

INTRODUCTION AND SUMMARY RESULTS

Fiscal Trends Report

I. INTRODUCTION AND SUMMARY RESULTS

One of the major policy issues facing the Municipality of Anchorage is how to best deal with the changing fiscal and economic circumstances. Falling oil prices translate into declining revenues from state and local sources. The situation is exacerbated by the simultaneous decline in federal funding as the Federal Revenue Sharing Program and other grants are reduced or eliminated through application of the Gramm-Rudman-Hollings Deficit Reduction Act. State and federal operating revenues (excluding most categorical grants) are projected to be \$49.9 million in 1987, down over 25% from the 1985 level of \$67 million. At their peak in 1983, state and federal revenues comprised over 42% of our general operating revenues, while in 1987 they will contribute only 25%.

Thanks to substantial state and federal revenues, the Municipality has been able to provide a high level of public services while maintaining one of the lowest tax requirements in the nation. The community must make hard choices about the level of services to be provided as these outside revenues are withdrawn. The purpose of this document is to help put the current fiscal circumstances in perspective by looking at where we are now, where we have been, and a range of potential fiscal futures.

The Proposed 1987 General Government Operating Budget is approximately \$17 million lower than the 1986 Revised Budget. Since the 1987 budget includes full-year operation of new facilities (e.g., the Headquarters Library) and debt service on bonds approved by the voters in October 1985, the reduction in previously "existing" services and activities is even more marked.

The proposed reductions in the 1987 budget have been developed with the aim of minimally impacting direct delivery of public services. Administrative costs have been reduced and efficiency gains through reorganization and innovation undertaken where possible. There are, however, limits beyond which expenditures cannot continue to be reduced without affecting the services provided by government. Although efficiency savings will continue to be pursued, the time has come for basic choices regarding which programs local government will continue to provide.

In the past few years we have enjoyed many public services without paying for them directly. A portion of the State's oil wealth has been used to fund local public services for Alaska residents. As our "external" sources of revenue decline, we must decide if the services we receive are worth the direct price tag

attached. If proposed service reductions are deemed unacceptable, trade-off reductions must be found, or alternative revenue sources developed.

These decisions do not end with the 1987 budget. Further declines in state revenues are expected as State government continues to adjust to the volatile world oil prices and expected declines in oil production. The community needs to approach these changing circumstances with a long term fiscal strategy rather than a series of one time or marginal cuts.

To help provide the background necessary for informed choices, the Fiscal Trends Report has been expanded. In addition to the traditional 6-year fiscal projections and policy considerations (Section 3), the report includes a profile of Anchorage's fiscal structure (Section 2); a utility profile with summary data on the major municipal utilities (Section 4); and a community profile with general descriptive information on the community, its resources, and public services (Section 5).

Summary Findings

- 1 - The composition of municipal revenue sources is returning to the pattern of the late 1970's; that is, more reliance on local sources rather than state and federal funding. (Figure 2-2.)
- 2 - Real (inflation adjusted) per capita property taxes proposed for 1987 are approximately 83% of the 1978 level.
- 3 - Local taxes have been well within the level allowed under the charter tax limitation in each of the three years since the limit took effect. (Table 2-1.)
- 4 - Anchorage residents enjoy low property tax rates when compared with other large cities, and a low overall tax burden (Tables 2-2 and 2-3, and Figure 2-9.)
- 5 - The Utility Revenue Distribution of profits from Anchorage Telephone Utility has played a crucial role in easing the tax burden in 1986 and in the proposed 1987 budget.
- 6 - In addition to declining state and federal revenues for general operations, categorical grants for specific activities such as Health and Social Services (most of which are not included in Operating Budget totals) have also begun to decline. (Figures 2-4 and 2-5.)
- 7 - Budgeted expenditures per capita, when adjusted for inflation (using 1986 dollars) have declined from \$980 in 1978 to \$871 in 1986 and are proposed at \$809 for 1987.

- 8 - 1987 proposed per capita spending when adjusted for inflation is approximately 83% of the 1978 level and represents a 7.1% reduction compared with 1986. See #2
- 9 - The composition of expenditures of the last few years shows an increased emphasis on public safety. (Figure 2-12.)
- 10 - State capital grants to the Municipality of Anchorage since 1980 exceed \$800 million. Most of these funds have been devoted to roads and transportation, recreation and cultural facilities (Project 80's), educational facilities, and utilities. (Figures 2-16 and 2-17.)
- 11 - From October 1978 through October 1985, local voters have approved \$581.9 million in general obligation bonds -- approximately 46% for sewer, water and solid waste utilities; 33% for schools; and 21% for general government purposes such as roads, drainage, water quality and parks. (Figures 2-14 and 2-15.)
- 12 - Anchorage School District revenues from state and federal sources have fallen from nearly 80% of the total budget in the 1981-82 school year to 68% for 1986-87. Property taxes have risen from less than 16% to 26.5% of the total budget over the same period. (Figure 2-21.)
- 13 - Anchorage School District budgeted expenditures (inflation-adjusted) grew at an average annual rate of 6.7% between FY83 and FY86, and declined 9.0% in FY87. (Figure 2-20.)
- 14 - The trend toward municipal reliance on local revenue sources is projected to continue through 1992. (Figure 3-2.)
- 15 - Under the current revenue structure, projections of municipal revenues would require a reduction of inflation adjusted expenditures from \$871 per capita in 1986 to \$654 in 1992. (Figure 3-4.)
- 16 - Projected mill rate increases allowed under the tax limitation from 1988 to 1992 range from an average of 1.5% to 4.5% per year from the proposed 1987 level, depending on the future levels of voter approved capital expenditures. (Table 3-2.)
- 17 - If Public Safety expenditures were held at the proposed 1987 real per capita level throughout 1992, current revenue projections indicate that all other services would have to be reduced by over one-third of their current level. See #9
- 18 - Reductions of the magnitude which appear to be required over the next few years necessitate serious choices among program reductions and/or revenue enhancements.

Fiscal Policy Recommendations

- 19 - The annual operating and capital budgets should be evaluated in the context of the best available information on out-year revenues and expenditures.
- 20 - It should be recognized that the current level of local public services can be maintained only if there are changes in the revenue structure to offset any further losses in state and federal funds.
- 21 - In making capital and operating budget reductions, consideration should be given to the following criteria:
- o Minimize impact on direct service delivery to the public;
 - o Minimize negative impact on the local economy;
 - o Emphasize retention of projects and programs which have a higher multiplier impact on the local economy;
 - o Minimize short-term reductions which will result in increased costs over the long-term;
 - o Invest in automation and other efficiency measures which will have a positive cost-benefit impact; *Real*
 - o Maintain financial integrity of funding for future liabilities such as retirement and health claims coverage;
 - o Target specific services or projects for reduction/elimination since multi-year "across the board" cuts and major reorganizations have already reduced general overhead and discretionary spending to a minimum;
 - o Involve the public in the process of setting priorities and making service reduction choices.
- Public safety represents a high priority for public funds and should remain a core service of local government. In addition to fire, police, health and emergency medical services, public safety includes programs for air and water quality and hazardous wastes.
- Capital expenditures should emphasize repair and rehabilitation of existing facilities, not just new projects.
- Downstream costs of capital expenditures (operations, maintenance and debt service) should be identified and considered in making spending decisions.

- Reductions in state and federal operating grants and capital appropriations will have a significant effect on the distribution of general government overhead as well as the potential requirement to include some of these services in future tax supported operating budgets. These impacts should be carefully considered in budget planning.
- The trend of debt service as a percentage of operating expenditures and other debt capacity indicators should continue to be monitored and considered in making decisions on bond authorizations and sales.
- Alternative sources of revenue should be evaluated as one of the options to further service reductions.
- Target rates of cost recovery from user fees should be developed, and actual rates of cost recovery evaluated annually in light of these targets.
- The fiscal impact of proposed ordinances and resolutions should continue to be identified and considered by decisionmakers.

Debt payoff analysis for bonds p 3-7
 O&M of facilities brought on line in out years p 11
 consolidation into one office bldg - owned or leased
 elimination of overhead structures - public S/city,
 utility coordinator, capital projects office
 elimination of duplicative functions - accounting,
 maintenance, vehicle pools
 Improvement of current code to maximize revenue
 taxes, fees, etc.
 Complete study of nonrevenue positions - assistants
 etc to be minimized
 Evaluation of consultant use - cost/benefit
 Projections of revenue from other potential sources
 sales tax,