized in regional and urban economics, health economics, and applied microeconomics. Before coming to ISER in 2013, he was a research economist at the Center for Applied Economic Research (CAER) at Oklahoma State University where he conducted public policy analysis, regional economic development, and economic forecasting. At ISER he has undertaken a wide range of research including updating ISER's economic forecasting model for Alaska, assessing needs of Alaska veterans, conducting a survey of employer provided health insurance, and studying economic costs to Alaska of higher fuel prices and the economic importance of the Bristol Bay salmon fishery.***



***Gunnar Knapp is director and professor of economics at the University of Alaska Anchorage Institute of Social and Economic Research (ISER), where he has worked since receiving his PhD in Economics from Yale University in 1981. For much of his career his research has focused on markets for and management of Alaska fisheries. Currently he is engaged in extensive research and outreach about Alaska's fiscal situation and options. For many years he has taught a University of Alaska Anchorage course on the economy of Alaska.***

*This article first appeared in the January 2016 print edition of Alaska Business Monthly.*



<u>General Fund Revenue</u>	<u>FY 13 Actual</u>	<u>FY 14 Actual</u>	<u>FY 15 Adopted</u>	<u>FY 16 Adopted</u>
Admin Fee: From Other Funds	1,319,905	1,482,726	1,382,738	1,203,719
From Other Funds				10,000
Airport Revenues	137,177	126,774	96,900	90,000
Ambulance Fees	194,877	203,253	194,800	130,000
Camping Fees	140,960	156,574	154,000	154,000
Community Recreation Fees	33,565	40,280	33,500	35,000
Fines	10,469	20,142	10,300	10,000
Fire Services	71,675	70,216	72,000	68,300
Interest Income	(109,384)	29,815	33,000	20,000
Jail Contract	695,314	762,233	753,410	424,000
Library Grant	278	7,558	6,650	6,650
Miscellaneous Revenues	65,241	46,090	62,600	51,600
Other Taxes & Licenses	76,993	56,695	76,900	74,500
Permits & Zoning	34,506	26,431	34,400	17,800
Pioneer Av Maint -DOT	0	68,000	34,000	34,000
Police Services	87,360	96,840	87,300	87,000
Property Taxes	3,220,859	3,085,931	3,118,636	3,152,711
Sales Tax	4,868,983	4,989,941	5,050,905	4,950,524
State Shared Revenue	341,161	341,037	341,037	0
<b>Additional Revenue Sources or Fund Balance</b>	0	0	0	1,138,289
<b>Total GF Revenues *</b>	<b>11,189,940</b>	<b>11,610,535</b>	<b>11,543,077</b>	<b>11,658,093</b>

<u>General Fund Expenditures</u>	<u>FY 13 Actual</u>	<u>FY 14 Actual</u>	<u>FY 15 Adopted</u>	<u>Adopted</u>
Mayor/Council	1,134,218	580,450	567,253	1,041,275
City Clerk	350,528	371,037	401,942	382,549
City Manager	227,797	219,812	228,625	205,287
Personnel	148,389	140,304	150,984	154,149
Eco. Development ( <i>Inculding Chamber Contribution</i> )	155,937	178,136	185,492	181,098
Information System	244,869	240,048	279,772	276,001
Community Rec	124,116	125,542	138,138	133,290
Finance	740,609	789,916	773,334	629,875
Planning	400,666	424,974	431,352	358,875
Library	836,673	872,287	926,547	920,633
Leased Property	63,183	49,100	59,762	59,762
City Hall	132,413	128,957	137,055	135,376
Contributions ( <i>Excluding Chamber and Haven House</i> )	88,054	88,000	114,500	85,500
Leave Cash Out	141,655	111,878	139,522	147,492
Fire Department	868,914	936,777	967,096	963,352
Police Department ( <i>Including Haven House &amp; Animal Shelter</i> )	3,200,865	3,229,704	3,274,547	3,218,172
Airport	200,291	219,342	217,352	210,793
Public Works	2,237,200	2,328,264	2,549,979	2,554,615
<b>Total GF Expenditures *</b>	<b>11,296,375</b>	<b>11,034,528</b>	<b>11,543,252</b>	<b>11,658,093</b>

\* Without PERS Relief



**2015 REVENUE OPTIONS**

09/23/2015

**BOROUGH**

REVENUE	ANNUAL \$ VALUE	PRO	CON	BARRIER	EFFECTIVE 2016?	HOW WOULD BECOME EFFECTIVE	RESPONSE FROM PUBLIC	NOTES	ADD. INFO. 9/14 Packet
<b>Raise Sales Tax Cap from \$500-1000</b>	Unknown	Instituted Borough wide.	Burden on businesses, especially those that sell large items. Raise rent cost	Unsure how much momentum is behind current proposal.	No	Ordinance by Borough and vote (note, it can be implemented w/o a vote, but the current proposal puts a vote to Borough residents).	Town Hall: 80% positive response; Online survey: 39.83% selected option	KPB Assembly Member Cooper has proposed putting this on the ballot will be reviewed by borough as part of comprehensive tax code review.	KPB Ordinance 2015-09. <b>Page 33</b>
<b>Internet Sales</b>	Unknown	Wouldn't it be great to tax Amazon! Or at least tax those sales that are taxable...	Barriers to implementation.	Borough would have to expand its taxation of internet sales to its full ability. City taxing on own requires Borough approval and would be logistically difficult.	No	A) Borough would expand its taxation of internet sales to full extent allowed by constitution (lots of rules apply, most sales not taxable). B) Borough would allow municipalities to tax internet sales. Then the City would have to collect tax.	Not polled	Limitations on what you can tax are severe. Store has to have a physical presence in Borough/State.	Memo from City attorney on taxation of internet sales. <b>Pg. 39</b>
<b>Bed Tax</b>	\$120,000 per 1%	Captures revenue from visitors.	Targets one industry. Argument revenue should be dedicated to economic development. Not enough to balance budget unless very high.	Requires Borough action.	Unlikely	Borough would need to allow COH to institute a tax OR pass one themselves. Then would need a vote. Borough appetite for bed tax seems low. If Borough allowed City to collect tax, we would have to get in the business of tax collection.	Town Hall: 81% positive response; Online survey: 65.41% positive response	Estimate provided by KPTMC in 2012	Tourism, Its Everyone's Business Flyer. <b>Pg. 45</b>
<b>Excise Tax</b>	Unknown	Popular to tax alcohol, tobacco, and marijuana.	Difficult to implement. Revenue impact very unknown.	State rules, may be opportunity with marijuana changes.	Maybe?	Borough could implement an excise tax which would impact City. City may be able to implement, and collect, excise tax on own.	Not polled	Lots of outstanding issues and potential with legalization of marijuana and desire to tax it.	

**COUNCIL**

<b>Increasing Fines for Code Violations</b>	Negligible	Can be done by Council.	Enforcement can cost more than revenue (officer/staff/legal time).		Yes	With budget cycle.	Town Hall: 67% positive response; Online survey: 29.77% selected option	Staff will review fee schedule and propose reasonable increases for 2015 budget cycle.	
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**2015 REVENUE OPTIONS**

**09/23/2015**

<b>REVENUE</b>	<b>ANNUAL \$ VALUE</b>	<b>PRO</b>	<b>CON</b>	<b>BARRIER</b>	<b>EFFECTIVE 2016?</b>	<b>HOW WOULD BECOME EFFECTIVE</b>	<b>RESPONSE FROM PUBLIC</b>	<b>NOTES</b>	<b>ADD. INFO. 9/14 Packet</b>
<b>Reinstate Seasonal Sales Tax on Non-prepared Food</b>	\$833,473	Can be implemented by Council. Not a 'new' tax.	Taxes basic necessity. Regressive.	Voters will likely remove option to not participate for first class cities in October.	Only if voters fail October ballot initiative.	Ordinance by Council.	Town Hall: 82% positive response; Online survey: 46.96% selected	Sales tax that would have been generated from 9/1 to 5/31: 2010-2011 \$735,501; 2011-2012 \$794,163; 2012-2013 \$812,065; 2013-2014 \$833,473	KPB Ordinance 2008-28. <b>Pg. 31</b>
<b>Eliminate COH \$20,000 Property Tax Exemption for Primary Residence</b>	\$94,000	Can be implemented by Council.	Burden is on year round City of Homer residents. Does not raise much revenue.		Yes	Requires Council action only.	Town Hall: 42% positive response; Online survey: 25.79% selected option	The City cannot exempt more than \$50,000 on primary residence. Currently we exempt the first \$20,000, but could exempt less. The \$94,000 figure	Certified Real Property from KPB. <b>Pg. 37</b>
<b>Raise Property Tax 1 Mill</b>	\$660,000 per mill.	Can be implemented by Council.	Increases taxes on residents when many of the services City provides are to entire Homer area.		Yes	Council pass a resolution by July 1, 2016 increasing the mill rate.	Town Hall: 65% positive response; Online poll: selected by 24.74% of respondents	Currently COH taxpayers pay 4.5 COH, 4.5 KPB and 2.3 SPH (total 11.3). According to HCC if property taxes increase to 6 mills, sales tax is eliminated.	KPB Mill Rate Chart. <b>Pg. 13</b>
<b>VOTERS</b>									
<b>Raise Sales Tax .5%</b>	\$854,434	Raises sufficient funds to bring City close to closing the gap. Taxes non-residents who use City services.	Places burden on local business. Makes rents more expensive.	Need a vote of City residents.	Yes - after first quarter	Council would pass an ordinance to increase the sales tax and for a special election.	Town Hall: 85% positive response; Online survey: 35.43% selected option	Based on 2014 sales tax revenue. Revenue estimate for 2016 (2-4 quarters) is \$717,669. Current COH sales tax is 4.5% COH and 3% KPB.	
<b>1% seasonal sales tax increase (6 moths of year)</b>	\$1,141,762	Captures more visitor revenue. Closes gap.	Burden on local businesses.	Need a vote of City residents.	Yes	Council would pass an ordinance to increase the sales tax for a special election.	Not polled	Based on 2014 sales tax revenue.	
<b>Repeal HART (direct .75% sales tax back to general fund)</b>	\$996,601	No tax increase for public. Generates sufficient revenue to close the gap.	Eliminates funding for roads and trails, basic infrastructure Short term fix. Would effect road HSAD program.	Need a vote of City residents.	Yes	Council would pass an ordinance to not continue to fund HART and for a special election.	Not polled	Based on 2014 sales tax revenue. HART has been around since 1987.	HART fund activity reports. <b>Pg. 15</b> Legislation enacting HART. <b>Pg. 17</b> HART Policy Manual. <b>Pg. 21</b>