FISCAL TRENDS REPORT
1983 - 1989

INTRODUCTION

In compliance with the requirements of Article XIII, Section 13.01 of the Anchorage Municipal Charter, the 1983-1989 Fiscal Trends Report presents a broad range of fiscal trend indicators for tax-supported services within the Municipality of Anchorage. The purpose of the report is to aid Municipal decision-makers in the formulation of near and long-term fiscal policies through identification and analysis of existing or future fiscal problems. Primary emphasis is placed on the analysis of General Government tax-supported funds. However, to provide an overall view of all tax-supported activities within the Municipality, expenditure and revenue summaries for the combined operations of both General Government and the Anchorage School District (ASD) are also included.

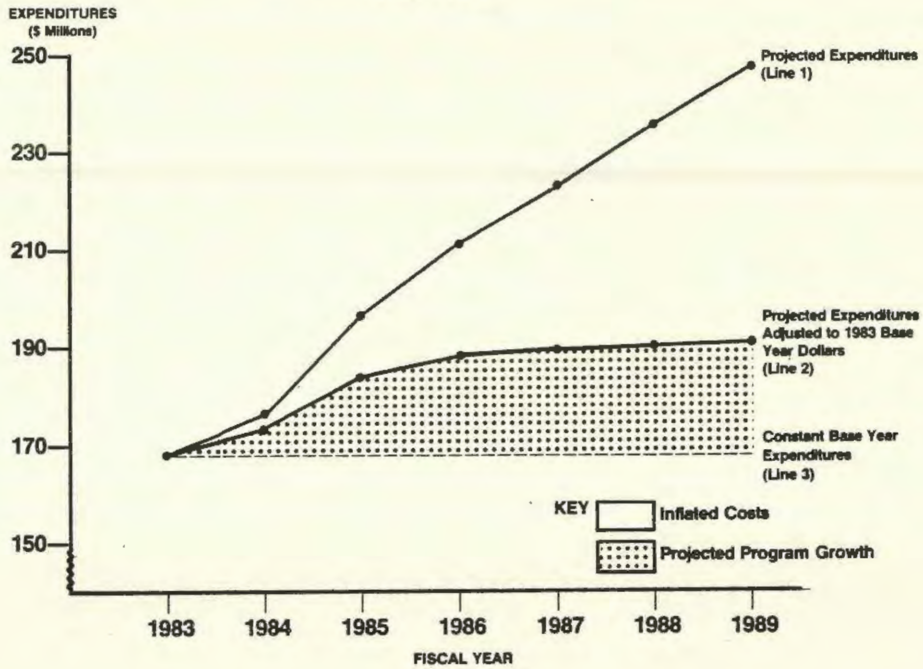
The General Government expenditure and revenue data in this report are based on the following: (1) the 1983 Assembly-approved revised operating budget; (2) the 1984 Proposed Operating Budget; (3) operating and maintenance cost estimates for proposed projects in the 1984 Capital Improvement Budget; and (4) operations and maintenance cost estimates for currently funded capital projects which will come on line during the 1984-1989 time frame. Annual inflation of 1.8% and an annual population growth rate of 13% are assumed for 1984. For the period 1985-1989, annual inflation of 5% and an annual population growth rate of 3.5% are assumed. Data sources and assumptions related to ASD expenditures and revenues are identified in Section IV.

To facilitate comparisons between fiscal years, data in some portions of this report have been converted to 1983 base-year dollars using projected changes in the Consumer Price Index. Summaries of fiscal and other related data on which this report is based are provided in the Appendix. Limited Road Service Area funds and all special revenue and enterprise funds listed in the Appendix are excluded from the Fiscal Trends data base.

I. GENERAL GOVERNMENT EXPENDITURES

The following graph illustrates real growth for tax-supported general government expenditures for 1983 through 1989.

PROJECTED EXPENDITURES FOR
GENERAL GOVERNMENT TAX-SUPPORTED FUNDS
1983 - 1989

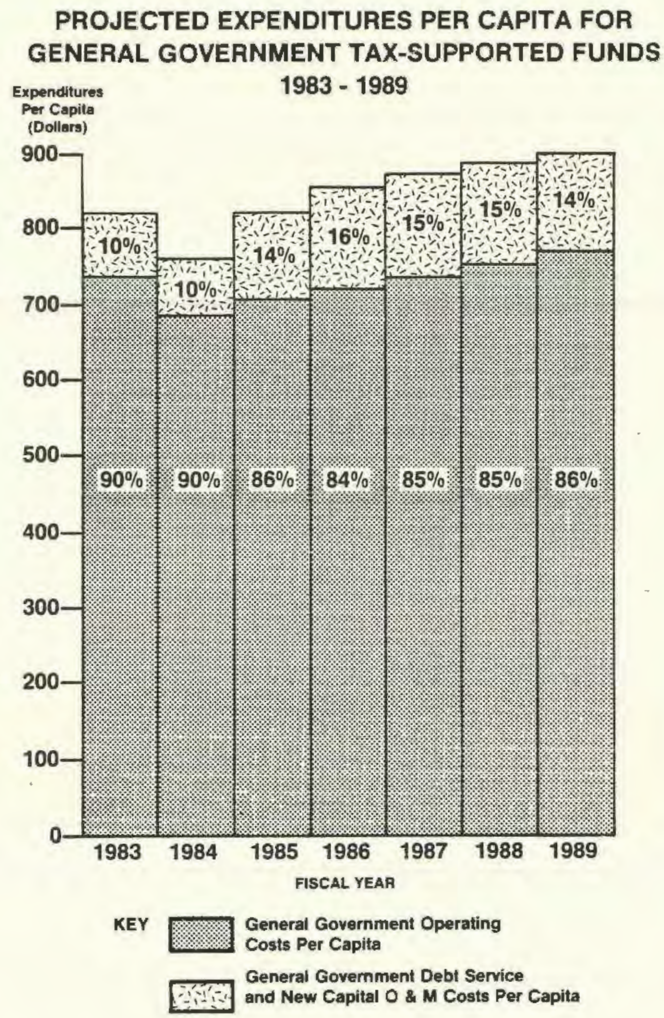


Line 1 represents projected expenditures in inflated (actual) dollars; Line 2 represents the same expenditures converted to 1983 base year dollars; and Line 3 represents a constant level of 1983 base year expenditures.

The purpose of converting data to 1983 base year dollars is to discount the effects of inflation on Municipal expenditures, so as to clearly separate expenditure increases driven by inflation (the area between Line 1 and Line 2) from those attributable to new or expanded programs and services (the area between Line 2 and Line 3). Real expenditure growth occurs whenever Line 2 rises above Line 3. Consequently, net differences in value between Line 2 and Line 3 represent the actual base year costs of projected program increases from 1984 forward.

As illustrated, modest rates of real program growth are projected for the balance of the 1980's. Real growth in Municipal tax-supported expenditures between 1983 and 1984 is projected to be three percent, and primarily reflects the opening of several new facilities: the South Anchorage Fire Station, Spenard and Eagle River Recreation Centers, Museum wing, Civic and Convention Center, and Dempsey-Anderson Ice Arena. An additional nine percent increase is projected between 1984 and 1986 as additional Project 80's facilities come on line (Headquarters Library, downtown parking garage, and the Performing Arts Center) and as new bond commitments are made to support solid waste and road and drainage projects.

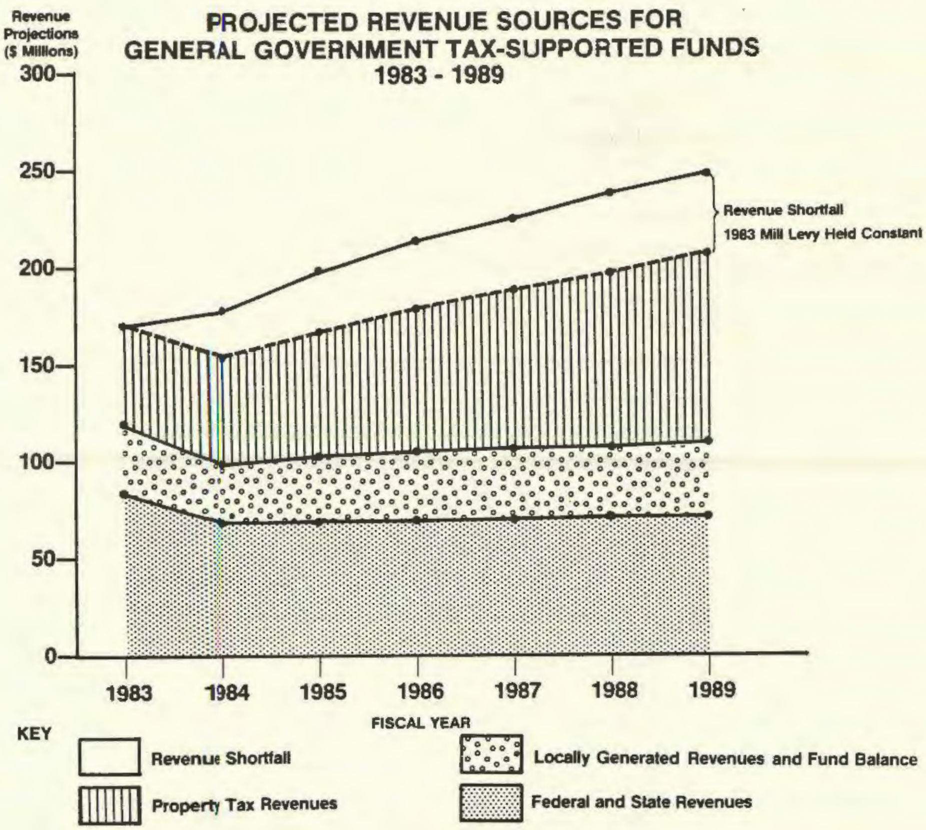
Because real expenditure growth is driven by operating and maintenance costs for new facilities and by debt service on additional General Obligation bonds, a notable shift occurs after 1984 in allocations per capita for operating versus capital-related General Government expenditures.



As the dollars per capita required to support new capital investments increase, the proportionate share of dollars per capita available to maintain existing operations decline. This expenditure allocation shift reflects the fiscal trade-offs which result from additions to and/or improvements in the existing Municipal infrastructure. The need to balance the costs associated with maintaining existing infrastructure and related services and the costs associated with building new infrastructure will be a key fiscal policy issue through the end of the decade.

II. GENERAL GOVERNMENT REVENUES

The following graph provides an overview of projected revenues available to fund General Government expenditures for fiscal years 1983-1989 For analysis purposes, revenues are divided into three source categories: (1) federal and state revenues; (2) applied fund balance and locally generated non-property tax revenues; and (3) property taxes.



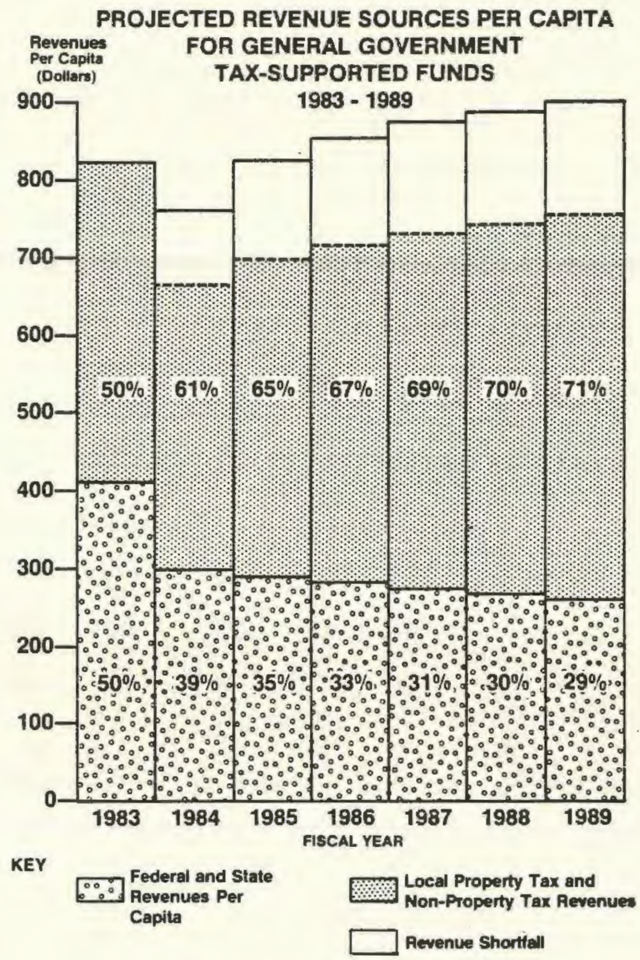
Particular note is made of the assumption on which projected property tax revenues are based. Since the Anchorage Assembly is the only body authorized by the Municipal Charter to set property tax mill levies, the assumption made throughout this report is that mill levies will remain at the levels set in 1983 until otherwise directed by the Assembly. Property tax income after 1983 has therefore been calculated by applying the average 1983 mill levy to the projected areawide assessed valuation for each following fiscal year.

A fourth element enters the Municipal revenue picture after 1983. Termed "revenue shortfall", this element is defined as the quantified difference between required income and income which can be anticipated with reasonable degrees of certainty. In short, revenue shortfall is the gap between "revenue needs" and "known revenue".

Although a number of fiscal and economic factors have undoubtedly contributed over time to the revenue shortfalls projected from 1984 forward, by far the most immediate and significant factor is the substantial decline after 1983 in combined federal and state revenue incomes, especially the latter. Between 1983 and 1984 income from federal and state sources drops by twenty percent and by the end of the decade is projected to remain a full sixteen percent below its 1983 level.

Projected growth patterns in locally generated revenues from both property and non-property tax sources are insufficient to overcome this decline, and simultaneously keep pace with expenditure increases of even modest proportions. As a result, total revenue for the Municipality over the next six years is projected to fall 13 - 16% short of required levels--despite a 15% increase in income from local non-property tax revenues and an almost twofold increase in tax income resulting from projected growth in the assessed valuation base.

These combined revenue projections evidence a major shift in per capita revenue sources after 1983--a shift with critical fiscal implications.



Whereas in 1983 a 50/50 split exists between locally generated revenues and those combined revenues provided by the Federal and State governments, the split shifts to 60/40 (local vs. Federal and State) in 1984, and by 1986 and thereafter is basically a 70/30 split. In short, by 1986 the proportionate share of per capita revenues which Anchorage must generate locally increases 40% over its present level.

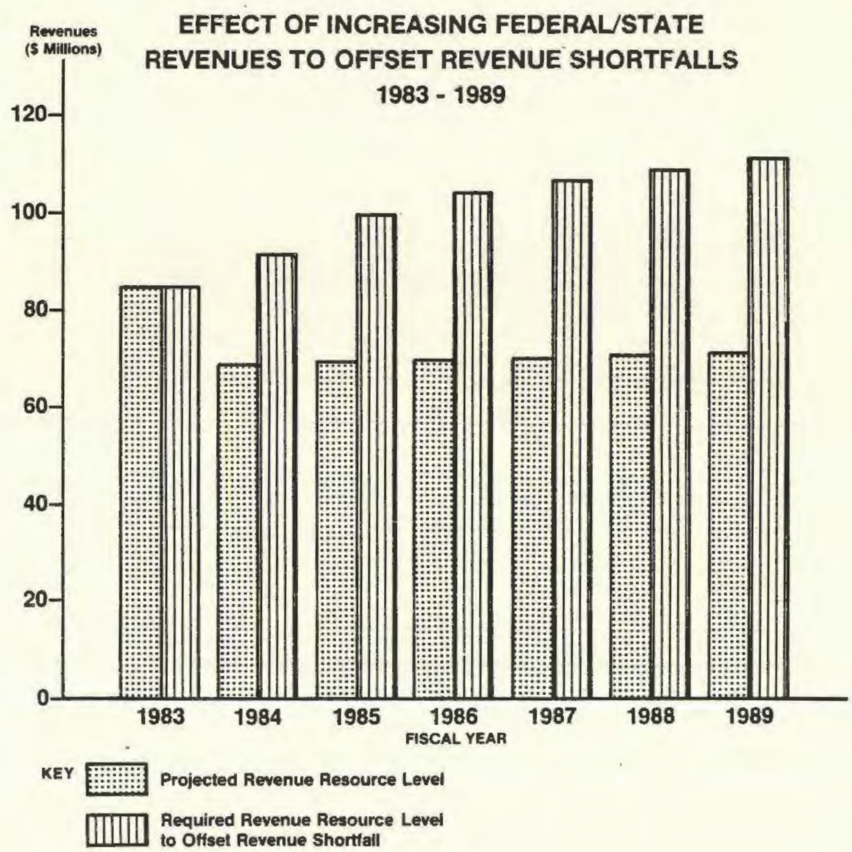
This shift in relative fiscal responsibilities to meet local government needs--a shift between the Federal and State governments on the one hand and the local resident population on the other--presents a critical problem to the Municipality. While steady growth in assessed valuations leads to substantial increases in local revenue generating capacity, those increases will only take up about one-fifth of the income gap if mill levies remain at their present levels. In terms of current and future fiscal policy, the pivotal issue facing Municipal decision-makers and the community at large is how to resolve the problems presented by residual revenue shortfalls, shortfalls which total $22.5 million in 1984 and over $40 million by 1989.

III. GENERAL GOVERNMENT FISCAL POLICY CONSIDERATIONS

A set of basic alternative actions can be identified to resolve projected revenue shortfall problems. Alternatives fall into four broad categories: (1) increase the proportionate share of total revenue requirements derived from federal and state sources; (2) increase the proportionate share of total revenue requirements derived from locally generated non-property tax sources; (3) increase mill levies; and (4) decrease expenditure levels.

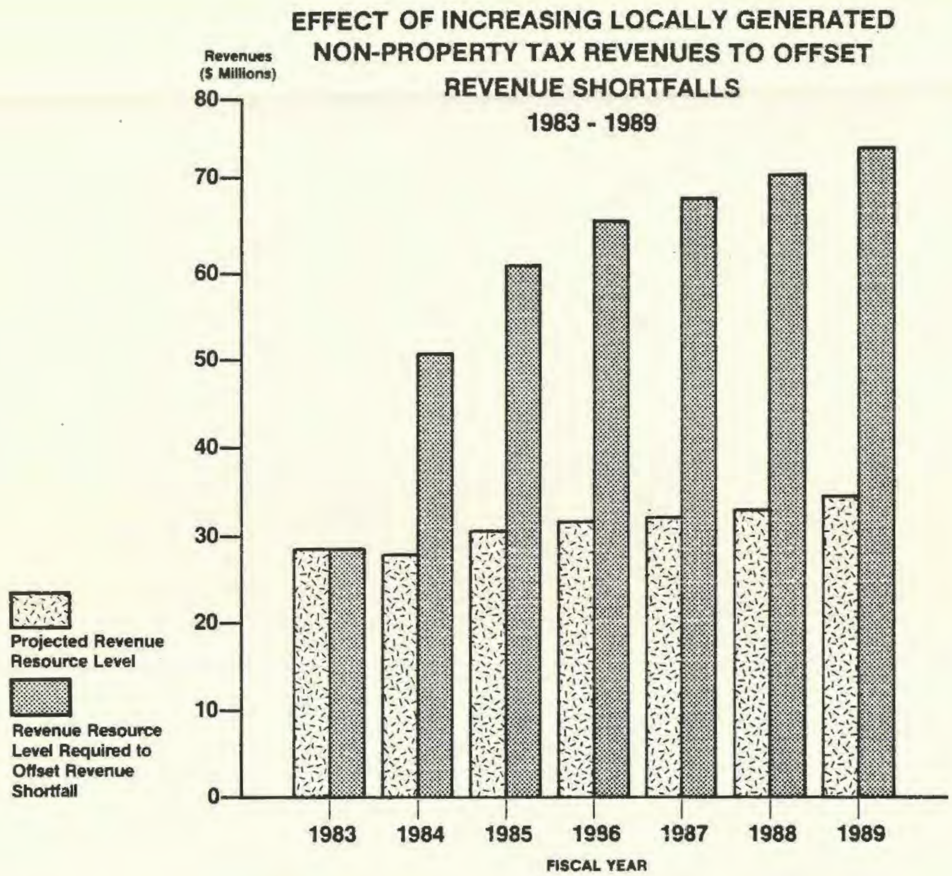
It is unlikely that any one of these actions can alone resolve the Municipality's revenue shortfall problems. Over time, a combination of fiscally balanced actions will be needed. For discussion purposes, however, there is benefit in reviewing the major fiscal implications and constraints of each alternative as if it were the only solution considered and implemented.

ALTERNATIVE ACTION ONE



Since revenue shortfalls are associated with significant declines in income from federal and state governments, one alternative would be to seek relief from these same sources. Political issues aside, there are significant fiscal constraints associated with this course of action. Unless adjusted for inflation and population growth, reinstatement of federal/state revenue to its 1983 level would only partially off-set revenue shortfalls in any of the next six fiscal years. At its current level, combined federal/state revenue declines from $413 per capita in 1983 to $298 per capita in 1984 and $258 per capita by 1989. These declines are further aggravated by loss of real purchasing power during a six-year period in which inflation is assumed to be modest but steady. As the chart illustrates, federal/state revenue for 1984-1989 would have to increase over the 1983 level by substantial amounts to offset these effects and close the shortfall gap. In fiscal year 1984, revenue from federal/state sources would have to increase $7 million over its 1983 level. By 1989, a $27 million increase over the 1983 level would be required. Increases of these magnitudes are well above the levels of federal/state revenue income currently projected for fiscal years 1984-1989.

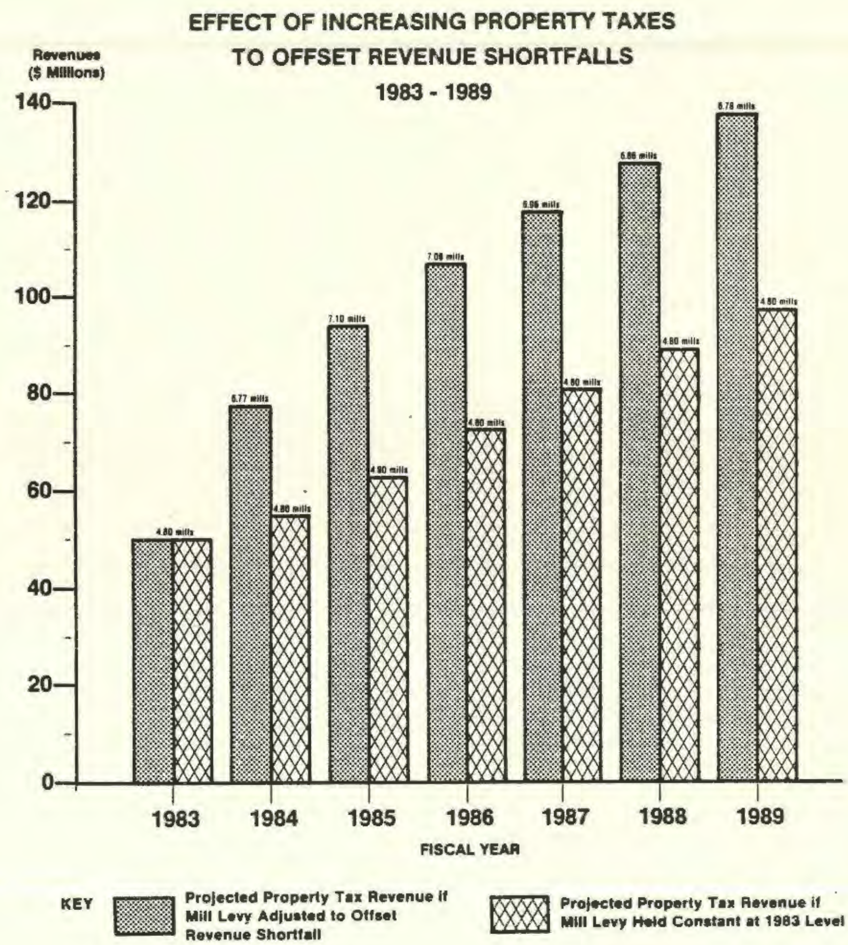
ALTERNATIVE ACTION TWO



Locally generated non-property tax revenues would be a prime target for substantial increases in income generating capacity even if no revenue shortfalls were projected. But while untapped fiscal potential in this area is substantial, it does not offer an easy solution to the revenue shortfall problem. To increase revenues from non-property tax sources in amounts sufficient to close the gap would require currently projected incomes to double beginning in 1984. The primary constraint in realizing such increases is that interest revenues, whose rates fall outside general government discretionary control, comprise approximately 20% of the non-property tax revenue category. As a consequence, even if new user fees were established and the rates of existing fees and charges were increased, non-property tax income would still fall far short of revenue needs. This does not discount the merit nor the potential fiscal pay-offs of exercising these options wherever possible. But it does mean that the institution of a major new income source - a Municipal sales tax, for example - would be required were revenue shortfalls to be offset solely from local non-property tax sources. Relative costs and benefits as well as equity issues would have to be carefully evaluated were such action considered.

ALTERNATIVE ACTION THREE

Property taxes have traditionally been the fulcrum balancing Municipal revenue requirements. This will continue to be a viable policy option under the current Municipal Charter. Notwithstanding the pattern of steady growth in assessed valuations, mill levy rates would, however, have to be increased from current levels by a range of 1.97 - 2.30 mills in order to offset projected revenue shortfall in any given year after 1983. While there are no major fiscal constraints in enacting this option, political constraints may be considerable.



ALTERNATIVE ACTION FOUR

Since revenue shortfall is, in the final analysis, simply the excess of expenditures over revenues, the shortfall problem would be eliminated if expenditures were reduced to the level of available resources. From a fiscal policy perspective, this expenditure reduction option cannot, and should not, be dismissed. But if used as an all-inclusive remedy to the projected revenue shortfalls, expenditure reductions would critically impact the service delivery capacity of the Municipality.

The graph above illustrates in 1983 base year dollars the full impact of the expenditure reduction option. Attention is directed to the fact that funding levels after 1983 would fall well below the expenditure level required just to maintain existing programs and services. Reductions of this magnitude would necessarily result in a real net decrease in local government service delivery capacity. During a six-year period in which population is projected to increase 34%, expenditure cuts which would leave the Municipality's 1989 budget a full five percent below the 1983 level could be cause for major concern.

IV. FISCAL TRENDS FOR GENERAL GOVERNMENT AND ANCHORAGE SCHOOL DISTRICT COMBINED

In recent years, fiscal trends documents for Municipal General Government and the Anchorage School District (ASD) have been developed at separate points in time, for different timeframes. This practice has created a gap in the overview of tax-supported activities within the Municipality. The 1983-1989 Fiscal Trends Report begins to close that gap through presentation of expenditure and revenue summaries for the combined operations of these two tax-supported organizations.

Several adjustments and/or accommodations have been made to facilitate integration of General Government and ASD fiscal data:

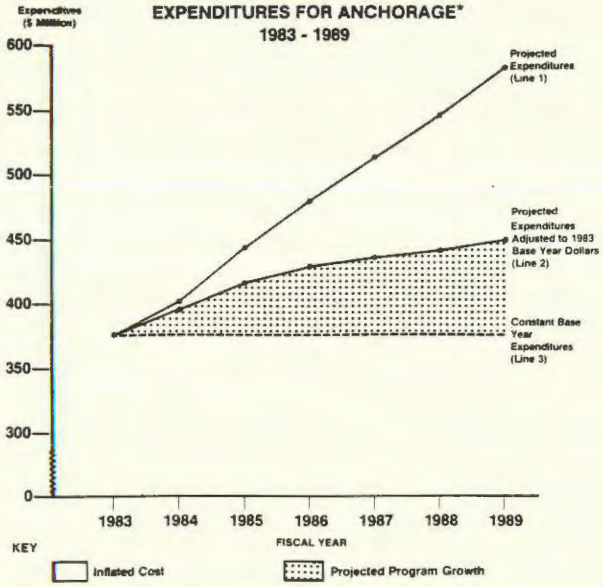
- The School District's expenditure and revenue projections and assumptions regarding inflation rates, funding increases, and student enrollment are based on the Anchorage School District Seven-Year Financial Projections. As a result, there are variances in the assumptions used by the School District and General Government in some areas. ASD, for example, assumes an overall annual inflation rate of 5.5% for 1985-1989. For the same period, General Goverment assumes an annual inflation rate of 5.0%.

- ASD fiscal projections have been converted to a calendar year basis since the legally mandated fiscal year for the School District (July 1 - June 30) differs from that for General Government (January 1 - December 31). Certain assumptions have been made with respect to the timing of ASD revenues and expenditures in order to accommodate this conversion. Revenues and expenditures for all funds except the Debt Service Fund are projected to be higher in the second half of the fiscal year than the first. Debt Service Fund revenues and expenditures have been split on a 50/50 basis. The projections were prepared assuming that all revenues would be received (or receivable) and all expenditures paid (or payable) within the budgeted fiscal year.

- Additional costs for new ASD education facilities programmed to come on line after 1983 are assumed to be an integral part of projected operating budgets as set forth in the ASD Seven-Year Financial Projections, and are not separately identified as new capital operating and maintenance costs.

The following graph is an overview of tax-supported expenditures within the Municipality of Anchorage (General Government and Anchorage School District) for fiscal years 1983-1989.

TOTAL PROJECTED TAX-SUPPORTED EXPENDITURES FOR ANCHORAGE*
1983 - 1989

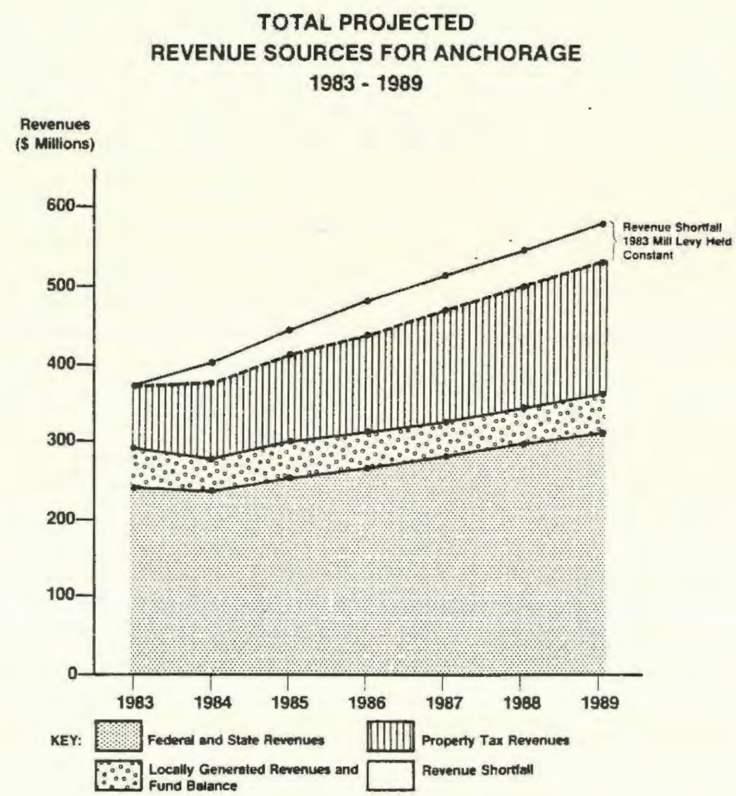


*General Government and Anchorage School District combined

Attention is directed to the fact that the growth patterns identified for Municipal General Government are not substantially altered when General Government and ASD expenditure projections are combined. Modest rates of real growth are projected through the end of the decade. Real growth between 1983 and 1984 in Anchorage's total tax-supported expenditures (the area between Line 2 and Line 3) is projected to be six percent. This growth is primarily driven by the added costs to support expanding student population - with ASD expenditure increases (when measured in base year dollars) outpacing General Government expenditure increases by a 3 to 1 margin.

This pattern undergoes a major shift between 1984 and 1986 as additional Project 80's facilities supported by General Government expenditures come on line. Real growth in Anchorage's total tax-supported expenditures during this period is eight percent--with ASD expenditure increases (when measured in base year dollars) matched almost one for one by General Government expenditure increases. After 1986, total combined expenditure increases when measured in base year dollars stabilize.

The following graph is an overview of projected revenues available to fund Anchorage's total combined expenditures for fiscal years 1983 through 1989:



Here, projected revenue patterns from federal/state sources are markedly different from those presented in the General Government section. Whereas federal/state revenue per capita to support General Government expenditures steadily declines, federal/state revenue per student to support ASD expenditures increases at approximately a 3 - 5% average annual rate. The latter increases are primarily the result of projected increases in State Public School Foundation Program revenues, although federal revenue increases are also projected.

Notwithstanding these increases, the revenue shortfall problem first identified in the General Government section remains. Of critical importance is the fact that the magnitude of the problem grows worse, not better, when General Government and ASD fiscal projections are combined. The greater burden of the problem falls by far on the General Government side of the equation. But shortfalls generating from the Anchorage School District are also substantial. When all known revenues are combined, total shortfalls for Anchorage tax-supported functions are projected to be $26.3 million in 1984 and $50.1 million by 1989.

V. CONCLUDING REMARKS

The 1983-1989 Fiscal Trends Report closes with a reminder that there are no ready solutions to the revenue shortfall problems discussed in this report. They present critical challenges to this community -- challenges which must be met with creative and carefully balanced fiscal policies. But with the combined skills of all elements in the community, viable solutions which will resolve shortfall problems in an effective and balanced manner can be crafted.