

FISCAL TRENDS REPORT

1985 - 1991

INTRODUCTION

This report presents six year expenditure and revenue projections for general government services of the Municipality of Anchorage and the Anchorage School District. The purpose is to provide background and general trend information for local decision makers and the public rather than precisely estimate future spending and revenues. The Fiscal Trends Report seeks to provide fiscal data in such a way as to highlight significant issues and choices facing the community. This document cannot provide answers to the complex issues which result from growing service demands coupled with shrinking revenue sources. It may, however, contribute to the discussions and decisions which are crucial to Anchorage's fiscal future.

This year's Fiscal Trends includes a brief historical section to help bring the current budget figures into perspective, followed by projections of spending (Section II) and revenues (Section III). Implications of alternative spending scenarios and additional issues are briefly dealt with in Section IV, while Section V outlines the major assumptions underlying the projections. Sections VI and VII contain similar projections for the Anchorage School District to provide an overall view of municipal activities. Summaries of fiscal and related data on which Fiscal Trends is based are provided in tables at the end of the report.

I. BACKGROUND

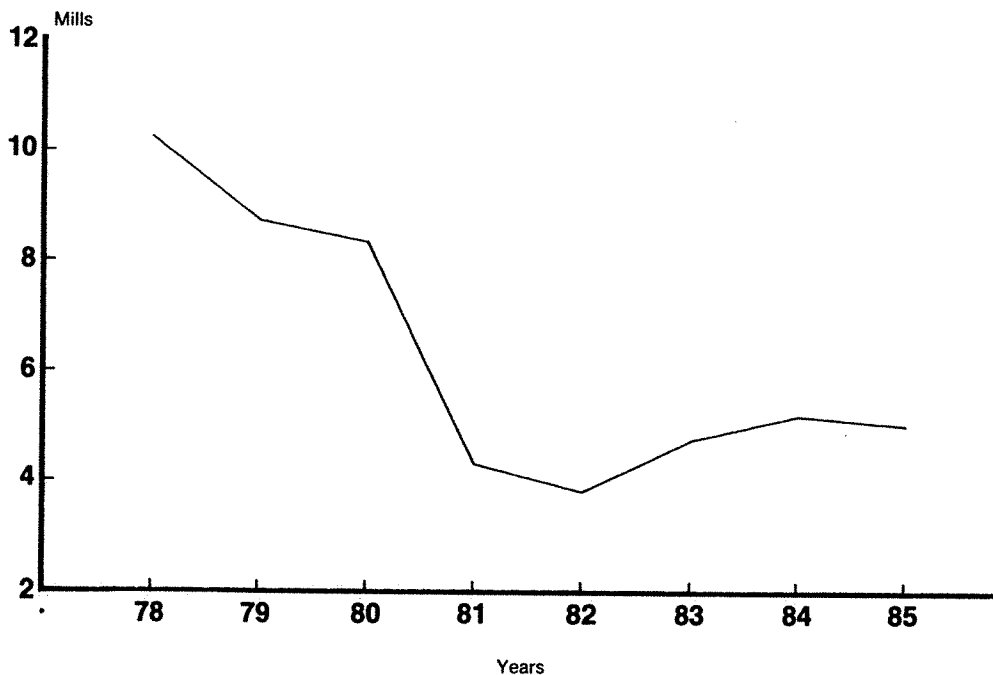
This section presents some historical data in order to bring perspective to Anchorage's current and prospective fiscal picture. Anchorage has grown substantially over the past several years. Population growth averaged nearly 10% per year between 1980 and 1983, slowing to 5.7% for 1984, and still further to 1.7% for 1985. Over the same five year period, total assessed valuation of real and personal property grew at an average rate of 17.8%, or when the effects of inflation are removed, a real rate of 12.8% per year.

Increased demands for the services and facilities provided by local government accompanied this population and construction boom. Budgeted expenditures in 1985 dollars rose at a rate of approximately 5.3% per year between 1980 and 1985, while declining slightly when adjusted for population increase as well as inflation. The sources of revenue which fund local government activities have also undergone changes. State and federal sources comprised approximately 25% of revenues used to fund general government expenditures in the late 1970's.

This share jumped to over 40% in 1981 while local taxes fell from 43% in 1980 to 22% of revenues in 1981. Intergovernmental funding peaked in 1983 at nearly 50% of general government revenues and has fallen each year since, while the tax share has risen. As discussed in Section III, these trends in revenue sources are expected to continue through the projection period, returning to the proportions of the late 1970's by 1991.

The combination of high state revenues and rapidly growing assessed valuation allowed local expenditures to grow to meet the needs of the expanding population, at the same time property tax rate was falling. Figure 1 shows the average mill levy for the years 1978 through 1985.

FIGURE 1
MUNICIPALITY OF ANCHORAGE
Average Mill Levies - General Government Purposes
1978 - 1985



The large drop in the mill rate between 1980 and 1981 corresponds to the increase in state revenues for local operating purposes from \$24 million in 1980 to \$50.8 million in 1981. The distribution of state oil wealth to local governments continued to increase Anchorage's receipts from this source to a peak of \$66.4 million in 1983, continuing to hold mill levies at a relatively low rate. Even though state and federal revenues have declined as a share of total expenditures, the average mill levy for 1985 is slightly less than 50% of the 1978 level.

In 1983 voters approved an amendment to the municipal charter which limits the rate of growth in local taxes to the growth rate of population and prices. Allowances are made for certain exceptions to the tax limitation such as the cost of voter approved services and debt service. The importance of the tax limitation for future spending scenarios is dealt with in Section III below.

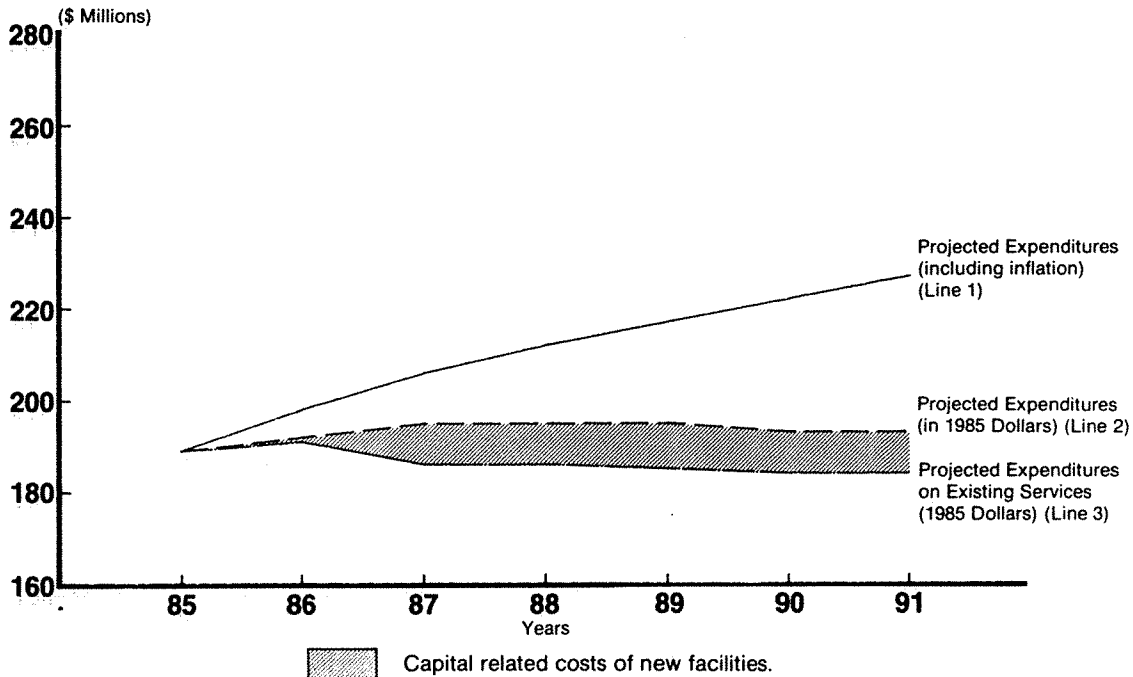
II. GENERAL GOVERNMENT EXPENDITURES

Slow growth in general government expenditures is projected over the next six years. Spending over the period is constrained by the general revenue picture (discussed in Section III of this report) and by the tax limitation. Figure 2 depicts projected operating expenditures over the period 1986-1991, using as a basis the revised 1985 budget and the proposed operating budget for 1986. The expenditure figures used throughout this report exclude the cost of services charged against grant programs, capital projects and utilities. Therefore, the 1986 budget figure used is \$195.8 million rather than the \$214.8 million total proposed budget. For this Base Case (Scenario 1), personal services (salaries and benefits) are allowed to grow at 3% per year, while most other categories increase at 2.75%, the assumed rate of inflation. Debt service (interest and principal payments on bonds) is based on actual figures for debt already incurred and estimates for proposed bonds with a 9% interest rate, level debt service payments, and a 20 year term to maturity. The Base Case includes new capital-related costs for projects which have already been approved and will come on line in future years, and for projects contained in the 1986 Preliminary Capital Improvement Budget (including the October 1985 bond package). The Base Case includes no costs associated with capital projects which may be proposed for 1987 through 1991. Those potential costs are included in later scenarios.

When Base Case expenditures are portrayed in 1985 dollars (that is, adjusted to remove the effects of inflation on the numbers), the rate of increase in the general government operating budget is low--about 1/3 of 1% per year over the six year period. The growth in spending is almost entirely accounted for by the capital-related costs described above. These capital projects include the Performing Arts Center, road and drainage improvements, operations costs for new buses, various recreation facilities, the new animal control shelter, etc.

While new facility operating and maintenance costs and debt service become a larger share of the out-year Base Case budget, the amount devoted to existing municipal services (which includes maintenance and operations of current facilities) declines slightly when measured in 1985 dollars from \$189 million in 1985 to \$184 million in 1991.

FIGURE 2
 Base Case (Scenario I)
 Projected Expenditures for
 General Government Operations
 1985 - 1991

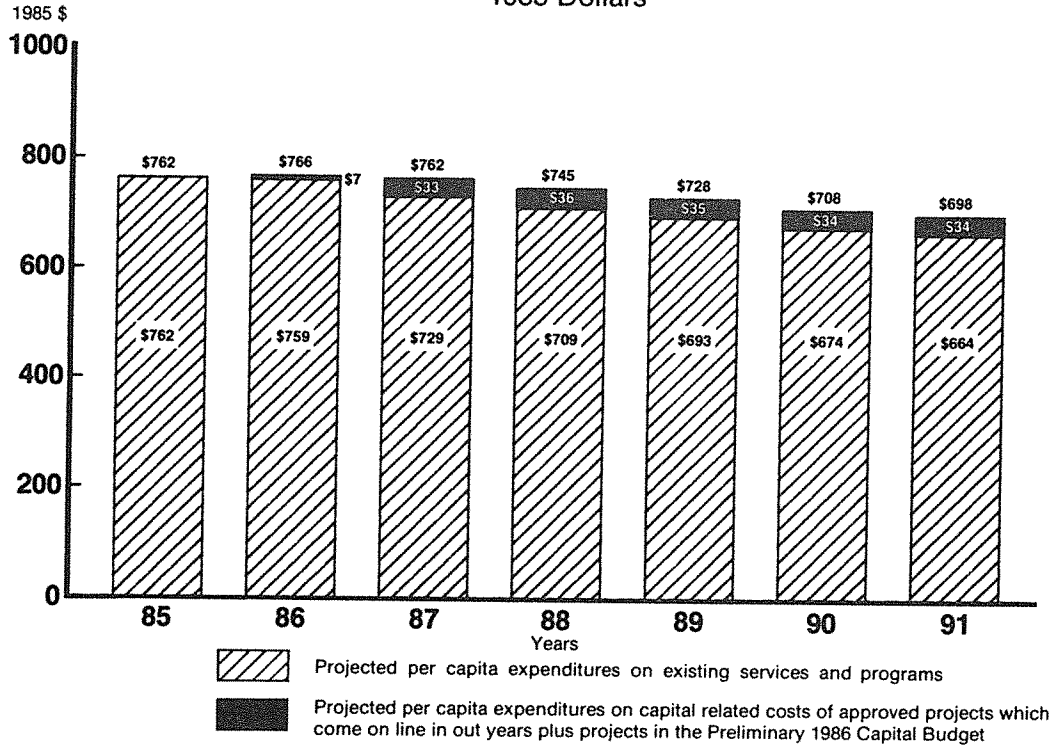


The Base Case scenario assumes inflation at 2.75%, and includes costs related to funded capital projects and those contained in the 1986 Preliminary Capital Improvement Budget. No additional new projects are assumed. Section V contains a full listing of assumptions.

Figure 3 brings additional perspective to this spending scenario, showing that in per capita terms, inflation-adjusted expenditures decline over the period, from \$762 per capita in 1985 to \$698 per capita in 1991. New capital related costs rise from less than \$7 per capita in 1986 to a high of \$36 in 1988, then decline to \$34 per capita in 1991. The decline in real (inflation-adjusted) per capita terms occurs because in the Base Case no additional projects are brought on line after 1988, while population continues to grow.

FIGURE 3

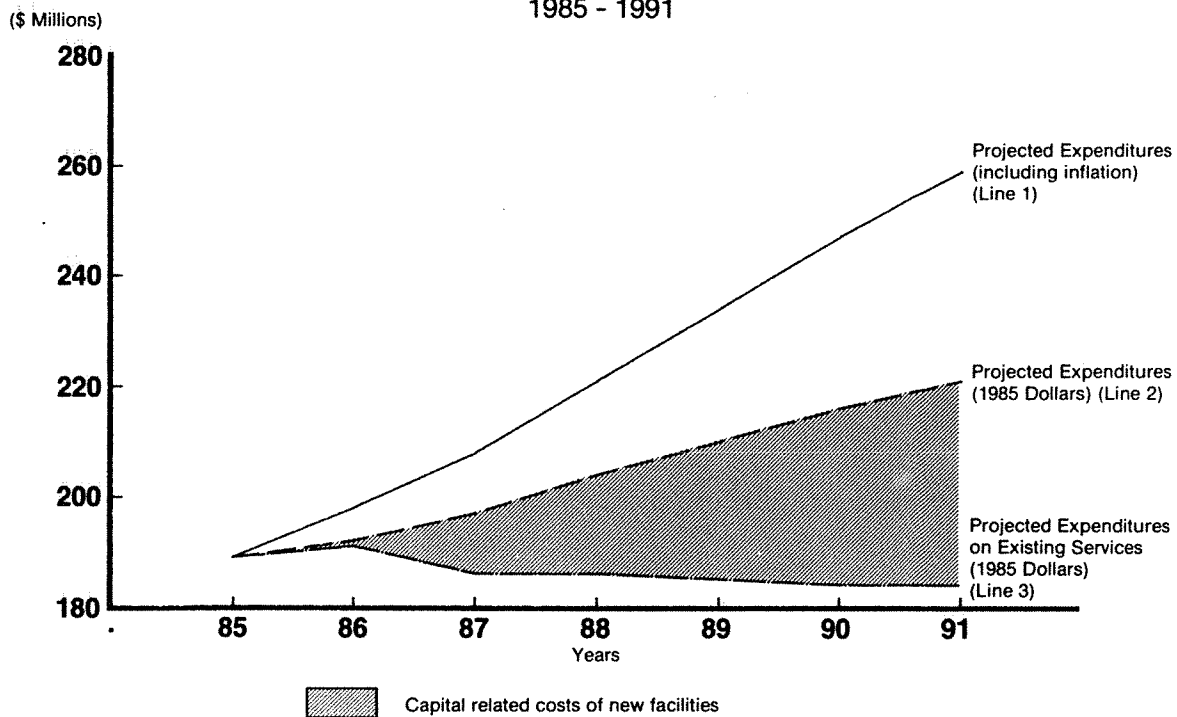
Base Case (Scenario I)
Projected Per Capita Expenditures for
General Government Operations
1985 Dollars



The Base Case scenario assumes inflation at 2.75%, and includes costs related to funded capital projects and those contained in the 1986 Preliminary Capital Improvement Budget. No additional new projects are assumed. Section V contains a full listing of assumptions.

The shift in spending emphasis from existing operations and programs toward capital facility related costs is heightened when the costs associated with the projects proposed in the full 1986-1991 Capital Improvement Program are considered in Scenario II. These costs include debt service for bonded projects and operations and maintenance costs for all capital projects which, if funded, would come on line between 1987-1991. Figures 4 and 5 build on the information given in Figures 2 and 3 with the addition of the debt service and operation and maintenance costs of these future CIP projects.

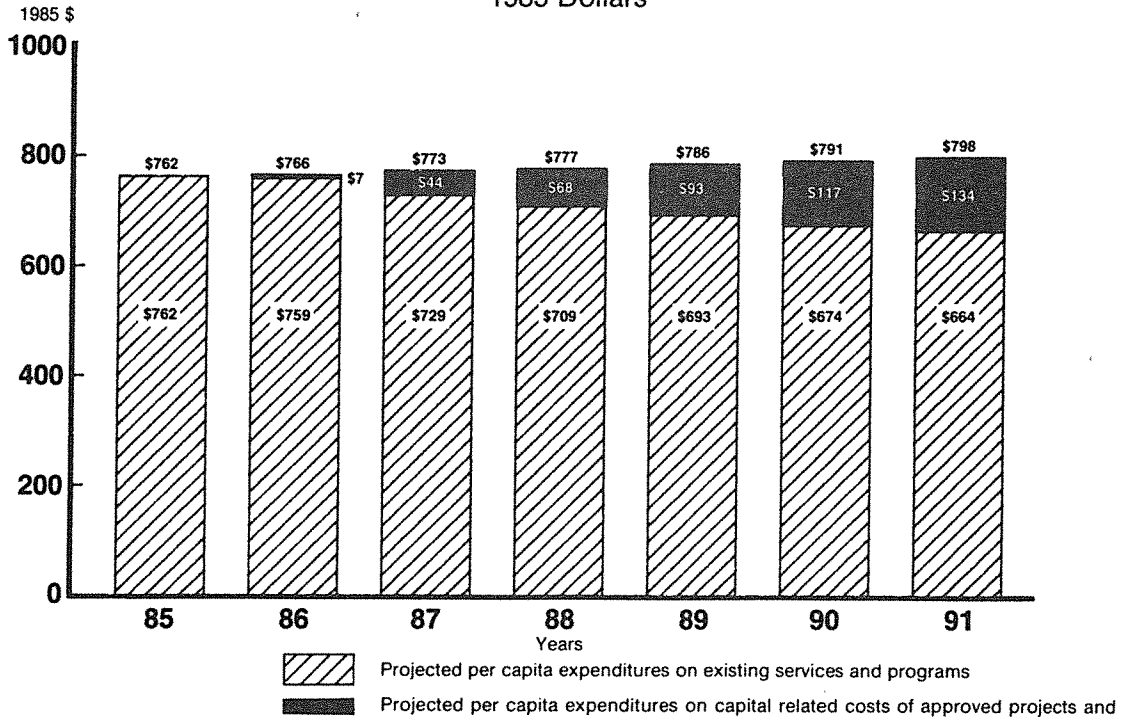
FIGURE 4
Scenario II
Projected Expenditures for
General Government Operations
1985 - 1991



Scenario II assumes inflation at 2.75%, and includes costs related to currently funded capital projects coming on line in the out years and capital projects included in the Preliminary Capital Improvement Program 1986-1991.

In Scenario II, total expenditures (existing services and programs plus capital related costs of future capital projects) increase 5.4% per year in nominal terms (without inflation adjustment). When adjusted to account for inflation, the rate of increase over 1985 is 2.6% per year.

FIGURE 5
 Scenario II
 Projected Per Capita Expenditures for
 General Government Operations
 1985 Dollars



Scenario II assumes inflation at 2.75%, and includes costs related to currently funded capital projects and capital projects included in the Preliminary Capital Improvement Program 1986-1991.

The real per capita impact of adding 1987-1991 CIP projects is clear from Figure 5. Total per capita spending in 1985 dollars rises to \$798 due to the \$134 per capita increase in new capital related costs; real per capita expenditures on existing services and programs fall from \$762 in 1986 to \$664 in 1991 as in Figure 3.

These figures emphasize the need to balance the costs of maintaining existing programs, services and facilities against the costs associated with new programs, services and facilities. As more dollars are required to support new capital investments, proportionately fewer dollars will be available to support existing programs and services. If we are to have both new and existing programs, greater efficiencies and additional revenue sources will be needed and/or current sources will have to be tapped more fully.

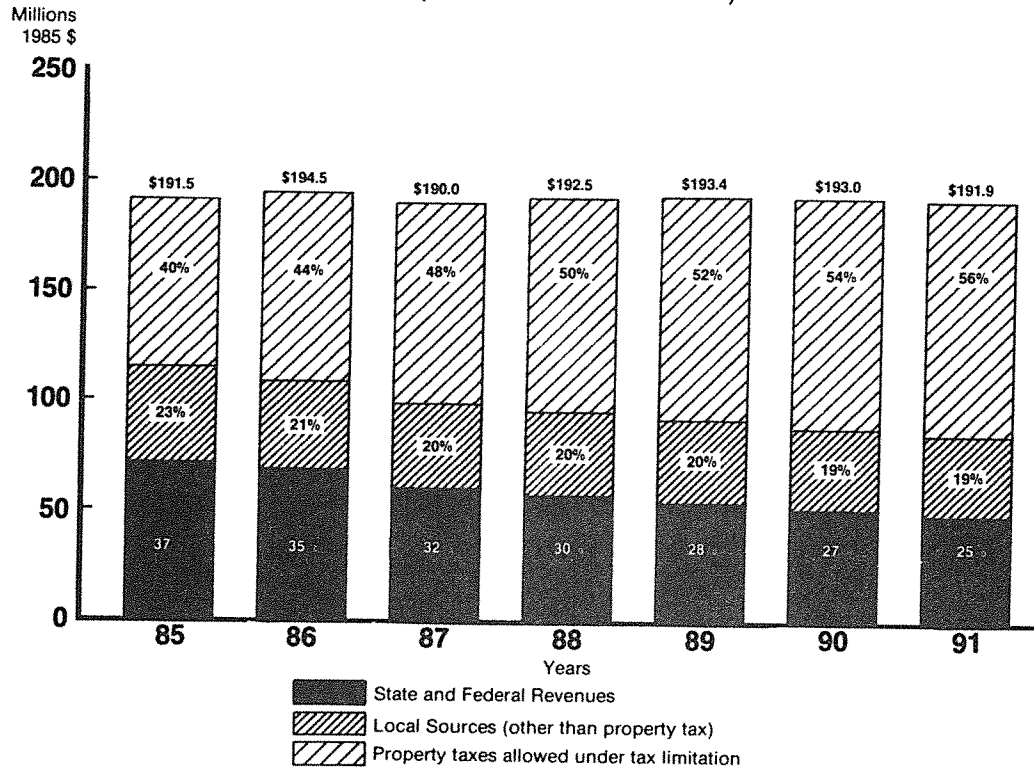
The future configuration of grants versus bonding for capital projects is uncertain. With declining state capital budgets, more general obligation bonding can be anticipated over the next six years than over the past six. Scenario II showed the impact of a fully funded 1986-91 Capital Improvement Program. Later in this report we will show a range of scenarios which include cases in which half of the annual amount now proposed in the CIP for 1987 through 1991 is funded. This 50% case reflects a midrange assumption which is consistent with the expectation that projects will be funded, some through bonding, but acknowledges that the full range of CIP projects may not be realized.

III. GENERAL GOVERNMENT REVENUES

The tight budget projections shown in Section II reflect the general revenue picture facing the municipality. Over the past several years, inter-governmental revenues (state and federal funds) for general operations grew from 25% of general revenues in 1979 to a high of nearly 50% in 1983. After reaching a peak in 1982, state oil revenues have declined each year since. Municipal revenues from this source on a per capita basis have also leveled off and begun to decline. Concurrently, major federal programs which aid local governments are being reduced. Notably, the federal revenue sharing program which provides \$9.6 million to the municipality in 1985, and from which \$7 million is expected for 1986, will most likely drop to zero for the 1987 budget.

The amounts of state revenues which will be distributed to localities through the Municipal Assistance and State General Revenue Sharing programs are uncertain, since the funding for these programs is subject to annual legislative appropriation and depends on state revenues and priorities. In the revenue projections which follow, it is assumed that Municipal Assistance will decline slowly after 1987, while General Revenue Sharing will hold constant at approximately the 1986 level. Given these assumptions, state and federal revenues decline from 37% of total revenues in 1985 to the 1979 level of 25% in 1991.

FIGURE 6
Projected Revenues by Source
Given Base Case Expenditures
(Millions of 1985 Dollars)



Base Case (Scenario I) assumes inflation at 2.75%, assessed valuation increases at 5.3% per year, and 1986 Preliminary Capital Improvement Budget.

As shown in Figure 6, local non-tax dollars are projected to remain fairly constant, but fall slightly as a percentage of total revenues. Projected increases in fee income over the period are due to inflation or population growth rather than changes in local or user fee schedules. Interest income is held constant; the local share of automobile registration fees increases at 5% per year; while hotel/motel tax receipts rise at 8% per annum over the period. The utility revenue distribution (which replaces the distribution mandated by unification) is assumed to contribute a net increase of \$4.0 million per year beginning in 1986. Fund balance contribution is assumed to be zero beginning in 1987.

A crucial assumption for calculating allowable real and personal property taxes is the growth in assessed valuation, particularly the portion attributable to real property improvements and new construction. Figure 6 is based upon an average annual increase of 5.3% in total assessed valuation over the 1986 estimate of \$15 billion. This projection is based on a 2.75% annual increase in the value of existing property, plus an estimate of new construction of \$400 million for 1987, increasing at 2.75% thereafter. Given these assumptions, allowable taxes on real and personal property rise from 40% to 56% of the projected revenue sources. This is consistent with the previous discussion of the changing share of local expenditures financed by federal and state sources. Results of using a higher rate of growth are shown in Tables 1 and 2 below.

When total revenues available under the tax limitation (as shown in Figure 6) are compared with the Base Case expenditures discussed in Section II, the projected tax requirement would exceed that allowed under the tax limit in each year after 1986. If the same comparison is made for expenditure Scenario II, which contains the full CIP for 1986-1991, the limit would be exceeded by more substantial amounts, rising to over \$9 million (\$7.8 million in 1985 dollars) by 1991. Table 1 shows estimated real and personal property taxes allowed under the tax limitation through 1991, using three scenarios -- Base Case, Scenario II and Scenario III (which includes 50% of the 1987-1991 CIP).

Table 1

Tax Limitation Comparison (millions \$)

<u>Expenditure Scenarios</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>
BASE CASE (Scenario I) (Currently funded projects and 1986 Capital Budget only)					
Property Taxes Required	101.5	108.5	114.8	120.8	126.7
Property Taxes Allowed	<u>96.6</u>	<u>105.8</u>	<u>113.4</u>	<u>120.4</u>	<u>125.7</u>
Over Tax Limit	4.9	2.7	1.4	.4	1.0
SCENARIO II (Base Case plus 100% of 1987-91 CIP)					
Property Taxes Required	104.2	114.0	125.7	138.2	149.5
Property Taxes Allowed	<u>98.8</u>	<u>109.7</u>	<u>120.2</u>	<u>130.7</u>	<u>140.3</u>
Over Tax Limit	5.4	4.3	5.5	7.5	9.2
SCENARIO III (Base Case plus 50% of 1987-91 CIP)					
Property Taxes Required	102.8	111.2	120.2	129.5	138.1
Property Taxes Allowed	<u>97.7</u>	<u>107.7</u>	<u>116.8</u>	<u>125.5</u>	<u>133.0</u>
Over Tax Limit	5.1	3.5	3.4	4.0	5.1

If assessed valuations are assumed to grow at a average rate of 8.7% per year after 1986 rather than 5.3%, revenue shortfalls would be somewhat reduced for the out years. Table 2 compares the revenue shortfalls from Table 1 with those which would result with the assumption of higher growth in assessed valuation.

Table 2

Revenue Shortfalls
(Millions \$)

<u>Expenditure Scenarios</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>
BASE CASE (Scenario I)					
Assessed Valuation Growth 5.3%	4.9	2.7	1.4	.4	1.0
SCENARIO IV-Same as above, except:					
Assessed Valuation Growth 8.7%	4.9	2.6	1.2	.1	.6
SCENARIO II					
Assessed Valuation Growth 5.3%	5.4	4.3	5.5	7.5	9.2
SCENARIO V-Same as II, except:					
Assessed Valuation Growth 8.7%	5.4	4.2	5.2	7.2	8.8
SCENARIO III					
Assessed Valuation Growth 5.3%	5.1	3.5	3.4	4.0	5.1
SCENARIO VI-Same as III, except:					
Assessed Valuation Growth 8.7%	5.1	3.4	3.2	3.7	4.7

It can be seen from Table 2 that a relatively small change in the rate of growth in assessed valuations would not eliminate the tax limitation revenue shortfalls shown. The important element which would raise allowable taxes would be substantial growth in new construction. It is assumed here that new construction would grow at a slow to moderate pace from the projected level of \$400 million in 1986.

Additional scenarios were developed in which the inflation assumption was changed from 2.75% to 6%. All scenarios in which the higher rate of inflation is used also assume the higher rate of increase in assessed valuation (8.7%). The effect of increasing the inflation rate is a substantial increase in revenue shortfalls. For the Base Case modified by 6% inflation (Scenario VII), shortfalls range from \$7.9 million in 1987 to \$14.4 million in 1991. In Scenario II modified by 6% inflation (Scenario VIII), shortfalls escalate from \$8.4 million in 1987 to \$24.3 million in 1991. These increases result from the assumptions that expenditures climb with inflation, while state revenues are held constant or fall from current levels. The higher inflation would tend to increase the rate of growth in assessed valuations. However, the tax limit inflation adjustment applies to net taxes, not to the total revenues collected. As a result, the increase in allowable taxes is much smaller than the inflation-driven increases in expenditures.

Another factor to be considered in the budget and revenue scenarios is the average mill rate which results for funding general government expenditures. Although implied mill rates shown in Table 3 are not precise, they yield a general perception of the potential impact of future spending and revenue scenarios. These mill rates are calculated by first projecting expenditures and then subtracting all projected non-property tax revenues. The remainder is then assumed to be funded through property taxation. The average mill rate is calculated by dividing the property taxes required by the projected assessed valuation and multiplying the result by 1,000. As discussed earlier, declining intergovernmental revenues have already resulted in a return to the more typical local funding patterns experienced before Alaska's oil wealth brought about increased state funding of local government activities. As shown in Section I, mill levies dropped dramatically in the early 1980's as assessed valuations and state funding grew.

Given the uncertainty of all factors involved, it is difficult to pick the "best guess" scenario. Instead, Table 3 shows some of the broad range of possibilities. The mill rate scenarios assume declining state and federal revenues in real per capita terms, inflation at 2.75% and 6%, various levels of out year capital projects, and total assessed valuations increasing at average rates of 5.3% and 8.7%. Consistent with Table 2, all cases show levies necessary to fund projected expenditures in excess of those allowed under the tax limitation for the years 1987 through 1991.

Table 3

Estimates of Average Mill Levies Required and Allowed to Fund Projected Expenditures

Expenditure Scenarios	1987	1988	1989	1990	1991
Scenario I-Base Case					
Inflation 2.75%					
Currently approved and 1986 proposed capital projects only	6.42	6.51	6.55	6.55	6.86
Assessed valuation 5.3%	6.10	6.35	6.47	6.52	6.81
Projected Mill Levy ¹					
Allowed Mill Levy ²					
Scenario II					
Inflation 2.75%					
100% of proposed CIP projects (1986-91)	6.59	6.84	7.17	7.49	8.10
Assessed valuation 5.3%	6.24	6.58	6.85	7.08	7.60
Projected Mill Levy					
Allowed Mill Levy					
Scenario III					
Inflation 2.75%					
50% of proposed CIP projects (1987-91)	6.50	6.68	6.86	7.02	7.48
Assessed valuation 5.3%	6.17	6.47	6.66	6.80	7.20
Projected Mill Levy					
Allowed Mill Levy					
Scenario IV					
Inflation 2.75%					
Currently approved and 1986 proposed capital projects only	6.21	6.11	5.95	5.76	6.05
Assessed Valuation 8.7%	5.92	5.97	5.89	5.76	6.02
Projected Mill Levy					
Allowed Mill Levy					
Scenario VIII					
Inflation 6.00%					
100% of proposed CIP projects (1986-91)	6.72	7.08	7.47	7.85	8.78
Assessed Valuation 8.7%	6.20	6.50	6.73	6.92	7.62
Projected Mill Levy					
Allowed Mill Levy					
Scenario IX					
Inflation 6.00%					
50% of proposed CIP projects (1987-91)	6.64	6.92	7.18	7.40	8.19
Assessed Valuation 8.7%	6.14	6.39	6.56	6.67	7.27
Projected Mill Levy					
Allowed Mill Levy					

1. Projected mill levy is the average mill rate required to fund projected expenditures in each scenario.
2. Allowed mill levy is the average mill rate that would be allowed under the tax limitation in each scenario.

IV. IMPLICATIONS AND ISSUES

The next several years will present local decision makers with a series of fiscal challenges and choices. The scenarios presented here involve declining real per capita spending on existing services and facilities, and significant efficiency improvements in the next few years. Even so, current levels of service cannot be provided indefinitely to a growing population without increasing total expenditures. Unless there is a major change in the projected state or federal support, the provision of a continued level of municipal services and additional capital facilities will be possible only if the public is willing to replace declining intergovernmental revenues with local support. This constraint will become more obvious as the costs of new and proposed capital facilities require choices between these new facilities, existing services and programs and/or new revenue sources.

This document, as stated in the Introduction, seeks primarily to provide a general view of the municipality's fiscal picture, rather than a detailed examination of fiscal issues and alternative solutions. The range of fiscal issues is broad. For instance, on the revenue side, the proposed operating budget suggests continuing the utility revenue distribution plan. If approved, this continued source of revenue would partially offset the anticipated loss of federal revenue sharing funds. A major fee policy review is underway, which will provide background data on current fee structures, how they compare with other localities, and the extent to which service costs are borne by users.

The Office of Management and Budget has recently begun a project to review and enhance municipal fiscal planning capabilities. One result of this effort will be improved accessibility of fiscal data so mid and long term implications of proposed actions can be more readily evaluated. Increased analytical capability will also allow for research on specific fiscal issues. For instance, the current version of the federal tax bill eliminates the deduction for local taxes. For those who itemize deductions, the net result could well be equivalent to a 30% to 40% increase in the mill levy. This could definitely influence citizens' willingness to pay increased local taxes. Federal tax proposals to eliminate certain tax-exempt financing could result in less construction and economic activity, thus affecting the local tax base. The implications of these proposals for local governments are significant.

Another fiscal issue requiring attention is categorical grant funding of municipal activities. The future of these state and federal grants (which, for example, fund nearly \$20 million of the municipality's health and human service activities in addition to those tax-funded activities contained in the operating budget) is uncertain. The stability of these funding sources must be analyzed, along with strategies to cope with any loss of funding for essential services. These examples emphasize the point that the municipality's ability to provide a given level of service is critically influenced not only by local demands and decisions, but also by a variety of external factors.

V. ASSUMPTIONS AND DATA

This section lists in detail the assumptions which were used in projecting expenditures and revenues and gives additional descriptions of the data used. The expenditures dealt with in this report are limited to general government operating costs exclusive of expenses charged against grants, capital projects and utilities. These "function costs" are approximately 90% of total direct general government costs.

Two inflation assumptions are used in alternative scenarios. In the Base Case (Scenario I) and Scenarios II through VI, 2.75% annual rate of price increase is assumed. For Scenarios VII through IX, a rate of 6% per year is used. The current rate at the national level is 3.3%, and future rates are uncertain. There is a wide variance of opinion as to how Anchorage prices will change over the next few years, and how those changes will effect items purchased by local government. The high end of the range is consistent with rates currently used by the Institute of Social and Economic Research, at the University of Alaska, Anchorage and by the Division of Petroleum Revenue of the Alaska Department of Revenue.

In the scenarios where 2.75% inflation rate is utilized, personal services are allowed to increase at 3%. Debt service on existing bond issues is included at the level of actual obligations. All other expenditure categories rise at the 2.75% rate. This includes operations and maintenance costs of capital projects which were estimated in 1986 dollars and inflated for the later years. When the 6% rate of inflation is assumed, it is applied to personal services as well as the other categories. For future bonding, it is assumed that bonds will be sold during the first half of the year, and the terms on the bonds will be a 9% interest rate, 20 year term to maturity, and level debt service payments.

The amount of debt service and operations and maintenance costs associated with new capital projects varies among scenarios. Scenarios I (Base Case), IV and VII assume only those projects which have already been approved or which are included in the Preliminary 1986 Capital Improvement Budget and come on line during the projection period. Scenarios II, V and VII assume that in addition to those projects contained in the Base Case, all projects proposed in the Capital Improvements Program 1987-1991 will also be funded. For Scenarios III, VI and IX, the midrange assumption is made that 50% of the proposed CIP 1987-1991 will be funded.

On the revenue side, several categories are projected to remain constant at their 1986 level. These include state general revenue sharing, state road maintenance funds and short term interest earnings. State Municipal Assistance payments are assumed to hold steady in 1987 at the 1986 level and

decline at 5% per year thereafter. Receipts from the Hotel/Motel tax are projected to increase at 8% per year, and automobile registration fees (State Auto Tax) are assumed to increase 5% per year after 1986. Income from Building Safety fees is projected to increase with inflation after a drop in 1986 resulting from the decline in new construction.

Public transit program revenues are assumed to increase at about half the average rate of growth in population. Federal Urban Mass Transit funds are assumed to decline 10% per year after 1987. Other user and local revenues increase at the rate of growth in population after 1986. Applied fund balance and federal revenue sharing are assumed to be zero beginning in 1987. Other federal revenues are held constant in the out years. Utility revenue distribution is projected at \$5.5 million each year, a net increase of \$4 million over 1985.

Two alternative projections of total assessed valuation and new construction are used. The 5.3% average rate of growth in assessed valuation was derived by applying the low-end inflation estimate to 1987 projections of new construction and total assessed valuation. Each year the new construction becomes part of the total base which is then inflated. The 8.7% average rate of growth in assessed valuation was obtained by applying the 6% inflation rate in the same manner.

ANCHORAGE SCHOOL DISTRICT

FY 1981-82 to FY 1990-91

INTRODUCTION

By District policy the Superintendent, prior to developing the School District's financial plan, will present a recommended revenue and expenditure pro-forma budget to the School Board for consideration and approval. The Board then will establish a planned budget cost ceiling, setting the outside spending limits for the annual budget preparation process.

Several key factors are major determinants of the pro-forma budget. These factors include debt service levels, student population projections, the tax limitation, state revenue entitlements, and the prevailing inflation rate. There is a substantial degree of uncertainty in these factors. Therefore the School Board has scheduled their initial budget planning session for October 14, 1985. At that time the initial student enrollment projections will be available and the outcome of the school related ballot propositions will be known.

From October 1985 through January 1986 the FY 1986-87 budget will be developed by the school and administrative staff with the input and involvement of teachers, staff members, community members, and community organizations.

The School Board will hold public budget development hearings and consider the FY 1986-87 Preliminary Financial Plan in February, 1986. The revisions made pursuant to School Board decisions will then be incorporated into the next version of the budget which is the Proposed Financial Plan. The Municipal Assembly will hold public hearings and consider the Proposed Financial Plan in April, 1986. At that time, they will approve and appropriate the total budget and the property taxes included in the approved budget. Any revisions which may then be necessary will be made and incorporated into the final version of the budget, the Adopted Financial Plan, for the fiscal year which begins July 1, 1986.

VI. ANCHORAGE SCHOOL DISTRICT - EXPENDITURES

The student enrollment is projected to increase to approximately 45,850 students, an increase of 3,350 students in five years. For fiscal years after FY 1985-86 the year to year percentage increases vary from 1.3% to 2.1%.

A parity level of program expenditures is projected. Existing programs are presumed to continue but only minor program increases would be available. Cost increases due to additional enrollment are developed by providing for a parity level of additional teaching and direct instructional support staff and services as well as the necessary additional student supplies and equipment.

New facilities operations and maintenance costs for the school facilities included in the 1985 bond propositions are included in the financial projections. The additional operations and maintenance costs amount to \$2.19 million per year. The new facilities are planned to open in fiscal years 1986-87 to 1988-89.

Cost increases are estimated using expected rates which vary depending on the expenditure object category group. These projected rates are intended to approximate the Base Case estimate of the School District's cost increases for employee salaries and benefits, supplies, equipment, contracted services, utilities, maintenance, etc. Overall inflation based on the Anchorage area urban consumers' price index (CPI), is assumed to be approximately 2.75% from FY 1985-86 through FY 1990-91.

Debt service expenditure projections are developed using the existing indebtedness and the two new bond issues which are proposed. Under the existing State reimbursement program 80% of new debt service is to be reimbursed in the same year that the debt service is paid. No reduction in this reimbursement rate is projected.

Food Service expenditures are projected on a per student basis assuming 2.75% per year increases in food preparation and service costs.

State Projects expenditures for special State programs are projected using per student yearly increases of 1.0% per year.

Federal Projects expenditures for special Federal programs are projected using per student yearly increases of 2.0% per year.

The following graph and table summarize the budgeted and projected expenditures for the ten fiscal years through FY 1990-91.

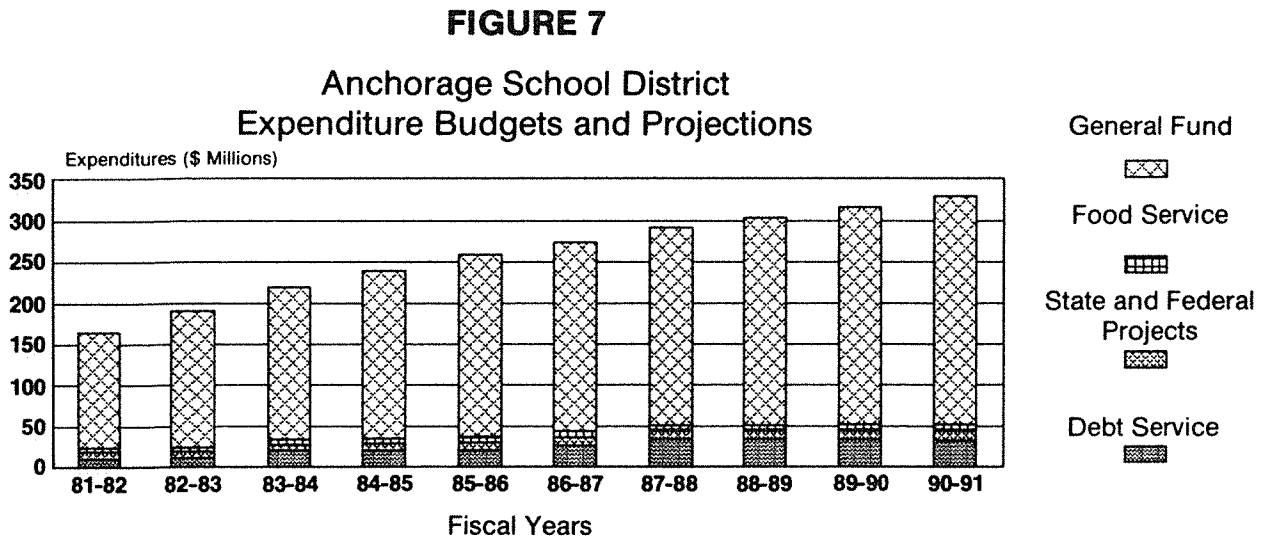


Table 4

ANCHORAGE SCHOOL DISTRICT

EXPENDITURES
(\$ Millions)

<u>Budgeted/Projected</u>											
Expenditures	FY	81-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89	89-90	90-91
Operating Funds:											
General Fund		140.7	166.4	185.8	203.4	221.7	229.5	239.9	252.3	263.5	276.7
Food Service Fund		5.0	5.8	6.3	7.0	7.2	7.3	7.5	7.7	7.9	8.3
State & Federal Projects		<u>7.9</u>	<u>7.2</u>	<u>7.1</u>	<u>8.4</u>	<u>9.6</u>	<u>9.7</u>	<u>9.9</u>	<u>10.2</u>	<u>10.5</u>	<u>10.9</u>
Total - Operating		153.6	179.4	199.2	218.8	238.5	246.5	257.3	270.2	281.9	295.9
Debt Service Fund											
Through FY 1985-86		10.8	11.4	20.2	20.1	20.1	20.0	19.9	19.8	19.8	19.0
1985 Proposed Issues		-	-	-	-	-	<u>6.7</u>	<u>13.8</u>	<u>13.8</u>	<u>13.8</u>	<u>13.8</u>
Total-Debt Service		10.8	11.4	20.2	20.1	20.1	26.7	33.7	33.6	33.6	32.8
Total Expenditures											
Projected		<u>164.4</u>	<u>190.8</u>	<u>219.4</u>	<u>238.9</u>	<u>258.6</u>	<u>273.2</u>	<u>291.0</u>	<u>303.8</u>	<u>315.5</u>	<u>328.7</u>
Total Expenditures											
Adjusted to FY 1985-86											
Base Year Dollars		188.9	207.7	234.6	245.5	258.6	265.9	275.6	280.1	283.1	287.0

Budgeted expenditures through FY 1985-86 are from the Adopted Financial Plans for those years and have not been restated for subsequent budget revisions.

VII. ANCHORAGE SCHOOL DISTRICT - REVENUES

Revenues for next year, FY 1986-87, are projected using as a base the current year's budget as well as the most recent available information as to student enrollment and availability of funding. The remainder of the years are developed using the projected FY 1986-87 revenue as the base year revenue.

State Revenue - The State Public School Foundation Program is the largest single revenue source. For FY 1985-86 it provides 64% of the General Fund revenues and 55% of total revenues. The revenue from this program was projected using the base amount of \$3,442 per student, on an average daily membership (ADM) basis. This is the legislatively established amount of the entitled funding for FY 1985-86. An increase of 1.0% per student to \$3,476 is assumed for FY 1986-87. Because of the state revenue uncertainty no increase in the per student funding for this program is projected after FY 1986-87. However the Foundation Program funding formula is in the process of revision. The revised formula, if adopted and fully funded, could provide for increases in excess of those projected in this section.

State Projects revenue for special State contracted programs is projected using increases per student of 1.0% per year.

The remaining State Revenue is computed using the following bases.

- Tuitions - 3.0% per year increase
- Pupil Transportation - 3.0% per year increase
- Indirect Costs - 3.0% per year increase

Local Revenue

Using the budgeted FY 1985-86 revenue as the base year revenue the following rates of increase are assumed in the projections:

- Tuitions, Sale of Property, and Miscellaneous - 3.0% increase per year
- Interest - 3.0% increase per year

Sales and Rentals - Career Center Revenues and Facilities rentals are projected to increase by 3.0% per year. Food Service revenue is projected assuming 3.0% increases in per student sales to account for price increases as well as student participation increases.

Local Taxes - Computed increases necessary to balance revenues with expenditures while staying within the projected property tax limitation are projected. The areawide assessed valuation projected increases from 1986 to 1990 average approximately 5.4% per year. The total assessed valuation is projected to increase from \$14.8 billion to \$18.5 billion.

Federal Revenue

Increases of 3.5% per year in the ROTC program and PL 81-874 revenue are projected. Federal Projects revenue is projected using increases of 2.0% per student per year. Food Service federal reimbursement revenue is projected assuming no increase per meal in the amount of reimbursement.

The following graph and table summarize the budgeted and projected revenues for the ten fiscal years through FY 1990-91.

FIGURE 8

**Anchorage School District
Revenue Budgets and Projections**

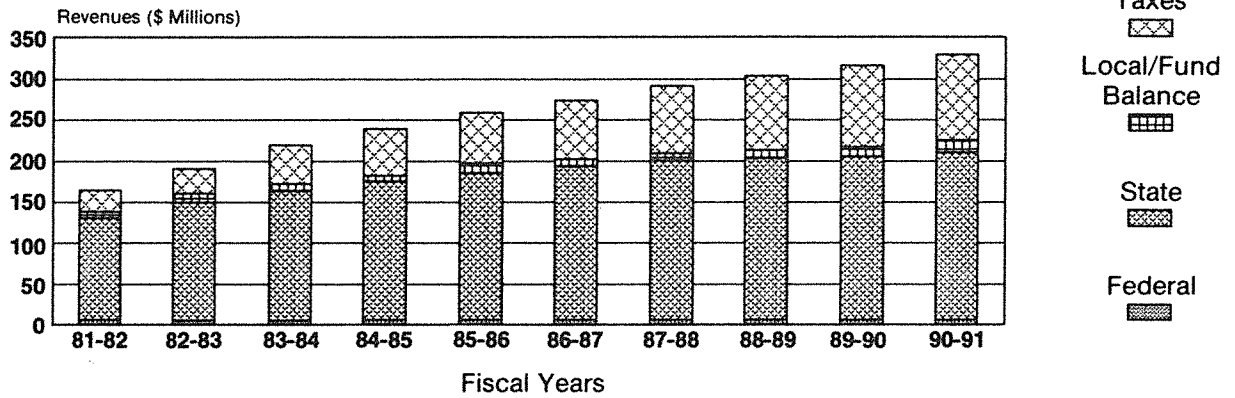


Table 5

ANCHORAGE SCHOOL DISTRICT

REVENUES
(\$ Millions)

Budgeted/Projected Revenues	FY	81-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89	89-90	90-91
Federal		7.0	4.7	5.5	6.1	6.0	6.0	6.2	6.3	6.5	6.8
State		124.0	145.1	158.2	169.3	180.0	187.0	194.7	196.6	199.1	203.4
Locally Generated and Fund Balance		7.3	11.4	9.1	6.7	10.9	8.7	8.6	9.5	11.6	15.0
Property Taxes		<u>26.1</u>	<u>29.6</u>	<u>46.6</u>	<u>56.8</u>	<u>61.7</u>	<u>71.5</u>	<u>81.5</u>	<u>91.4</u>	<u>98.3</u>	<u>103.5</u>
Total Revenues Projected		<u>164.4</u>	<u>190.8</u>	<u>219.4</u>	<u>238.9</u>	<u>258.6</u>	<u>273.2</u>	<u>291.0</u>	<u>303.8</u>	<u>315.5</u>	<u>328.7</u>
Calendar Year		<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
Mill Rate		3.76	3.24	3.66	4.27	4.00	4.44	4.84	5.19	5.41	5.46

Budgeted revenues through FY 1985-86 are from the Adopted Financial Plans for those years and have not been restated for subsequent budget revisions.

Table 1

GENERAL GOVERNMENT OPERATING EXPENDITURES

Base Case (Scenario I) *
Millions \$

Budgeted/Projected Expenditures	1985 (a)	1986 (b)	1987	1988	1989	1990	1991
Expenditures - Existing Services and Programs (c)	189.3	195.8	196.5	201.2	206.4	210.8	216.0
Capital Costs - New Facilities (d)							
Oper. and Maint.	---	.2	5.4	6.8	7.0	7.1	7.3
Debt Service	---	1.5	3.6	3.6	3.6	3.6	3.6
Total Expenditures (e)	189.3	197.5	205.5	211.5	216.9	221.5	226.9

GENERAL GOVERNMENT REVENUES

Base Case (Scenario I)
Millions \$

Budgeted/Projected Revenues	1985	1986	1987	1988	1989	1990	1991
Federal	10.6	8.0	1.0	.9	.9	.8	.8
State	60.5	62.1	62.4	60.7	59.2	57.7	56.4
Local (Non-Property Tax)	43.8	41.2	40.7	41.4	42.1	42.1	43.0
Property Tax Allowed	<u>76.7(f)</u>	<u>88.6(f)</u>	<u>96.6</u>	<u>105.8</u>	<u>113.4</u>	<u>120.4</u>	<u>125.7</u>
Total Revenues (e)	191.6	199.9	200.6	208.8	215.5	221.1	225.9

* Base Case (Scenario I) includes all costs associated with currently funded capital projects which come on line in out years, plus projects included in the Preliminary 1986 Capital Budget.

(a) 1985 revised budget figures.

(b) 1986 proposed operating budget.

(c) Excludes costs charged against grants, capital projects and utilities.

(d) New facilities in the Base Case (Scenario I) include currently funded projects which will come on line in out years and 1986 Preliminary Capital Improvements Budget (includes October, 1985 bond package).

(e) Columns may not total due to rounding.

(f) Actual amount levied for 1985 was \$74.4 million and for 1986 is \$84.5 million.

Table 2
GENERAL GOVERNMENT OPERATING EXPENDITURES

Base Case (Scenario II) *
Millions \$

Budgeted/Projected Expenditures	1985 (a)	1986 (b)	1987	1988	1989	1990	1991
Expenditures - Existing Services and Programs (c)	189.3	195.8	196.5	201.2	206.4	210.8	216.0
Capital Costs - New Facilities (d)							
Operation and Maintenance	---	.2	5.9	8.7	12.3	16.6	18.8
Debt Service	---	1.5	5.8	10.8	15.4	20.0	24.7
Total Expenditures (e)	189.3	197.5	208.2	220.7	234.1	247.4	259.4

GENERAL GOVERNMENT REVENUES

Base Case (Scenario II)
Millions \$

Budgeted/Projected Revenues	1985 (a)	1986 (b)	1987	1988	1989	1990	1991
Federal	10.6	8.0	.9	.9	.9	.8	.8
State	60.5	62.1	62.4	60.7	59.2	57.7	56.4
Local (Non-Property Tax)	43.8	41.2	40.7	45.1	48.4	50.6	52.8
Property Tax Allowed	<u>76.7(f)</u>	<u>88.6(f)</u>	<u>98.8</u>	<u>109.7</u>	<u>120.2</u>	<u>130.7</u>	<u>140.3</u>
Total Revenues (e)	191.6	199.9	202.8	216.4	228.6	239.9	250.2

- * Scenario II includes costs associated with currently funded capital projects which come on line in the out years and all capital projects included in the Preliminary CIP 1986 - 1991. See Section V for other assumptions.
- (a) 1985 revised budget figures.
- (b) 1986 proposed operating budget.
- (c) Excludes costs charged against grants, capital project funds and utilities.
- (d) New facilities in Scenario II include all currently funded projects which come on line in out years plus all projects contained in Preliminary CIP 1986 - 1991.
- (e) Columns may not total due to rounding.
- (f) Actual amount levied for 1985 was \$74.4 million and for 1986 is \$84.5 million.