

BUDGET ADVISORY COMMISSION
Municipality of Anchorage
Office of Management and Budget
P.O. Box 196650
Anchorage, AK 99519-6650

November 16, 2000

The Honorable Fay Von Gemmingen
Chair
Anchorage Assembly
Municipality of Anchorage
P.O. Box 196650
Anchorage, AK 99519-6650

Re: 2001 General Government Operating Budget

Dear Ms. Von Gemmingen:

The Commission recognizes the difficulty and uniqueness of the current budget process. Between the spending reductions dictated by the tax cap formula and the recent mill cap initiative on last week's ballot, the budgeting process has been extremely uncertain and difficult. With just a few days left before the Assembly makes final amendments to the 2001 budget, the Budget Advisory Commission would like to make some basic recommendations concerning your deliberations.

1. The current "A" Budget reflects some significant cuts of municipal programs and staff. The Commission suggests that the Assembly not consider adding any new spending at this time. By "new" spending, the Commission means spending for programs outside of what would be funded in the 2001 Continuation Budget.

The Administration has estimated that the cost of a Continuation Budget would approximate \$269 million. The proposed "A" budget is \$250 million, or a reduction of nearly \$19 million. The "A" Budget uses \$145 million of property tax revenue or \$3.5 million less than the \$148.5 million allowable under the Municipality's tax cap formula.

2. The Commission recommends taxing to the cap in order to provide for necessary services.

3. While the Commission believes the "A" Budget cuts deeply into necessary services, due to limited sustainable resources, we support the restoration of not more than \$8 million of services or spending levels above the current proposed "A" Budget, for a total budget not to exceed \$258 million.

The ultimate composition of this additional \$8 million in spending will be addressed in first quarter budget revisions with funding available by taxing to the cap, utilizing a limited

portion of the ATU Trust Fund Reserve, from lapsed funds, and from various other planned and unplanned sources.

4. Utilizing funds from the ATU Trust Fund Reserve should be done sparingly. Because the reserve is finite, we recommend it only be used to fund a one-time restoration of program services that then can be supported in the future with funds generated by operating efficiencies or other revenues.

The Administration is proposing operating efficiencies in the delivery of Municipal services. If such efficiencies can be found, the Commission believes that they may be of future benefit, but it is too soon to expect any substantial savings in the 2001 budget cycle.

Drawing down the reserve too quickly is not sound fiscal management. If the reserve is reduced below prudent levels, those funds will not be available for their intended purpose of providing a supplement to the earnings of the trust fund itself when investment yields are down.

The Commission appreciates the difficulty the Assembly is having in wrestling with funding issues. The Administration has done a prudent and conscientious job in developing a budget within the constraints they inherited. It is not easy to try to decide which spending levels to restore and how to fund them.

The Commission has been discussing longer-term fiscal issues in light of the questions raised by the tax cap initiative. In January the Commission will present its annual report to the Assembly. It will discuss property tax levels, alternate sources of revenue, tax savers comments, the Dittman Research October 1999 tax research poll, and various other topics. The Commission looks forward to the opportunity to meet with the Assembly to discuss these as well as other issues of interest to the Assembly.

Sincerely,

Eric Britten
Chairman

Commission Members:
H. Glen Glenzer
Paul Paslay
Roger Shaw
Jo-Li Sellin
Jeff Staser
Jonathan Lack

cc: Mayor George Wuerch