



# Municipality of Anchorage

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*Mayor Mark Begich*

Office of the Mayor

October 2, 2003

Dear Fellow Anchorage Resident:

I am pleased to present our six-year fiscal program for the Municipality of Anchorage. The Municipal charter requires the Mayor to submit to the Assembly a “six-year program for public services, fiscal policies and capital improvements.”

This six-year program is intended to encourage a balanced approach toward responding to changing fiscal conditions. As I write this, our city faces an operating budget gap of \$33 million, one of the most severe budget crises since the oil price crash of the late 1980s. Its causes are three multiple pressures I’ve described as a “perfect storm:” A combination of unprecedented state budget cuts, the constraints of our property tax cap, and increased demand for services for a growing city.

Through some tough choices and the innovation of our city employees, my Fiscal 2004 budget balances. It fills the gap by providing the same or improved services at less cost, by asking those who benefit from services to more equitably cover their costs, and by eliminating services we can no longer afford and which are not essential. I’ve described this as the “duct-tape approach,” because it is like applying a long strip of duct-tape to your arm and then jerking it off all at once. There’s immediate pain, but time to heal in the future. The future healing – building our city for community, security and prosperity – is my long-term goal.

As we balance the immediate budget, I believe we must take the necessary steps to ensure the long-term stability of our core services and of Anchorage’s economic growth. That’s what this Six-Year Program addresses.

It details plans to provide core services to our citizens, from transportation and public safety to and cultural and recreational improvements. It includes a long-term capital budget plan that addresses Anchorage’s most basic needs, plus providing the means to expand our economy with targeted investments in new economic diversification projects. Chief among these is an

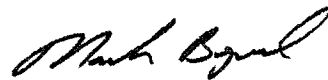
*Community, Security, Prosperity*

innovative expansion of the Anchorage Museum of History and Art supported by private and public dollars and the construction of a new convention center to attract the large, business-generating conventions our city simply cannot handle today.

In recent years, the State of Alaska has decreased its annual contribution to local capital projects. As a consequence, the Municipality of Anchorage must rely on voter-approved, general obligation bonds as the primary source of funding for our capital budget needs.

I urge your review of our community's six-year fiscal program. More information is available at our Municipal libraries and on the city's website at: [www.muni.org](http://www.muni.org)

Sincerely,

A handwritten signature in black ink, appearing to read "Mark Begich". The signature is fluid and cursive, written in a professional style.

Mark Begich  
Mayor

*2004 - 2009*  
*SIX YEAR FISCAL PROGRAM*  
*MUNICIPALITY OF ANCHORAGE*

*Mark Begich, Mayor*

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**2004 - 2009**  
**SIX YEAR FISCAL PROGRAM**  
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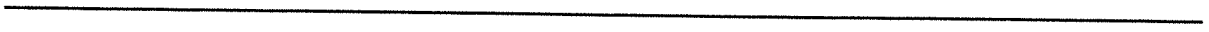
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# *1. EXECUTIVE SUMMARY*

The 2004-2009 Fiscal Program provides a six year profile of key factors affecting the Municipality. It discusses key initiatives of the Administration, economic trends and outlook, public services and capital project funding, long-term fiscal projections and fiscal policy options. The Six-Year Fiscal Program is designed to generate public discussion so we can plan for changing fiscal conditions and maintain a stable fiscal environment.

This document presents options to be considered by the Assembly and the public how best we can meet future fiscal requirements while continuing to expand our local economy. Options to meet future fiscal requirements include economic development opportunities and aligning spending with expected revenues.

For the purposes of discussion, the following topics will be addressed in this review: Public Safety, Economic Growth, Quality of Life, Individual and Family Development and Spirit of Community. These priorities unify department efforts and help determine how public funds are spent. By making better use of technology, re-engineering processes, and restructuring departments and responsibilities, the Municipality continues to work towards delivering the right services at the right price.

The outlook for 2004 is one of modest but stable growth across the region. There will be modest growth in employment, especially in the services industry. Construction activity will also continue to be strong, and travel and tourism should remain steady.

There are, however, some areas of concern. Decline in oil production, global economic stability, and the State's fiscal uncertainty and participation in the local economy, are among those issues that could have a negative impact on the economic future of Anchorage.

**Fiscal Projections** — The six year fiscal projections for the Municipality of Anchorage are contained in Chapter 5. The projected fiscal surplus/shortfall shown on Page 5-2 reflects the following three broad assumptions: (1) modest growth in revenues, (2) modest growth in expenditures, and (3) priority public services maintained at year

2003 base level through the six year projection period. A number of fiscal impacts which could lead to more significant budgetary shortfalls are also discussed in this chapter of the Six Year Fiscal Program.

It is important to keep in mind that circumstances may arise which can change the assumptions and thus the projected fiscal outlook.



## ***2. BACKGROUND***

This section of the Fiscal Program provides a summary of major issues that influence the Municipality's current fiscal condition or are areas associated with local government's mission. Areas covered in this subsection include the following:

- Public Safety
- Economic Growth
- Spirit of Community
- Quality of Life
- Individual and Family Development
- Municipal Budgets and Budget Trends

### ***Public Safety***

Making sure Anchorage is a safe place to live, work and visit is a tremendous responsibility for the men and women whose job it is to provide for the public's safety.

For the Police and Fire Departments, the Health and Human Services Department, Transportation Inspection, and the Office of Emergency Management, safety is paramount 24 hours a day, seven days a week.

The mission of the police is to protect life and property, enforce laws and promote public safety. For patrol officers this includes responding to emergencies and calls for police service, investigating traffic accidents and enforcing traffic laws. For detectives it requires investigating crimes, arresting criminals and bringing cases to closure.

The Municipality's Office of Emergency Management ensures the city is prepared for all potential emergencies and disasters.

## ***Economic Growth and Opportunities***

There are also a number of positive steps available by which government can encourage private sector investment and the creation of new jobs and opportunities to increase individual wealth and prosperity for all residents.

The steps being taken by the Municipality of Anchorage include improving the quality of life in our city, the safety of neighborhoods, supporting our public education and university systems, maintaining a stable fiscal environment, seeking improvements for our utility and transportation infrastructure, and fostering a general attitude within government that makes customer service the top priority.

As the state's major commercial, transportation, finance and government center, Anchorage has experienced growth in most employment sectors, particularly commercial building construction and major public works projects.

Anchorage is a gateway to the world—just nine hours or less from 95 percent of the world's industrialized nations. The tonnage of air cargo moved through the airport made Anchorage the third busiest in the world last year, behind Memphis and Hong Kong.

Thanks to strong support from the Alaska Congressional Delegation and from the Anchorage Caucus in the Legislature, federal and state funding is anticipated for the needed expansion at the Port of Anchorage. With more than 80 percent of the state's population served by the port, plus the potential for new military and tour ship business, expansion is vital.

One exception to the positive economic indicators is the employment declines occurring in oil production and services. Limited development of new fields is expected in the next two years, and the largest producers are cutting back on their overall capital expenditures in Alaska.

Virtually every department in municipal government in one way or another contributes to the economic vitality of the city. The departments of Planning, Project Management & Engineering, Development Services, Maintenance and Operations and Traffic, taken together endeavor to:

- provide good planning for livable neighborhoods, a safe and healthy community, and a sustainable economy
- build and maintain city streets
- help citizens get their construction projects completed safely and according to code

The Real Estate Division of the Heritage Land Bank also has a pro-development mission, which is “the promotion of economic growth through sound real estate practices on behalf of the public and all levels of government through reclaiming lost tax revenue, responsible property and lease management, and conducting sales of tax-foreclosed properties to repay the municipality’s tax base.”

The Anchorage Economic Development Corporation, working in partnership with the Anchorage Chamber of Commerce and the Mayor’s Office, funded “Vision Anchorage,” a strategic planning project to identify strengths, weaknesses and opportunities for diversifying economic development in the Anchorage area. The broad-based plan includes an evaluation of Anchorage’s economic base and developing tools and strategies that will help existing businesses strengthen and expand their presence, as well as ways that the region might attract new, complementary enterprises.

## ***Construction and Infrastructure Development***

Over the past several years Anchorage has experienced very strong levels of new construction in both private and public sectors. The Municipality’s cost of borrowing through general obligation bonds is at historic lows, with 20-year general obligation bonds sold at interest rates below 5%. Similarly, interest rates available to the private sector have greatly spurred lending for residential and commercial real estate projects of benefit to new homeowners, contractors, real estate agencies and the financial services industry.

## ***Quality of Life***

There are a multitude of factors that people use when determining their quality of life. The list can include just about everything from personal income to air quality, traffic congestion, recreational opportunities, surrounding scenery, cost of living and weather conditions.

Anchorage is the second most frequently requested duty station for the military. Reader’s Digest named Anchorage one of the best cities in America to raise a family. Last year, in an analysis of the nation’s largest 65 cities, the *Cleveland Plain Dealer* determined Anchorage ranks eighth best after factoring in local taxes, average time to drive to work, median income, level of education, percentage of residents below the poverty line and how much of an average citizen’s monthly income goes for house payments or rent.

Municipal government influences many of the factors that determine the quality of life for residents and visitors. One of the primary missions of the Municipality of Anchorage is to provide a livable, sustainable northern community that exists in harmony with its environment and where citizens of all ages enjoy an outstanding quality of life.

The Office of Economic and Community Development is responsible for providing recreational and educational opportunities that benefit all residents.

- Municipal libraries serve the informational and recreational reading needs of the public.
- The Anchorage Museum of History and Art provides cultural and educational opportunities and helps preserve the cultural heritage of Alaska.
- Ice arenas and other facilities operated by the Municipality host sporting events and convention crowds all year long.

From ball fields and trails in the summer to ski trails and skating rinks in the winter, this department provides outdoor recreational opportunities that contribute to a better quality of life for people of all ages. Likewise, the department's beautification efforts throughout the Municipality, which emphasize flowers in the summer and bright lights in the winter, help to brighten hearts and spirits.

The role of our Planning Department is to help guide the development of the community. The Planning Department is responsible for the Municipality's 2020 Comprehensive Plan, now available on CD. The plan, developed with assistance from hundreds of volunteers, envisions multiple town centers and open spaces that will contribute to Anchorage's quality of life as the city grows.

Usually overlooked when factors are considered for quality of life assessments are local utilities. The dependability, low cost and quality of essential utility services has had a significant impact for Anchorage. Municipal water, electric and solid waste services have a long record of providing reliable services at low costs.

The Public Transportation Department, or People Mover, is responsible for meeting the public transportation needs of all Anchorage residents and visitors, including persons with disabilities via its paratransit system. A new route restructure has increased the number of riders by providing more frequent service and longer evening and weekend hours on key routes.

The Maintenance and Operations Department provides year-round maintenance and improvement of Municipal streets, parks, trails, drainage systems and streetlights. The

department is responsible for removing snow from city maintained streets, park facilities, sidewalks and trails.

The Traffic Department's job is to create, enhance and maintain safe, reliable multi-modal transportation that meets the community's needs. This includes long-range plans for Anchorage's road systems and promotion of public safety on city streets.

## *Spirit of Community*

When neighbors look after neighbors, and people from all walks of life voluntarily pitch in to help someone else in need, they demonstrate a "sense of community." Government can't pass laws or write regulations to require a sense of community. But government can set the tone through good example, by helping residents better understand the needs within the community and by providing opportunities for people to be involved.

Anchorage was recently selected as an All-America City primarily because of our demonstrated sense of community. Our approach to solving problems through citizen participation, our celebration of many cultures, the respect and dignity that residents afford one another, and the community's involvement in numerous efforts to improve the lives of others were among the factors taken into account by the All-America City judges.

Anchorage demonstrated its sense of community in 2001 when we hosted the Special Olympics World Winter Games Alaska. It was the second largest sporting event in the world with 2,750 athletes competing from 74 countries.

To make it a success, event organizers put out the call for 5,000 volunteers from within Anchorage. More than 8,000 residents stepped forward to help. By the time the games were completed, Anchorage was credited for having conducted the best games ever—the result, in large part, of the spirit of community.

Following the September 11 terrorist attacks, more than 1,100 citizens enrolled in the AWARE Academy which taught basic emergency preparedness. The training was all voluntary. Executives from the Municipal Manager's Office, the Emergency Operations Center, the Fire Department and other departments pitched in to design the AWARE course and share teaching responsibilities. The Mayor and Municipal Manager were among the volunteers who taught parts of the course. The AWARE program is now being expanded to schools.

According to the United Way Campaign, Anchorage has the fifth highest per capita giving of any city its size. The spring clean-up effort again this year saw thousands of volunteers alongside our highways picking up the trash that accumulated over winter. Health and Human Services programs, our municipal libraries, the city's beautification program—all depend greatly on hundreds of volunteers.

All these are valid measures for assessing Anchorage's spirit and sense of community.

## ***Individual & Family Development***

Taxpayers in Anchorage, through the municipal government, help pay for a quality public education system, affordable housing, and programs that promote physical and mental health to enable citizens to fully participate in the economy and the community.

The Anchorage School District, which is the 82<sup>nd</sup> largest in the nation, serves just under 50,000 students in 91 public schools from Eagle River to Girdwood. These include elementary, middle, and high schools, a vocational school, specialized programs and charter schools.

The school district's mission is: "To educate students for success in life." Anchorage students this past year scored above average on standardized tests in all the basic skill areas. Among the many indicators that quality education is provided is that this year's class of graduating seniors has been offered \$19 million in scholarships and awards from local and national universities, companies and organizations.

Next to the Anchorage School District, the Municipality of Anchorage's Department of Health and Human Services (DHHS) has the largest role in providing services that assist individual and family development.

The mission of DHHS is "to be a leader and a partner promoting health and well being in the Anchorage community." Its core responsibilities include maintaining the public health infrastructure, issuing licenses and enforcing health codes and regulations, providing clinical public health services, providing preventive health education services and promotions, and responding to community emergencies.

Among the programs administered by DHHS is the SAFE City Program. It develops and maintains community prevention and intervention systems that provide collaborative and multi-disciplinary strategies, education, and planning in the areas of sexual assault, domestic violence, child abuse and neglect, substance abuse in high risk populations, homelessness, and emergency alcohol services for the public inebriate.

The Community Development Division of the Office of Economic and Community Development provides financial counseling to low income, first-time home buyers to sustain home ownership and makes federally-funded grants available to nonprofit and public service agencies that assist citizens in becoming self-sufficient.

The University of Alaska Anchorage, a state-operated university, with an enrollment of about 15,000 full- and part-time students, along with Alaska Pacific University, Charter College and Wayland Baptist University, all private, offer residents opportunities for advanced degrees and continuing education.

Another contributor to the growth of individuals in the community includes the Municipality's library system, the mission for which includes the promotion of a literate and well-educated population.

## ***Budgets and Budget Trends***

**General Government Operating Budget.** The 2003 revised operating budget was approved at \$289,228,335, an increase of 5.4% over the 2002 revised budget. This overall increase is more than the inflation rate of 1.9% for 2002. Through better use of technology, re-engineering processes, and restructuring departments and responsibilities, the Municipality continues to deliver the right services at the right price.

However, during the summer, the State effectively reduced its planned Safe Communities and State Revenue Sharing programs by half for 2003. As a result, many programs and projects have had to be re-evaluated, causing many departments to reduce costs or generate additional revenue beyond planned levels this year.

During the initial 2004 budget development, it was determined that the Municipality had a \$33M fiscal gap between revenues and expenses. The fiscal difficulties were caused by precipitous events, some of which are permanent, and others which may lessen in future years.

For example, the State eliminated its Safe Communities and State Revenue Sharing programs entirely, reducing revenue streams to the city by \$10.4M versus the 2003 revised budget (2003 funding was also subsequently cut in half). Also, revenues earned from short term market returns are forecast to be the lowest in 45 years. For the first time in 10 years, the Police and Fire Retirement Fund must be funded by Municipal dollars, because our actuaries have determined that the Fund is under-funded, due to poor equity and bond performance. A significant increase in employer contributions to the Public Employee Retirement System retirement fund is required, for similar reasons. Overall healthcare costs have risen by an

average 15% across multiple plans, and labor contracts have pre-negotiated wage and salary increases effective during 2004.

With several of these events likely to be permanent changes, pressure on the fiscal budget is likely to continue into the future. Future pressures are likely to be much more manageable than during 2004, as the result of permanent cost reduction strategies that have been put into place. As a result of this Administration's desire to make many hard choices, those costs will be avoided in the future and will lessen future fiscal gap problems. However, local government will need to continue seeking effective fiscal solutions while maintaining high levels of service.

**Municipal Utilities' Operating and Capital Budgets.** All Municipal utilities (Municipal Light and Power, Anchorage Water Utility, Anchorage Wastewater Utility, Refuse Collections, Solid Waste Disposal, Merrill Field, and the Port of Anchorage) continue to be fiscally stable and prudently managed. This stability, coupled with their modern utility plants, helps make Anchorage a desirable area for new businesses to locate.

**General Government Capital Improvement Program (CIP).** This program has undergone a transformation in recent years due to the decrease in State grant funding. The Capital Program has been significantly modified to reflect a much lower expectation relative to State funding sources. Consequently, more focus has been given to local funding for the City's highest priority capital projects.

Taxpayer support of bond initiatives has been very strong over the last several years. Most recently, in the April 2003 election, voters approved two bond proposals for a total authorization of \$43 million. They also approved two bond proposals totaling \$167.3 million for school construction and renovation.

Emphasis will continue to be placed on rehabilitating and maintaining our Municipal infrastructure through an aggressive program to obtain State grant funding, use of bond proceeds, and other local funds.

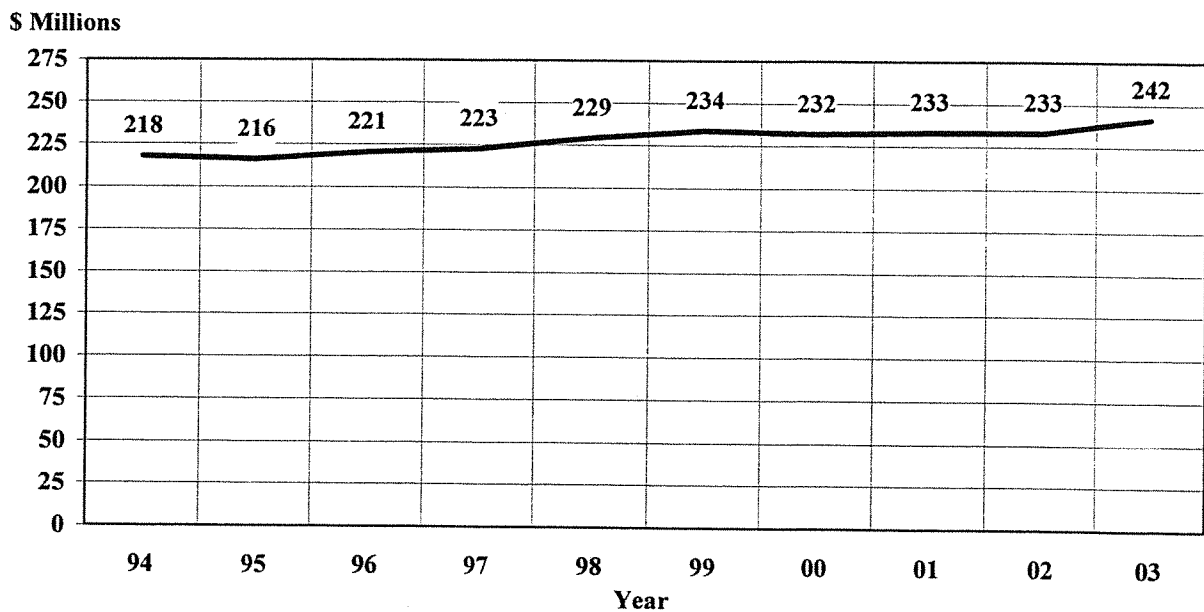


Publicly funded construction projects over the next several years will be dominated by roads, utilities, schools, and airport expansion.

## *Budget Trends*

Adjusting for inflationary rates, over the most recent ten years, total budget growth has been about 1% per year. Population growth has been less than 1% per year, with the balance in budget growth coming from CPI and new construction support, nearly offset by reduced State funding participation.

### General Government Operating Budgets 1994 - 2003 \* (in real dollars) \*\*

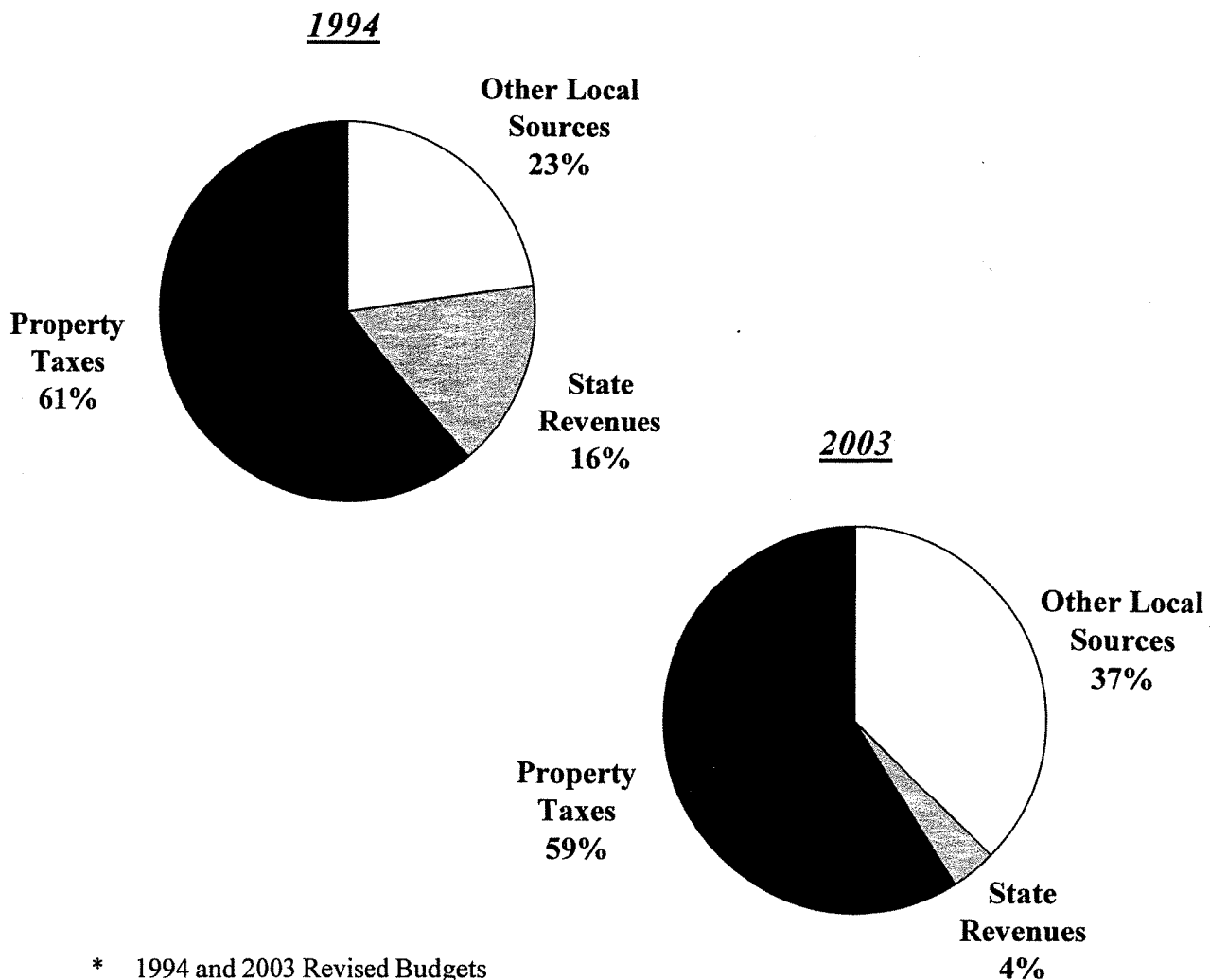


\* 1994-2003 Revised Budgets

\*\* 1994 used as base year.

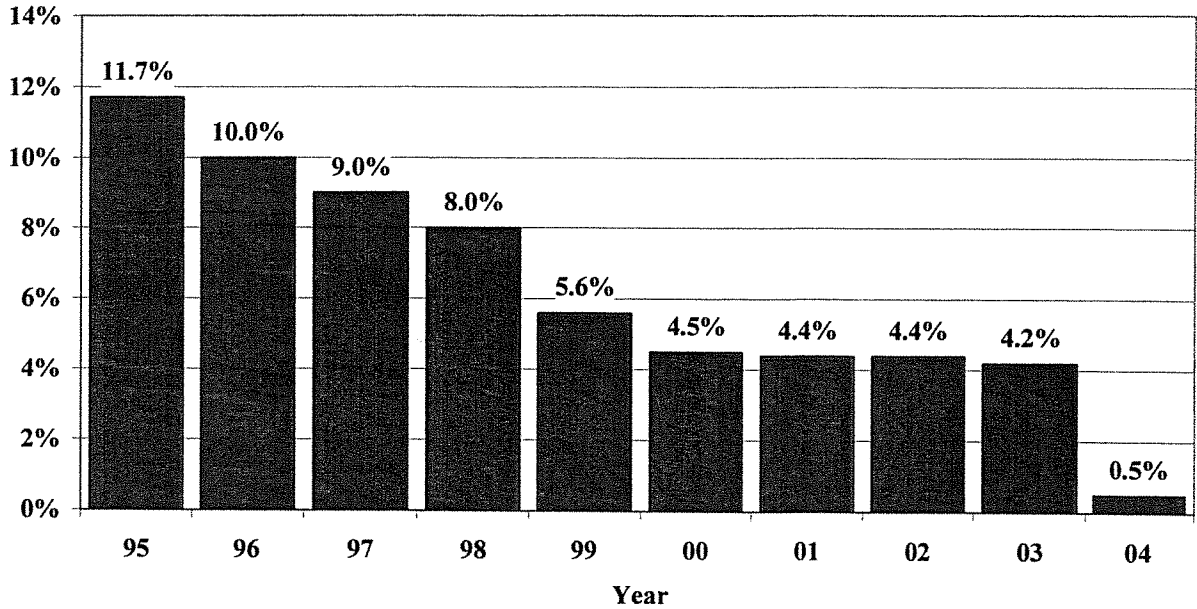
Adjustments have been made to the General Government Operating Budget over the last decade to absorb inflation and accommodate reductions in State and Federal revenue sharing. Unfunded State and Federal mandates such as ADA requirements, Community Service Patrol, indigent defense, the SART program and senior citizens property tax exemptions have contributed to increases in local budget expenditures in order to meet associated requirements. A major reason for the increase in fee levels for services over the past many years, however, is a direct response to reductions made by the State to Safe Communities Funding (which replaced the former Municipal Assistance program in 1997) and State Revenue Sharing. During the 2004 budget year, these programs have been eliminated completely. The following charts illustrate the effect of these State revenue reductions.

**General Government Operating Budget  
Revenue Sources  
1994 - 2003 \***



\* 1994 and 2003 Revised Budgets

**State Operating Revenues as a Percentage of  
General Government Operating Budget  
1995 - 2004 \***



\* 1994 - 2003 Revised Budgets. Actual Revenues received.  
2004 Proposed Budget.

There has been a dramatic decline since 1987 in the amount of state revenue support for local government services. During 2004, all Safe Communities Funding and State Revenue Sharing has been eliminated. This precipitous decline contributed significantly to the largest fiscal gap in absolute dollar terms ever (in real terms, second only to 1988).

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### ***3. ECONOMIC TRENDS AND OUTLOOK***

2004 is expected to produce modest but steady growth. Beyond 2004 the economy's outlook is that it will remain stable with continued growth of about 1.5% per year. The Anchorage Economic Development Corporation projects the total job growth in Anchorage will be about 2,100 in year 2003, compared with 3,800 new jobs in 2002. Most of the new jobs are in the service sector, with healthcare being the biggest contributor. Unemployment continues to remain comparatively low, at 5.1% in August, with no change compared to the same period last year.

Most of the growth for next year is anticipated to come from the services industry, the fastest growing sector of the economy. Health care will be the leader, as the aging of Alaska's population continues.

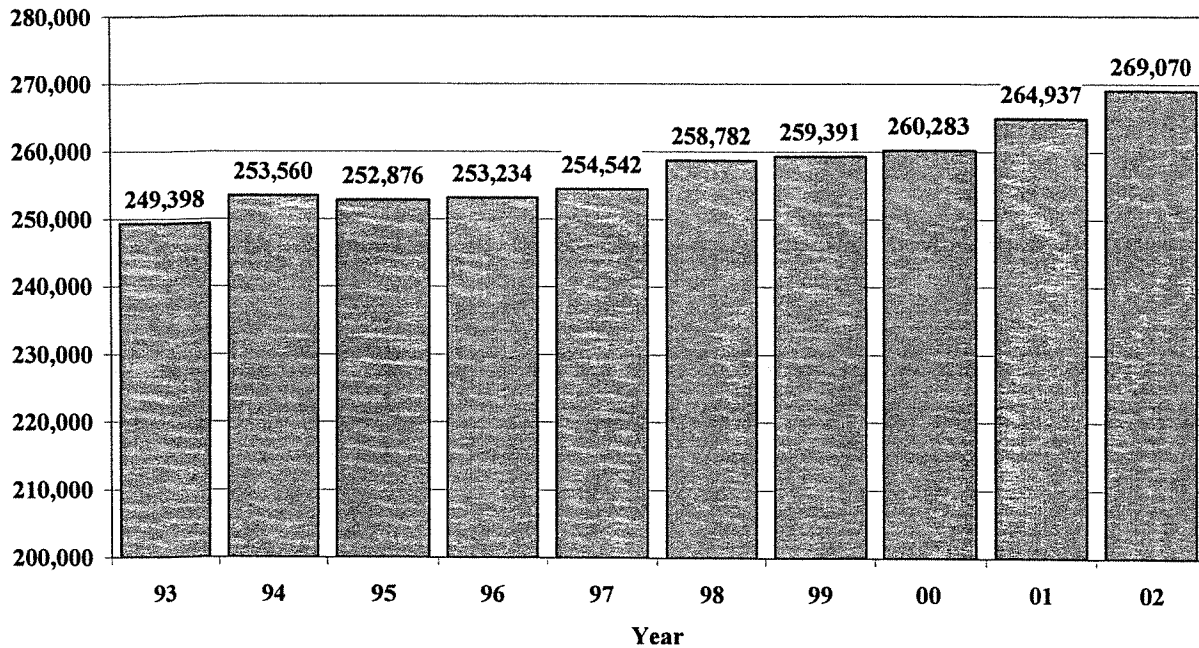
Construction will also continue to be strong. Construction growth is expected to be 15% in 2003.

Travel and tourism declined by nearly 12% during 2002 due to the events of September 11. Tourism sales exceeded \$74 million, down from the 2001 record of \$84 million.

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

**POPULATION** — The estimated population of Anchorage as of 2002 was 269,070, an increase of 1.6% over the 2001 estimate. On average, the population has increased just over 1% per year for the past 15 years.

**Anchorage Population  
1993 - 2002**

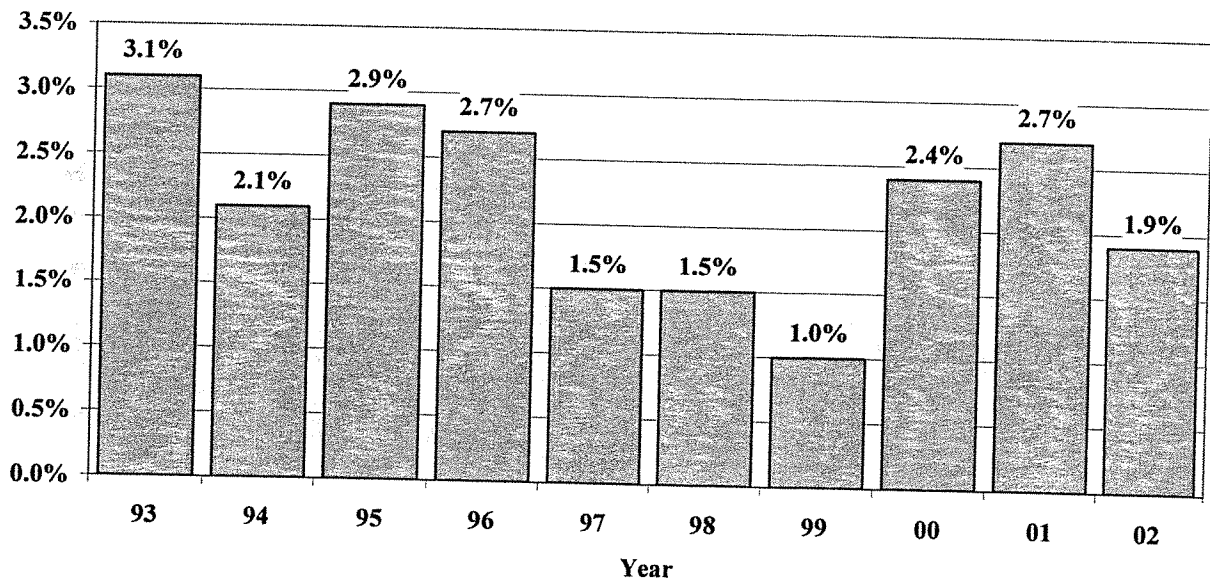


\* Estimates for 2003 will not be available until October-November 2003.

Source: U.S. Census, Alaska Department of Labor and Municipality of Anchorage, Community Planning and Development Department.

**INFLATION** — The Consumer Price Index for Urban Consumers (CPI-U) measures price changes (inflation) in consumer expenditures such as housing, transportation, food and beverage, medical care, apparel, recreation and other goods and services. For 2003, the inflation rate is expected to remain low, dropping from 2000 and 2001 levels. For the first half of 2003, the actual inflation rate advanced 1.3%. No inflation was assumed by the administration for initial budgetary purposes.

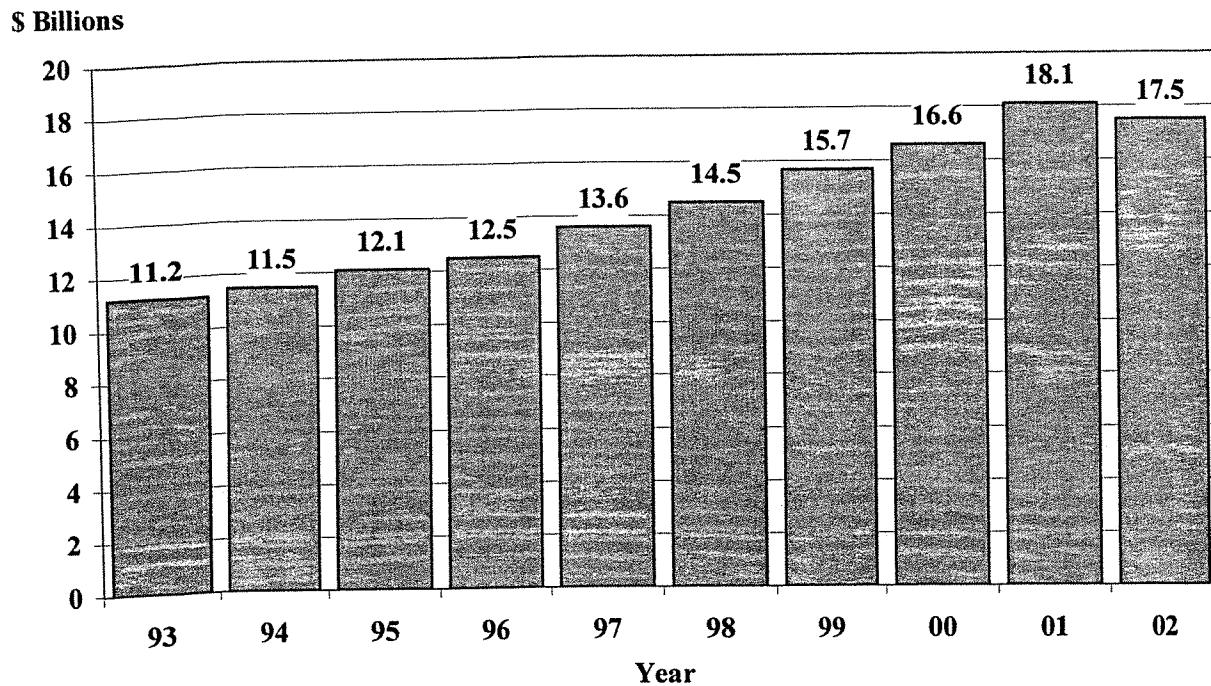
**Anchorage Consumer Price Index (CPI-U)  
Annual Change for All Items  
for All Urban Consumers  
1993 - 2002 Historical Trend**



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

**ASSESSED VALUATIONS** — As demonstrated below, assessed values have shown an overall steady growth over the past 10 years, with the exception of a decrease of 3% between 2001 and 2002. Due to the positive trends in new construction, coupled with active market trends, assessed values are expected to continue to moderately increase during the period of 2004-2009.

**Full Value Determination of  
Real and Personal Property Assessed Values  
1993 - 2002 Historical Trend**



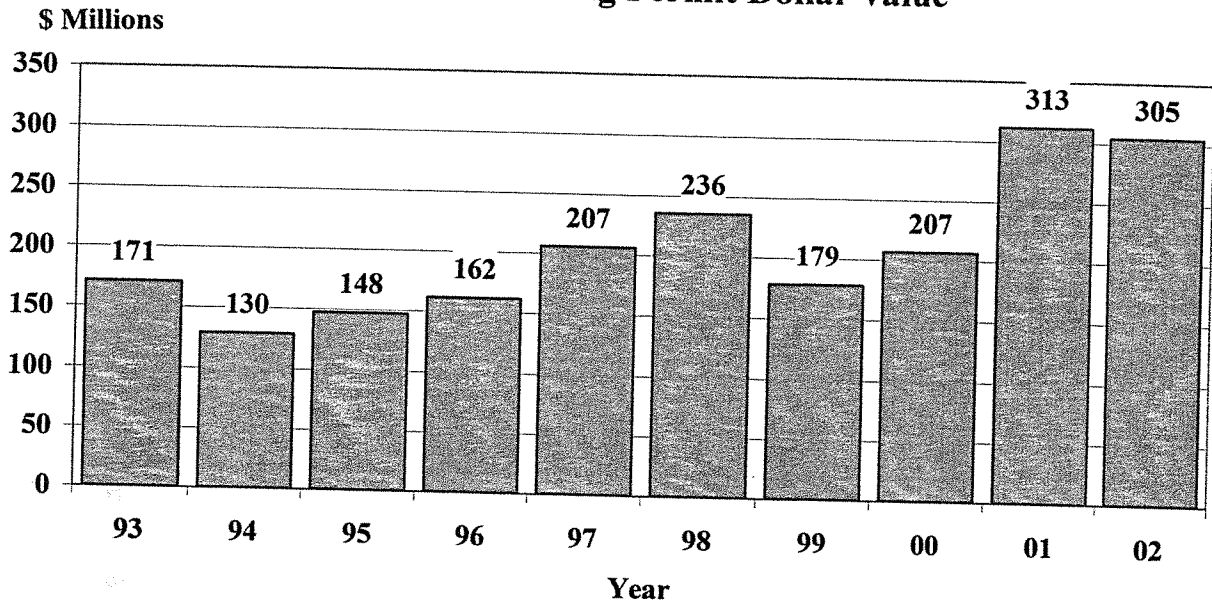
NOTE The total number of real property parcels appraised in 2002 was 90,406. Values shown above include residential property, personal property, commercial property, and Utility Net Plant (i.e., MUSA).

Source: State of Alaska, Office of State Assessor

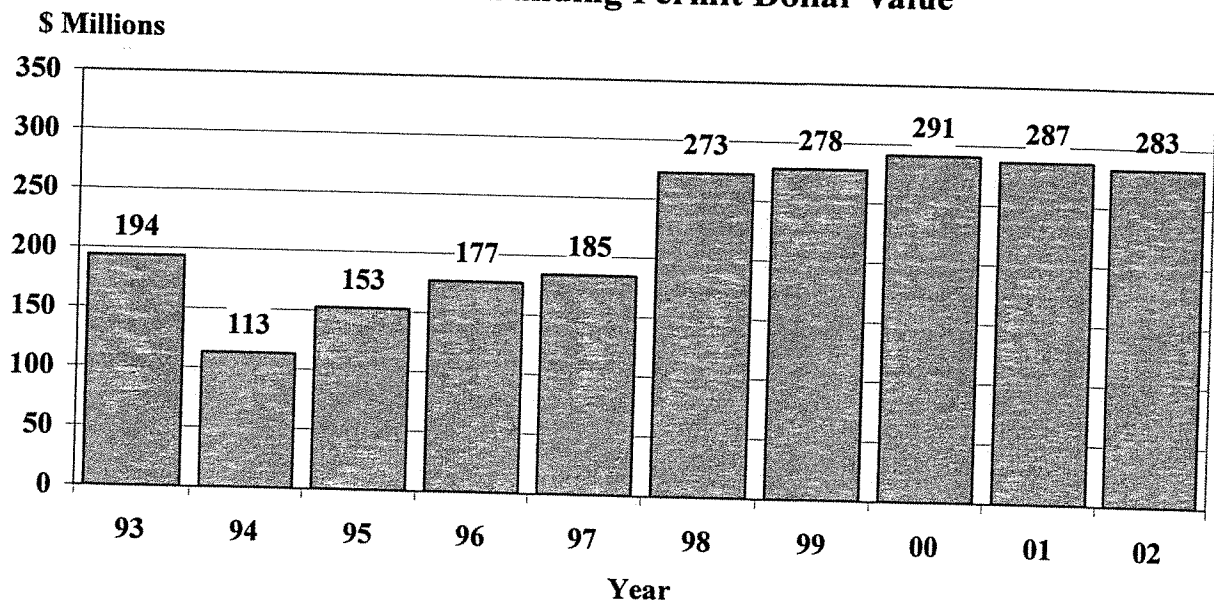


**NEW CONSTRUCTION**— Anchorage’s construction activity for 2002 was \$588 million, a 2% decrease from the 2001 level. Residential projects comprised a little more than half of all new and remodeled construction in 2002. A significant increase in activity is projected for 2003; construction valuation at the end of September has already surpassed the year-end total for 2002.

### Residential Building Permit Dollar Value



### Commercial Building Permit Dollar Value



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. These figures may not correspond with those used in the tax cap calculation for taxable new construction.

Source: Public Works Department, MOA

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

Economic opportunities affecting the Anchorage area abound. Our primary economic development task is to assist the private sector in pursuing opportunities. We also must be aware of the concerns facing our Municipality so we can take appropriate steps to address their impact. Below is a list of opportunities and concerns:

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

- Expansion of Anchorage International Airport and its increased use as a global logistics, international warehousing and cargo distribution hub
- Increased activity and infrastructure expansion at the Port of Anchorage (*multi-purpose dock, expanded staging areas, improved road access*)
- Ship Creek area development/revitalization, working with Alaska Railroad
- Creation of new jobs (*technical, construction, service, and retail*)
- Continuation of commercial construction (*hotels, retail stores, food/beverage/entertainment establishments, health care facilities, State and Municipal facilities, local schools, roads and utility infrastructure*)
- Sustained, healthy level of residential construction (*new housing units, renovation of existing stock, subdivision platting and development*)
- Continued growth in tourism and convention industry (*new convention center to enhance visitor industry is under consideration; expansion of Anchorage Museum of History and Art; Mountain View Arts and Cultural Center*)
- Enhancement of all-season tourism (*Girdwood area development, multi-use trail system expansion, snow machine opportunities*)
- Relocation of new industries to Anchorage (*software development, light manufacturing*)
- Increased allocation of Transportation Equity Act for the 21<sup>st</sup> Century (TEA-21) funds for transportation projects (*roads, trails, overpasses, bridges, beautification, air quality*)
- Allocation of Community Development Block Grants (CDBG) to fund projects that improve quality of life and revitalize low income neighborhoods
- Increased development of smaller, marginal oil fields
- Potential for opening ANWR for oil exploration
- Natural gas pipeline
- Development of new oil exploration within the National Petroleum Reserve area

## **Current and Future Economic Concerns**

- Continued decline in Prudhoe Bay oil production
- Oil price stability
- Global economic stability
- War on terrorism
- State of Alaska's fiscal uncertainty
- Decline in State revenues to Anchorage
- Shifting of State and Federal responsibilities to local government without adequate funding (*unfunded mandates*)

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

Public services and capital project funding enhance the quality of life in Anchorage by:

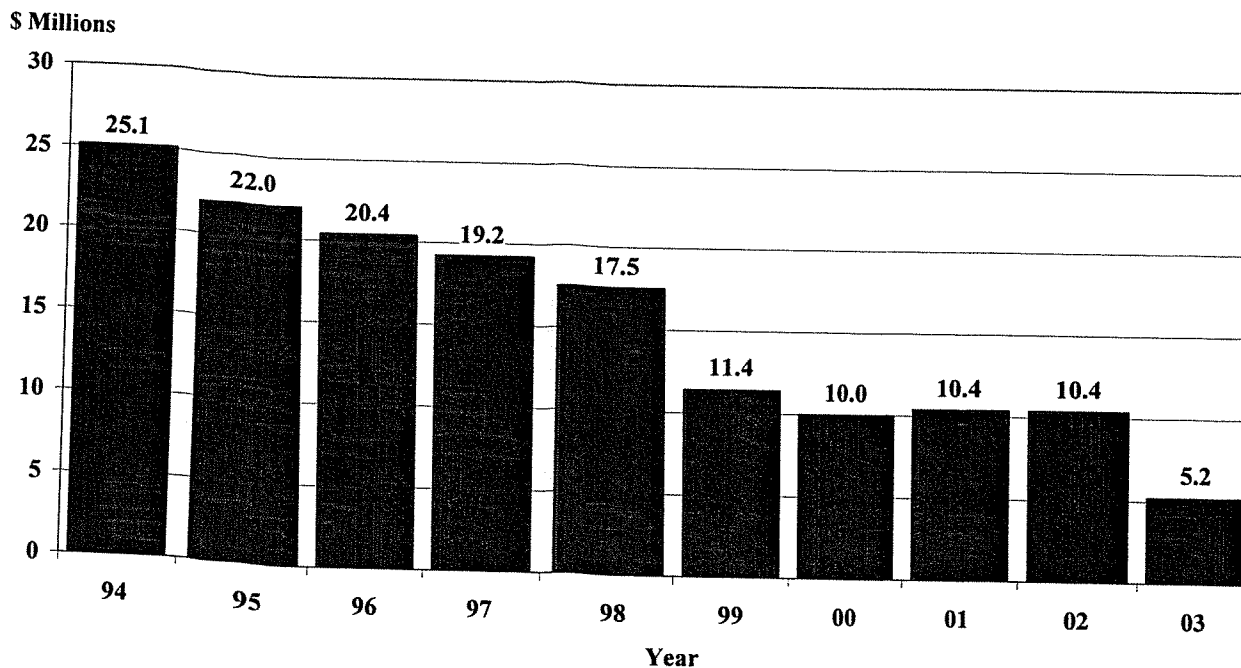
- responding effectively to fire, rescue and emergency medical situations
- improving our roadway public transportation systems
- making our City safer, cleaner and healthier
- balancing responsible development with rational environmental concerns
- providing cultural, recreational and educational activities and programs
- providing critical human services to people in need

Unless alternative revenue sources occur in the future, the local property taxpayer can expect to continue to bear the majority of the tax burden in the future, and may ultimately see fewer non-core services provided by government in the future.

## *State Revenues (Operating and Capital)*

Between 1987 and 2003, Safe Communities Funding (which replaced the former Municipal Assistance Program in 1997) and State Revenue Sharing decreased an average of nearly 11% per year. In 1999, alone, the Municipality experienced an unexpected cut of 35%, or \$6 million, which led to immediate budget cuts and the elimination of a proposed property tax decrease. Year 2001 saw a reversal of this trend and the Municipality actually received an additional \$400,000 over year 2000. That same level was maintained in 2002. Fiscal year 2003 saw a further drop by half of State support. During year 2004, all such funding has been discontinued.

### **Safe Communities Funding\* and State Revenue Sharing 1994 - 2003**



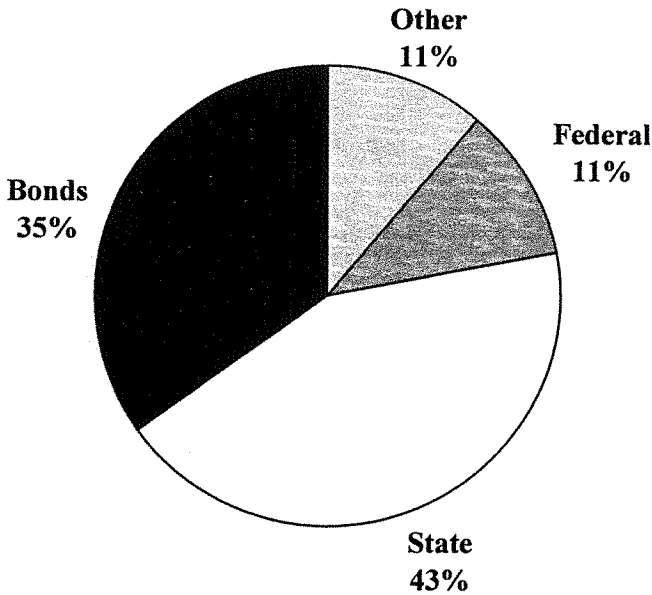
**Does not include the one-time double payment received in 1997 due to a change in the program payment date.**

\* In 1997, the State legislature changed the name of Municipal Assistance to "Revenue Sharing for Safe Communities."

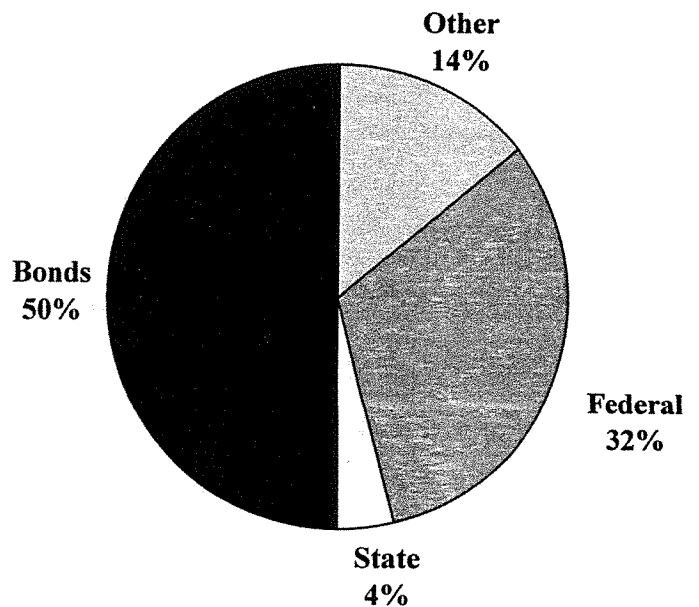
For the second consecutive year, there were funds available for appropriation by the State legislature for discretionary capital funding in 2002. Anchorage was fortunate to receive \$5.6 million more than in 2000. Because of the reduction in State discretionary capital funding over the past 10 years, there has been a change in our capital funding approach. The Municipality's capital budget currently focuses more on obtaining Federal grants and 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 charts demonstrate the trend toward increased local funding of capital projects:

**Capital Funding Requested  
Funding Sources as % of Total Capital Budget  
1995/2004 Comparison**

**1995 Proposed Budget**



**2004 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, inflation, and changes in population (5-year average population).

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 fund the costs of judgments entered against the Municipality and items specifically approved by the voters as outside the tax cap such as voter approved operation and maintenance 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.

## ***Spending Limitation***

In addition to the existing tax cap limitation, there is also a spending limitation in place. Per capita expenditures in the general government operating budget for tax-supported services shall be increased over the previous year's budget by an amount no more than the percentage increase in the July CPI over the previous July CPI and those additional increases necessary to provide voter and legally mandated services.

## ***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.

The Anchorage Municipal Charter grants the Mayor and the Assembly the responsibility for determining the level of taxes that the community will pay for the support of the Anchorage School District; where those dollars are spent is the responsibility of the Anchorage School Board.



## ***5. FISCAL PROJECTIONS AND POTENTIAL STRATEGIES***

There are a number of new elements causing fiscal challenges during 2003 and 2004, and likely beyond. A few include:

- potential for downturn in the local economy
- loss of funding support from the State, and potential reduction in Federal revenues
- continued need to fund retirement programs from tax payer sources
- low returns on short-term cash
- accelerating health insurance costs
- guaranteed wage-rate and leave accrual growth from pre-negotiated labor contracts
- increase in inflation rates
- additional unfunded federal / state mandates

Three general alternative strategies exist to improve future fiscal difficulties that may arise from the above elements and other potential new difficulties:

- broadened tax base through economic development
- expenditure options
- revenue options

The alternative strategies presented later in this chapter are for discussion purposes only. They are not intended to be recommendations.

**SIX YEAR FISCAL PROGRAM  
PROJECTIONS OF REVENUES & EXPENDITURES (in \$ Millions)  
2004-2009**

<b>Six Year Budget Projection Assumes Continuation Level Budget</b>	<b>2004 Oper'g Budget</b>	<b>PROJECTIONS</b>				
		2005	2006	2007	2008	2009
<b>REVENUES</b>						
Federal Revenues (no decrease beyond 2004)	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50
State Revenues (no support beyond 2004)	1.30	0.00	0.00	0.00	0.00	0.00
Local Revenues (+1.0% per yr beyond 2004)	96.90	97.90	98.80	99.80	100.80	101.80
Property Taxes (+4.3% beyond 2004--average increase for past 10 years)	186.80	194.80	203.20	211.90	221.10	230.60
Fund Balance Applied	0.00	0.00	0.00	0.00	0.00	0.00
IGC's Outside General Government (+1.1% beyond 2004)	21.30	21.50	21.80	22.00	22.30	22.50
<b>TOTAL REVENUES</b>	<b>\$306.80</b>	<b>\$314.70</b>	<b>\$324.30</b>	<b>\$334.20</b>	<b>\$344.70</b>	<b>\$355.40</b>
<b>EXPENDITURES</b>						
Personal Services (CPI 2%, step, longevity increases -- +4.5%)	\$164.90	\$172.30	\$180.10	\$188.20	\$196.60	\$205.50
Debt Service, (+2.5% beyond 2004)	40.00	\$41.00	\$42.00	\$43.10	\$44.20	\$45.30
Other (+5.0% beyond 2004)	101.90	107.00	112.30	118.00	123.80	130.10
<b>TOTAL EXPENDITURES</b>	<b>\$306.80</b>	<b>\$320.30</b>	<b>\$334.40</b>	<b>\$349.30</b>	<b>\$364.60</b>	<b>\$380.90</b>
<b>IMPROVEMENTS (Revenue increases, Cost Reductions)</b>		\$5.60	\$10.10	\$15.10	\$19.90	\$25.50
<b>FISCAL SURPLUS/SHORTFALL--REVENUES OVER/(UNDER) EXPENDITURES</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>

\* All known contractual obligations have been factored into the 2003 expenditure base.

**Note 1:** The Six Year Projections of Revenues & Expenditures shown above represent the projected result presuming there is continued cost growth resulting from labor- and benefit-related costs.

**Note 2:** Due to rounding, amounts shown above may not total exactly.

The base model for the six-year fiscal projections shown above reflects very conservative growth assumptions in revenues and expenditures. It also reflects the need to find better ways to provide services fiscally, resulting from improved economic growth in the local

economy, better revenue-producing options, or by delivering the same services at lower cost. This Administration will commit itself to continuing the fiscally responsible work it began while evaluating the 2003 and 2004 budget problems.

## **POTENTIAL STRATEGIES**

### ***Broadened Tax Base Through Economic Development***

Economic development leads to a broadened tax base and minimizes the amount of tax support required of existing taxpayers. As high paying oil industry jobs are eliminated, we must strive to replace them with other high paying jobs from different sectors to further diversify and strengthen our local economy.

If the Municipality of Anchorage is to continue to provide an adequate level of government services to its residents and maintain a strong, stable, diversified economy, we must aggressively work toward encouraging economic development.

“Vision Anchorage,” a steering committee of 40 representatives of the public and private sectors is in the process of developing an economic development plan for Anchorage. Initiated by Anchorage Economic Development Corporation and the Anchorage Chamber of Commerce and partially funded by a grant from the Municipality, Vision Anchorage will prepare a plan which will serve as a blueprint for new business investment and job creation.

In the coming years the Administration anticipates economic development to occur in a number of key areas and projects:

- Anchorage International Airport related growth (global logistics and cargo hub expansion)
- Port of Anchorage expansion
- Continued growth of tourism and convention business
- Potential for gas pipeline
- Potential for oil development within ANWR, National Petroleum Reserve area and currently marginal fields
- Ship Creek area development/revitalization
- Girdwood area development
- State fiscal support for infrastructure development
- Federal grant programs such as Community Development Block Grants and Transportation Equity Act.

## *Expenditure Options*

The following is a list of potential methods that have been identified over the years as a way to reduce or contain Municipal expenditures:

- **Efficiency Measures / Consolidation** — Provide government services using fewer resources through improved work methods and use of technology.
- **e-Commerce** — Provide more complete and timely information through the prudent use of automated tools and equipment. By using technology to provide better access to information, decision making will be enhanced and worker productivity will increase.
- **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, and similar activities. Contract out to nonprofits when those organizations can provide services more efficiently and cost effectively.
- **Reduce “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 by hiring private consulting firms to perform management reviews in specific areas.
- **Increase Use of Volunteers** — Continue to facilitate cooperative efforts between private citizen volunteer groups and local government in order to minimize the cost of providing public services and make our city a better place to live.
- **Maintain Infrastructure** — Continue to emphasize maintenance and rehabilitation of Municipal infrastructure (roads, parks, trails, facilities, information management systems) in order to limit increases in future operation and maintenance costs. Maximize use of non-Municipal funding sources, such as state and federal grants to help fund maintenance and rehabilitation projects.

## *Revenue Options*

While Anchorage enjoys the lowest overall taxes of major American cities, our local property taxes are higher than the average in these cities.

In order to provide long-term relief to property taxpayers, ways to diversify our revenue stream could be considered. New permanent revenue sources should be evaluated in terms of their ability to maintain our current fiscal stability.

Below is a list of optional sources for new or increased revenues, presented for discussion purposes only.

### **Optional Sources of Revenue**

- **User Fees** — Consider new or increased user fees that can be justified by the cost causer/cost payer principle.
- **Other Revenues** — As our City continues to grow the issue of whether to move toward a more diversified tax base will necessitate a public discussion among public officials, local business leaders, and interested individuals/organizations.

Strategies to consider:

- Fire hydrant maintenance assessment
  - Year round sales tax (A sales tax measure failed to attain voter approval in the April 2001 election.)
  - Obtain real property sales data for assessment purposes
  - Increased hotel-motel tax
  - Elimination of real property tax exemptions for special interest groups
  - Elimination of the exemption from the hotel-motel tax for small Bed & Breakfast establishments
  - Assess business/commercial aircraft as business property
  - Increase auto registration tax
  - Utility franchise fees
- **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. Continual monitoring needs to occur as to the type and amount of payments 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 Municipal Assets** — The Municipality of Anchorage owns and operates five utilities that could potentially be sold: Anchorage Water Utility, Anchorage Wastewater Utility, Refuse Collections Utility, Solid Waste Disposal Utility, and Municipal Light and Power. As was demonstrated by the sale of the Anchorage Telephone Utility in 1999, utility sales have the potential of providing revenues to the Municipality and increasing the property tax rolls.

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## *6. CONCLUSION*

Anchorage is a vibrant city that is doing very well. We are an All-America City whose citizens are willing to step up to the plate and address those challenges that arise from time to time.

We will continue to focus on the five areas of emphasis that are necessary for our continued well being: public safety, economic growth, quality of life, spirit of community, and individual & family development.

There are a number of fiscal alternatives which may affect our future. Some of those are beyond our control, but how we react to them will shape the direction the city takes. This Six-Year Fiscal Program has presented some of these alternatives for future consideration.

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