



City Manager's Office
September, 2015

SUSTAINABLE-AFFORDABLE VALDEZ ECONOMY... NOW AND INTO THE FUTURE?

"A PLACE OUR GRANDCHILDREN WILL BE PROUD TO CALL HOME"

What will Valdez be like 20 years from now? Our Strategic Plan workshops began this discussion in 2012-2013. We've been working on those ideas. It's time to continue that conversation. In 10-20 years from now will we still be mostly dependent on TAPS oil revenues to support our community? Or, will we have grown and diversified our local economy enough to provide new, good jobs, to protect our individual housing and business investments, and to truly "CREATE A PLACE OUR GRANDCHILDREN WILL BE PROUD TO CALL HOME"?

What will it take to create a SUSTAINABLE AND AFFORDABLE VALDEZ ECONOMY (S.A.V.E.)?

1. Should Valdez HOPE that TAPS property tax revenues won't decline (and use up our existing reserves when it does)?
2. Should Valdez START NOW while we still have TAPS revenues, to broaden and diversify the Valdez Economy, so that it is Sustainable and Affordable into the future? And will we have the housing needed to add jobs and grow the economy or,
3. Should Valdez WAIT AND SEE, and then have to raise taxes while cutting services ONLY when forced to?

YOU'RE INVITED!

As your Interim City Manager, the City Council has asked me to take a fresh look at both the community and City government, and to offer my thoughts as to what it might take to keep Valdez both Sustainable AND Affordable, now and into the future. We'd like to invite you join us in what we hope will become part of an ongoing conversation over the next few years, starting with the City Council Meeting of September 8, 2015.

FROM AN OUTSIDER'S VIEW

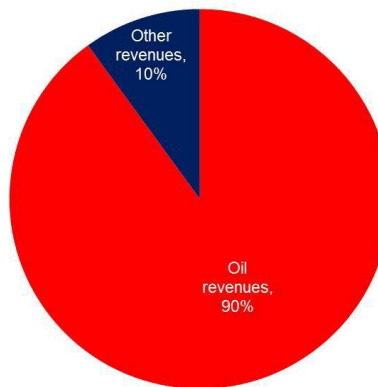
While this is my first visit to Alaska—and I want to thank the Council, community and staff for a warm and sunny welcome to Valdez—I am really very dependent on all of you to help me learn about Valdez and other Alaska communities. Particularly, I want to thank Lisa VonBargen, Community and Economic Director, and Brian Carlson, Finance Director for their input to this white paper. My thanks also go to Jim Nygaard, Schools Superintendent, and Scott Hicks, Alyeska Senior Director. What I hope to bring is perhaps a different perspective from my 40 years of City and County government experience in five U.S. States, 35 years of that time as a City Manager, and how that might add to the discussion about a Sustainable-Affordable Valdez...Now and Into the Future.

First, as to an outsider's VIEW, let me say the obvious, Valdez IS truly spectacular! I've lived in the West and travelled much of the world—and, as I've learned, so have many of you who came and decided to stay in Valdez. I've seen the Swiss Alps, Norway's Fjords, California's Lake Tahoe, Colorado's and Utah's ski resorts, and I worked in Gillette, Wyoming where coal is king and they mine 40% of the nation's coal. Add in the Trans Alaska Pipeline System (TAPS), Alyeska and the sport and commercial fishing industries, and Valdez really has a lot going for it. But given the worldwide changes affecting Alaska in general and Valdez in particular, will that be enough to grow the economy, provide new jobs, protect individual housing and business investments, and to truly "CREATE A PLACE OUR GRANDCHILDREN WILL BE PROUD TO CALL HOME"?

ALASKA AND OIL

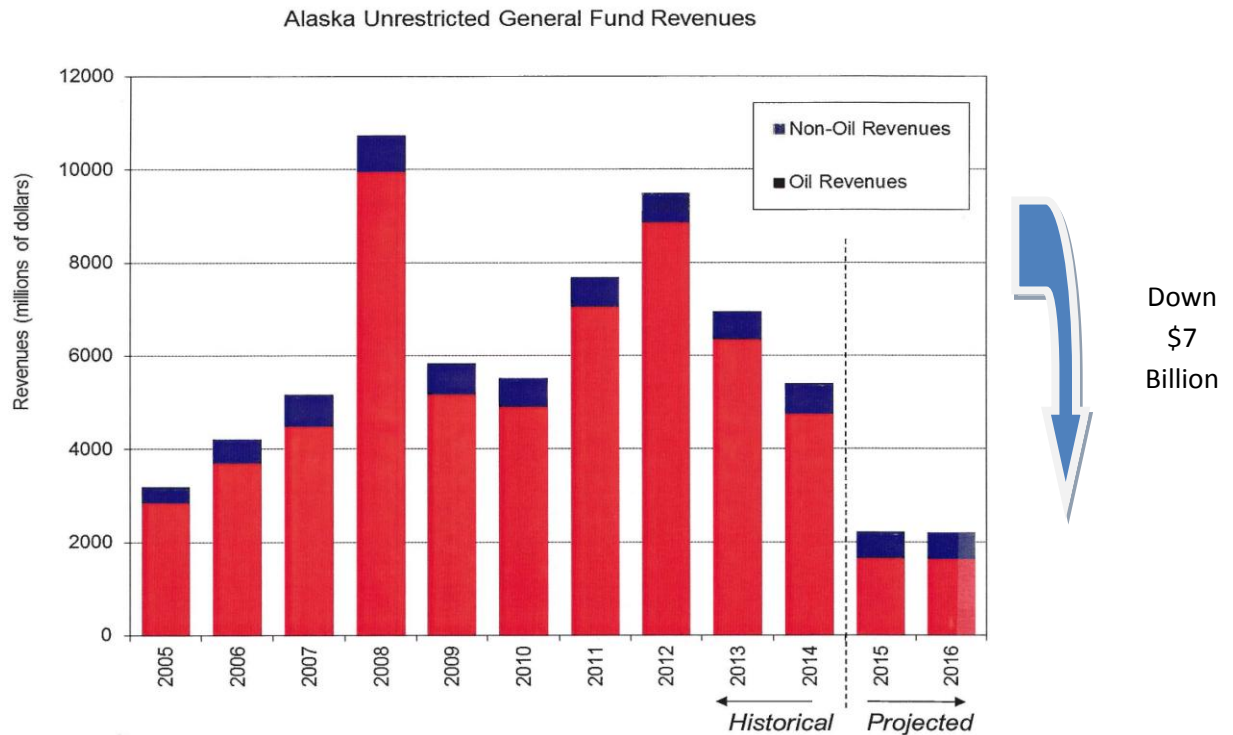
"Alaska has been extremely depended on oil revenues to fund state government services"

Prof. Gunnar Knapp,
University of Alaska,
Anchorage



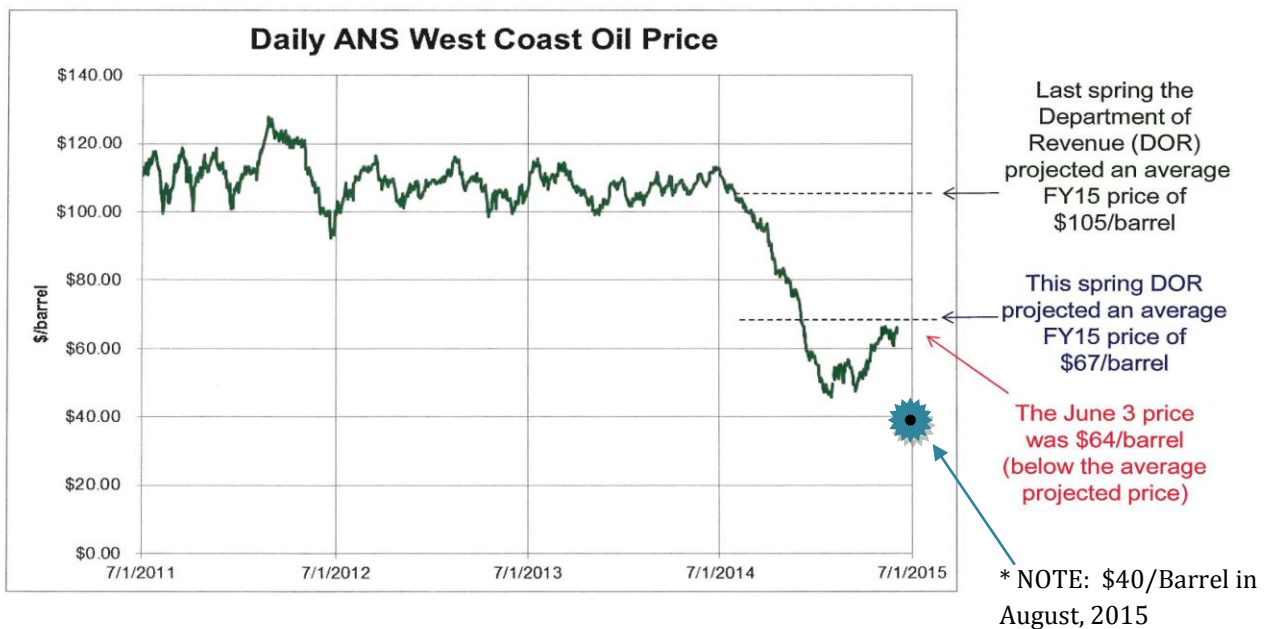
It's no secret, since the 1970's, Alaskans in general, and Valdez in particular, have benefitted from oil revenues to fund State and local government services. The sharp drop in the worldwide price of oil and at the same time the reduced demand for oil resulted in a "\$7.2 BILLION drop in oil revenues from 2012 to 2015" (an 81% loss according to Dr. Gunnar Knapp, Director of the Institute of Social and Economic Research, and Professor of Economics, University of Alaska Anchorage).

ALASKA'S OIL REVENUES DROP \$7 BILLION FROM 2012 TO 2015!



This year...

This year oil prices fell drastically and unexpectedly



WHAT ALASKANS ARE SAYING

\$100 A BARREL OIL? --“Tumbling oil prices slam profit at Exxon Mobil and Chevron...The results highlight how smaller and more nimble U.S. Shale Oil Companies have slashed costs... and I think they are realizing the days of \$100 a barrel of oil are over...” Reuters News Service, July 31, 2015.

STATE SALES AND/OR INCOME TAX?--According to the Resource Development Council for Alaska, in its July 2015 report, and the Rasmuson Foundation: “Alaska elected officials urged to craft sustainable fiscal plan... wise use of Permanent Fund earnings, a broad-based tax (i.e. Sales and/or Income)... Alaska is three years away from a financial cliff that will threaten the standard of living for Alaskans if the State doesn’t act now.”

HERE TO STAY?—“Our State’s population has become more stable in recent years, and that’s not a bad thing. Most of us who have remained in Alaska are here to stay. We’re rejuvenating a certain element of the pioneer spirit, where we build things to last because we’re in it for the long haul. That’s what Alaskans are doing now...with an Alaska-grown workforce...While there will always be folks who come and go, those of us who stay in Alaska will continue building homes, businesses, communities and connections that will last for generations.” Heidi Drygas, Commissioner, Alaska Department of Labor and Workforce Development.

ALASKA’S OPTIONS

If Alaska’s oil revenues stay down \$7 BILLION a year, what are Alaska’s options:

- Further Cuts to State services and State support to local communities.... another \$1-2 billion in service cuts?
- Reduce the Permanent Fund distributions to Alaskans...\$2-2.5 Billion a year...
- Increase Petroleum Taxes...\$500 million per year...
- Alaskan Gas Line Now? \$1 Billion per year...
- Gas Tax Increase? Each \$.01/gallon adds \$6 million per year...
- Lottery or Casinos? \$15-34 million per year...
- School Tax or State Property Tax? \$35-115 million per year...
- Alcohol, tobacco & Marijuana Taxes? \$10 million per year...
- State Sales Tax at 3-4%? \$400-500 million per year...
- Personal Income tax? 5% yields \$185-200 million per year...

None of the above options are enough to close a \$7 Billion gap without a Sales Tax, Personal Income Tax, or combination of Sales/Income Taxes.

THE CHALLENGES FOR VALDEZ

Worldwide changes in energy pricing, along with cuts in Federal and State funding, certainly impacts Valdez, but the challenges facing Valdez's long-term Sustainability and Affordability are DIFFERENT. Valdez also receives the vast majority of its annual revenue from the oil industry, BUT NOT based on the price or volume of oil sold. The City's property tax at the "20 mill levy rate" is 89% paid by TAPS and the taxable value placed on the PIPELINE itself.

So—while oil will likely continue to flow through the pipeline for many years ahead, even if at reduced prices and volumes, and the good paying Alyeska jobs are likely to stay—as the taxable value of the pipeline itself declines, so will the property tax paid by TAPS to the Valdez community decline. Whether that decline is sooner or later is a matter being hashed out in the Courts and at the State level, but it will decline.

Because 89% of the Valdez property tax is paid by TAPS, the Valdez community has been able to afford many things beyond the ability of other less fortunate Alaska communities. Our SCHOOLS recently ranked #1 in the State. Over \$2 million a year goes to COMMUNITY SERVICE ORGANIZATIONS and \$1 Million to EVENTS. Our HOSPITAL is only here because we used the property tax to build it. Our PORT and HARBOR facilities, the SENIOR CENTER, POOL and our CIVIC CENTER are all possible because of the contributions of the oil industry. In return, Alyeska hasn't asked much of the City of Valdez in return other than our Police and Fire/Emergency services are trained and staffed well enough to back them up. To individual Valdez residents, it has meant some no cost services like garbage collection or very low cost utility services like water and sewer, even City paid energy assistance and Valdez has no local sales tax as in other Alaskan Communities. How will this affect the Valdez community going forward, as City revenues from Alyeska's property tax shares decline and the costs of community services and capital projects continue to increase? Can we reduce the property tax 20 mill levy, grow and diversify the local economy and eventually add a local sales tax as other Alaska cities have done to build sustainable and yet affordable communities.

ANNUAL PROPERTY TAX PER HOUSEHOLD

CITY	POPULATION	SALES TAX	CITY MILL RATE	BOROUGH MILL RATE	COMBINED MILL RATE	PROPERTY TAX ON: \$ 200,000
SITKA	8,881	6.0%	6.00	-	6.00	1,200
KETCHIKAN	8,150	3.5%	6.70	5.00	11.70	2,340
WASILLA	7,831	2.0%	-	9.98	9.98	1,997
KENAI	7,100	3.0%	4.35	4.50	8.85	1,770
KODIAK	6,130	7.0%	12.75	-	12.75	2,550
PALMER	5,937	3.0%	3.00	9.98	12.98	2,597
HOMER	5,153	4.5%	4.50	4.50	9.00	1,800
BARROW	4,212	0.0%	-	18.50	18.50	3,700
SOLDOTNA	4,163	3.0%	0.50	4.50	5.00	1,000
VALDEZ	3,976	0.0%	20.00	-	20.00	4,000
PETERSBURG	2,948	6.0%			-	-
SEWARD	2,693	4.0%	3.12	4.50	7.62	1,524
CORDOVA	2,316	6.0%	11.53	-	11.53	2,306

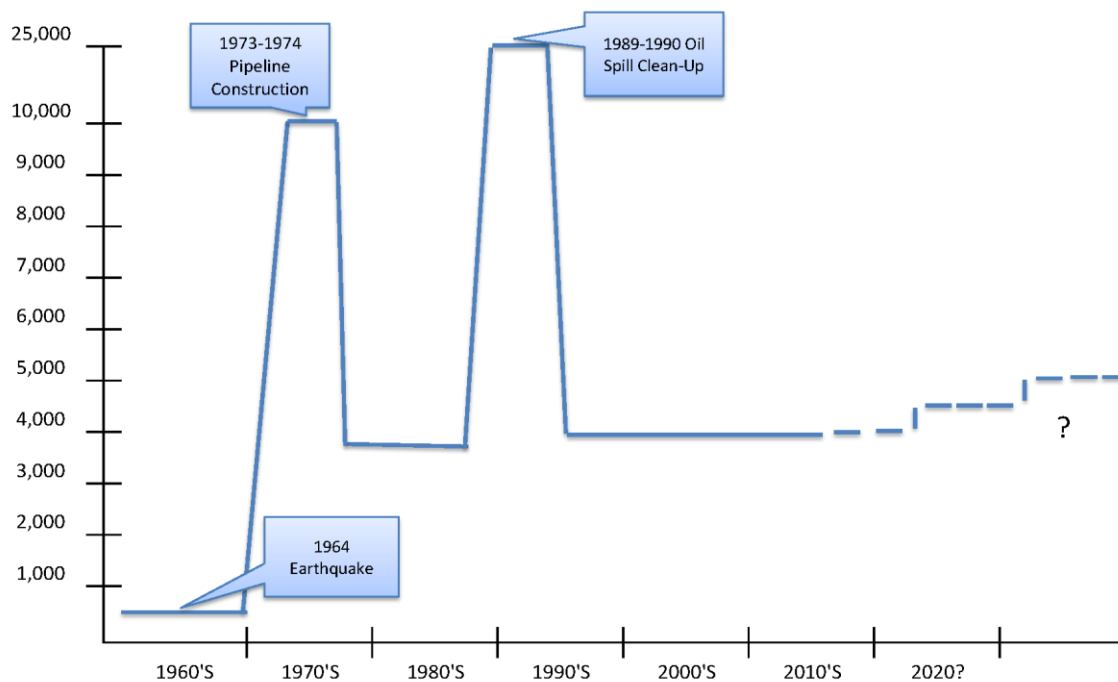
SUSTAINABLE VALDEZ or “BOOM-BUST”

So while the challenges facing Valdez are similar to those facing the State of Alaska, they are different. Valdez, perhaps more than other Alaska communities, has been hugely impacted by outside events:

- 1897 Gold Rush and 1900-1920 Gold and Copper mining...
- 1901 Valdez the first two Alaska cities to incorporate (Nome is the other one)...
- 1964 the Valdez population was 500 before the earthquake and the 1967 relocation...
- 1973-1974 TAPS brings the City's population to over 10,000 residents...
- After pipeline construction but with Alyeska jobs, resident population was about 3,500...
- In 1989 the Oil Spill and all the cleanup workers drove the City's population to 25,000!!!
- And since then back down to about 4,000 year around residents, plus seasonal and temporary housing or lodging during Summer tourist season and commercial fishing up to 8,000...

Must this “boom-bust” cycle continue or can the community act now to influence its future?

VALDEZ RESIDENT POPULATION

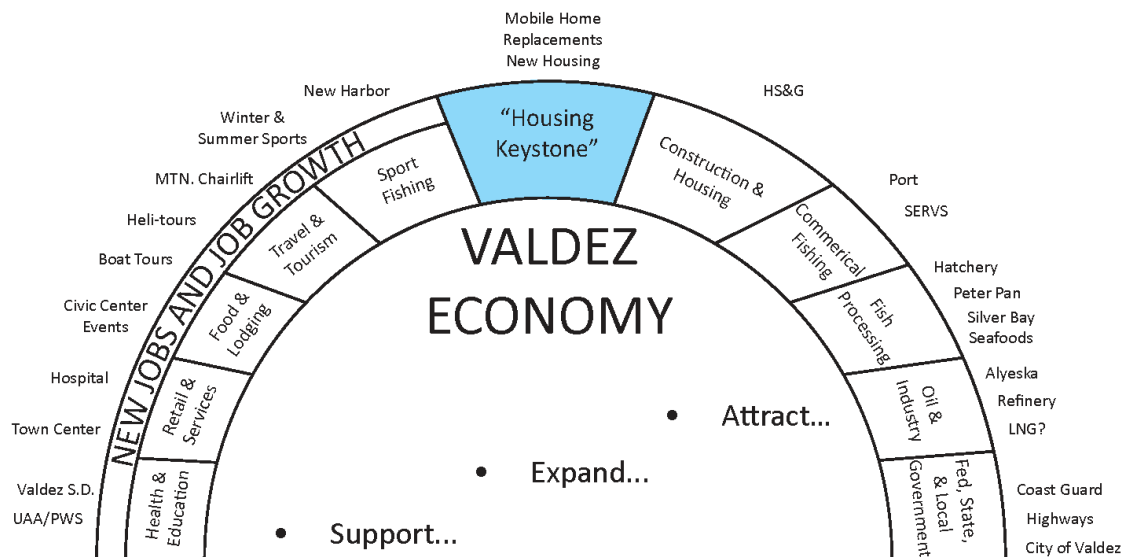


JOB, POPULATION AND HOUSING

Can the Valdez community stabilize its population and even grow its economy and our permanent population from 4,000 to about 5,000 Valdez residents, while retaining the good Alyeska jobs and the commercial fishing jobs, expanding tourism and tourist activities year around? Is a Sustainable Valdez of 5,000 permanent residents, and up to 12,000 with temporary or seasonal residents and visitors possible? Could a local sales tax eventually replace lost TAPS revenues and still help lower the property tax mill levy?

Permanent Population	4,000-5,000
Temporary Residents	1,000
Seasonal & Visitors	5,000-6,000
Total Population	10,000-12,000

Can we help broaden and diversify the Valdez economy to SUPPORT the existing businesses and industry staying in Valdez, help them EXPAND in Valdez, and ATTRACT new businesses to Valdez—all adding JOBS while protecting individual HOME and BUSINESS investments in Valdez?



ECONOMIC DIVERSIFICATION

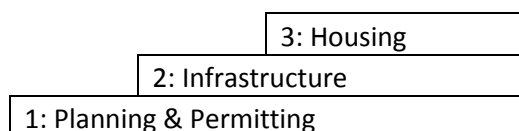
Growing the economy and adding new jobs won't work though, unless new residents have places to live. Housing is the keystone to both Sustainability and Affordability.

THE HOUSING KEYSTONE

The best way to improve AFFORDABILITY is to raise the household property tax exemption to \$50,000 and eventually reduce the 20 mill levy property tax rate while still maximizing the TAPS contributions. By growing and diversifying the economy the City may eventually (5 years or so) add a local option sales tax on this broader economy and offset the sales tax increase with a larger property tax decrease.

All of this, however, requires new good jobs, enough for about 350 NEW households or 1,000 new residents. And this CANNOT happen unless there are new homes, condos or apartments— at 35 per year for 10 years (in addition to replacing 350 or 35 per year older mobile home units).

On its own the private sector has built 4-5 new homes per year, and none in the affordable category. There are basically three steps in the housing development process:



It is too much risk, time and cost, to expect one developer to take a project — or one of any size — from start to finish. Even in a strong market the first developer would buy or option the land and take it through the Planning and Permitting process, then sell it! A second developer would then obtain financing and build the water, sewer, streets infrastructure, and then sell it to a builder or builders. The builders would then take orders for pre-sale homes or build speculative sale homes. Realistically it is too much to expect Valdez developers to take on all three steps.

If the City updates its comprehensive plan, zoning and environmental codes, step one hurdles are cleared. The City could set up a Valdez Improvement Authority (V.I.A.) with a revolving trust fund to front the money for needed infrastructure, NOT as a gift for private sector profit, but with IMPACT FEES OR LATECOMERS AGREEMENTS to recover the infrastructure investment when the lots are sold. OR, the City could even enter into true Public-Private Partnerships with development agreements where the City takes an equity position in the project and a percent of the profit of its investments. All of these funds would then go back into the V.I.A. Revolving Trust fund to repeat and expand the cycle.

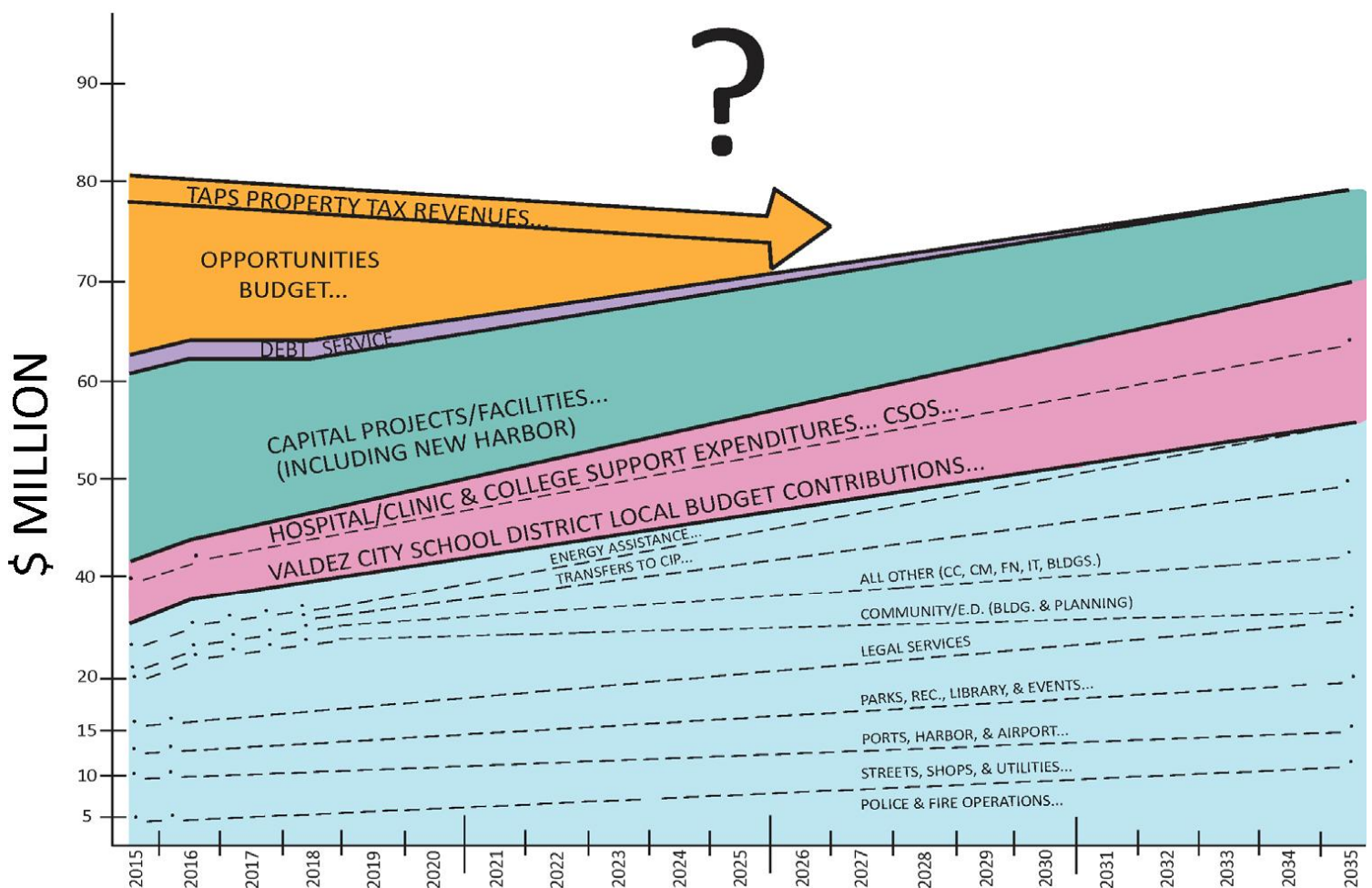
In this manner, with true Public-Private Partnerships, Valdez could:

- Add 35 new housing units a year for 10 years
- Provide the housing needed to grow jobs
- Build mixed use housing and retail to infill new development
- Grow and diversify the economy to reduce property taxes by slowly adding a sales tax
- And reduce the total costs per household while increasing income levels, and
- Increase affordability (with more energy efficient and a mix of housing choices)
- BUT NONE OF THIS HAPPENS WITHOUT HOUSING

SUSTAINABLE-AFFORADABLE VALDEZ ECONOMY

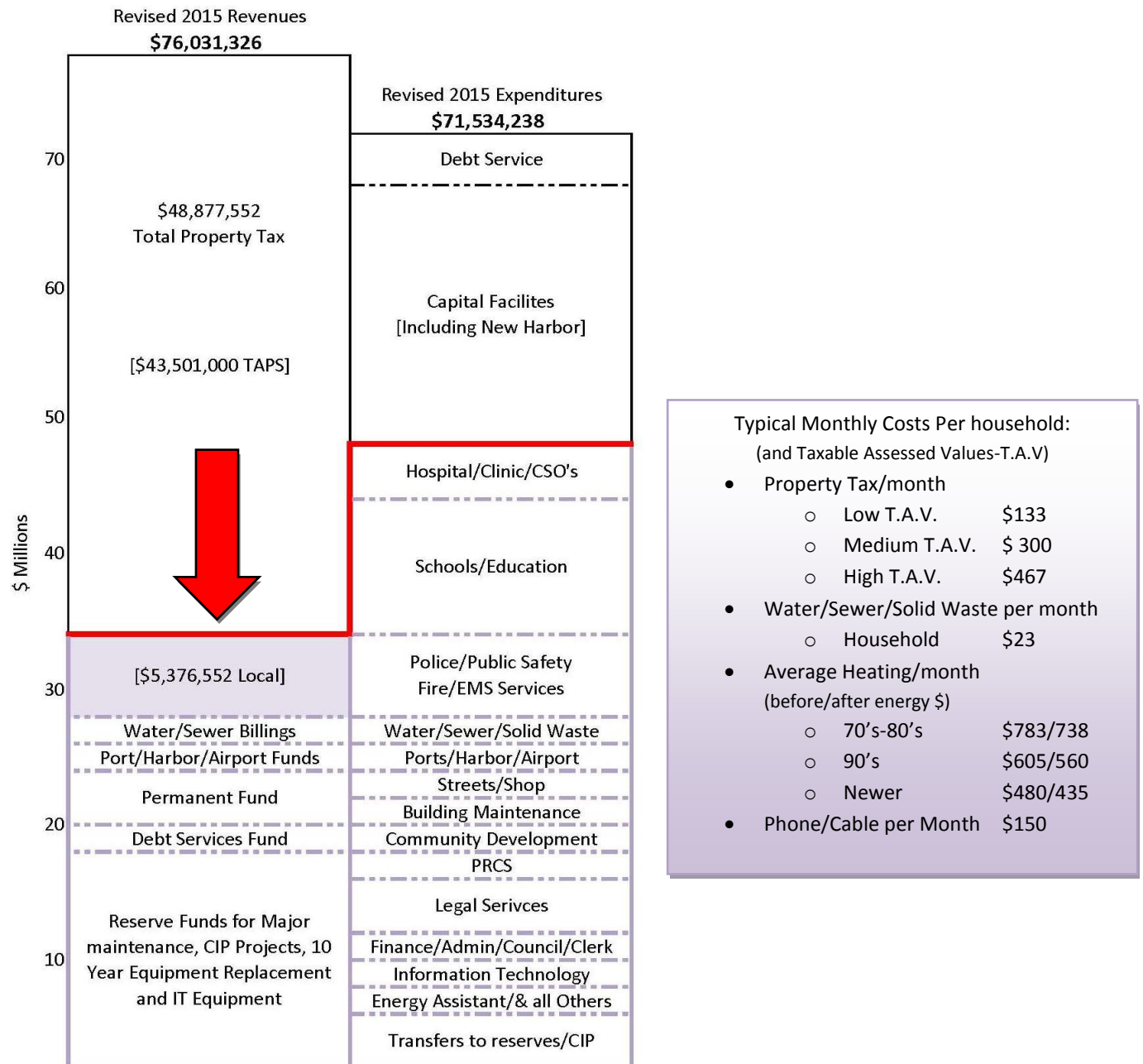
Over the next 5-10 years Valdez revenues, due to the remaining share from TAPS property taxes, should create an “Opportunities Budget.” As City services, contributions to schools and other community groups and expenses grow – even at only 3% — the current service costs will double. Even if we pay off our outstanding debt and reduce capital projects, expenses will eventually exceed revenues. Meanwhile the TAPS share of revenues will decline – even just at 2% per year.

Can Valdez use this “Opportunities Budget” while TAPS revenues are here to diversify and expand its economy: Year Around Tourism, Sport Fishing, Health Care and Education? And at the same time investing in Housing and lower cost energy/heating initiatives?



AFFORDABLE VALDEZ

And IF a Sustainable Valdez is achievable, can the needed public and private investments, along with any cost shifts still keep it an Affordable Valdez? So, where does the City's money come from and where does it go? And, more importantly, what do Valdez citizens pay and what services do they get in return?



NOTE: The \$5.4 million LOCAL share property tax, even at the 20 mills rate, is just enough to pay for police/fire service. The TAPS share of property tax on the pipeline itself basically pays for most of the rest.

SOME FACTS ABOUT VALDEZ

The 2015 population estimate for permanent year-round Valdez residents is about 4,000. With temporary year-round non-residents (i.e. “man camp”) and tourists (mostly summertime, some winter) the total population served varies from 5,000-8,000 people.

Another important point to remember when looking at the City services and costs is that there is not an active Borough taxing and providing services. Valdez provides both traditional City and Borough services.

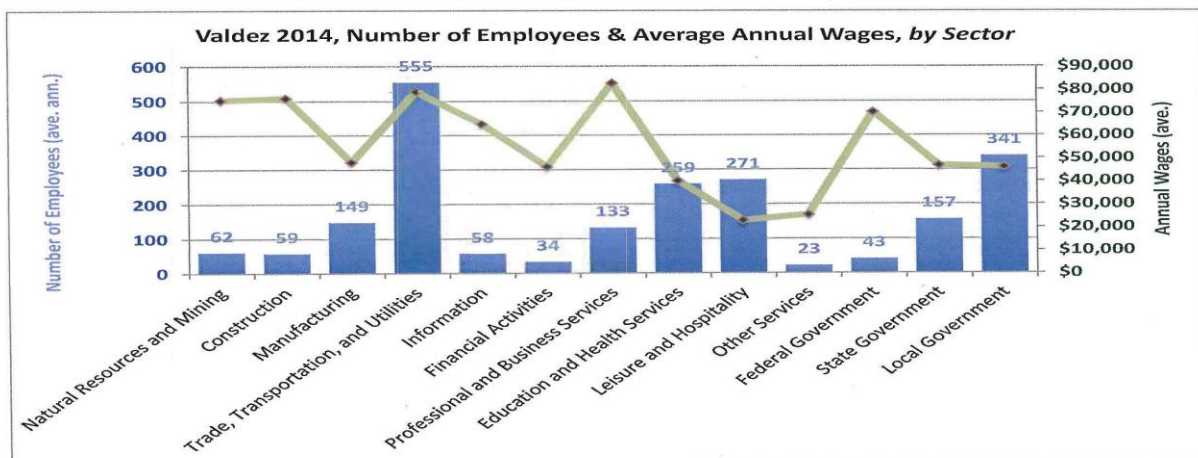
Valdez City Services

- General Government
 - City Council & Management
 - City Clerks
 - Finance Services
- Police Services
- Fire/EMS Services
- Parks & Recreation
 - Library
 - Regional Trails
- Senior & Teen Programs
- Ports & Harbor
- Current Planning & Building
- Comprehensive Planning
- Public Works
 - Water/Sewer/Streets
 - Solid Waste Collection

Valdez “Borough” Services

- School Buildings & Tax Levy
- Hospital/Clinic Building
- Elections & Voter Registration
- Property Assessment & Taxation
- Jail
- Regional Dispatch/911
- Ambulance Services
- Regional Emergency Management
- Civic/Convention Center
- Senior Services & Housing
- Airport
- Economic Development Programs
- Housing Assistance
- Flood Control
- Baler & Landfill

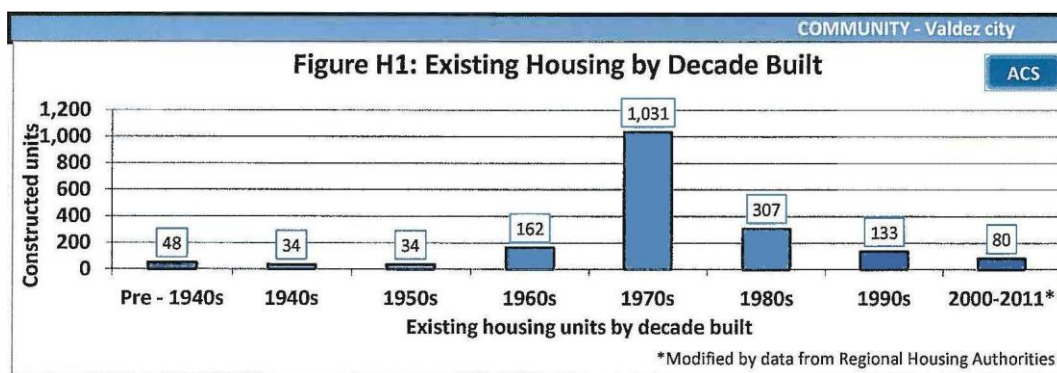
2014 VALDEZ EMPLOYMENT AND WAGES, DETAIL



So for a “small” City, there’s a lot going on in Valdez in serving those 10,000-12,000 permanent & temporary residents, businesses, and industries. How does all of this affect the individual households?

Again some additional Housing and Energy facts about Valdez: (*2014 AK Housing Report)

- Total of all housing units* 1,761
- All Occupies Housing units* 1,565
- Average housing size* 2,000 sf
- Housing built prior to 1969* 278
- Housing built in 1970* 1,031
- Housing built between 1980-1999* 440
- Housing built between 2000-2011* 80



Whenever Alaskans talk about the cost-of-living, the energy costs of heating are significant. Even MORE IMPORTANT IS WHEN the homes were built. The mobile homes brought into Valdez in the 1970’s are the LEAST ENERGY EFFICIENT AND MOST COSTLY. Homes built since 2000 are the most energy efficient and least costly to heat.

Again, according to the 2014 Alaska Housing Assessment Report, the heating energy cost per household varies dramatically by year built.

<u>Years Built</u>	<u>Average Annual Energy Cost</u>
1969 or before	\$9,407/year or \$783/month
1970’s-1980’s	\$9,800/year or \$816/month
1990’s-2000’s	\$7,260/year or \$605/month
2005 or later	\$5,861/year or \$480/month

Even with the City's \$550/year per household Energy Assistance Program (EAP) those living in the older units and especially the 350 or so mobile home units will not be able to keep up with the rising costs of energy. Raising the City's assistance above \$550 only makes the EAP taxable income and wipes out the benefit; you would need to triple the EAP to double the assistance. Real assistance will only come by replacing the older mobile homes with modern energy efficient homes, and eventually lowering the overall property tax for everyone. Concurrently, the City might explore partnerships with Copper Valley and Alyeska exploring ways to reduce the electric rates per kilowatt hour, and/or more affordable heating solutions, for homeowners and renters alike. This brings us back to the need to diversify the economy, increase good paying jobs, and to add new housing, while replacing inefficient housing units.

Raising the household exemption from \$20,000 to \$50,000 would do more to help offset the rising energy costs. And for those Senior Citizens, who receive a state mandated \$150,000 exemption; their total tax exemption could rise to \$200,000, eliminating most, if not all, of their property tax. This would benefit everyone, and still maximize the community's net TAPS contribution.

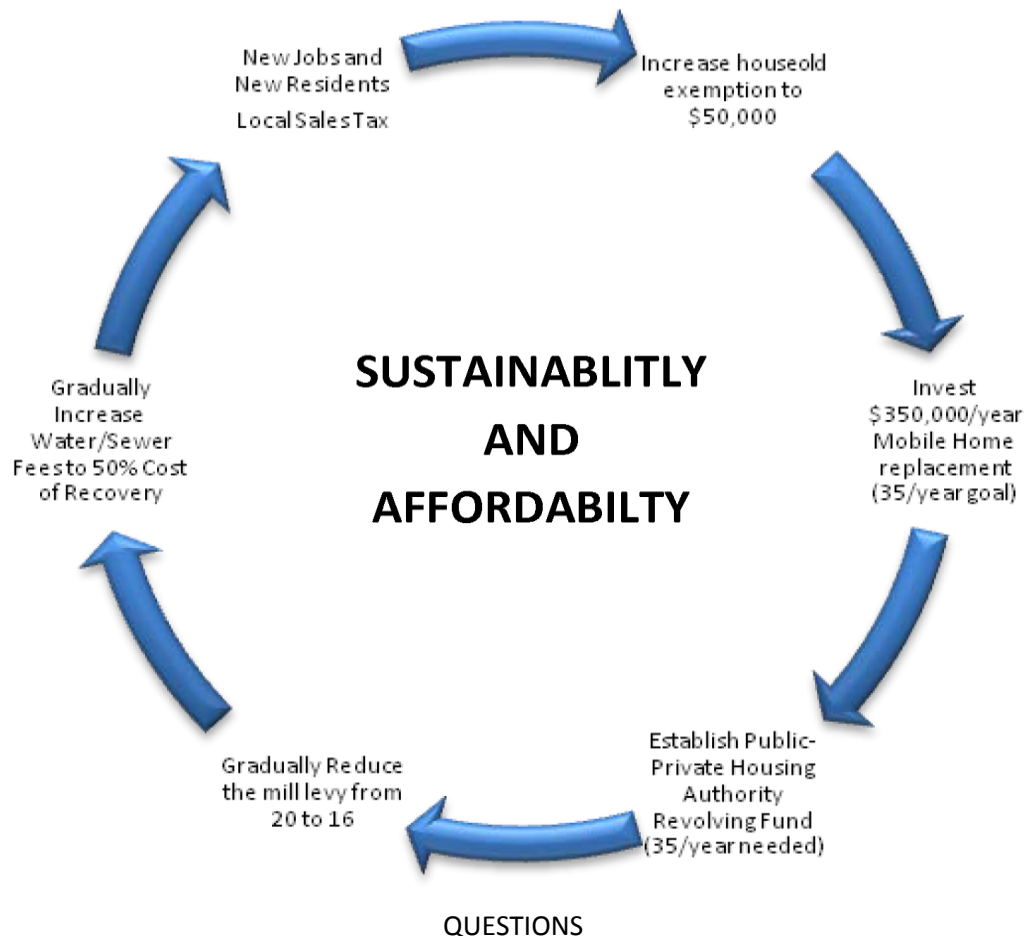
OTHER ALASKAN CITIES?

How can other Alaska cities, without the TAPS monies Valdez receives, provide needed services to their communities? Those with a more diversified economy and strong tourism activity often have a local sales tax, sometime just during peak tourist season.

Valdez	0.0%	Cordova	6.0%
Haines Borough	5.5%	Seward	4.0%
Juneau	5.0%	Soldotna	3.0%
Kenai Borough	3.0%	Ketchikan	3.5%
Homer	4.5%	Kodiak	7.0%
Palmer	3.0%	Wasilla	2.0%
Sitka	5-6%	Skagway	3-5%

CONCLUSION

Sustainability and Affordability are directly related. Growing and diversifying the economy adds jobs, but new residents need housing. New or expanded business broadens the City's customer base with only increased marginal cost, allowing the mill levy to gradually reduce even as TAPS shares reduce. But even then, unless the 350 energy inefficient mobile home units are replaced, those households will never be "affordable" and 350 new units will be needed if new jobs are to be created. Lowering everyone's property tax mill levy as TAPS revenues decline will eventually require a local option sales tax, as in other Alaska cities, or major cuts in City services and community quality of life.



1. Should Valdez HOPE that TAPS revenues won't decline (and use up existing reserves if it does)?
2. Should Valdez START NOW while we still have TAPS revenues to broaden and diversify the Valdez Economy, so that it is Sustainable and Affordable in the future, OR beginning to lower the property tax mill levy and eventually having a local sales tax option.
3. Should Valdez WAIT AND SEE, and raising taxes while cutting services ONLY when forced to?