

**SIX YEAR FISCAL PROGRAM  
1997 - 2002**



**Municipality of Anchorage**

**Rick Mystrom  
Mayor**

**1997 - 2002**  
**SIX YEAR FISCAL PROGRAM**  
**MUNICIPALITY OF ANCHORAGE**

***Rick Mystrom, Mayor***

***ASSEMBLY***

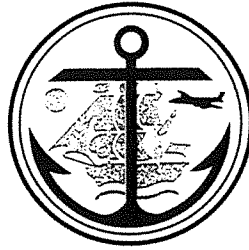
***Mark Begich, Chair***

Pat Abney	Kevin Meyer
Bob Bell	Joe Murdy
Ted Carlson	Fay Von Gemmingen
Cheryl Clementson	Charles Wohlforth
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***ADMINISTRATION***

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# Municipality of Anchorage



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*Rick Mystrom, Mayor*

OFFICE OF THE MAYOR

September 27, 1996

Dear Residents of Anchorage:

I am pleased to present the Six Year Fiscal Program for years 1997-2002. In the first two years of my administration, we have worked hard to make Anchorage a better place to work, live, and raise our children. This report describes some of the important functions local government can perform in helping to shape Anchorage's future.

We are pleased with the progress made thus far. Emphasis continues to focus on improving public safety, encouraging economic development, making Anchorage a cleaner and more beautiful city, and improving recreational opportunities. A discussion of significant accomplishments over the past two years is included in this report.

Over the course of the next year, we plan to continue to work aggressively to make Anchorage one of the safest and most livable cities in America. To that end, over the next 12 months we expect to hold 2-3 additional police academies and we plan to begin a Juvenile Crime Unit and a Misdemeanor Follow-up Unit. In addition, Anchorage voters approved creation of the new Anchorage Police Service Area in April of 1996; this authorizes police services to be provided to the vast majority of Anchorage residents and more equitably allocates Safe City costs.

In the area of economic development, we intend to foster a climate that will help encourage the growth of existing businesses and attract new businesses to Anchorage. Anchorage remains in a unique position as a transportation hub for most of Alaska and for much of the world. Working in partnership with Anchorage Economic Development Corporation, Anchorage Convention and Visitors Bureau, and the Anchorage and Eagle River Chambers of Commerce, we intend to aggressively promote Anchorage as a great place to live and work so that new businesses, tourists and prospective residents will choose to come to Anchorage.

We also plan to further our efforts in 1997 to make Anchorage a cleaner, more beautiful city. In addition to continuing key programs related to the cleanup of graffiti, junked cars, and litter, we plan to provide enhanced road maintenance services such as increased snow removal and street sweeping in 1997.

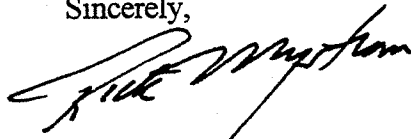
*"City of Lights and Flowers"*

We will continue to enhance our recreational facilities including rehabilitation and added links for major trail systems, development of additional ball fields, and neighborhood park improvements. We are continuing to consider new recreational opportunities to offer to our youth which will keep them focused on healthy types of activities.

It is important to keep in mind that circumstances may arise which could change the assumptions and thus the projected fiscal outlook. If State revenue sources continue to decline over the next several years, it will become more of a challenge to provide our residents with not only a safe city but also one that encourages cultural and recreational opportunities.

The Six Year Fiscal Program presents options for addressing fiscal policy in the near future. The report outlines three main options for consideration by the Administration, the Assembly, and the Public — reduced expenditures, new revenue sources or a combination of the two. All projections in the Six Year Fiscal Program were developed with information that was considered the most reliable and current at the time of development.

Sincerely,

A handwritten signature in black ink, appearing to read "Rick Mystrom", written in a cursive style.

Rick Mystrom

# *PREFACE*

In accordance with the Charter, the Mayor is required to submit to the Assembly a “six-year program for public services, fiscal policies and capital improvements of the Municipality. The program shall include estimates of the effect of capital improvement projects on maintenance and personnel costs.”

Like all responsible governments, the Municipality of Anchorage must provide its citizens with an acceptable level of important and critical services. The purpose of the Six Year Fiscal Program is to provide policy options related to services demanded by the public. The options included in the report are offered for consideration.

The Six Year Fiscal Program is intended to encourage a balanced approach toward dealing with changing fiscal conditions. Achieving that balance will likely result from a mix of expenditure reductions and revenue enhancements. Key strategic policy decisions will need to be made in order to determine exactly what that mix should be.

If the reader desires more demographic and financial information, there are a number of alternative sources available at Municipal libraries, such as:

- Anchorage Indicators
- Comprehensive Annual Financial Report (CAFR)
- General Government Operating Budget
- General Government Capital Budget/Program
- Public Utilities Operating Budget and Capital Budget/Program

Presentation of this document by the Administration and approval by the Assembly does not constitute approval of any of the policy issues discussed herein, but simply accepts this document as a working tool.

**1997 - 2002**  
**SIX YEAR FISCAL PROGRAM**  
**TABLE OF CONTENTS**

<u>Section</u>	<u>Description</u>	<u>Page</u>
	<b>Mayor's Letter</b>	
	<b>Preface</b>	i
<b>1.</b>	<b>EXECUTIVE SUMMARY .....</b>	<b>1 - 1</b>
<b>2.</b>	<b>BACKGROUND</b>	
	• Major Accomplishments -- 7/94 Through 8/96 .....	2 - 1
	• Historical Trends .....	2 - 6
<b>3.</b>	<b>FUTURE ECONOMIC OUTLOOK</b>	
	• Major Economic Assumptions (Population, Inflation, Assessed Valuations, New Construction) .....	3 - 1
	• Major Opportunities/Concerns .....	3 - 5
<b>4.</b>	<b>PUBLIC SERVICES AND CAPITAL PROJECT FUNDING</b>	
	• State Revenues (Operating & Capital) .....	4 - 1
	• Tax Cap Limit .....	4 - 4
	• Debt Service and O&M Costs .....	4 - 4
	• Anchorage School District .....	4 - 5

<u>Section</u>	<u>Description</u>	<u>Page</u>
<b>5.</b>	<b>FUTURE FISCAL STRATEGIES</b>	
	• Economic Development .....	5 - 1
	• Expenditure Options .....	5 - 2
	• Revenue Options .....	5 - 3
<b>6.</b>	<b>CONCLUSION .....</b>	<b>6 - 1</b>

# *1. EXECUTIVE SUMMARY*

The 1997-2002 Fiscal Program outlines the fiscal concerns that the Administration expects for the future and presents potential options to address these concerns. The report is designed to generate public discussion so that we can adequately plan for changing fiscal conditions and maintain a stable fiscal environment.

The primary goal of the Administration is to provide Anchorage residents with one of the most livable cities in America. In order to achieve this goal, we must continue to adequately address public safety issues. We have made progress in that area by proceeding with five police academies from 1994 through 1996 and at least one more planned for 1997. At full strength in 1997 we will have 351 sworn officers compared to 248 sworn officers actually on board in November 1994 — an increase of 103 sworn officers. This dramatic increase in the number of sworn officers includes the 21 additional officers needed in 1997 to serve the newly expanded Police Service Area. Funding for new officers is currently derived from various sources including a federal grant, applied fund balance, allocated Municipal Assistance/State Revenue Sharing, and property taxes. Within the next 2 years, however, the federal grant funding will no longer be available, yet our need for the officers is expected to continue. We have to plan for that time when other funding sources may be needed.

We must continue to find ways to stimulate the economy and create new job opportunities. Examples of promising areas of economic growth include expansion at Anchorage International Airport and the Port of Anchorage. Economic development in the Girdwood community, although longer term, also has potential. Increased economic development will help to stimulate population growth, increase the demand for housing, and raise commercial property values. Underlying these potential new economic developments, the oil and gas industry is assumed to remain a driving force in economic development for both Anchorage and the State of Alaska.

We must also capitalize on the unique cultural and recreational activities that Anchorage and Alaska provide. If we can help our children find rewarding outlets through sports, library programs, or other cultural or recreational activities to occupy their days, they will be less likely to become involved in juvenile crime.

One of the financial challenges facing the Municipality is how to achieve our goals despite the declines in State revenues. Municipal Assistance and State Revenue Sharing have been decreasing since the mid-1980's. This decrease has caused a significant impact on property



taxes required to fund the operating budget. Efficiencies were realized and cuts were made in programs and services in order to relieve some of the budgetary pressure. Despite the local budget cuts that have occurred, property taxpayers have experienced a tax shifting caused directly by the cuts made by the State to Municipal Assistance and State Revenue Sharing. Unfunded federal and State mandates (e.g., Americans with Disabilities Act and senior citizen property tax exemption) have also resulted in an increase in property taxes. We will be evaluating the possibility of a more equitable tax structure.

This document presents options for consideration by the Assembly and the public to address ways in which we can manage future fiscal requirements while continuing to expand our local economy. The three main categories of options are expenditure reductions, new revenue sources or a combination of the two.

## ***2. BACKGROUND***

### ***MAJOR ACCOMPLISHMENTS -- 7/94 THROUGH 8/96***

#### ***Safer City***

Over the first 6 months of 1996 major crime in Anchorage is down in all but one category (i.e., burglary). And in April, 1996 the majority of voters approved creation of the New Anchorage Police Service Area which will result in police patrol service for the vast majority of Anchorage citizens, as well as a more equitable allocation of safe city costs.

Since 1994 the Municipality has held 4 police academies. Additional academies are anticipated over the next twelve months to accommodate the expansion of the Police Service Area and to offset normal attrition within the Police Department. At full strength in 1997 we will have 351 sworn officers compared to 248 sworn officers actually on board in November 1994.

A number of additional initiatives undertaken to make our City even safer were a direct result of recommendations by the Mayor's CAP Crime Task Force, including: expanded bike and foot patrols, additional neighborhood-based policing, newly added substations, increased prosecution, plans to establish a misdemeanor follow-up unit and a juvenile crime unit, juvenile crime prevention programs (e.g., Parent Network and the Youth at Risk program), continued aggressive enforcement of the DWI program, and development of a legislative package that lead to the enactment of important crime laws.

#### ***Economic Development***

Over the past year, more attention has been directed to the issue of economic development. The Administration intends to continue its work with the Anchorage Economic Development Corporation (AEDC) in encouraging new business development in our City.

For instance, during the 1996 Legislative session the Municipality successfully achieved the award of three major grants which will provide long term economic benefits to Anchorage. Specifically, State grants were received for the Knik Arm Shoal dredging project (\$881,300) which will deepen the port waters to allow significantly more flexibility in the arrival/departure of barges carrying cargo; Egan Center Overpass (\$970,000) which will provide a safe, fully

accessible weather protected skywalk connecting two of our City's largest facilities (i.e., the Egan Center and the A.C.P.A.) — it is expected that this project will enhance Anchorage's ability to attract more convention business; and lastly the Ship Creek Weir Beautification/Development project (\$1,030,000) which is expected to beautify the Ship Creek area while at the same time preserve this site as a fishing attraction.

Tourism continues to grow at a rate exceeding 5% per year. During the past year, the Administration, Anchorage Historic Properties, and the Anchorage Convention and Visitors Bureau (ACVB) worked in partnership to finish remodeling the Historic City Hall at no cost to property taxpayers; this building now serves as ACVB's headquarters.

The Administration continues to work on encouraging more business development at Anchorage International Airport. Over the past year, both UPS and Federal Express have announced plans to expand their operations in Anchorage.

Also related to economic development, the Administration began key initiatives in 1996 to improve the way the City does business through hiring outside consultants to review and make recommendations regarding the building permit and property appraisal processes.

## ***Cleaner, More Beautiful City***

A number of new programs focused on making Anchorage a cleaner, more beautiful city have evolved since 1994. Namely, graffiti busters, a litter hotline, and Operation "Clean Sweep" have all proven to be effective in making our City cleaner. We have cleaner streets and better air quality as a result of more effective and efficient street sweepers used to collect sand and gravel on City streets. The Administration also intends to begin a new program in 1997 using Recycled Asphalt Pavement (RAP) within the Anchorage Roads and Drainage Service Area (ARDSA) to cover select gravel roads; this will improve air quality while at the same time reducing operations and maintenance costs for our City's street maintenance division.

In making our City more attractive, the "lights and flowers" program has evolved significantly over the past year; this program has demonstrated how well the public and private sectors can "team up" to improve the look of the City. The Beautification Task Force, established in 1995, continues to generate new ideas and solicit more volunteers to help beautify our City. In addition, a conscious effort has been made to water parks, fields, and medians in order to keep Anchorage as green as possible in the summertime.

## ***Public/Private Partnership***

A number of programs ranging from crime prevention to cleanup/beautification to sports activities have all demonstrated how local government and private citizens and organizations can work together to make our City a better place to live. In addition, the City and State have worked

together on crime issues, street maintenance, watering and beautification programs, and planning transportation improvements. Volunteers have played a key role in helping to actualize improvements to City programs, services, and quality of life.

In 1996 the Assembly approved a new enabling ordinance allowing for the creation of potential Business Improvement Districts (BID); this ordinance allows areas such as Downtown to pursue establishing their own assessment district to provide enhanced services.

## ***Labor Contracts Negotiated***

Over the past year the Municipality successfully completed negotiating four labor contracts. The Administration is satisfied with the negotiated terms reached with these four bargaining units. In general, progress was made in changing leave programs so that they more closely model the private sector. In 1994, the Administration proposed and the Assembly approved a new leave program for executives hired after January 1, 1995. The intent of this action was to set an example and to encourage the bargaining units to also consider leave accrual reductions.

In addition to the leave program changes, the Administration also managed to hold wage increases to modest levels for all union groups, non-represented and executive employees. These negotiated agreements generally include wage increases below the rate of inflation. In 1996, the first year of wage increases for several of the bargaining groups, additional wage costs were absorbed through reductions in other areas of the budget and taxes were not raised to cover these additional labor costs.

All of the negotiated labor contracts contained improved work rule provisions which are expected to increase the productivity of municipal workers and, in some cases, result in hard dollar savings. In two of the contracts (i.e., AMEA and APDEA) new clauses were added to allow the Municipality to contract out services under specified conditions. For example, the APDEA contract allows for contracting out of prisoner transport, subpoena services, and certain other services. Assuming these functions are contracted out, this will free up police officers to perform more traditional police protection services.

The Administration is currently contesting the wage increase provisions of the firefighters' labor contract in court based on our claim that the arbitrator did not follow the requirements of the Municipal labor ordinance in making his award on the issue.

## ***Retirement/Overtime Issues Resolved***

Since 1994, the Administration has worked hard to address critical issues related to retirement and overtime issues affecting police officers and firefighters. With respect to retirement, two key items were successfully resolved: **(1)** since late 1994 all newly hired police officers and firefighters now participate in the State retirement system (i.e., PERS) which is consistent with

all other public employers statewide and (2) a Retiree Medical Funding Program was established for active employees who were members of the Police and Fire Retirement System. This funding program, which resulted from months of negotiations between the Administration and the Police and Fire labor unions, replaced the retiree medical health coverage previously available to these employees at retirement. The new funding program significantly reduces the retiree medical liability and will save the taxpayer millions of dollars. The present value of the retiree medical liability was reduced by approximately \$78 million (from \$103 million to \$25 million).

With respect to overtime issues, the Administration implemented a new shift schedule for police officers in late 1994; this has resulted in more police officers on the streets and reduced overtime costs. With respect to firefighters and paramedics, the Administration and the firefighters' union continue to focus on implementation of the new integration plan whereby paramedics are cross-trained as firefighters and firefighters are trained as emergency medical technicians (EMT's); this new integration plan has resulted in a decrease in emergency medical response times and a reduction in potential future overtime liabilities.

## ***Budgets Constrained***

Between 1994 and 1996 the General Government Operating Budget has been below the Tax Cap by \$5.9 million; furthermore, the Administration's 1997 proposed operating budget will be \$2.2 million below the Tax Cap. Increases to the budget base over the last several years are explained almost entirely by (1) voter approved bonds, (2) voter approved increased services (e.g., expansion of the Police Service Area), and (3) inflationary adjustments in labor and other costs. For 1997, the Administration has proposed no net increase in the budget except for voter approved increases and additional police protection increases.

Since 1994, there has been only one utility rate increase (i.e., a 3.15% increase for ML&P in 1995) out of seven municipally owned utilities (i.e., Municipal Light and Power, Anchorage Water Utility, Anchorage Wastewater Utility, Refuse Collections, Solid Waste Disposal, Port of Anchorage and Merrill Field Airport). These seven utilities continue to exhibit a strong financial condition.

The General Government Capital Program has undergone a transformation in recent years due to the sharp decrease in State grant funding. The Capital Program has been significantly reduced to reflect a much lower expectation relative to State and federal funding sources. Consequently, more focus has been given to local funding for the City's highest priority capital projects. The City has worked closely with the State in developing the 3-year Transportation Improvement Plan (TIP) which prioritizes transportation projects within Anchorage and provides Anchorage with a significant alternative funding source (i.e., federal ISTEA dollars). The ISTEA program has generated millions of dollars for major, high profile transportation projects throughout the Anchorage area.

## ***Major Infrastructure***

Anchorage has experienced a high level of construction activity over the past several years. New major retailers have located in Anchorage, new schools and hospitals are completed or under construction, and new residential home construction has been strong. Major road and utility infrastructure projects are also in process (e.g., \$21 million for the first 3 phases Anchorage Loop Water Main Transmission project, \$22 million of annual funding for federally funded (ISTEA) transportation projects within Anchorage and future construction of the northern and southern interties).

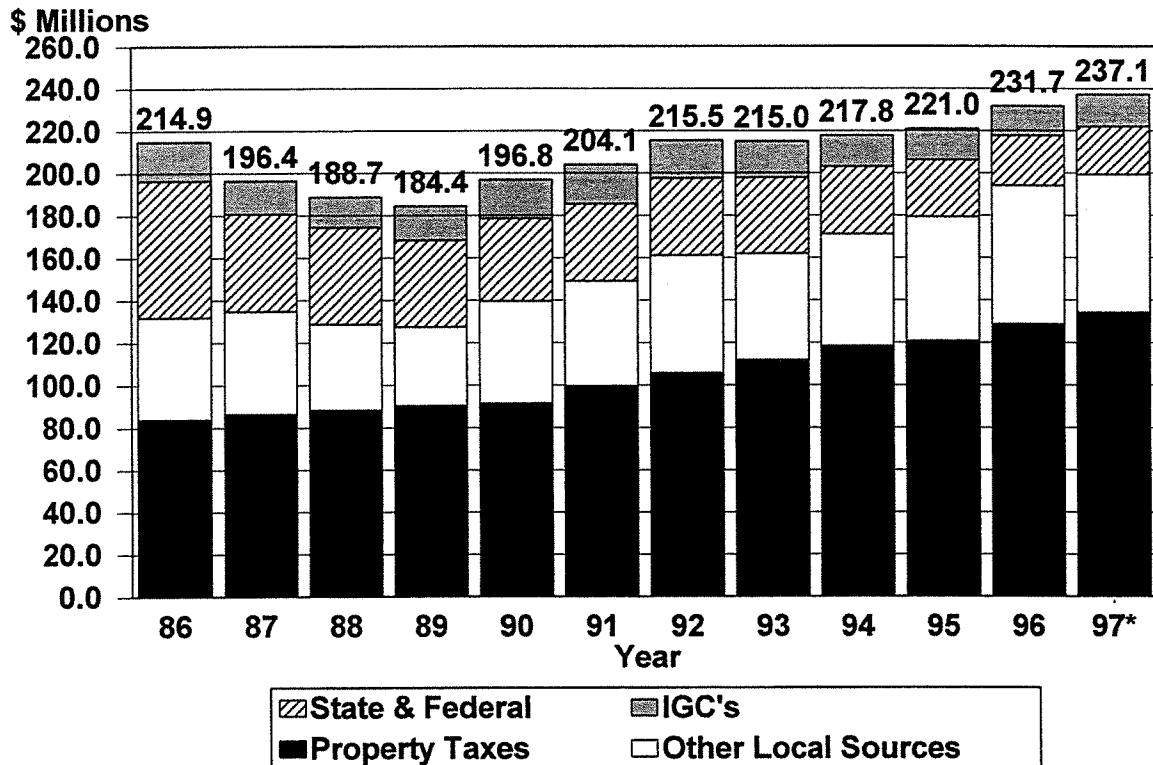
## ***Improved Government Processes***

In order to make government more cost effective and more responsive to public needs, a number of management reviews have been initiated. A very thorough management review of the Police Department, completed in July of 1996, concluded that the police department as a whole is sound and that the department is strong in fundamentals and well positioned to pursue future opportunities for innovation. A number of constructive recommendations were made by the consultant and the Administration is in the process of implementing the recommendations. Also, currently in process, is a review by a private consulting firm to thoroughly analyze the City's building permit system and to recommend changes that will improve service to the public. A third management review, in its early stages, is that of the property appraisal division; the consulting firm will be tasked with analyzing the current property appraisal system and making specific recommendations for improvement. It is expected that this approach of contracting with experts to help us determine how better to deliver government services will be a continual practice based on need and available resources.

## HISTORICAL TRENDS

Reductions have been made to the General Government Operating Budget over the last decade to absorb inflation, react to a major economic downturn and adjust for reductions in State and federal revenue sharing. State and federal mandates (e.g., ADA requirements, underground storage tank removal and National Pollution Discharge Elimination System [NPDES] requirements) have caused increases in expenditures in order to meet associated requirements. A primary reason for the increase in property taxes over the past many years relates to the cuts made by the State to Revenue Sharing and Municipal Assistance -- this effectively is a tax shifting from State to local government.

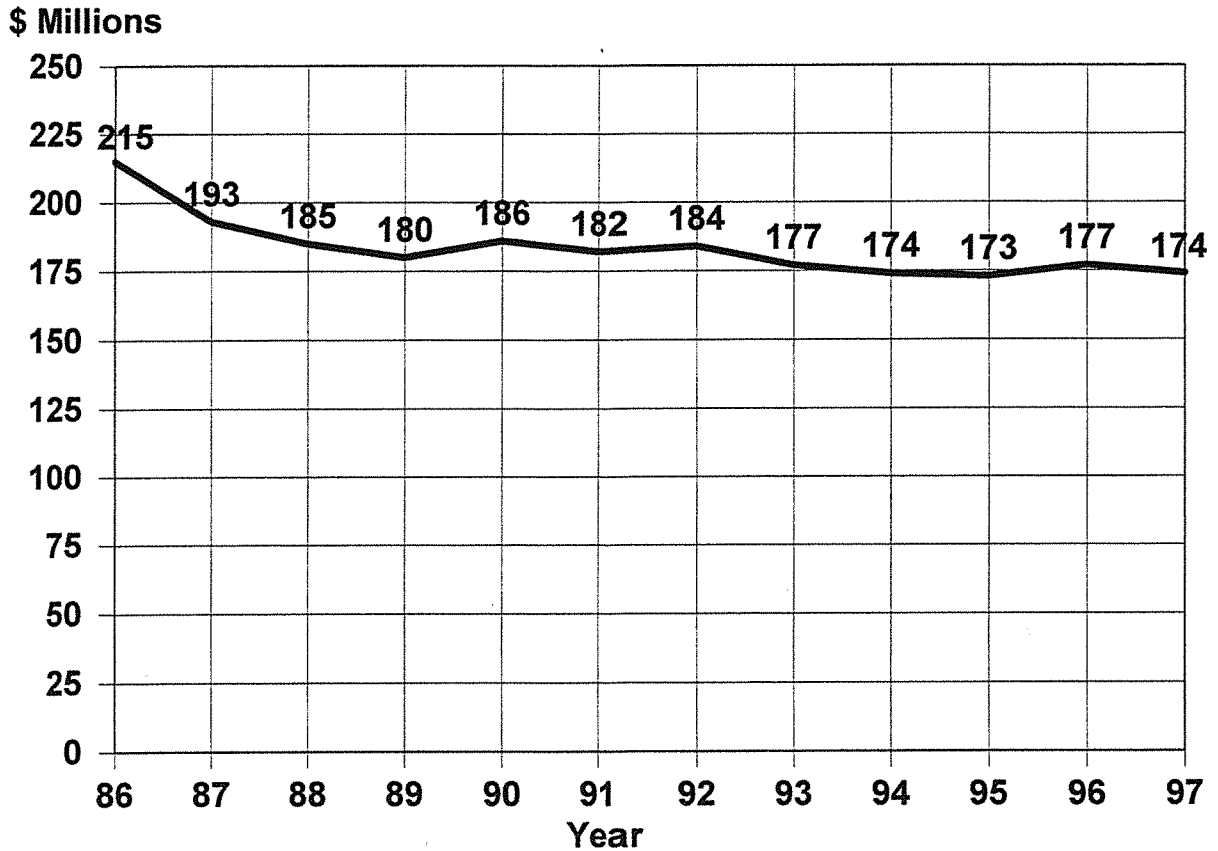
**General Government Operating Budget  
Revenue Sources  
1986 - 1997 \***



\* 1986 - 1996 Revised Budgets; 1997 Proposed Budget.

Considering the effects of inflation, the General Government Operating Budget has decreased by 19% since 1986 as shown in the following graph:

**General Government Operating Budgets  
1986 - 1997 \*  
(in real dollars) \*\***



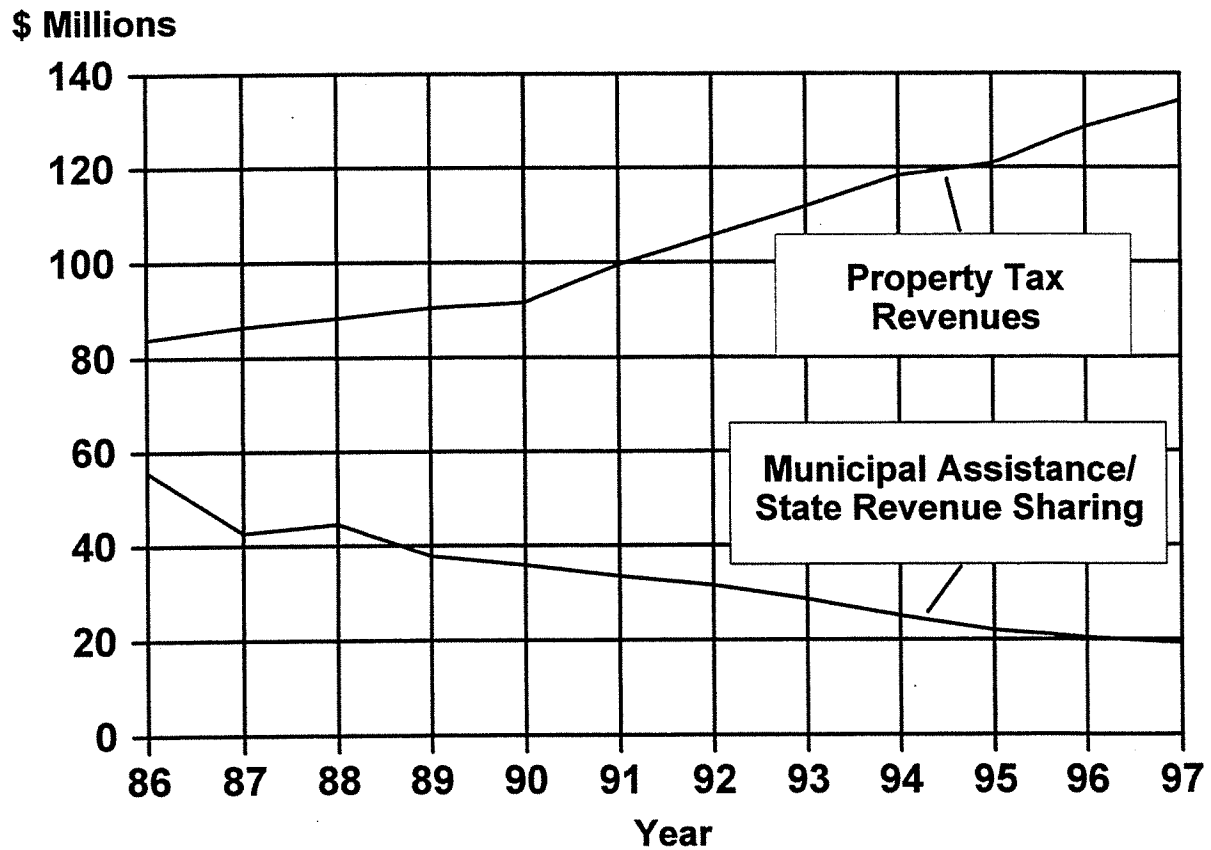
\* 1986 - 1996 Revised Budgets; 1997 Proposed Budget.

\*\* 1986 used as base.



Property taxes have increased to offset reductions in State revenues. We believe that the Municipality has borne more than its fair share of State budget cuts via decreased funding to Municipal Assistance and State Revenue Sharing.

**Municipal Assistance and State Revenue Sharing/  
Property Tax Trend  
1986 - 1997 \***

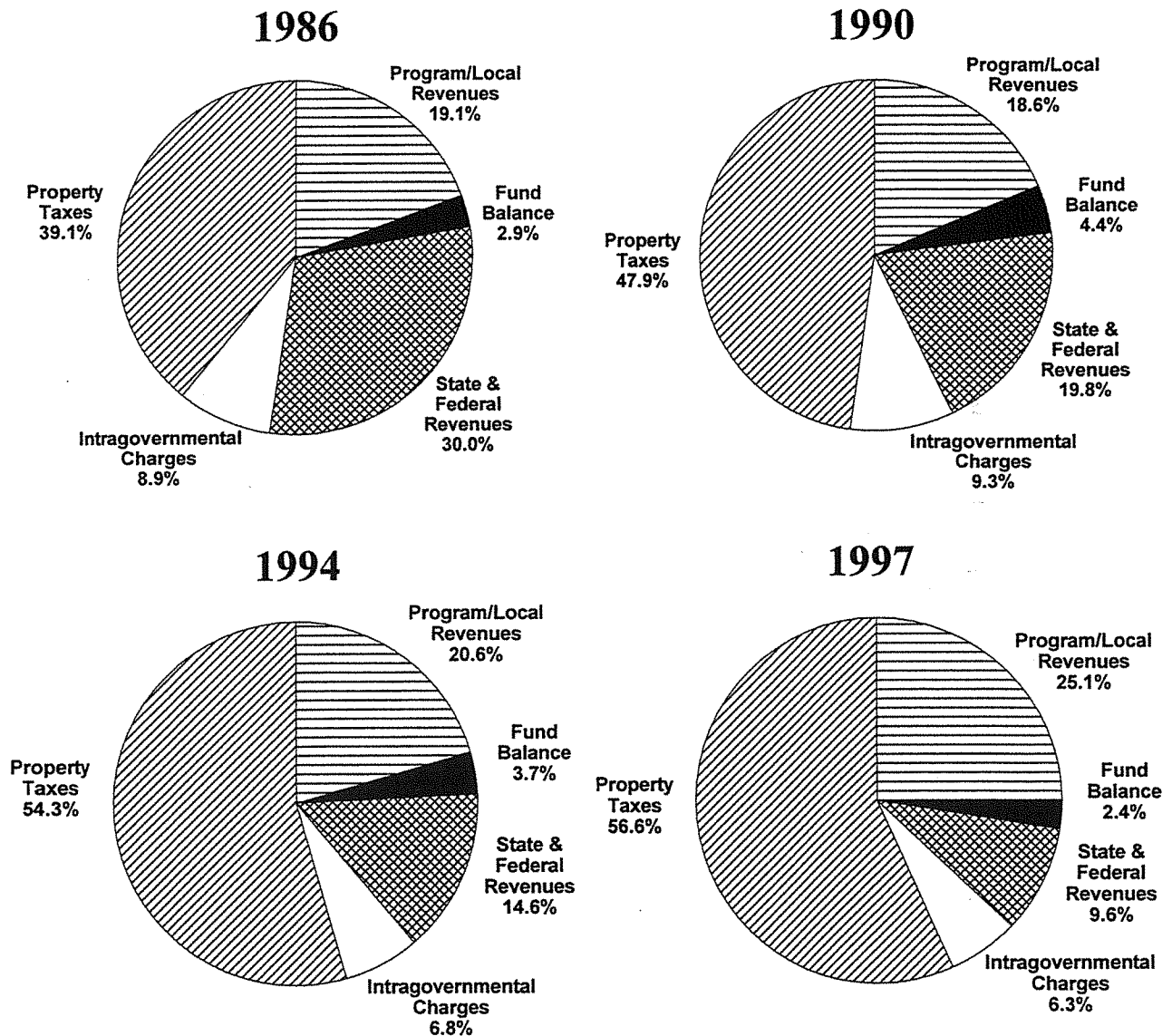


\* 1986 - 1996 Revised Budgets; 1997 Proposed Budget.

Since 1986, Municipal Assistance/State Revenue Sharing to the Municipality has decreased \$36.4 million.

The following charts further illustrate the results of the tax shifting caused by the State's actions. Namely, property taxes which funded 39.1% of the budget in 1986 now fund more than half (i.e., 56.6%) of the budget in 1997.

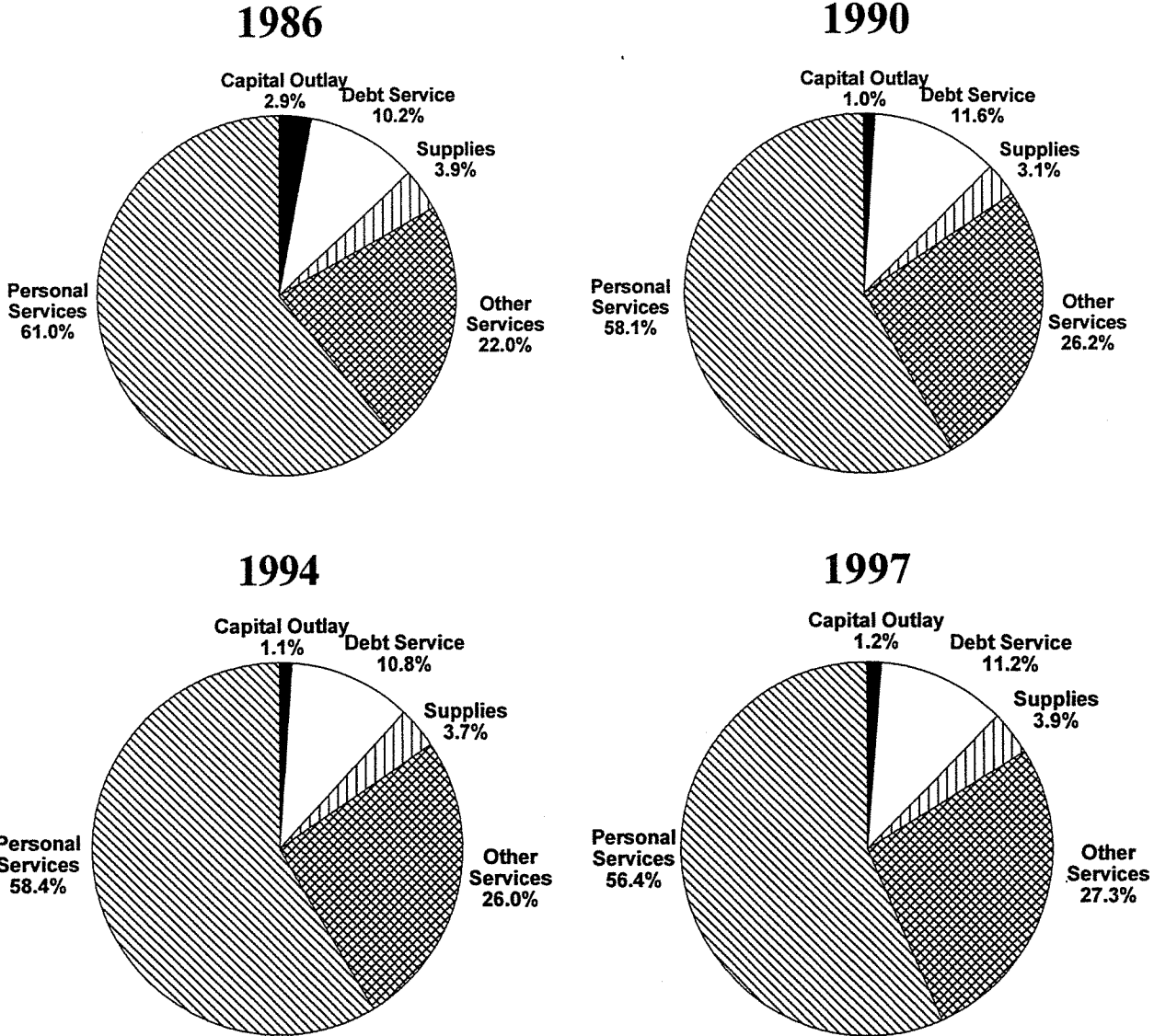
### Operating Budgets by Source of Funds 1986 - 1997 \*



\* 1986 - 1994 Revised Budgets; 1997 Proposed Budget.

As shown in the following graph, the proposed 1997 General Government Operating Budget is comprised of 56.4% personal service costs and 11.2% debt service on general obligation bonds.

**General Government Budgeted Expenditures  
Direct Cost by Type  
1994 - 1997 \***



\* 1986 - 1994 Revised Budgets; 1997 Proposed Budget.

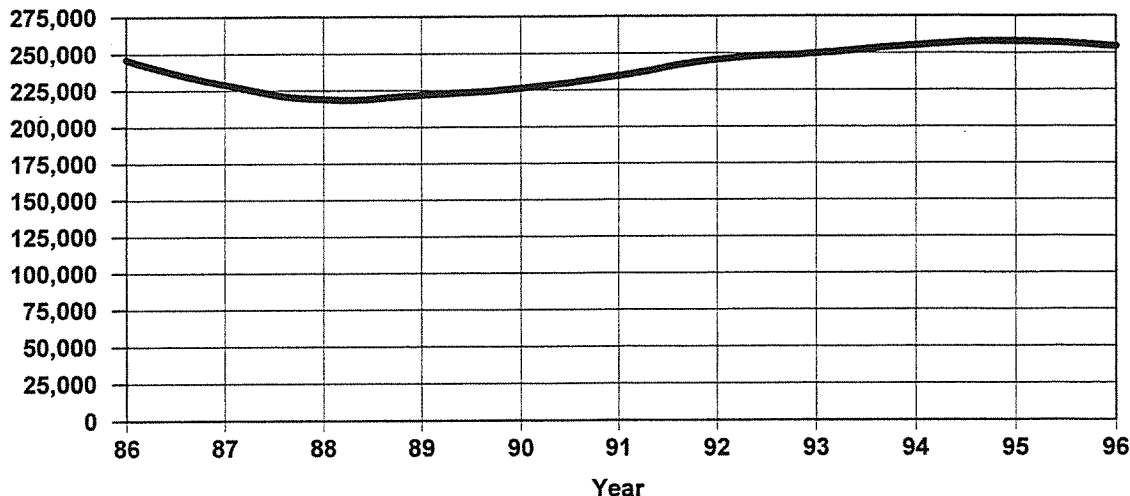
### 3. *FUTURE ECONOMIC OUTLOOK*

Anchorage has experienced stable population and employment thus far in 1996 despite the cutbacks in recent years related to the military and oil industry. Population in 1996 is estimated at 254,269, up nearly 13 percent since 1990. Employment growth over the last several years has been strong. Much of this employment growth is related to construction of over 1.7 million square feet of new retail space. Other major developments nearly or fully completed over the past year include hospital construction, school construction, major hotel development, a new State courthouse, new bank buildings as well as major road construction and airport expansion projects. Anchorage's housing industry has also rebounded strongly since 1990. Future projections for tourism continue to expect 5 percent growth annually. The assumptions highlighted below indicate a stable fiscal environment and healthy economic growth for the next several years.

#### *Major Economic Assumptions (Population, Inflation, Assessed Valuations, New Construction)*

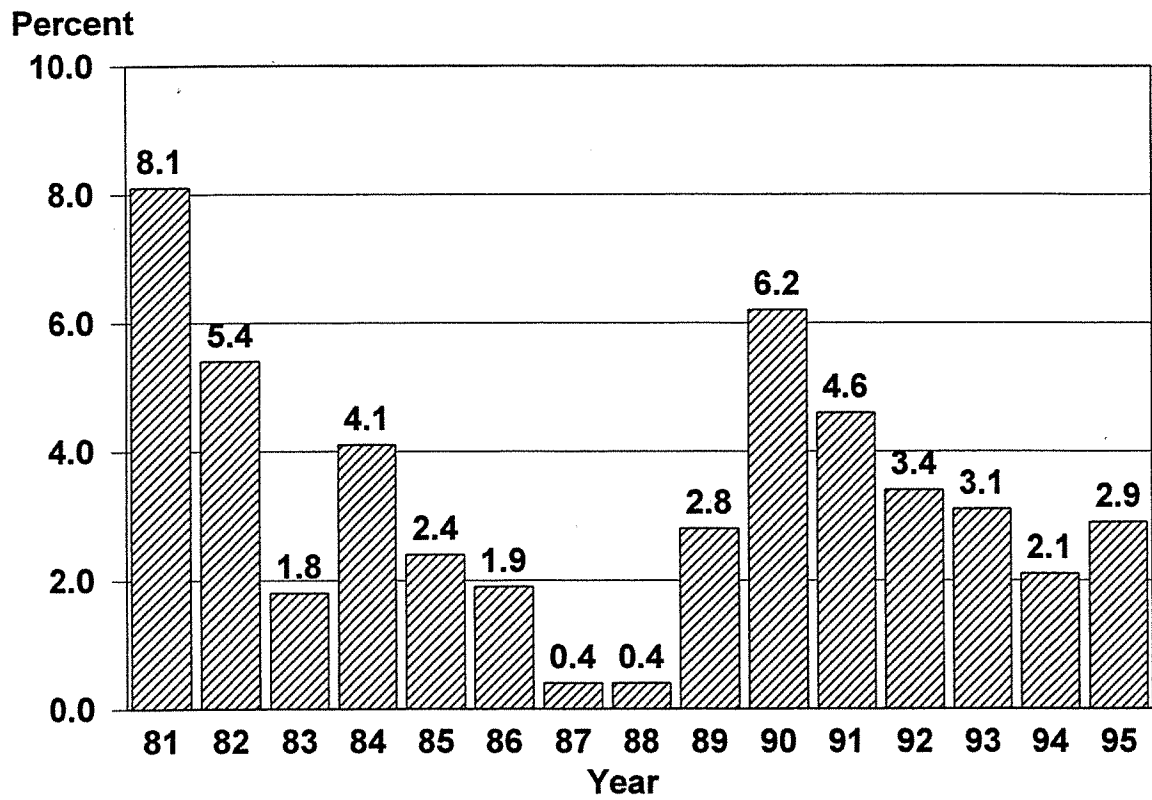
**POPULATION** — Since 1990 Anchorage's population has grown at an average rate of approximately 2.0% per year. This is substantially above the national average growth rate of 1 percent per year. The most recent University of Alaska Anchorage's Institute of Social and Economic Research (ISER) forecast estimates that Anchorage's population growth over the next six years to be slightly less than 1 percent per year.

**Anchorage Population  
1986 - 1996**



**INFLATION** — Inflation for budgetary purposes is assumed by the Administration to be 3.1% for 1997. Long term inflation is projected by the State of Alaska to approximate 3.5% per year.

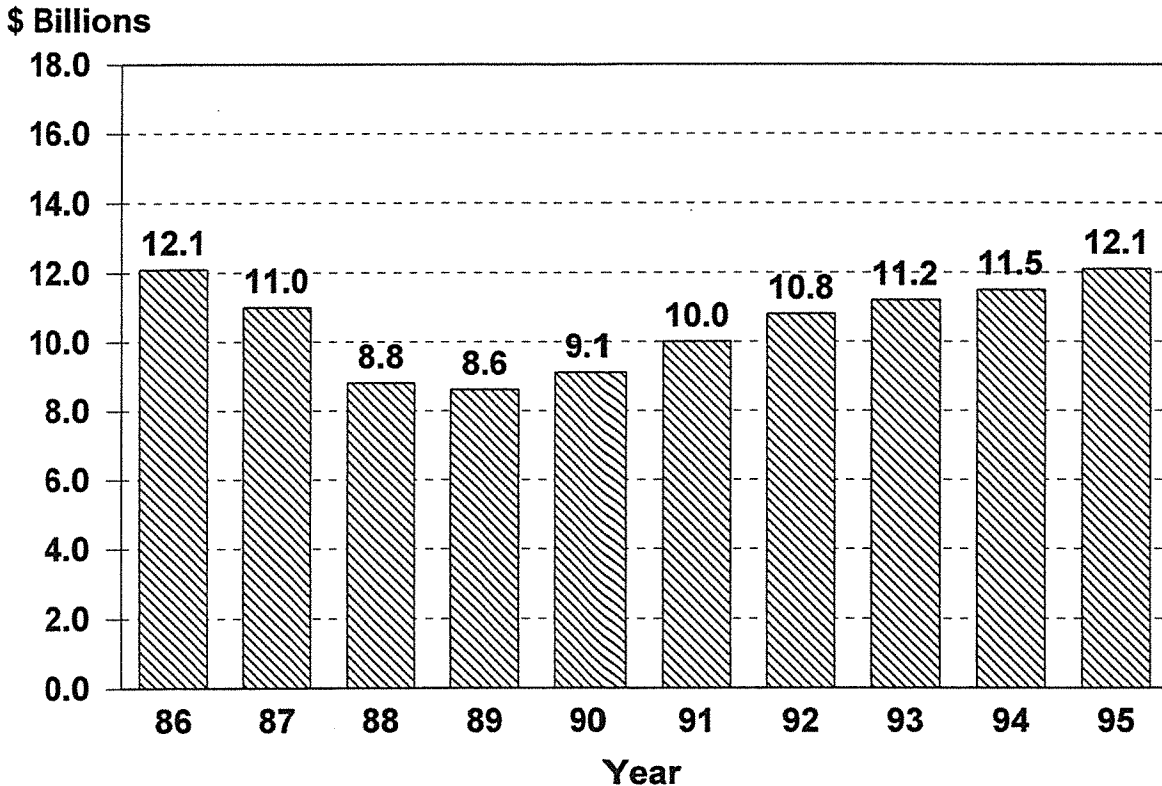
**Anchorage Consumer Price Index  
Annual Change for All Items  
for All Urban Consumers  
1981 - 1995 Historical Trend**



Source: U.S. Department of Labor, Bureau of Labor Statistics

**ASSESSED VALUATIONS** — As shown below, assessed values have rebounded significantly since 1990 such that they are closer to the peak levels of the mid-1980's. Taxable property values are projected to increase at a rate of 2.0% per year during the period 1997-2002. Increases in value are expected to occur mostly in new construction and in residential values.

### Assessed Valuation of Real and Personal Taxable Property 1986 - 1995 Historical Trend

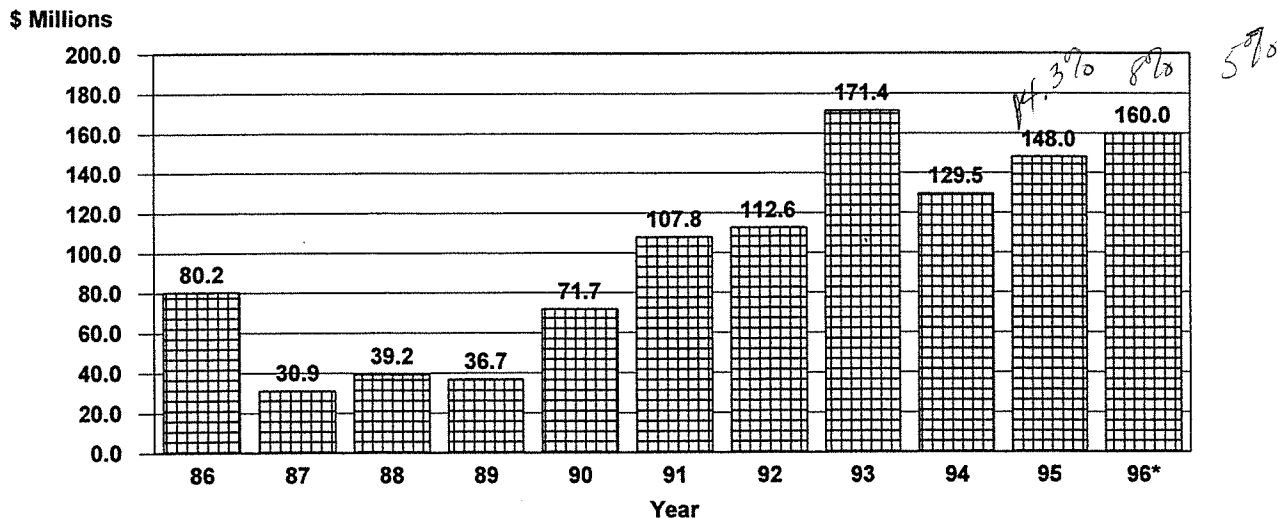


NOTE: The total number of real property parcels appraised in 1995 (for the 1996 mill levies) is estimated to be 86,316. Values shown above include residential property, personal property, commercial property, and Utility Net Plant (i.e., MUSA).

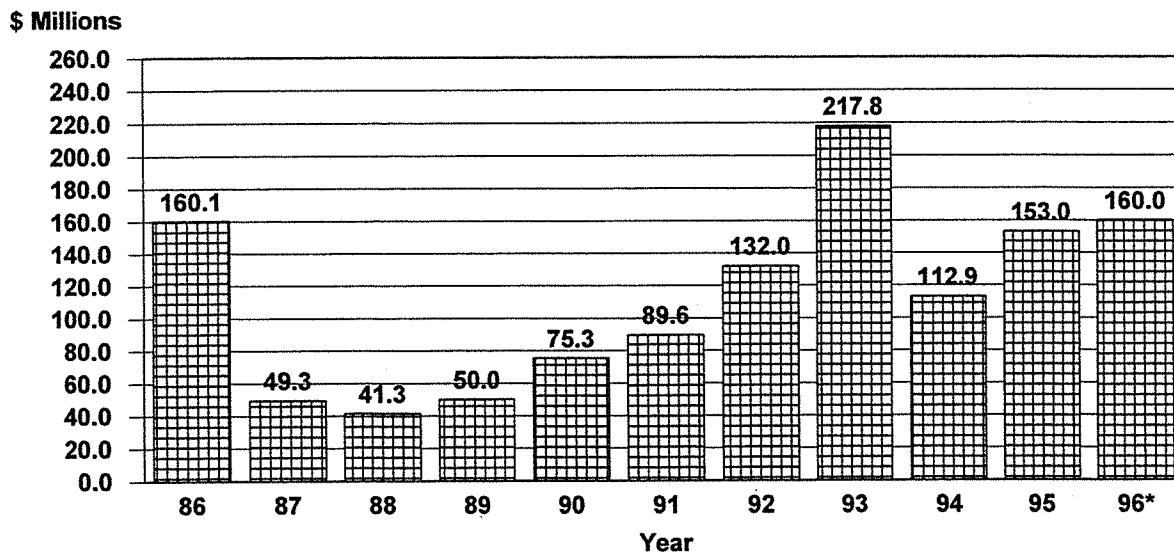
Source: Property Appraisal Division, MOA

**NEW CONSTRUCTION** — Residential and commercial construction is projected to continue at a high level through 1996. While construction levels have grown significantly since 1990, past trends/cycles would indicate a more modest growth period in the near future may be expected. The following graphs illustrate recent trends.

### Construction Spending in Anchorage - Residential



### Construction Spending in Anchorage - Non-Residential



\* Projected as of 07/31/96.

NOTE: The graphs shown above are based on recorded permit activity. The dollar values shown represent estimated values prior to construction. Permits are issued for all construction regardless of whether it is taxable. There is no direct link between these figures and those included in the tax cap calculation (i.e., taxable new construction).

Source: Public Works Department, MOA

## ***Major Opportunities/Concerns***

There are many economic opportunities available in Alaska. Our task is to pursue known opportunities and identify and capitalize on new opportunities that would impact Anchorage. We also must be aware of the concerns facing our City so we can take appropriate steps to mitigate their impact. Below is a list of opportunities and concerns:

### **Current and Future Economic Opportunities**

- Creation of new jobs (retail, service and construction)
- Continuation of construction activity (schools, utilities, new retail stores, interties, hotels and tourism facilities)
- Continuation of significant levels of residential construction activity (new housing units, renovation of existing stock, subdivision platting and development)
- Continued growth in tourism
- All-Season tourism enhancement (e.g., Girdwood development, sport fishing, Ship Creek area beautification/development, Native Heritage Park, trails system expansion)
- Expansion of international warehousing and air cargo distribution (Federal Express logistics and UPS facility expansion)
- Increased marketing of Anchorage International Airport
- Attraction of new industries to Anchorage (e.g., semiconductors, software development, seafood processing and distribution, light manufacturing)
- Increased activity and infrastructure expansion at the Port of Anchorage (Knik Arm Shoal Dredging project and modular construction activities related to North Star Field)
- Intermodal Surface Transportation Efficiency Act (ISTEA) funded transportation projects (roads, trails, overpasses, bridges, beautification, air quality)
- Community Development Block Grants (CDBG) to fund projects which improve quality of life
- Foreign export of Alaskan oil
- Increased development of smaller oil fields (e.g., North Star)



## **Current and Future Economic Concerns**

- Increasing trend in arbitration and judicial decisions relative to labor, compensation and benefit issues which view the Municipality as having “deep pockets” and disregard the cost impacts to the public
- Continued decline in Prudhoe Bay oil production
- Continued decline in State revenues
- Continued trend of service/retail jobs replacing generally higher paying oil industry-related jobs
- Reduced population growth
- Unfunded Federal/State mandates
- Shifting of State responsibilities to local government without adequate funding
- Binding arbitration awards

## ***4. PUBLIC SERVICES AND CAPITAL PROJECT FUNDING***

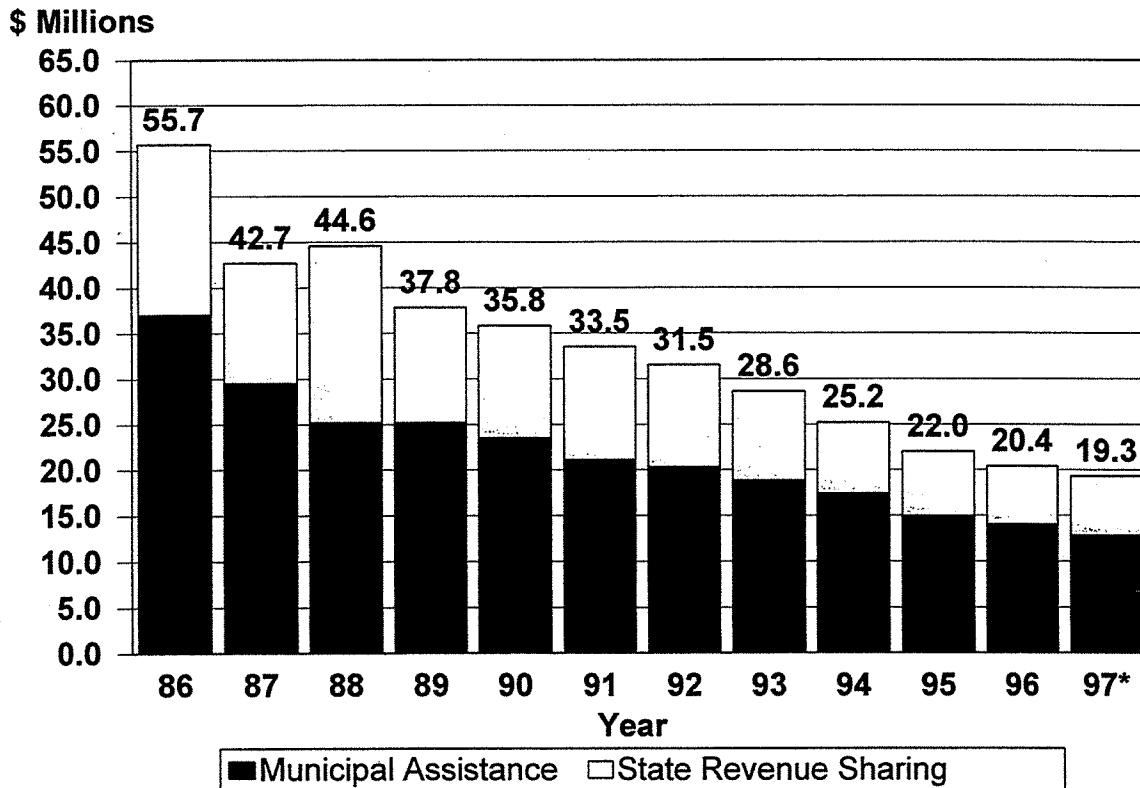
Public services and capital projects enhance the quality of life in Anchorage by: maintaining a safe city; providing cultural, recreational and educational activities and programs; balancing responsible development with environmental concerns; providing critical human services to people in need; responding to fire, rescue and emergency medical situations; and maintaining a basic public transportation system. Unless significant expenditure reductions and/or alternative revenue sources occur in the future, the local property taxpayer can expect to continue experiencing an increased tax burden.

### ***State Revenues (Operating and Capital)***

Over the last 11 years, State Revenue Sharing and Municipal Assistance have decreased an average of 9.5% per year. We believe that Anchorage has taken more than its fair share of cuts to Municipal Assistance and Revenue Sharing. Local taxpayers have experienced an increase in the property tax burden in direct proportion to the cuts made by State government to Municipal Assistance and Revenue Sharing. Should the State choose to continue shifting the tax burden to local government, the Municipality will need to find additional ways to reduce expenditures, increase property taxes or increase non-property tax revenues.

The following graph illustrates the dramatic decrease in State operating assistance over the last eleven years:

### Municipal Assistance and State Revenue Sharing 1986 - 1997

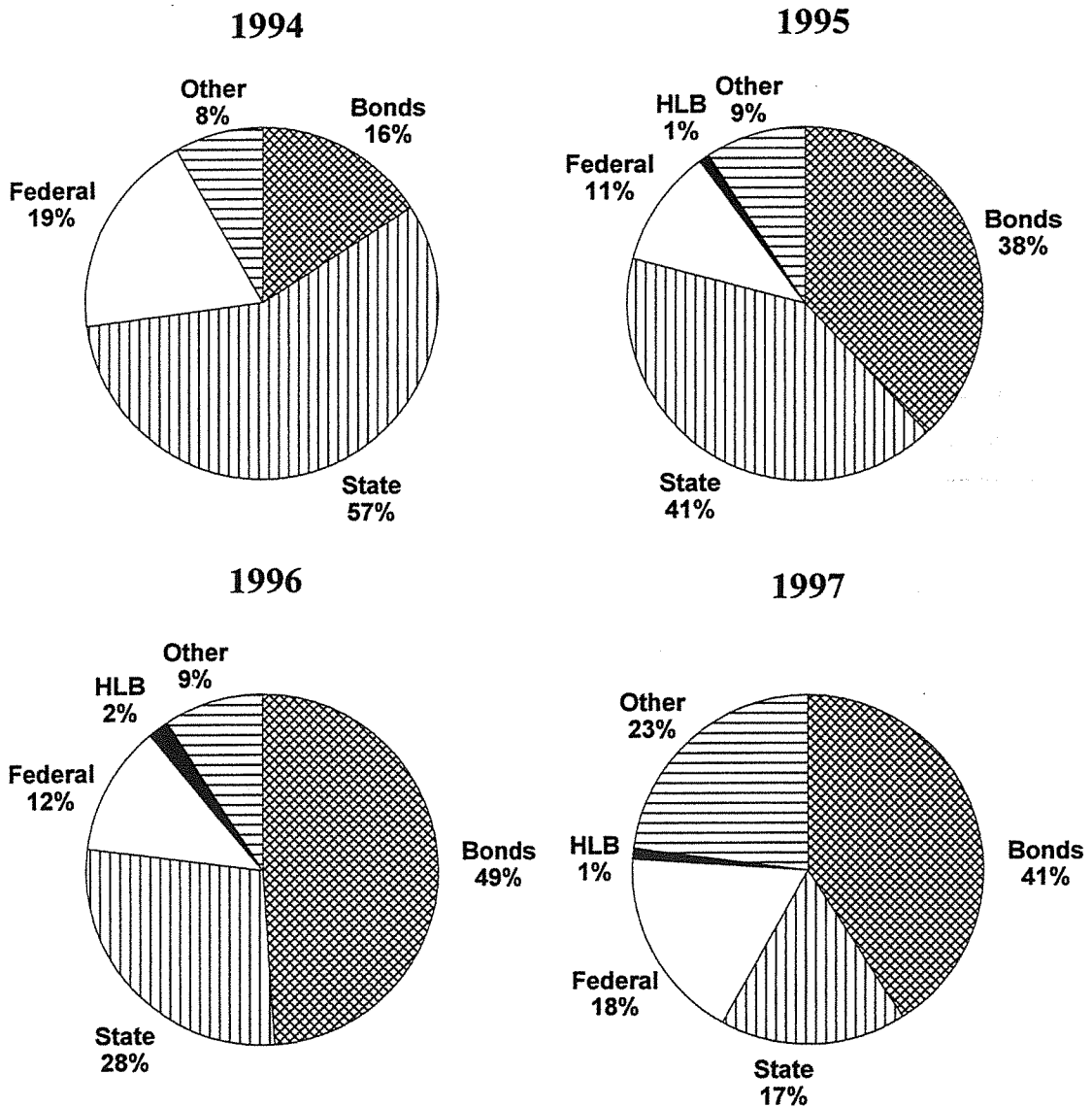


\* Projected

Pressure has been put on the property taxpayer to help shoulder the burden of State revenue cuts. As the graph on Page 2-8 indicated, tax shifting from State to local government has been occurring since 1986.

Over the last several years there has been a dramatic decrease in the amount of discretionary capital funding that the State has granted to Alaskan cities. As a result, there has been a change in our capital funding approach. The Municipality's capital budget currently focuses more on obtaining State matching grants (as opposed to discretionary grants) and relies more heavily on voter-approved bonds to provide local funds for match purposes and to help offset the reduction in State capital funding. The following pie charts demonstrate the trend toward increased local funding of capital projects:

**Capital Funding Requested  
Funding Sources as % of Total  
1994 - 1997 \***



\* 1994 - 1996 Revised Budgets; 1997 Proposed Budget.

## ***Tax Cap Limit***

The tax limitation was established by Charter amendment through the initiative process in October of 1983.

The tax limit is set each year based on the amount of taxes levied in the prior year adjusted for debt service, changes in prices (Consumer Price Index for Anchorage), and changes in population (5-year average population, using certified data from the Alaska Department of Community and Regional Affairs).

The Charter allows certain exclusions as part of determining the total allowable level of taxes. Specific examples of exclusions are new construction and property improvements, taxes required to pay judgments against the Municipality, debt service on bonds, and items specifically approved by the voters as outside the tax cap (e.g., voter approved operation and maintenance [O&M] costs for bond-funded capital projects).

Factors such as population growth, new construction, inflation, and additional debt service are all expected to be significant components in the calculation of future tax caps.

## ***Debt Service and O&M Costs***

The proposed 1997-2002 General Government Capital Improvement Program (CIP) includes a variety of projects that will help to improve and maintain the City's infrastructure. Most of the capital projects programmed for funding are dependent on future voter approval of bonds and/or future State grants.

The following table estimates the approximate impact on property taxpayers due to increased debt service if all bond-funded projects in the Proposed 1997-2002 CIP were funded. In addition, the table estimates the net increase in annual operation and maintenance costs if all projects were funded in the Proposed 1997-2002 CIP. Note that historically the Municipality has received funding for only one-third to one-half of the total CIP projects proposed.

1997 - 2002 General Government Capital Improvement Program	By Year 2002		
	Estimated Dollar Impact	Average Mill Rate Impact	Cost Per \$100,000 Valuation
Total projected net increase in annual Debt Service costs	\$3,541,349	.35 mills	\$35
Total projected net increase in annual Operation and Maintenance costs	\$1,352,300	.13 mills	\$13

Voter approved debt service and O&M costs are outside the tax cap, so there is no legal limitation on the source of tax funds to support the construction and maintenance of these new or improved facilities. Each individual bond proposal brought before the voters is evaluated carefully as to whether additional taxes are needed to fund future operation and maintenance of bond-funded Municipal facilities.

### *Anchorage School District*

Although this report addresses mainly general government concerns, it is important to remember that the Anchorage School District has a significant impact on Anchorage property taxes. For instance, tax-supported debt service is still to be realized related to the recent sale in August, 1996 of \$65 million of the \$174.9 million in authorized school bonds; and O&M costs are still to be realized related to the newly constructed schools soon to open. Required tax support during the 1997-1998 School District fiscal year for the currently unrealized portion of annual debt service and O&M costs is estimated at \$3 million and \$4 million, respectively. Should the School District propose a 1997-1998 overall operating budget (including debt service and O&M costs) that taxes to the cap, 1997 school property taxes are estimated to increase .65 mills, or \$65 per \$100,000 assessed value.

The Administration will continue to closely monitor the level of the Anchorage School District budget. Over the past two years, the Mayor-appointed School Budget Advisory Commission has played a very public role in challenging the School District to find ways to hold the line on its budget.

## ***5. FUTURE FISCAL STRATEGIES***

We recognize that there are a number of significant fiscal challenges that we will need to address in the coming years. For example, beyond 1997, we expect that federal funding for police officers may decrease. Further declines in other federal revenues and State Revenue Sharing/Municipal Assistance may also occur. Health insurance costs nationwide are projected to rise significantly in future years. Other inflationary increases and unfunded federal/state mandates are also of concern. Fund balances likely will be less available to offset decreased revenues and increased costs, due to the budget tightening that has already occurred over the past several years.

As discussed below, the three major strategies to help us work through potential future fiscal challenges will need to involve a combination of economic development initiatives, expenditure options and revenue options. The alternative strategies presented below are for discussion purposes only. They are not intended as recommendations.

### ***Economic Development***

If the Municipality of Anchorage is to continue to provide an adequate level of government services to its residents and Anchorage is to maintain a strong, stable, diversified economy, we must aggressively work toward encouraging economic development. We have already made good progress toward making Anchorage a better place to live. The more attractive we can make our City, the more new businesses and visitors will realize what a great place Anchorage is to live, work and visit.

In the coming years the Administration expects economic development will occur in a number of key areas such as:

- Anchorage International Airport (e.g., global distribution center)
- Port of Anchorage
- Ship Creek Area Beautification/Development
- Girdwood Community
- ISTEA and Community Development Block Grant (CDBG) projects
- New Fisheries Infrastructure

## *Expenditure Options*

The following is a list of potential ways to reduce Municipal expenditures:

- **Labor Policy** — Continue to bring Municipal compensation (wages and benefits) in line with the private sector and to seek changes in our labor agreements which will enable us to deliver public services in the most productive and cost effective manner. Since wages and benefits comprise nearly two-thirds of the operating budget, not including debt service, labor costs have a significant impact on the ability to provide an acceptable level of public services.
- **Efficiency Measures / Consolidation** — Provide government services using fewer resources through improved work methods and scheduling. Eliminate duplication of efforts between State and local government.
- **Increased Automation** — Provide more complete and timely information through the prudent use of automated tools and equipment. By automating manual processes and providing better access to information, decision making will be enhanced and worker productivity will increase. For example, in 1996 the Municipality will begin to make information available electronically to the public through a newly developed Internet Home Page.
- **Service Contracting** — Contract for those services that can be delivered more cost effectively by the private sector. Possible areas include contracting to smooth seasonal and cyclical costs, construction project management, public safety services such as prisoner transport and subpoena services, and similar activities. Contract out to nonprofits when those organizations can provide services more efficiently and cost effectively.
- **Reduced “Red Tape”** — Change cumbersome, inefficient policies, ordinances and regulations that do not provide enough benefit to be cost effective through a careful evaluation of current methods and processes (i.e., hiring private consulting firms to perform management reviews in specific areas).
- **Increased Use of Volunteers** — Continue to facilitate cooperative efforts between private citizen volunteer groups and local government in order to minimize costs of providing government services and to help clean and beautify our City.
- **Capital Funding** — Reduce operations and maintenance costs of roads and facilities by maximizing available sources of capital funding, such as ISTEA funds, CDBG funds and General Obligation bonds.
- **Constrain Budget Increases** — Discourage future discretionary increases to the operating budget unless matched with an offsetting reduction of a lower priority program or service.



## *Revenue Options*

The following is a list of potential new revenues:

- **User Fees** — Consider new or increased user fees that may be justified by the cost causer/cost payer principle.
- **Taxes** — Consider new or increased taxes that would generate significant new revenues and reduce the burden on the local property taxpayer.
- **Utility Contributions** — Utilities, both public and private, receive government services and therefore should continue to help to support the operation of general government in Anchorage. Private utilities vary in the type and size of their contributions with some paying property taxes, some paying franchise fees, and some paying co-op fees. Municipal utilities also help to support general government operations. Most of our municipal utilities make payments in lieu of property taxes. All pay intragovernmental charges and some pay dividends.

Municipally-owned utilities should provide its owners (i.e., the citizens of Anchorage) with an appropriate rate of return, guided by industry standards and limited to each individual utility's ability to pay.

The Anchorage Telephone Utility (ATU) has committed to providing at least \$47.2 million in dividends to its owners over the next 5 years. Future budgetary planning assumptions rely on ATU providing this minimum level of return. It is reasonable to expect, however, that even greater returns can be generated by ATU.

Continual monitoring needs to occur as to the type and amount of contributions made by all utilities, both private and public, so that payments made by utilities to general government for services received are fair and equitable.

- **Sale of Utilities** — The Municipality of Anchorage continues to own at least two utilities which could be privatized, Anchorage Telephone Utility and Municipal Light and Power.

## ***6. CONCLUSION***

There are many opportunities to make Anchorage a safer and more livable city and a better place to do business. While making our City safer continues to be our primary focus, we also intend to encourage economic development and to continue making Anchorage cleaner and more attractive. We will also strive to emphasize quality recreational and cultural opportunities for our residents.

The enhancement of our City's quality of life does not come without a cost. At the same time we strive to improve our City, we are faced with rising costs and declining State revenues. We need to ask ourselves if increasing property taxes is the right solution. Anchorage property owners are bearing an increasingly disproportionate burden of the costs of delivering our City's services. In addition to increasing property taxes, there are three other alternatives — decreasing expenditures, increasing revenues other than property taxes, or a combination of the two. This Six-Year Fiscal Program has presented these alternatives for future consideration.