

CBJ ANNEXATION STUDY COMMISSION

REPORT TO THE MAYOR AND ASSEMBLY ON THE COMMISSION'S ACTIVITIES, FINDINGS, AND RECOMMENDATIONS

January 10, 2007

I. Introduction

Mayor Bruce Botelho created the CBJ Annexation Study Commission by order dated December 6, 2005. The Commission was tasked to undertake a public process to consider and make recommendations on whether the CBJ should annex all or part of the territory within the CBJ's model borough boundaries as established by the State of Alaska's Local Boundary Commission (LBC). The Commission's purpose statement was as follows:

The purpose of the commission is to study and make recommendations to the Assembly concerning (a) whether the CBJ should file a petition to annex territory within the 'model borough boundaries' of the CBJ, and (b) if so, what territory should be proposed for annexation and by what procedure.

The Mayor's order called for the Commission to submit a report on its activities, findings, and recommendations to the Mayor and Assembly by December 1, 2006. At the request of the Commission, the Mayor extended the December 1 deadline to accommodate the schedules of the members and staff for completing work on the report. This report was adopted by the Commission at its final meeting on January 10, 2007.

The attachments to this report include the Mayor's order, the agendas and minutes of the Commission's meetings, the maps developed by the Commission (including Map 6, which shows the Commission's recommended ideal borough boundaries for Juneau in the future), and other background information. The complete file on the Commission's work is available at the Community Development Department.

II. Activities of the Commission

A. Proceedings

George Davidson served as the Chairman of the five-member Commission. The other members of the Commission were Vice-Chairman Sandy Williams,

Steve Sorensen, Errol Champion and Caren Robinson. The Commission held eleven public meetings starting with its organizational meeting on December 21, 2005. Staff support was provided by Peter Freer, Planning Supervisor at the Community Development Department, and Barbara Ritchie, Assistant City and Borough Attorney.

The Commission solicited comments from the public and property owners, and considered presentations on a variety of issues by service providers, regulators, CBJ staff, and LBC staff. The Commission provided an opportunity for public comment at all of its meetings. In addition, the Commission established a webpage on the CBJ's website where staff regularly posted meeting announcements, minutes, correspondence to and from members of the public, maps, and other pertinent information.

The Commission's webpage is located at:

[http://www.juneau.org/clerk/boards/Annexation Study Commission/CBJ Annexation Study Commission.php](http://www.juneau.org/clerk/boards/Annexation_Study_Commission/CBJ_Annexation_Study_Commission.php)

B. Topics and Issues Considered

The Mayor's order creating the Commission identified five areas of inquiry. The Commission agreed that it would address the specific criteria for annexation as it considered the Mayor's order. These areas are set out below, followed by a short discussion of the Commission's work on that topic.

- 1. Research and evaluate possible proposed boundaries for territory to be annexed, with emphasis on consideration of the "model borough boundaries" for the CBJ as established by the LBC.*

The Commission received a three-ring binder of material at its December 21, 2005, organizational meeting. The packet included the order creating the Commission, the LBC Model Borough Boundary Study prepared in 1997, information on the procedures for petitioning for annexation, the CBJ's 1989 petition to annex Greens Creek, and other related materials.

At its meeting on January 5, 2006, the Commission reviewed the LBC's Model Borough Boundary Study and met with Dan Bockhorst, lead staff to the LBC. Mr. Bockhorst provided a history of borough formation in Alaska, explained the origin and purpose of the model borough boundaries, and provided an update on municipal boundary activity in Southeast Alaska.

The model boundaries are significant under the regulatory standards for annexation. 3 AAC 110.190(c) provides: “*Absent a specific and persuasive showing to the contrary, the commission will not approve annexation of territory to a borough extending beyond the model borough boundaries developed for that borough.*”

Several Southeast municipalities – Ketchikan, Wrangell, Petersburg, and Hoonah – are undertaking or considering borough incorporation or annexation. Neither the Ketchikan Gateway Borough annexation petition nor the Wrangell borough incorporation petition identifies boundaries that overlap or otherwise affect the CBJ model borough boundaries. The prospective Petersburg borough incorporation petition and the Initial Glacier Bay-Chatham Borough Feasibility Study are of particular interest to the CBJ, as both proposals include territory that is within the CBJ model borough boundaries.

It is notable that all of the boundary actions and studies underway in the region, including the boundaries recommended in this report, represent departures from the model borough boundaries identified by the Local Boundary Commission in its 1997 report.

The City of Petersburg intends to petition for the incorporation of a home rule borough some time early in 2007. The proposed northern boundary of this borough would abut the existing southern CBJ boundary near Tracy Arm, including a significant amount of territory that is outside the Petersburg/Wrangell model borough boundaries and within the CBJ model borough boundaries. If approved as prepared, the Petersburg petition would essentially end the prospects of CBJ annexation on the mainland south of the existing CBJ boundary. A map of the proposed Petersburg boundaries is attached to this report. See Attachment F.

The City of Hoonah prepared an Initial Feasibility Study for a proposed Glacier Bay-Chatham Borough in June, 2006. The study area runs from Cape Fairweather on the Gulf Coast to the Coronation Islands below Port Alexander and includes all of Admiralty Island not now within the CBJ boundaries. The Mansfield Peninsula (including Funter Bay), a small portion of Admiralty Island south of the Greens Creek mine, and the Glass Peninsula/Seymour Canal, which are now located within the CBJ model borough boundaries, are included within the Glacier Bay-Chatham study area.. An illustration of the boundary is attached to this report. See Attachment F.

A follow-up borough feasibility study is underway and is expected to be completed in early/mid 2007. It is unknown when, or if, a borough incorporation petition will be submitted to the Local Boundary Commission as a result of this effort.

The Commission concluded that the model borough boundaries for the CBJ as identified by the LBC are fundamentally correct “as is” and reflect an area of interest more closely tied to Juneau than to other municipalities. This conclusion was based on Juneau’s role as a transportation, supply, services and communication hub for property owners at Funter Bay and on Horse and Colt Islands, and the fact that Goldbelt Corporation, the Juneau-based Urban Native Corporation established under ANCSA, has land holdings at Hobart Bay.

The Commission identified several modifications to the CBJ’s model borough boundaries, which are addressed in the findings section of this report.

- 2. Research and evaluate the community of interests between the territory proposed to be annexed and the existing CBJ boundaries, including social, cultural, and economic characteristics and activities, and communication media and land, water, and air transportation facilities.*

Many CBJ residents own property on the Taku River and on Shelter Island within the existing CBJ boundaries. Many CBJ residents also own property outside but near the current CBJ boundaries, including in Funter Bay and on Horse and Colt Islands, and other dispersed locations on Admiralty Island and on the mainland. Juneau serves as the supply, transportation, and services center for all of these outlying areas, which characteristically do not have many year-around residents, but instead have non-resident property owners.

Economic, transportation and social linkages to Juneau are well-established, with Juneau providing employment, facilities, goods and services, and very limited emergency medical response to outlying areas. There is no scheduled air or marine service to locations within the model borough boundary area for Juneau, such as Funter Bay or Hobart Bay, although air charter services are readily available to destinations throughout and beyond the borough. The economic activity generated by a logging camp, tourist destination, or remote mine could prompt scheduled transportation services in the future. Radio coverage from KINY-AM, KJNO-AM and KTOO-FM reaches some of the model borough boundary area. The only certain means of communication within many areas of the CBJ model borough boundary area is via satellite telephones.

The Juneau ANCSA (Alaska Native Claims Settlement Act) corporation, Goldbelt Corporation, is the primary surface estate owner at Hobart Bay. Goldbelt

employed shareholders at Hobart Bay during its logging operations in that area in the 1980's and '90's. These operations were supported, in part, by personnel, supplies and equipment delivered through Juneau. Goldbelt has considered developing tourism facilities at Hobart Bay and has prepared conceptual plans for a destination-style cruise ship development.

Gary Droubay, Goldbelt's Chief Executive Officer, attended the Commission's meeting on May 3, 2006. He stated that Goldbelt did not want its land holdings at Hobart Bay to be in a borough and that it would oppose a petition to annex or incorporate that property unless the benefits from property taxation could be clearly demonstrated. Goldbelt's property at Hobart Bay is currently located within the model borough boundaries of both Juneau and Petersburg. Mr. Droubay stated that Goldbelt would prefer that its land at Hobart Bay remain in the unorganized borough, but if the land were to be included in a borough by annexation or borough incorporation, it would prefer that the land be in one borough rather than in two.

There is little economic activity at the present time within the Juneau model borough boundary area. Logging was concluded at Hobart Bay about ten years ago and tourism development of the property is now in the early stages. A tourist lodge operates seasonally on Colt Island and tourist excursion activity occurs regularly to Tracy Arm and Ford's Terror. Active mining operations and development occurs within the current CBJ boundaries at Greens Creek and Kensington/Jualin. At least one company, Century Mining, has shown interest in exploring old prospects in the Juneau area, one of which is across Hawk Inlet from Greens Creek, just outside the current borough boundaries.

Commissioners discussed the National Forest Receipts Program as an incentive for annexation. Additional National Forest acreage within the borough boundaries could result in a greater annual forest receipts payment to the CBJ; however, the program was not re-authorized in the recently-recessed 109th Congress. It appears there will be an attempt to re-authorize the program in an omnibus spending bill in February of 2007, and it is possible that the funding formula could be amended if the program is re-authorized. Commissioners did not believe that the prospect of increased payments from the program offered a strong incentive for annexation, particularly given the uncertain future of the program.

3. Research and evaluate the population characteristics of the proposed borough after annexation.

There is almost no year-round population within the Juneau model borough boundary area. According to the state demographer, the 2000 census data shows 10 residents in the model borough boundary area. The 2005 Permanent Fund

Dividend distribution shows seventeen PFD recipients within the model borough boundary area, with the following distribution:

Funter Bay - 6
Colt Island - 4
Horse Island - 3
Hobart Bay - 2
Windham Bay - 1
Hawk Inlet - 1

The state demographer has not made an estimate of seasonal population within the model borough boundary area, although it is thought to be higher with seasonal use of recreational property.

4. *Research and evaluate the economy within the proposed borough boundaries, including the human and financial resources necessary to provide essential borough services on an efficient and cost-effective basis.*

The CBJ's economy, while largely based on government employment, is also diversified in the areas of tourism, mining, services, commercial fishing, and seafood processing. The CBJ possesses the human and financial resources to provide not just for essential borough services within the existing borough, but for a comprehensive and sophisticated range of services. As a unified Home Rule municipality, Juneau is efficiently organized and capable of responding to some service delivery needs and issues when required.

There is little economic activity in the CBJ model borough boundary area at the present time. Economic development that might occur in the model borough boundary area, such as tourism or resource extraction, is consistent with Juneau's overall economy and can be managed through existing administrative and regulatory structures.

The relationship of property taxation to services provided was at the heart of property owners' opposition to annexation and of major concern to the Commission. The areawide mill rate currently (FY 07) stands at 7.62 mills (\$762 per \$100,000 of assessed value), of which 6.1 mills (\$610) is used for school operations, 0.91 mills (\$91) is used for debt retirement, and 0.61 mills (\$61) is used for general government, including a portion of emergency medical transport costs. Property owners located off the CBJ road system do not pay for fire, police protection, street maintenance, transit or parks and recreation services that cost 2.55 mills in FY 07.

Local government property taxation is governed by state statute. Under state law, education is specifically identified as an areawide or borough-wide function. The state statutes require that local governments levy areawide property taxes for areawide functions. The tax levy must also be consistently applied to all of the taxable properties with a taxing area. The tax levy for debt service is to cover general obligation bond debt. Under state law, the CBJ Charter, and the CBJ Code, general obligation bond debt is secured by the full faith and credit of the borough and requires areawide voter approval. As such, debt service for general obligation bonds is an areawide liability of the CBJ.

It should be noted that while the CBJ provided 6.1 mills of financial support to the Juneau School District for FY 07, state law also provides for a reduction of state support equal to 4.0 mills of the full and true taxable property value in the borough. Thus, even though the CBJ contributed 6.1 mills, the school district is only benefiting by 2.1 mills (6.1 mills less 4.0 mills). State law requires that the 4.0 mill offset occur even if the CBJ were to choose not to levy an areawide tax in an annexed area. As such, the value of the property in an annexed area, if not taxed, would result in an areawide cost of 4.0 mills to the remaining taxpayers. The State of Alaska also requires local governments to value property at its full and true value.

Given these state statutory requirements, the FY07 areawide mill levy noted above could be restated as follows:

Support to Education	2.10 mills
General Obligation Debt Service	0.91
All Other Areawide Functions	0.61
School District Support Offset by the State	4.00
Total:	7.62 mills

All areas within the borough are subject to CBJ building codes and planning and zoning requirements. Under state law, planning, platting, and land use regulation are mandatory areawide functions.

The Commission believes that a careful balance must be struck between rates of property taxation and levels of service delivery as annexation is considered. Mr. Champion proposed a use-based approach to property taxation in an effort to reduce the tax load on outlying recreational and residential property; however, such an approach is not currently consistent with applicable state law on municipal property taxation. Mr. Champion also noted that the cost to the CBJ of identifying and assessing private properties located within the model borough boundary area (or other remote areas to be potentially annexed), so as to add those

properties to the tax rolls, could be considerable, possibly in excess of the tax revenues that would be generated, at least in the short term.

5. *Research and evaluate whether annexation of the proposed territory to the CBJ is in the best interests of the state.*

The Alaska Constitution calls for maximum local self-government with a minimum number of local governments units. Annexation of the model borough boundary area would fulfill both of these goals by extending unified home rule powers into territory in the unorganized borough already identified as within CBJ's "area of interest." State responsibility for providing education services through a Regional Education Attendance Area would be reduced as additional territory becomes included within a unit of local government. Demands on the State for services within the unorganized borough would diminish, while the opportunities for local service delivery would be enhanced.

The Commission believes that the issues and concerns raised by property owners, such as the practical aspects of service delivery in remote areas, to be significant in the CBJ's consideration of annexation. Based on the public input received, the Commission believes that a lower, or minimal, tax rate for remote areas of the borough, and specifically any territory proposed for annexation, would diminish the resistance of extra-territorial property owners to annexation.

C. Findings and Recommendations

At its meeting on April 5, the Commission discussed boundaries that it might recommend in its report to the Assembly and how to go about the process of developing its findings and recommendations. Chairman Davidson had prepared a memorandum dated March 2 setting out his views for discussion and a map showing a possible boundary configuration.

Chairman Davidson expressed his belief that the Commission was not bound to looking only at the LBC's model borough boundaries for the CBJ. He suggested the Commission also consider and make a recommendation to the Assembly on the boundaries that it determines would make the most sense for the CBJ. The Commission supported Chairman Davidson's approach.

The March 2 memorandum was then posted on the Commission's webpage. It is also included in the attachments to this report because it served as the framework for Commission's decision making process.

At its next four meetings on May 3, May 17, May 31, and July 18, the Commission focused its work on studying and discussing alternative boundary maps presented by members, determining what it concluded would be the most appropriate CBJ boundaries, and formulating the Commission's findings and recommendations to the Assembly.

The Commission posted on its webpage six maps that depict the current CBJ boundaries, the LBC model boundaries, and the Commission's proposed northern, western, and southern boundaries and a map showing the compilation of these proposed boundaries. The maps were posted on June 2, 2006 and the Commission solicited public comments until June 30. The maps are attached to this report as Attachment C.

A public hearing was held on May 17, and the Commission held a decisional meeting on July 18, 2006. At the July 18th meeting, the Commission adopted the boundaries shown on Map 6 as its recommended boundaries for the CBJ. The Map 6 boundaries are referred to below in this report as the ideal boundaries of the CBJ.

The Commission met on December 13, 2006, to review its draft report and provide final comments and amendments. The Commission approved the final report at its meeting on January 10, 2007.

Based on its study over the past year as outlined in this report, the Commission makes the following findings:

1. The LBC's model borough boundaries for the CBJ are largely acceptable, subject to some modification.

The Commission's modifications to the LBC's model borough boundaries for the CBJ, and the rationale for those modifications, are as follows:

- **North Boundary:** Only upon concurrence of the Haines Borough, extend the northern boundary of the CBJ to include the watersheds draining into Berners Bay. See Attachment C, Map 3.

The Commission took this position because Berners Bay is located within the CBJ. The Commission concluded that the watersheds that drain into the Berners Bay should be in the same jurisdiction as the Bay itself. While including the Berners Bay ecosystem within a single unit of local

government makes sense, the Commission would rely on the Haines Borough's consent for the CBJ to annex the area. The Commission also observed that the Juneau Access Road might best be included within the CBJ boundaries. At such time as the CBJ decides to pursue annexation it will be critical to initiate a discussion with Haines Borough community leaders.

- **West Boundary.** Only if the territory is not incorporated within a borough that includes the City of Angoon, extend the western boundary to include central Admiralty Island above Mitchell Bay. See Attachment C, Map 4.

The Commission is aware of the City of Angoon's interest in this area. It is also aware of the conceptual inclusion of this area into a possible Southeast mega-borough reaching from Glacier Bay to Kake. Commission members cited long-time recreational use of this area by Juneau residents. A member of the public, Mr. Al Shaw, provided evidence that Juneau had proposed to annex this area in the late 1960's.

Taking into consideration the interest of other communities in this area, particularly the City of Angoon, the Commission concluded that this area should be considered for future annexation by the CBJ only if it is not, at that time, included in a borough that includes the City of Angoon. At such time as the CBJ decides to pursue annexation it will be critical to initiate a discussion with City of Angoon community leaders.

- **South Boundary.** Extend the southern boundary to include all of Goldbelt's property at Hobart Bay. See Attachment C, Map 5.

Mr. Droubay of Goldbelt Corporation informed the Commission that, while the corporation would prefer that Hobart Bay not be in any borough, it would like even less for its land holdings in the Hobart Bay area to be split between two boroughs. Such a split is conceivable because the LBC's model borough boundaries for Juneau and Petersburg divide the Goldbelt holdings at Hobart, with approximately three-quarters of the holdings in the Juneau model borough boundaries and one-quarter in the Petersburg model borough boundaries.

Extending the southern boundary south by just a few miles would encompass all of Goldbelt's land holdings in the Hobart Bay area.

The northern, western, and southern boundaries described above are shown on the Commission's recommended boundary map attached to this report and identified as Map 6 (see Attachment C).

2. Regional interest in annexation and incorporation makes it important for the CBJ to identify its "ideal" future boundaries.

The CBJ should be prepared to respond to, and if necessary, oppose, municipal boundary petitions or applications presented to the LBC by other municipalities in Southeast Alaska that encroach upon or would otherwise impact CBJ's ability to annex its "ideal" boundaries as identified by this Commission, at an appropriate time in the future.

3. Given the very small population, the lack of substantial economic activity, and the physical remoteness of the areas, there is not now a demand, or a compelling need, for local government services within the LBC's model borough boundary area or the Commission's recommended "ideal" CBJ boundary area. However, this need may arise in the future with the development of commercial enterprises, additional population living in remote areas, or other development.

4. The CBJ areawide property tax rate, together with the prospect of minimal services provided off the road system, are very significant issues for residents and property owners (including Goldbelt Corporation) in locations such as Funter Bay, Windham Bay, Horse and Colt Islands, and Hobart Bay. The perceived disparity between the areawide mill rate and the corollary lack of services is at the "nut" of opposition to annexation. (Even property owners on the Taku River and on Shelter Island have issues with the areawide property tax rate, stating that they do not receive commensurate services from the borough.)

Recommendations of the Commission:

1. The Commission recommends that the CBJ Assembly adopt the Commission's boundary map for the CBJ as shown on the attached Map 6 as the ideal future boundaries for the CBJ. See Attachment C.
2. The Commission recommends that the CBJ *not* file a petition to annex the territory shown on the Commission's Map 6 at this time because such

action is not now necessary or warranted. However, annexation of this territory may be appropriate in the future.

3. The Commission recommends that the CBJ identify its future ideal borough boundaries, advise the LBC of these ideal boundaries, and defend those boundaries as necessary and appropriate.
4. The Commission recommends that at such time as the CBJ may decide to proceed with annexation, that it consider all means available to ensure that the property taxation rate for the area to be annexed is commensurate with services to be provided. This should include a review of property taxation rates in *all* of the non-roaded areas of the borough, as against the services provided by the CBJ in those areas, because all remote areas should be treated similarly.

III. Conclusion

The ideal boundaries of the City and Borough of Juneau, and whether and when the CBJ should petition to annex more territory, are vitally important subjects for the Assembly, the residents of Juneau, the residents and property owners in the areas outside the current CBJ boundaries, as well as other municipalities in Southeast Alaska and the State of Alaska. The Commission carefully considered the issues involved, including the views of interested members of the public and presentations by staff and others with expertise in various areas of municipal government and services, in reaching its findings and recommendations.

The members of the Commission would be pleased to meet with the Assembly to discuss our recommendations and answer any questions you may have. On behalf of the Annexation Study Commission, thank you for the opportunity to serve the City and Borough of Juneau.

Adopted by the CBJ Annexation Commission on January 10, 2007.

George W. Davidson, Chairman
CBJ Annexation Commission

Attachments to Report:

Attachment A	Mayor's Order creating CBJ Annexation Study Commission, December 2005
Attachment B	Commission's meeting Agendas and Minutes: December 21, 2005 January 5, 2006 February 1, 2006 March 1, 2006 April 5, 2006 May 3, 2006 May 17, 2006 May 31, 2006 July 18, 2006 December 13, 2006 January 10, 2007
Attachment C	Boundary Maps 1-6 approved by the Commission
Attachment D	Borough Boundaries Overlay Map
Attachment E	Chairman Davidson's March 2, 2006 memorandum
Attachment F	Southeast portions of the State of Alaska Model Borough Boundary Study, June 1997
Attachment G	Alaska Statutes on Annexation and Detachment
Attachment H	State of Alaska Regulations on Petitioning for Annexation
Attachment I	"Planning and Preparing Proposals for Annexation to Boroughs
Attachment J	Public Correspondence