

CITY OF CRAIG MEMORANDUM

To: Craig Mayor and Budget Committee
From: Brian Templin, City Administrator
Date: March 18, 2024
RE: FY2025 CCSD Funding Request

Thanks to all of the council members who attended the meeting with the School Board. As you heard the school district request will have a significant impact on the city budget and potential revenues depending on the level of increase that the council is comfortable with.

Operations Budget.

Just a reminder to start that under Alaska Statute the city is responsible for a payment equivalent to 2.65 mills of real and personal property tax. As the school district packet showed last night, that minimum contribution for FY25 is about \$485,000. There is also a statutory cap on the amount of the local contribution. For FY25 that cap is about \$1.8 million. It is within the city council's authority to fund the local contribution anywhere within that range.

The bottom-line request of the school district for their operational budget is that the city make a contribution that will fully balance out the current school district budget deficit of \$1,289,342. The actual request would This is not the total request from the city, just the current deficit in the draft budget. The draft budget already includes a revenue line item assuming a local contribution of \$550,660,

There is currently a bill (SB140) that has been transmitted to the governor's office that would raise the base student allocation (BSA) by about \$680 per student. With the projected FY25 enrollment and a complicated funding calculation by the department of education this would result in about \$900,000 in additional state funding if SB140 passes and survives the governor's veto pen when the full operating budget is transmitted to him for approval. Last year the governor cut about one half of the funding for a one time additional payment to school districts. While this bill is overwhelmingly popular with the legislature it may likely still see some cuts (if it is signed) through the budget process and veto overrides are extremely rare at the state level.

With that being said, based on SB140 there are three possible outcomes that it would be good to look at to determine how much funding the district will be looking for this year.

1. Absolute worst case. SB140 has been vetoed by the governor. If the veto is not overturned, if the veto is overturned and the governor vetoes the appropriation, or if another BSA bill does not make it out of the legislature before the end of the session then it is likely that there will be no BSA increase this year.

If there is no BSA increase or one time funding increase for school districts the district will be asking for \$1.289 in additional funding from the city to balance

their operating budget. This would be in addition to the \$550,660 already in the district budget and would result in a request of about \$1.839 million. This scenario would put us near or over the statutory cap on funding.

2. Best Case. If the veto to SB140 is overturned and the governor leaves full funding in the state budget with no veto that will provide an additional \$900,000 to the district. In this case, the district request to the city would be an additional \$389,000 on top of the \$550,660 already in the budget for a total request from the city of about \$939,660.
3. Middle Case. Last year there was a one time payment of about \$600 authorized through the legislative process and included in the state budget. During the budget review the governor vetoed about one half of that funding leaving a one time “BSA like” payment to districts in Alaska. This would likely result in about \$450,000 in additional state funding for the district and the district’s request to the city would be for an additional \$739,000 above the current budget of \$550,000 for a total request of .

It is unlikely that the governor will complete his budget review and vetoes before the city and school district budget have to be finalized so there should be some contingency planning.

Any of these scenarios would require an unsustainable overdraw of the school funding savings, an increase in city revenue, or significant cuts to services by the city in order to fully fund.

As a reminder, the city maintains a savings fund funded through overpayments of the Secure Rural Schools (SRS) program over the years. The current balance of that fund is about \$2.9 million. The primary intent of the fund is to help smooth payments to the school regardless of the SRS payments and to provide a cushion if the SRS program is not reauthorized, giving the city a number of years to ramp up additional revenue or cuts to the city budget to fund the school. These funds are available as part of the solution for the current year, but the council should keep in mind that significant overdraws for more than the first year will likely put the city at some risk of having to take drastic, immediate action or cut school funding again in future years. In all of the scenarios above the current SRS payment of about \$475,000 (subject to change each year) is included along with a transfer from the city’s general fund.

As a reminder, the city is not required to fund above the required minimum (\$485,000) or even above the prior year funding amount (\$685,000 in FY24, \$550,660 in FY23) but may consider the following if the intent is to fund at a higher level.

Funding Options Include:

1. School Savings. The council may use any amount up to the total \$2.9 million from the school savings in the current or future years. As I have said above, overdraws are not sustainable over time and large draws from the fund may put

the city in a position to have to make sudden adjustments if the SRA program is not reauthorized. The only revenue for this fund are annual SRS payments (Currently SRS payments are about \$475,000 per year, but are subject to change each year).

2. **Property Tax.** The city may change the property tax rate in May to provide for increased revenue to help fill the gap. The current property tax is set at 5.75 mills. Each additional mill of property tax above six mills would generate about \$105,000 and would cost the taxpayer about \$100 for every \$100,000 in property value in taxes. Property tax rates could be left the same, increased, or decreased each year in May.
3. **Sales Tax.** Flat rate increases to sales tax will generate about \$480,000 per 1% rate increase. There is likely to be some discussion with the council about considering a seasonal sales tax (higher in the summer and lower in the winter). Staff will be providing some models at the council's request that will show projected revenue increases. For example, increasing the tax rate to 7% from April 1 – September 30 and leaving it at 5% from October 1 – March 31 would result in a net increase of sales tax revenue by about \$580,000. Unlike property tax, sales tax can only be increased above current rates with voter approval. It is unlikely that changes to sales tax can be helpful for FY25 for a variety of reasons. If the council wants to consider sales tax as part of this funding solution for FY26 and beyond it should plan on putting a proposal on the ballot this October.
4. **Increasing General Fund Contribution.** In addition to the SRS payment/draw from savings, the current \$685,000 contribution to the school district includes a \$200,000 transfer from the city's general fund. The council may consider increasing that contribution without a corresponding increase in general fund revenue. The current and projected city operating budgets are fairly flat with no surplus so an increase to the general fund contribution without corresponding increases to revenue would require cuts to staff, services, or other items in the FY25 city budget.

The table below shows the amount of funding needed to meet the school district's operations budget deficit if the council decides to fund the entire deficit.

Scenario	Current City GF Contribution	Estimated SRS Payment	Additional Draw or Revenue Required
Full \$600 increase to BSA in FY25	\$200,000	\$475,000	\$389,000
\$300 increase to BSA in FY25	\$200,000	\$475,000	\$789,000
\$0 increase to BSA in FY25	\$200,000	\$475,000	\$1,289,000

The Alaska House and Senate recently passed SB140 which included a \$680 increase to the Base Student Allocation (BSA). Governor Dunleavy vetoed the bill. The legislature is considering a vote to overturn the veto on March 18th but, even if the veto is overturned, the governor still has the opportunity to veto or change the BSA line item in the budget. An override of this item will require a larger majority to overturn and will likely stick. Last year the governor cut a one-time payment to the school in half through this process. There is no reason to believe that he would leave a BSA line item intact this

year. The table above considers no increase to the BSA (most likely), a \$300 increase to the BSA (this completely depends on what the governor might do to any appropriation that makes it into the state budget). And a \$600 increase to the BSA. This is the least likely to pass in the current legislature and governor.

The budget committee and full council should consider the following:

1. What level of funding does the council want to make to the district?
2. How does the council want to fill the funding gap for FY25?
3. How does the council want to fill the funding gap for FY26 and beyond?

Capital Budget

It was not a major discussion, but the school district shared on March 13th that the current grant project match will likely completely wipe out their capital fund. A comment was made that if they zeroed out their capital fund they would not have the ability to respond to some emergency repair.

Staff is ready to research and talk with the council about other alternatives to a single full payment of the match (i.e. bonds, other financing, etc.) but would suggest that in the short term the council may consider authorizing/appropriating use of additional savings funds or city capital reserve funds to cover any emergency situations for FY25 and that the council have a longer discussion about how to handle capital projects for the school in the future.

Sorry for the long memo, but I thought it important to capture the discussion from the March 13th meeting and sum up some of the things that the council will need to consider in the next few months.