Alaska’s Urban and Rural Governments

Alaska’s local governments, which used state oil dollars to greatly increase their spending and services in the early 1980s, are now faced with a dilemma as they must service an increasing demand with decreasing budgets. This is just one of several important issues addressed in a new book, *Alaska’s Urban and Rural Governments*, written by political scientists at the University of Alaska. Published by the University Press of America, the book examines the development and current state of Alaska’s municipal governments and their future as Prudhoe Bay revenues decline.

**Local Government Setting**

Alaska’s location, geography, and economy strongly influence the state’s local governments. Alaska is a huge state, thousands of miles north of the other states, with a small population and a harsh climate. Fewer than half a million people live in the entire 586,000 square miles of Alaska, and most of those live in relatively small urban areas of the south-central, southeast, and interior regions. Aside from the extremely valuable petroleum property on the North Slope, most of the state’s taxable wealth is concentrated in a handful of urban areas.

Alaska’s economy is based on resource development—development that is controlled not from within the state but by national and world demand for resources. The potential for other kinds of economic development in Alaska is limited, because the state’s isolation and related factors make the cost of doing business in Alaska higher than it is anywhere else in the nation. Economic activity in the state can rise and fall quickly with changes in demand for Alaska’s resources.

Because of Alaska’s distinctive setting and economy, the state’s local governments share characteristics that set them apart from most other local governments in the United States:

- They are mainly at early stages of organizational and political development.
- They are extremely vulnerable to outside economic and political forces.
- They play prominent economic and political roles in urban communities; almost everywhere in urban Alaska, governments overshadow private organizations. In rural Alaska, Native profit and nonprofit corporations with powers resembling those of governments are generally dominant.
- They are vehicles of strong interregional conflicts.

Local governments in Alaska, particularly rural governments, have always relied heavily on federal and state aid, but until the past several years, state aid was modest because of modest state revenues. When the state began collecting billion-dollar oil revenues in 1980, however, it made millions of additional dollars available to local governments. Urban governments, which have historically paid a large share of their expenses with local tax dollars, were able to cut taxes while increasing spending. Rural governments, which generally have very small local sources of income, also increased their spending significantly. Thus, while Alaska’s local governments in the 1980s are more capable and active institutions, they are also more dependent on the state to finance their increased activities.

Alaska’s Urban and Rural Governments (University Press of America, December 1983, 260 pp.) was written by Thomas A. Morehouse, professor of political science with the University of Alaska’s Institute of Social and Economic Research; Gerald A. McBeath, professor of political science and head of the Department of Political Science at the university’s Fairbanks campus; and Linda Leask, a research associate with ISER. Much of the research on which this book is based was performed under a contract with the State of Alaska’s Department of Community and Regional Affairs. Copies of the book are available for $11.25 at ISER, 707 A Street, Suite 206, Anchorage, Alaska 99501, Telephone 272-4621.
Urban-Rural Government Systems

Despite broad similarities, there are substantial differences in the local government systems in Alaska's urban and rural areas. Only about 25 local governments exist in urban Alaska, where eight out of ten Alaskans live, but there are hundreds of governments and quasi-governments in rural Alaska.

Most of urban Alaska today is covered by nine organized boroughs; in three of these, city and borough governments have merged to form single areawide governments known as unified home-rule municipalities. In the six remaining urban boroughs there are ten home-rule and first-class cities, a few second-class cities, and a number of small unincorporated communities. In urban areas outside boroughs there are four home-rule cities.

This relatively simple local government system contrasts with a proliferation of governments and quasi-governments in rural areas. There are two rural boroughs, 17 first-class cities, and 109 second-class cities; these are governments recognized under state law. Besides these state-recognized governments there are Native governments recognized by the federal government—about 70 governments organized under the federal Indian Reorganization Act (IRA), and about 125 traditional village councils. Finally, there are also a number of private organizations in rural Alaska that exert influence similar to that of governments. These include a dozen or more regional non-profit associations that provide health, housing, and other basic services with federal and state money, and some 200 regional and village Native corporations established under the Alaska Native Claims Settlement Act.

Many of the differences in these local government systems have developed because the populations and settings of urban and rural Alaska are so unlike, and the important events of the past 25 years have affected the two differently.

Kinds of Governments. A basic difference in the urban and rural systems is that in urban Alaska there are only state-recognized governments, while in rural Alaska there are governments recognized by both the state and federal governments. The state recognizes only city and borough governments. The federal government, as noted above, recognizes two kinds of Native governments in Alaska: traditional village councils, and governments formed under terms of the Indian Reorganization Act (IRA). Because 80 percent of rural Alaskans are Native, there are one or both kinds of Native governments in most rural places.

Many of these Native governments existed long before Alaska became a state, but they were largely inactive until the past decade because they had little or no money. Then, in 1975, the federal government passed the Indian Self-Determination Act; this act established a system whereby Native governments could contract with federal agencies to provide health and other services that the federal agencies had previously provided themselves. This law helped revive Native governments, and also increased local control of federal programs in rural Alaska.

Regional Governments. Another important difference between the urban and rural systems is that regional governments—boroughs—cover most of urban Alaska, while most of rural Alaska has no borough governments.

Regional government is a young entity in Alaska; before statehood there were no regional governments that corresponded to counties in the older states. Only residents of organized cities and special districts paid local taxes for education and other services. Other Alaskans paid no local taxes and whatever services they received were provided by the federal or territorial governments. When Alaska became a state, it began putting in place a regional government system that was intended to make Alaskans outside cities begin paying local taxes for services; boroughs were to take on more and more responsibility for providing services as the state grew.

Boroughs have become established and powerful institutions in most urban areas. The most important block to establishment of rural boroughs is that there is little or no tax base in much of rural Alaska. Also, urban communities have much larger populations concentrated in smaller areas; communities within urban boroughs are as a rule easily accessible to each other. Rural places, by contrast, are small and scattered across hundreds of square miles. Travel between rural places is often difficult and expensive.

Another disincentive to establishment of rural boroughs is the existence of Regional Education Attendance Areas (REAs)—large rural school districts. The state pays all the costs of these rural school districts, but they are controlled by regionally elected school boards. Before 1975, the state operated and administered rural schools; the REA system replaced these state-operated schools and gave rural Alaskans more control over their schools. So rural Alaskans in these districts receive and have some control over an important service, and they pay no local taxes for it. (The state also pays most costs of urban schools.)

There are two rural boroughs, and these were established because there were available tax bases. The small Bristol Bay Borough was organized by local residents in the 1960s so they could tax salmon canneries in their area and gain control of their schools. The second rural borough, the North Slope Borough, covers 88,000 square miles and includes the ex-
tremely valuable petroleum property at Prudhoe Bay, which provided the means for the borough's existence.

Governments and Quasi-Governments. A third substantial difference is that in urban Alaska local government power is concentrated in actual government units; in rural Alaska there are several kinds of private organizations that provide some services and representation for rural Alaskans and thus act as political organizations. In many areas of rural Alaska, the most important of these quasi-governments are the regional nonprofit associations that provide health and other public services with government money. Because of their role in providing these basic services, they can in some ways be characterized as active agents of government in rural Alaska.

The other private entities with political influence in rural Alaska are the village and regional corporations established under terms of the 1971 Alaska Native Claims Settlement Act; these corporations manage the land and money awarded Alaska Natives in settlement of their land claims. Regional corporations have several times opposed formation of new rural boroughs, in part because corporation lands would ultimately be subject to borough taxation. Village corporations have in the past opposed efforts of rural cities to impose land-use restrictions on Native lands within cities.

Strengths and Weaknesses of Local Governments

The strength of the urban government system is its simplicity and adaptability. It is able to provide just the basic or the entire range of public services; it restricts the number of local taxing jurisdictions; and it concentrates political power.

The borough system also has potential weaknesses. Aside from the mandatory areawide powers of education, tax assessment and collection, and planning and zoning, boroughs can assume additional powers either areawide or just in limited service areas where residents want and have voted to pay for particular services. Between 1976 and 1982, the number of borough service areas increased from 55 to 146. It is possible that the creation of more and more service areas within boroughs could result in the overlapping, inefficient jurisdictions and, in some cases, little monopolies of taxable wealth that the borough system is intended to avoid.

In rural Alaska, powers of all the various local governments are limited. Rural cities have small tax bases and limited powers. Native governments have potentially broad powers—including power to enact laws and levy taxes—but federal law does not clearly define these powers, and the State of Alaska does not recognize Native governments. Also, the ability of Native governments to operate depends mainly on how much money is available for various federal Native programs, and such money has been reduced in the past few years. Finally, Native governments do not represent the growing white population in rural Alaska—in fact, rural Natives are increasingly coming to see formation of IRA governments as a means of retaining control of traditionally Native communities.

Overall, the rural government system fragments land and resource ownership, available money, political leadership, and administrative and technical skills. But it also takes advantage of multiple sources of funding and services, responds to diverse problems and regional forces, and helps protect Native values from central bureaucratic leveling. It thus remains an open question whether the proliferation of governments and quasi-governments in rural areas on balance works for or against the long-term interests of rural residents.

Petroleum Development and State Revenues

By far the most powerful influences on Alaska's local governments over the past decade have been the development of the Prudhoe Bay oil field and the sharp increases in state aid made possible by Prudhoe Bay revenues.

Construction of the trans-Alaska oil pipeline in the mid-1970s meant increased population, rising property values, and larger tax bases in urban areas; tax bases of many urban communities more than doubled within the past 10 years. These growing tax bases allowed urban governments to increase local services and even to reduce property taxes somewhat in the 1970s. Rural Alaska was largely unaffected by the pipeline boom, except on the North Slope where in 1972 the Inupiat Eskimos organized a borough that included the giant tax base at Prudhoe Bay.

At the start of the 1980s, a sharp increase in the world price of oil pushed the State of Alaska's petroleum revenues from Prudhoe Bay oil production into the billions, and the state's local governments shared in the windfall. Between fiscal years 1980 and 1982 alone, the state appropriated nearly a billion dollars for municipal public works projects; before 1980 there was almost no state money for local projects. Over the same 2-year period, state aid for municipal operating expenses more than tripled, and the already generous state aid for schools increased even further.

This increased state money had a number of effects on local governments:
It dampened conflicts between government units within areas and between urban and rural Alaska. It probably also discouraged whatever sentiment there may have been for further "borough-city" unification in "urban" areas, or consolidation among any of the various government units in rural Alaska. There was enough money to support and satisfy almost everyone.

• It created a statewide construction boom. The state paid for hundreds of public works projects in large and small communities around the state in the early 1980s; some communities had trouble managing the sudden bounty of state dollars for capital projects.

• It encouraged creation of many new service areas within boroughs, because the state heavily subsidized road maintenance and other service area functions.

• It allowed urban governments to sharply reduce property taxes while at the same time expanding services. Property tax cuts of 50 percent or more were common in urban areas between 1980 and 1982.

• It made all local governments more dependent on state money, because they substantially increased their spending on the strength of state oil dollars. In small rural communities in the early 1980s, state money made up most of city revenues, and in larger communities state money accounted for a third or more of operating revenues.

Future of Local Governments

In 1982, as world oil prices declined, state oil revenues began dropping almost as fast as they had risen. Alaska's local governments immediately felt the effects of the fall. The state legislature reduced state aid for local operating expenses, tightened controls on future state aid for schools, and warned local officials that overall they could expect fewer state dollars in the future.

Local officials interviewed by the authors of Alaska's Urban and Rural Governments were generally confident that their communities could get along on less state money. Many in both urban and rural communities were looking for ways of creating jobs and promoting economic growth in their areas and thus reducing their need for state money. Others felt they could manage the decline in state money by cutting services and increasing local taxes; a number of urban governments have already begun increasing property taxes. Most rural areas, however, don't have the option of increasing local taxes. And because of Alaska's high costs and related factors, economic development prospects are limited, particularly in rural areas.

Local governments have yet to feel the full cost effects of the many public facilities built with state money in the past few years. It is local governments and not the state that will have to operate and maintain these facilities. So local governments will feel the effects not only of less state money but also of increased local costs.

Another effect of reduced state money will be aggravation of the long-standing urban-rural split. Urban officials will likely argue that small communities with few sources of local income are getting a disproportionate share of state money, while rural leaders will charge that urban areas have long been neglected or exploited and that all Alaskans—including those in small rural villages—are entitled to basic public services.

All of Alaska's local governments—urban and rural, large and small—depend on state aid. For this reason, the fortunes of local governments, like that of the state, are tied to future resource development—and to the state's success in using its declining but still substantial oil wealth to create a long-term source of income for Alaska.