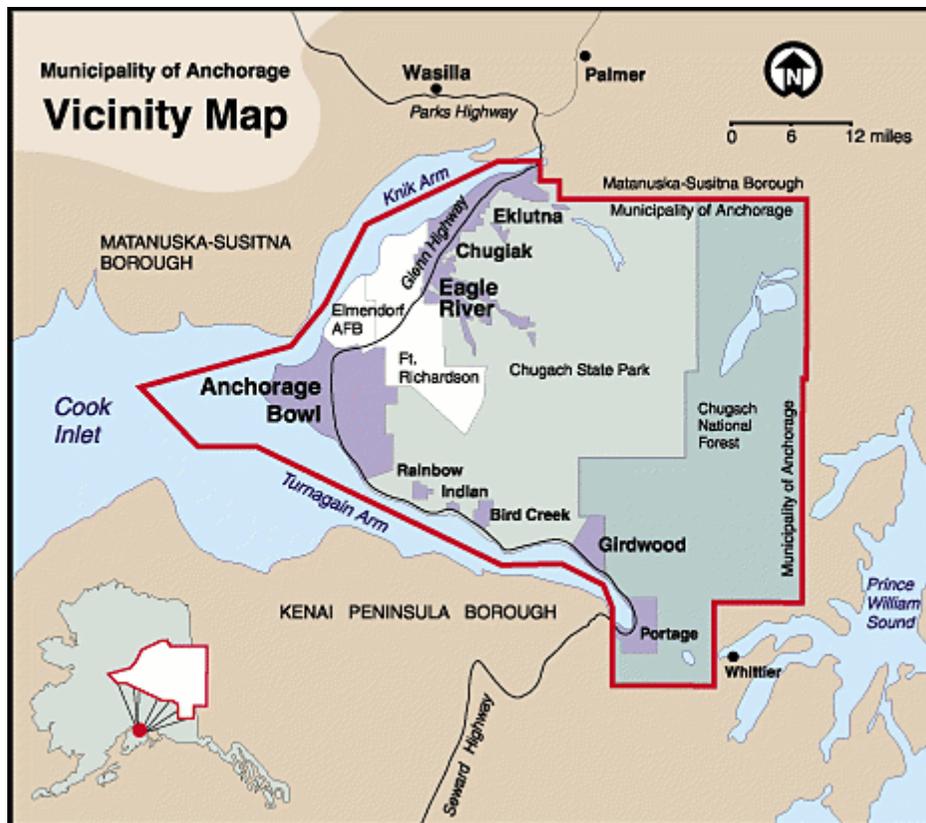


## Budget Background

This section presents the reader with basic background information. Its purpose is to provide a general context for the general government revenue and expenditure information presented in later sections of the budget document.

### Community Profile

Surrounded by the natural beauty of the Chugach Mountains and Cook Inlet, Anchorage is located in one of the world's most spectacular settings and is one of the country's most livable cities. The municipality encompasses 1,955 square miles that span an area from Eklutna on the north to Portage on the south. With a population of 277,498, Anchorage is the largest city in Alaska and home to over 40% of the state's residents. Clean, healthy and vibrant, Anchorage is a young, modern city where day-to-day living is further enriched by smaller communities as unique as Eagle River and Girdwood.



Anchorage is the hub of the state's communication, transportation, health care, finance and trade industries. The local economy is driven by four major sectors: oil/gas, military,

transportation and tourism. Together these sectors provide a measure of stability that has given Anchorage 17 consecutive years of economic growth.

- Anchorage serves as an administrative center for the oil industry. The oil/gas sector provides approximately 3,300 jobs for the local economy and also supports a thriving support oil/gas sector with advanced manufacturing capabilities and engineering skills.
- Anchorage houses Elmendorf Air Force Base, Fort Richardson Army Post and Kulis Air National Guard base located at the Ted Stevens Anchorage International Airport. The local economy and community life are substantially enriched by the 9,000 military personnel, 14,000 family members and 30,000 veterans who make Anchorage their home.
- Anchorage's transportation sector consists of air cargo, railroad service, and maritime transportation. The Ted Stevens Anchorage International Airport is the busiest cargo airport in North America with over 560 transcontinental cargo flights weekly. The Alaska Railroad, owned by the State of Alaska and headquartered in Anchorage, provides both freight and passenger service throughout the railbelt on approximately 530 miles of track. The municipal-owned Port of Anchorage also plays a vital role in the local economy. Over 90% of all consumer goods that arrive in Alaska pass through the Port of Anchorage.
- Tourism is a major economic driver for Anchorage due to its central location, transportation and visitor industry infrastructure, and abundant recreational opportunities. For many travelers journeying to Alaska, Anchorage is the gateway to the state. The convention industry is also an important economic driver. Developers and the city are moving full speed ahead on a new civic and convention center approved by voters in April 2005. The center will generate 1,300 jobs during construction, 3,700 new permanent jobs, and about \$250 million of annual economic impact.

Anchorage offers diverse and dynamic educational opportunities. Primary and secondary education (K-12) is provided by the Anchorage School District (ASD). At the end of the 2004-05 school year, ASD's total active enrollment was 48,193, a slight decrease compared to September 2004. Anchorage is also home to public and private universities and a variety of vocational and business schools. The University of Alaska Anchorage (UAA) serves almost 15,000 students and offers certificate and degree programs in 134 major study areas.

### **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 often provided in other states by 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.

Municipal executives and department directors are appointed by the mayor. Within the executive branch, most departmental functions are organized under and overseen by the municipal manager, chief fiscal officer, and director of economic and community development who report directly to the mayor.

The assembly carries out all legislative responsibilities. The assembly acts on all new ordinances and amendments as well as budgets, municipal contracts, resolutions and specific mayoral appointments. Municipal ordinances, assembly schedules and agendas, and other legislative information are available on-line at [www.muni.org](http://www.muni.org).

The municipality has 50 boards and commissions to 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 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, infrastructure 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 two public corporate authorities: the Anchorage Community Development Authority and the Anchorage Cooperative Services Authority.

### **Biennial Budgeting Process**

Commencing with this submission, the municipality is implementing a biennial budgeting process for general government operations. The biennial budget sets forth annual budget requirements for Fiscal Year 2006 (Year 1) and Fiscal Year 2007 (Year 2.) In making this shift, Anchorage joins the growing number of local governments that have moved to multi-year budgeting in the past 20 years. The Government Finance Officers Association notes that communities that have adopted multi-year budgeting benefit in many ways. Two key benefits are reductions in the time and resources allocated to budget development, and greater emphasis on program evaluation and innovation to achieve long-term financial and management goals. Biennial budgeting is a key component in the municipality's commitment to provide stable, sustainable services and programs and prudent use of taxpayer dollars.

A biennial budget is a document that sets forth planned expenditures and anticipated revenues for two consecutive fiscal years. To meet Charter requirements and facilitate timely implementation, the administration is submitting to the Assembly a rolling biennial budget. Under a rolling biennial budget, Year 1 and Year 2 expenditure and revenue plans are addressed in a single document. At the conclusion of the biennial budget review and deliberation process, Year 1 of the biennial budget is approved and appropriated. The Year 2 budget also is approved, but is subject to mid-cycle review and appropriation action in the following year.

Biennial budgeting is being implemented for four primary purposes: 1) to reduce the resource level and time required to accomplish annual budget development and documentation, 2) to shift resources and emphasis in the "off year" (Year 2) from budget development activities to budget monitoring, maintenance and program evaluation, 3) to promote sustainable, balanced allocation of resources among service levels, and 4) to promote best budgeting practices set forth by the National Advisory Council on State and Local Budgeting (NACSLB.)

Eight basic procedures have been developed to implement biennial budgeting:

1. A biennial budget for general government operations will be prepared every other year, commencing in 2005 and in each odd-numbered year thereafter. The biennial budget will

consist of balanced revenue and expenditure plans for Year 1 (next even numbered fiscal year) and Year 2 (next odd numbered fiscal year.)

2. In each odd numbered year, a biennial budget document for general government will be prepared and submitted by the mayor to the assembly in conformance with Charter requirements.

Year 1 and Year 2 budgets presented in the biennial budget document will conform in form and content to requirements set forth under Anchorage Municipal Code, inclusive of minor changes required to accommodate presentation of the Year 2 budget.

3. In each odd-numbered year, the mayor will submit to the assembly preliminary Year 1 and Year 2 revenue plans, tax limitations, administration service priorities and reorganization changes in conformance with requirements under Anchorage Municipal Code.

4. In each odd-numbered year, the assembly will conduct public hearings on the proposed Year 1 and Year 2 budgets in conformance with Charter requirements. At the conclusion of its deliberations, the assembly will adopt and appropriate funds for Year 1 of the biennial budget in conformance with Charter requirements; Year 2 of the biennial budget will be adopted in concept but no appropriation action will be taken.

5. In each even-numbered year, the conceptually approved Year 2 budget for general government will be brought back to the assembly as part of a biennial budget mid-cycle review.

The mid-cycle review will consist of proposed adjustments and amendments, if any, to Year 2 budgets conceptually approved in the prior year. The mid-cycle review and update process is intended to be a tune-up of Year 2 budgets, not another budget development process. Its intent is to address circumstances and issues not known or anticipated at the time Year 2 budgets were originally submitted and approved, such as changes in financial conditions, programs, or authorizing laws that affect Year 2 expenditures and revenues.

6. Abbreviated budget documentation will be submitted to the Assembly as part of the mid-cycle review and update process and to ensure that all Charter and Code requirements are met prior to appropriation action by the assembly.

7. As part of the mid-cycle review and update process, the assembly will conduct public hearings on the Year 2 budget in conformance with Charter requirements. At the conclusion of its deliberations, the assembly will approve and appropriate funds for Year 2 of the biennial budget in conformance with Charter requirements.

8. Commencing in 2007 (next odd-numbered year) the biennial budget process will start through a new cycle. At that time, a biennial budget for general government operations will be prepared for the following two fiscal years, Fiscal Year 2008 (Year 1) and Fiscal Year 2009 (Year 2).

### **Budget Structure**

The Municipality of Anchorage budgets for general government operations on a fiscal year basis that begins January 1 and ends December 31. The operating budget summarizes planned expenditures and revenues for each of the 25 offices, agencies and departments that comprise general government. Balanced budgets are required for each department and for general government as a whole. This means that planned revenues must be sufficient to pay for planned expenditures.

The general government operating budget is structured to summarize each department's direct cost, function cost, and net program cost. *Direct cost* reflects estimated expenses for personnel, supplies, contracts and other purchased services, capital outlay and debt service. *Function cost* reflects direct cost adjusted for the net of intragovernmental charges (IGC) received from other departments, or charged to other departments, utilities, grants or capital projects for services provided. *Net program cost* reflects function cost less total program revenues anticipated to be earned by the department. As described below, direct cost and function cost are fundamental to the manner in which the general government operating budget is appropriated and funded.

### **Service Areas and Funds**

The Municipality of Anchorage operates under a *service area concept*. By law, some public services are offered and paid for on an areawide basis. Examples within general government include health and environmental protection, animal control, property appraisal and tax collection, library services, mass transit, planning and zoning, and emergency medical services. In other instances, residents of particular areas have voted to approve specific public services that are paid for by taxes collected within that service area only.

Service area expenditures and revenues are budgeted in unique *funds* based on the combined total of all applicable function costs. A fund is an accounting entity that isolates the expenses and revenues of a particular program or service -- somewhat like a separate checking account. Only the expenses and revenues that pertain to each unique service area are reflected in the service area fund.

### **Appropriations**

The assembly appropriates the general government operating budget by each department's direct cost and by each fund's function cost. Appropriations set the level of funding authorized by the assembly. Appropriations that have not been spent at the end of one fiscal year do not carry over to the next fiscal year.

### **Limitations on Taxes and Tax-supported Spending**

General government operations are funded by a combination of program revenues (earned or received by specific departments from fees for services, fines and other charges), allocated revenues (earned or received by the municipality as a whole), fund balance and taxes.

Function costs not covered in whole or in part by program revenues, allocated revenues or fund balance are funded by taxes. The municipality is subject to an annual tax limitation based on a voter-approved Charter amendment that has been in effect since 1984. The tax limitation sets an upper limit on the total amount of taxes that can be collected by the municipality from one fiscal year to the next.

Taxes on automobile registration, tobacco, aircraft registration, motor vehicle rentals, and real and personal property are subject to the tax limit. Hotel/motel tax is exempt from the tax limit. To meet the needs of a dynamic community, the tax limit provides for modest, controlled growth. This is accomplished through allowable annual adjustments for changes in inflation and population. The tax limit does not apply to taxes for new construction and property improvement, judgments and settlements, debt service on voter-approved general obligation bonds, and voter-approved operations and maintenance costs. Taxes to support service areas with voter-approved maximum mill rates are also excluded from the tax limit.

Preliminary tax limit calculations are provided when proposed budgets are submitted by the mayor to the assembly. The final tax limit calculation is submitted to the assembly during the first quarter budget revision process when the assembly sets tax rates for the budget year.

A spending limit on tax-supported services was incorporated into the Code effective with the 1984 budget. Allowable annual adjustments include inflation, population change, and expenditures associated with voter/legally mandated services.