

CITY OF ANCHORAGE
OFFICE OF CITY MANAGER

1969 BUDGET MESSAGE

by

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City Manager

The 1969 budget for the City of Anchorage is in balance. It represents the minimum fund requirements to provide essential governmental services to the people and to meet the service demands of the Electric, Refuse, Telephone and Water Utilities and the Port of Anchorage.

This budget has been under preparation and review for the past several months. Following preparation and submission by department heads, the Department of Finance has verified costs, reviewed for format and correct funding, and this office has done extensive review in arriving at the recommendations which Council is asked to consider for approval.

Inasmuch as a number of different funds are involved, each of the principal funds will be discussed separately in this message.

GENERAL FUND

Earlier this year and before commencing the review of the General Fund budget, an analysis was made of revenue sources. This analysis revealed an alarming trend. During the twelve year period 1955-1967, revenues from all sources increased from \$3.3 million to \$7.7 million, or 137 percent. During this same period property taxes increased 135 percent. This reflects a fairly uniform growth of total revenues and the principal source, property taxes, over a relatively long period of time.

However, when a shorter period, 1963-1967, was examined an entirely different trend became evident. During this shorter period property taxes increased from \$2.2 million and 39.7 percent of total revenues, to \$4.0 million and 59.2 percent of total revenues. During this same period the mill rate increased from 6.98 mills (adjusted for assessment change in 1965) to 9.3 mills, an increase of 2.32 mills or over 33 percent in four years.

Added to the evident problem of a disproportionate increase in property tax revenues to other revenues in the General Fund is a similar pattern in overlapping Borough property taxes. During the period 1963 to 1967, Borough property taxes were increased from 8.4 mills (adjusted) to 12.5 mills, an increase of 4.1 mills or 41 percent. This trend is slightly higher than shown for the City.

The short term trend of disproportionate increase in property taxes by the City and Borough was continued in 1968 with a combined levy of 24.18 mills; 10 mills for the City and 14.18 mills for the Borough.

It was obvious that either the total expenditures must be curtailed or new revenue sources developed; otherwise, the burden on the property owner will soon become too great. The City/Borough Tax Study Committee completed its report earlier this year. The Borough Assembly deferred action on a sales tax proposal for school purposes at the request of the Chamber of Commerce in order that Operation Breakthrough could review the matter. The City of Anchorage has cooperated with the Alaska Municipal League in preparing recommendations to be presented to the State Tax Study Consulting firm, Peat Marwick Mitchell & Co. These are among the more important program efforts commenced in 1968 and which should be pursued in 1969.

The Alaska Municipal League recommendations cover a variety of State shared revenues, but the more important included are the following:

- 1) Revise the rates or the sharing formula of existing State revenues shared with cities and boroughs to reflect the changes in costs which have occurred since adoption prior to statehood.

- 2) Refund 60 percent of the Alcoholic Beverage Excise Tax to cities to help defray the cost of law enforcement and to assist in developing a program for rehabilitation of alcoholics. (Total refund to all cities for 1968 would have been \$2,689,406).

- 3) Refund to cities approximately one-third of the highway fuel tax and other highway user revenues. On this basis, the 1968 refund to all cities would be about \$3.5 million. Street construction, operation, and maintenance is one of the most essential and costly programs conducted by cities and they should share in the user revenues collected by the State.

- 4) Refund a share of the State collected land and natural resource revenues. The refund recommended is \$40 per capita annually to cities for capital improvements or debt service; \$20 per capita annually to cities or boroughs for school construction or debt service for schools; \$20 per capita annually on population outside cities to boroughs which provide a full range of urban services for capital improvements or debt service. This program would provide refunds to cities and boroughs of under \$10 million annually and amount to less than 25 percent of the land and natural resources revenues currently being collected by the State.

In view of the property tax trend previously discussed and the efforts already underway to develop new revenue sources, this Administration adopted, for budget review purposes, a policy of disallowing increased manpower not considered critical to maintaining current service standards. Other costs were reduced wherever feasible to do so. The only areas of avoidable increased costs recommended are for programs to ultimately produce cost savings or to adjust for inequities.

The total General Fund budget recommended for fiscal year 1969 is \$9,958,890. This compares with departmental requests of \$10,456,104 and the 1968 revised budget of \$9,087,576.

The major classifications of expenditures contemplated in the 1969 budget and the relationship of each to the total are as follows:

<u>Classification</u>	<u>Amount</u>		<u>Percent of Total</u>	
	<u>1968</u>	<u>1969</u>	<u>1968</u>	<u>1969</u>
General Government	\$ 883,714	\$ 835,290	9.77	8.40
Public Safety	2,974,648*	3,405,236*	32.73	34.17
Traffic Engineering and Public Works	1,880,304	1,948,170	18.15	19.55
Library	205,850	239,220	2.26	2.40
Museum, Parks and Recreation	587,394	789,010	6.46	7.91
Miscellaneous	395,810	362,000	4.35	3.63
Debt Service	2,159,726	2,379,964	23.75	23.94
TOTALS	\$ 9,087,576	\$ 9,958,890	100.00	100.00

*Increased cost of retirement budgeted under miscellaneous in 1968.

The major classification analysis shows that the proportion of the total budget for general government has been reduced by 1.37 percent and for miscellaneous purposes by 0.72 percent. The major classifications receiving a significant increased proportion of the total budget include Public Safety 1.44 percent, Traffic Engineering and Public Works 1.40 percent; and Museum and Parks and Recreation 1.45 percent.

The number of permanent City employees has been held to current authorized or reduced levels except

for the following increases:

	<u>Increases</u>
Data Processing	7
Prisoner Care	1
Public Works*	12
Parks and Recreation	1
Total	<u>21</u>

*10 employees represents change in janitorial from contractual services.

The number of permanent City employees was reduced in the 1969 budget as follows:

	<u>Decreases</u>
City Manager's office	2
City Attorney's office	2
Finance	4
Traffic Engineering	1
Total	<u>9</u>

The net effect is an increase of 12 permanent employees in the 1969 General Fund budget.

The total amount of the increase in the 1969 budget of \$871,314 is generally accounted for as follows:

Debt Service	\$ 220,200
City Employee's Retirement Program	123,000
Data Processing Consulting Services	50,000
Net Additional Employees	100,000
Built-in cost increases	378,100

The estimate for debt service includes funds for not only the outstanding bonds but also additional bond sales in 1969 as follows:

Sanitary Sewers	\$ 600,000
Street Improvements	2,350,000
Parks and Recreation Facilities	400,000
Merrill Field	65,000
Port of Anchorage	1,200,000
	<u>\$ 4,615,000</u>

The present retirement plan for City employees (other than Police and Fire Department) has been studied by a committee of employees. This committee has received employee suggestions and submitted proposed revisions to the plan for an employee vote. The majority of those voting favored the revisions. The total cost of the plan would be about 16 percent of payroll, with 10 percent to be paid by the City and 6 percent by the employees. This would give City employees a good retirement program within reasonable cost limits. I recommend its funding.

We have recommended an increase of seven employees in the Division of Data Processing as well as an appropriation for consulting services. This increased effort is for development purposes to particularly expedite the re-programming of utility billings, receivables, general accounting, and cost accounting systems. In addition to the ultimate savings in manpower, the improved EDP systems will give us better control over accounts receivable thereby increasing collections, and providing better financial reporting for management purposes. An independent review of the benefits to be derived from implementations of accounting, budgetary, and related data processing applications, for which consulting services are requested, indicates the development cost can be amortized by net savings in about two years. The increased effort by the Division of Data Processing will return similar benefits. We feel this increased budgetary effort now will result in future benefits and savings that will far exceed the current development investment. Unless this increased effort is made, the City will not receive the full benefit from this program and equipment.

Additional code enforcement personnel have been included in the Building Division in the Department of Public Works to implement the Workable Program plan developed and approved earlier this year.

The City is confronted with sizeable "built-in" costs in the pay plan. There are, basically, five annual steps of 4 percent each, plus longevity steps of 2 percent after seven years, 5 percent after 10 years, and 10 percent after 15 years of service. Related fringe costs rise with the personal services costs. While the 4 percent steps are based on merit, as a practical budgetary matter they are automatic with the completion of the required length of service. No specific allowance for pay increases has been included in the 1969 budget. We are reviewing salaries for "bench-mark" positions to determine if any adjustment may be indicated for 1969. If this results in any pay changes, the cost would have to be absorbed in recommended appropriations, including the contingency estimate.

The City, like other employers, is also confronted with increased costs of goods, equipment, and services it buys. This is part of the "built in" cost increase of this budget.

No capital outlay, except minor equipment purchases, is planned from the General Fund in 1969. Capital improvements are to be financed from bond and other funds, and the 1969 projects are summarized in the budget detail. This capital program contemplates continuation of street paving and storm drainage based on

receipt of petitions, continuing the park and recreation improvements, and the installation of sanitary sewers in new subdivisions. The operation and maintenance of sanitary sewers has been included as part of the Department of Public Works 1969 budget.

There has been applied to the 1969 budget requests a one percent reduction for personnel vacancies and a 10 percent reduction in motor vehicle rental costs. The latter reduction is the first step in a complete management study of the Garage Fund operation. This study will re-evaluate the need for the number of motor vehicles, the depreciation schedule, and the cost of operation and maintenance. Several months will be involved in the study and we expect to sustain the 10 percent savings in 1969 plus additional savings in the years ahead.

The City of Anchorage is the "core" city of an area with a population in excess of 100,000 people. Preliminary special census data indicates the population of the City is less than estimates used since 1960. The 1964 earthquake, displacement of residential by commercial buildings or uses, and other factors have largely offset population growth inside the City limits. However, the population growth of the area has continued the demands and need for services in the City although many of the recipients reside outside its limits. Traffic continues to increase on the street system, requiring control measures, street maintenance, snow removal, parking and other services. There are increasing numbers of people using the City's libraries, parks and recreation facilities. Police services are required, as more people use the downtown area for business, shopping, recreation and other purposes. Obviously, the demand and need for City services is tied not only to the population inside the City limits, but also to the population of the Greater Anchorage area.

The General Fund revenue estimates have been closely analyzed in determining the 1969 budget recommendations for Council consideration and approval.

The payments in lieu of taxes from the electric, telephone, and water utilities have been estimated on the basis of the net plant value in the City limits times the total mill rate rather than a percentage of gross revenues previously used. This has made a significant difference in the case of the Water Utility, increasing the payment by about \$150,000. This procedure slightly reduces the Telephone Utility payment and increases the Electric Utility payment by about \$200,000. We feel this procedure produces payments nearer what the taxes would be if these properties were subject to ad valorem taxes which is the true test.

The Refuse Utility does not own its equipment or other property. For this reason no payment in lieu of taxes has been estimated. Instead, an estimate under the franchise tax revenue classification has been used, and the amount reduced from \$63,180 to \$25,200, representing the funds expected to be available without increasing rates.

An estimate of \$3,928,280 from real property taxes has been used to balance the 1969 budget. Based on a 10 mill tax levy, a growth of approximately 6.2 percent in assessed value would be required to produce this amount of revenue. The assessed value growth factors were 15.3 percent for 1966; 7.1 percent for 1967; and 7.2 percent for 1968. We understand these growths included increased assessment levels which will not be reoccurring to the same extent in the 1969 assessed value for real property. The Borough Assessor feels the growth factor may be closer to 4 percent. If so, a tax levy of 10.22 mills would be required. If the growth factor is 5 percent, a tax levy of 10.13 mills would be required. The exact mill rate cannot be determined until the assessed value of the City, as of January 1, 1969, is known. However, it now appears the upper limit of the property tax levy will be 10.22 mills compared with the 1968 levy of 10 mills. We are hopeful that the 10 mill rate can be retained and the trend in increased property taxes every year stopped.

We feel it is important for the City of Anchorage to actively support the Borough effort to broaden revenues for school purposes. This will have the beneficial effect of lowering or minimizing the Borough property tax levy for school purposes, thereby alleviating the burden on property taxpayers in the City and Borough. We feel also that it is highly important for the City of Anchorage to actively support the Alaska Municipal League's position to increase State-shared revenues with cities and boroughs.

This Administration, in addition to the project to further reduce the cost for automotive equipment, intends to examine all areas of administrative procedures and costs to mechanize and/or consolidate functions, whenever it is feasible, to reduce costs or avoid future increases in costs. The organizational structure of the City will be reviewed in depth during 1969.

There have been discussions regarding the desirability of only one local government to serve the people in the City and Borough. One local government would have decided advantages in improving efficiency of services, timely planning and implementation, and reduction or avoidance in growth in administrative staffs. The City and Borough governments should, in our opinion, encourage and provide leadership to these discussions and groups interested in improving local government in this area. This Administration is prepared to cooperate with the Council and interested groups.

ELECTRIC UTILITY FUND

The Electric Utility budget for 1969 is designed to finance normal operation and maintenance. No major capital programs, except for street lights, are planned in the \$976,000 budget for this purpose. Revenues are expected to total \$4,103,000 and expenditures \$3,663,150 in 1969. Gross income from operations is estimated at \$446,500. The retained earnings balance on January 1, 1969 is expected to total \$688,493 and \$680,733 at year end.

Charges for current services have been increased to reflect the general overhead costs of the City at a rate of approximately 3 percent.

The contributions from the Electric, Telephone and Water Utilities have been declining each year based on a formula to ultimately limit the contribution to 25 percent of net operating revenues. This policy has no relationship to rate structure, rate of return on plant, rate of depreciation, or demand for use of the retained earnings. We feel the Council should, each year, analyze these factors and determine the disposition of the public utilities' earnings, including contributions to the General Fund which represents a dividend to the owners of these utilities. The 1969 estimate has been based on this procedure. There is no contribution estimated for the Water Utility because its earnings and other demands on its funds will not permit it. The Electric Utility contribution is \$253,500 out of net earnings of \$446,500. The Telephone Utility contribution is \$369,700 out of a net earnings of \$1,856,932.

The review of the Garage Fund accomplished to date indicates an excessive reserve for depreciation has been established. On January 1, 1968 this reserve was \$1,094,604 on \$1,883,154 worth of assets; accordingly, we have included in the 1969 budget revenue section an item of \$250,000 for recovery from prior year expenditures. A new depreciation schedule will be adopted for use in 1969, and a complete analysis made as to further disposition of the existing depreciation reserve, rates and related matters.

The unappropriated fund balance on December 31, 1968 is expected to increase by \$175,000. This will result from a budget revision already made in 1968, returning \$100,000 to the fund balance, and from savings of \$75,000 on 1968 appropriations. \$175,000 from the unappropriated fund balance has been used in funding the 1969 budget.

Other changes in revenue estimates were relatively minor and to conform them with the latest financial data available at time of review.

After applying the total of all revenues, recoveries and fund balance, there remains \$5,035,280 to be funded from property taxes (\$9,958,890 less \$4,923,610).

The collection of personal property taxes on motor vehicles has been poor. The Borough has depended on obtaining motor vehicle data from the State. The State has been slow in providing this data thereby costing the City and Borough many thousands of dollars in lost tax revenues. It is mandatory for the Borough to either insure that the State data is available on a timely basis or employ other available methods of collecting these taxes. We have estimated a total of \$1,050,000 from personal property taxes based on 10 mills. If an aggressive collection program is employed, this amount might be greater.

The rate of return on electric plant in 1969 (computed after depreciation and before interest expense) is expected to be approximately 6.3 percent. This is less than industry standards ranging from 6-1/2 to 7-1/2 percent.

TELEPHONE UTILITY FUND

The Telephone Utility program in 1969 contemplates the continuation of upgrading services with major additions to both inside and outside plant. Revenues, including gross toll receipts for 1969, are expected to total \$13,031,300 and expenditures \$12,259,600. The inclusion of gross toll revenues is a change in budget procedure. However, we feel these major receipts should be shown to indicate the full scope of the financial operations of this important utility.

The total estimate for capital outlay is \$5,341,000. This will be financed by \$1,450,000 from the Telephone Utility fund and \$3,891,000 from Telephone Revenue Bond funds.

This budget indicates a strong revenue growth factor in the range of 9 to 10 percent from local services. The manpower for operations is estimated at 200 compared with the current manning of 188. Construction personnel will be reduced from 38 to 28. Total manning for the ATU will be 228 compared with 226 for 1968.

The rate of return on telephone plant in 1969 (computed after depreciation and before interest expense) is estimated at approximately 8.8 percent. This is slightly above industry standards of 7 to 8 percent. However, the rate of return should be analyzed over a longer period than one year. It has ranged from 6.3 percent to 10.8 percent between 1962 and 1968. During 1969 we plan to examine and recommend changes in the telephone depreciation schedules. Faster depreciation has been recommended in consulting reports. The telephone rate structure will be generally reviewed in this connection, and if a more detailed study is indicated it will be recommended.

WATER UTILITY FUND

The continuation of the Water Utility capital program for upgrading and extension of plant will depend on the results of the January, 1969 special election to increase the interest limitation from 5 percent to 6 percent on water revenue bonds. The Water Utility Fund cannot finance the improvement program required if this utility is to keep abreast of the requests for service in the City and adjacent areas. Revenue Bond financing is needed now.

Water revenues in 1969 are expected to total \$1,877,300 and expenditures of \$1,882,610 for a nominal loss of \$5,310. Without the change in payments in lieu of taxes there would have been a margin of \$154,290. The balance of retained earnings is expected to be \$74,523 on January 1, 1969 and \$14,213 at the end of the year. No contribution to the General Fund is planned. \$475,000 has been budgeted for capital improvements from the Water Utility fund. This program will be carried out if bond funds become available; otherwise, it will be used at least in part to offset existing contractual obligations now planned for payment from bond funds.

The rate of return on Water Plant in 1969 (computed after depreciation and before interest expense) will be approximately 2 percent. The rate of return has ranged from 3 to 5 percent since 1962. The industry standard is 6 to 7 percent. It is planned to review these rates during 1969 and make such recommendations to Council as may be indicated from the review.

GARAGE FUND

The Garage Fund has been adjusted to reflect the reductions made in the various user agency budgets. The management review of motor vehicle operations has been discussed under the General Fund.

PORT AND TERMINAL FACILITIES FUND

The Port and Terminal Facilities budget contemplates the normal operations of the Port of Anchorage, including the 272 foot extension completed in 1968. Revenues are expected to total \$749,050 and expenditures of \$692,359 leaving a margin of \$56,691 after debt service on Port Revenue Bonds has been paid. The retained earnings balance on January 1, 1969 is expected to be \$365,270 and \$421,961 at year end. Budgeted manpower has been reduced from 11 to 10 by eliminating the position of Port Engineer which is vacant.

INDUSTRIAL PARK FUND

The Port Industrial Park Fund finances the adjacent industrial park area. This area is administered by the Port staff. There is no significant changes in the budget. Revenues of \$64,326 are expected to cover the budget estimate of \$39,941 leaving a margin of \$24,385.

REFUSE FUND

This operation is marginal from a financial point of view. All of the interfund charges covering the overhead generally prorated to utility funds have been made to this fund.

Total revenues are estimated at \$770,500. To balance with revenues it was necessary to reduce the franchise tax estimate (based on 9 percent of gross revenues) of \$63,180 to \$25,200. The 1968 revenues may not be sufficient to pay all of the 1968 franchise estimate of \$66,400. It appears the shortage may be about \$13,000.

Before recommending adjustment of refuse rate, this Administration wants to further review the operation and the interfund charges during 1969. We hope such review may make an upward adjustment unnecessary.

CAPITAL IMPROVEMENT PROGRAM AND FUNDS

The Capital Improvement Program for 1969 is a major undertaking of government and utility projects necessary for meeting the needs of the people in the City and service areas of the utilities. It is summarized below:

Public Works, Traffic Engineering

Streets, drainage, traffic control	\$ 3,943,000
Survey monumentation	15,000
Light vehicle maintenance shop	107,000
Space Survey	15,000
Parking Lots (R-20 Project)	112,000
Sanitary Sewers	<u>110,000</u>
Sub-total	\$ 4,302,000

Parks and Recreation

Neighborhood Parks	\$ 10,000
Chester Creek Sports Complex	150,000
Russian Jack Springs	282,500
Chester Creek Park	100,000
Upgrading existing facilities	10,460
Anchorage Memorial Park	<u>23,000</u>
Sub-total	\$ 575,960

<u>Water System Improvements</u>	1,335,000
<u>Telephone System Improvements</u>	5,341,000
<u>Electric System Improvements</u>	976,000
<u>Port of Anchorage, Phase II Terminal Extension</u>	<u>2,336,000</u>
Total Capital Improvements	\$ 14,866,760

The funding is planned as follows:

General Obligation Street Bonds	\$ 3,943,000
General Obligation Sewer Bonds	110,000
Building Reserve Fund	107,000
Federal Advanced Planning Funds	15,000
General Obligation Off Street Parking Bonds	112,000
General Obligation Parks and Recreation Bonds	290,460
Cemetery Trust Fund	23,000
Outdoor Recreation Federal Funds	162,000
Borough School District	100,000
Water Revenue Bonds	860,000
Water Utility Revenue Fund	475,000
Telephone Revenue Bonds	3,891,000
Telephone Utility Revenue Fund	1,450,000
Electric Revenue Bonds	200,000
Electric Revenue Fund	776,000
Federal Grant (Economic Development Administration)	1,168,000
Proposed Port General Obligation Bonds	1,168,000

The street paving and storm drainage program is in large part based on petitions from property owners. This program represents petitions on hand or expected before the next construction season. The sanitary sewer program is for subdivision development and upgrading of existing lines, and subject to receipt of petitions.

The R-20 parking lot project has been built but it has not been programmed under the Capital Improvement Program.

The Parks and Recreation program is an extensive one which utilizes Federal and local funds on a cooperative basis. This program is part of an overall plan undertaken in previous years.

The water program is dependent on the results of a special election to increase the interest rate limitation from 5 to 6 percent so the revenue bonds can be sold. Otherwise, this program will have to be cancelled until financing can be arranged. There is a continuing need for improving the water source of supply, transmission and distribution systems. The development of the area will suffer unless an adequate public water supply is made available.

The demand for service is greater in the Telephone than any other City-owned public utility. This program includes extensive central office additions and outside plant extensions. The issuance of \$3,891,000 in revenue bonds is contemplated, provided the interest limitation is increased from 5 to 6 percent on one issue. Otherwise, the sale will have to be limited to \$2,500,000. The remaining \$1,391,000 will have to be deferred or funded from Telephone Utility Revenue Funds to the extent they become available.

The Electric Utility Capital Program includes a major street light project and routine plant additions. The street lights on Fifth and Sixth Avenues will be upgraded. Normal extensions will be made to the electric transmission and distribution systems.

The Port of Anchorage Phase II Terminal Project is recommended subject to approval of a Federal Grant of \$1,168,000 from the Economic Development Administration and voter approval of a General Obligation Bond issue in an equal amount. This project is important to both the development of the City and adjacent area and to reduce the cost of transportation which affects the cost of living.

CONCLUSION

This Administration has attempted to put together a realistic budget for fiscal year 1969. We believe it will require a minimum of change by Council. Budget requests have been reduced and all sources of available revenues and funds utilized to avoid a property tax increase in 1969, or at least to make any required increase insignificant in amount. This will give the City and Borough Governments the opportunity to further pursue additional revenue sources before further burdening the local property taxpayer. It is obvious that unless additional revenues are found, a sizeable City property tax increase will be required in 1970. The alternative would be a greatly reduced service standard and a curtailed capital improvement program. We doubt that the City of Anchorage will want to reduce its important and progressive role in the development of Alaska.

This Administration stands ready to assist the Council in any way it can in the review of the 1969 budget.