

Municipal Budget Process

The Municipality's budget process primarily focuses on general government's *operating budget*, which funds the day-to-day operation of programs and services—from paying police officer salaries, to maintaining parks, to plowing snow. The proposed 2010 operating budget is \$420.6 million, of which \$40.8 million is to pay the cost of borrowing money for infrastructure through bonds approved by voters (called debt service). The majority source of revenue (57%) to support the operating budget comes from property taxes.

The *capital budget* pays for improvements to the Municipality's infrastructure, such as roads, park construction and repairs, and new fire stations. The main source of funds to pay for these improvements is bonds, which are placed before voters each April.

In addition to general government, the Municipality also operates five Enterprise Activities — Anchorage Water and Wastewater, Municipal Light and Power, Solid Waste Services, Port of Anchorage, and Merrill Field. Each enterprise has its own operating and capital budget, which is paid for by ratepayers or users of their respective services.

The Municipality's budget year runs from January to December. The Anchorage School District budget year runs from July 1 to June 30. The budget is proposed by the School Superintendent and approved by the School Board. In April it is submitted to the Anchorage Assembly for their approval, which is limited to approval of the budget's bottom line (the Assembly does not have the authority to rewrite the School Board's specific spending decisions).

Budget Planning and Timeline

The Mayor is required to submit the proposed operating and capital budgets to the Assembly 90 days prior to the end of the fiscal year (October 2nd).

But preparation of the budget starts much earlier. In the summer a preliminary planning phase is underway. Departments and the Office of Management and Budget (OMB) review their programs and responsibilities, assess what is being done during the current year, and begin making plans for the next budget year. Some factors considered during this phase are:

- Contractually obligated increases, such as labor contracts and health insurance premiums;
- New facilities that will open during the next fiscal year that will require staff, supplies, and other operating expenses;
- New responsibilities or programs required by Federal, State or local laws;
- New or changed programs to meet community needs or interests;
- Programs that can be eliminated because they are ineffective, no longer required, or desired; and/or
- Efficiencies and savings that can be achieved through organizational management.

During this period of time OMB also reviews projected revenue information in order to get an early indication of the Municipality's ability to afford current spending levels and/or projected increases in order to evaluate the need for spending reductions through prioritization.

The Municipality is required to have a balanced budget. This, coupled with the Tax Cap, requires an early estimate of both expenditures and revenues. Once that assessment is made, each department is given guidance for developing its preliminary budget proposal. Such guidance includes general direction from the Mayor regarding his/her program priorities.

Mayor Proposes/Assembly Appropriates

Following the Mayor submitting the operating and capital budgets to the Assembly in early October, the Assembly holds work sessions at which the Administration and department directors discuss the Mayor's proposal.

The Assembly is required to hold two public hearings on the Mayor's proposed budget. The Anchorage Charter requires that the Assembly approve the budget 21 days before the end of the year (by December 10). But if for some reason they still have not reached agreement, the Charter was amended to allow the Assembly and Mayor to continue to work. Once agreement is reached, that budget is the "Approved Budget."

Final Budget Approved in Spring

The following spring the Administration finalizes the revenues available to support that budget. This process, called "First Quarter Budget Amendments," results in the Assembly's approval of a "Revised Budget." Based on these final spending decisions, the Assembly then sets the mill levies for each service area. State law requires that property tax bills be in the mail by June 1st.

Service Areas and Funds

The Municipality's Charter requires that our local government operate under a service area concept, which means that residents of particular areas have voted on whether to receive and pay taxes for a particular service from the Municipality. By law some services must be offered on an areawide basis, such as education, health and environmental protection, social services, animal control, library, museum, public transportation, emergency medical services, planning and zoning, property appraisal, and tax collection. Other services require a vote of the people in a specific area. These include road maintenance, fire and police protection, and parks and recreation. There are currently 33 different service areas in the Municipality.

Taxes collected in one service area can't be used for purposes in another service area. (i.e., taxes collected for roads can't be spent on police). To ensure this, these expenditures and revenues are budgeted in unique funds. In addition to the Areawide fund, the other major service areas/funds are:

- Police Service Area: covers most of the Municipality except for Girdwood and Turnagain Arm;

- Fire Service Area: there are separate fire service areas for Anchorage, Chugiak, and Girdwood;
- Roads and Drainage Service Area: there are 25 separate funds for budgeting the various roads and drainage service areas. Four have full maintenance and construction authority: Anchorage Roads and Drainage Service Area (ARDSA), Chugiak, Birchwood, Eagle River Rural Road Service Area (CBERRSA), Glen Alps Service Area, and Girdwood Valley Service Area. Others are called Limited Road Service Areas (LRSA) and only have authority to do maintenance; and
- Parks and Recreation Service Area: There are separate service areas for parks and recreation in Anchorage, Eagle River/Chugiak, and Girdwood.

How Property Taxes are Calculated

Property taxes are an ad valorem tax, which means taxpayers pay a flat rate per dollar value of taxable property that they own. The flat rate, called a mill levy or mill rate, is \$1.00 of tax per \$1,000 of assessed value. If you are taxed 4 mills for police services and your house is assessed at \$100,000, you pay \$4 per \$1,000 of assessed value, or \$400 in taxes for police services.

Calculating how much in property taxes are to be paid is based on the assessed valuation of the property within a service area and the amount of taxes that needs to be collected from that same service area.

To calculate the mill levy (or mill rate), you divide the amount of taxes to be collected in that service area (SA) by its assessed valuation; that answer is multiplied by 1,000 to get the mill levy for that service area:

$$\frac{\text{Taxes to be Collected in SA}}{\text{SA's Assessed Valuation}} \times 1,000 = \text{Mill Levy}$$

Tax Cap

In October 1983 the voters of Anchorage passed an amendment to the Charter known as the Tax Cap. While some think of it as a property tax cap, it actually sets a limit on how much *all* taxes can increase from one year to the next. Other taxes collected by the Municipality include those on automobile registration, tobacco, aircraft registration, and motor vehicle rentals.

Proponents of the Tax Cap recognized that it still is important that taxes be allowed to grow (although controlled) in order to keep up with increased demands of a growing community. Growth in taxes under the Tax Cap is permitted by annual adjustments for inflation, population, and new investment in the community (the amount of taxes that will come from property improvements or new construction that was not taxed the previous year). The Cap also can be increased, again by voters, when they approve general obligation bonds and corresponding operations and maintenance costs.

One change made in 2003 is the exclusion of payments by municipal-owned utilities from the Tax Limit. From 1984 to 2003, utility and enterprise payments were considered a payment in lieu of taxes and accordingly, fell under the Tax Cap. The practical affect from a property taxpayer point of view is that these payments reduced the amount of

property taxes that could be collected—for every dollar paid by a utility, it meant a dollar less in property taxes would be collected.

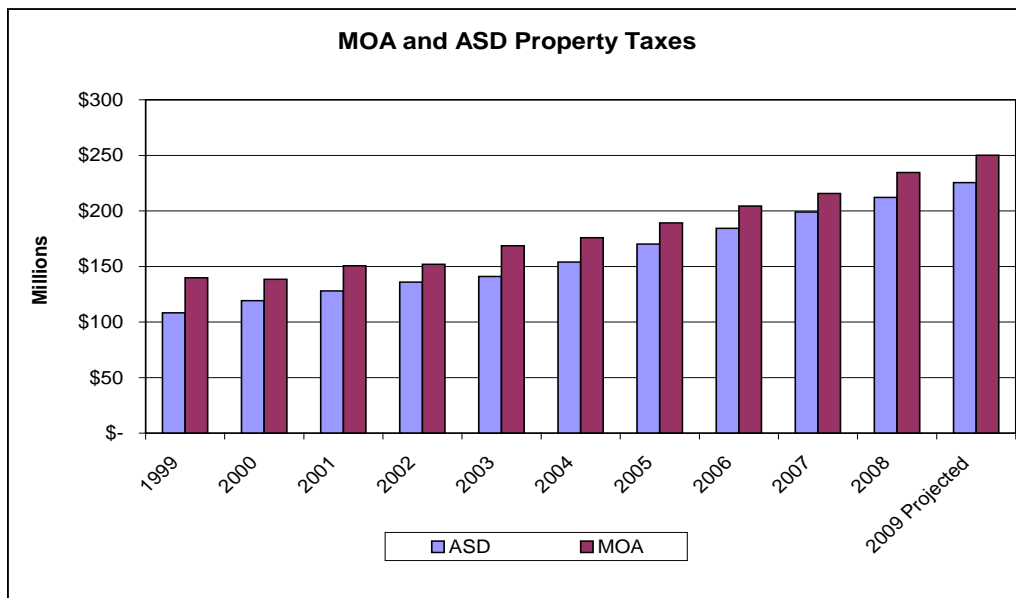
In 2003 this changed. The Mayor and Assembly made two substantive changes: increased how much utilities paid (especially AWWU) and then excluded the payments from the Tax Limit. The practical effect was that this revenue no longer offset property taxes and gave municipal government more money to spend.

This prompted Proposition 9 on the 2009 municipal ballot. This citizen initiative returned these utility payments so they were part of the Tax Limit’s calculation. This change, to be phased in over three years, is expected to result in approximately \$15 million in property tax savings annually when it is fully implemented.

Tax Cap and Anchorage School District

Anchorage has only one Tax Cap, which means it determines the overall amount of property taxes collected by both the Municipality and the School District. While there only may be one Tax Cap, in practice each entity has calculated “their” respective cap based on the amount of taxes it received the prior year.

The Anchorage Assembly and Mayor play a limited role in the school district’s budget process, albeit an important one. While neither the Assembly nor mayor can direct how much the school district spends on a program, they do have the authority to establish how much in property taxes the school district gets. As the chart below illustrates, the Municipality has been getting about 52% of the property taxes, while 48% has gone to the school district.



Spending Limit

The Municipal Code also includes a Spending Limit that restricts expenditure increases to inflation, population, and voter/legally mandated services. Both the Tax Limit and the Spending Limit were effective with the 1984 budget.

Financing Capital Projects

The budget that finances improvements in Anchorage's infrastructure such as roads and parks, is the Capital Improvement Budget (CIB). It is a list of capital improvement projects for the upcoming year and includes the purchase and/or construction of high-cost, long-lasting assets such as roads, buildings, parks and trails. Long-term borrowing through the sale of Municipal General Obligation Bonds, which must be approved by voters, finances most of the capital budget. Property taxes are used to pay back the bonds and, in most cases, the cost of operating and maintaining the assets. Annual payments on bond debt are budgeted in the General Government operating budget. Federal and State grants, local improvement district assessments, service area mill levies, and other miscellaneous revenue also are used to pay for capital improvements.

The Capital Improvement Budget also includes capital grant requests to the State Legislature. Municipal projects in the CIB that rely on State grants for funding are incorporated into the Municipality's annual legislative priorities for which it advocates during the legislative session.

The six-year Capital Improvement Program (CIP) is a formal plan that guides the Municipality's capital improvement plans into the future.

How Capital Projects Are Selected

After establishing ranking criteria, municipal departments prepare a comprehensive list of capital projects that are needed. Projects for this "Needs List" are proposed to departments by staff, the Municipal Administration, and others such as community councils, municipal boards and commissions, and Assembly members. Projects are scored against the criteria and then prioritized based on a project's total score. Things considered include the project's impact on safety, economic benefits, level of public support, if it is mandated, readiness and technical feasibility.

Local Government Profile

The City of Anchorage was incorporated in 1920 and unified with the Greater Anchorage Area Borough in 1975 to create the Municipality of Anchorage. As a unified government, the Municipality is responsible for a wide range of public services that in other states are commonly provided through both a city and a county government.

The Municipality operates under a strong mayoral system. Executive and administrative power is vested in the Mayor, who is elected at-large for a three-year term. Legislative power is vested in an assembly of 11 members, elected by district for staggered three-year terms.

The Assembly carries out all legislative responsibilities. Municipal ordinances, resolutions, budgets, major contracts, and specific mayoral appointments are subject to Assembly approval. Municipal ordinances, Assembly schedules, agendas and other legislative information are available on-line at www.muni.org.

The Municipality has over 50 citizen boards and commissions to advise and assist the administration and Assembly with issues that range from animal control to zoning. Members are appointed by the Mayor and confirmed by the Assembly. Board members and commissioners volunteer their services and typically serve three-year, staggered terms.

The Municipality provides a full range of general government public services. These include but are not limited to police, fire, emergency medical services, health and human services, maintenance and operations, recreation and public transportation. Separate from its general government operations, the Municipality owns and operates several enterprise activities: Anchorage Water & Wastewater Utility, Municipal Light & Power, Solid Waste Services, Port of Anchorage, and Merrill Field Airport. The Municipality also has the Anchorage Community Development Authority.