INTRODUCTION AND SUMMARY RESULTS

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The year 1987 has been one of major adjustments for Alaska and the Municipality of Anchorage. Falling oil prices have reverberated through the economy. State and local revenues have fallen. Employment, personal income, population, and property values have felt the impact.

Municipal government is a major element of Anchorage's economy. Approximately 9,200 people work for the municipality directly in general government, municipal utilities, and the Anchorage School District. Many more are indirectly employed through municipal contracts with private firms, government capital construction projects, and operating grants to local organizations. Local government is a major customer of private enterprises; so are the individuals who earn their income in the public sector.

Local government provides services necessary for the efficient functioning of private business and day to day life of residents -- public safety, the transit system, public works, health, recreation, education, utilities and so on. The Municipality has an impact on the local economy in many ways -- with decisions on what services to provide, how many people to employ and the level of taxation to impose.

Recognizing the interdependence between budget decisions and the local economy, the fiscal strategy underlying the proposed 1988 budget has three major premises. First is a realization that government action will be a pivotal factor in the timing of economic recovery and the depth of the downturn. Second, we must maintain essential services. Third, the future of Anchorage is positive. The downturn in the economy is temporary, and as the economy recovers, Anchorage will continue to grow. While it is necessary to prudently manage through the downturn, it is neither wise nor necessary to dismantle the infrastructure of local government. Overall, our aim is to see that changes occur in a fashion which minimizes the negative impacts on the economy, the recipients of government services, and Anchorage residents in general.

The Fiscal Trends Report is designed to meet the Charter requirement for a 6-year plan and to provide information which may contribute to informed fiscal choices by the community. Section I includes summary results and fiscal policy recommendations; Section II, 6-year projections and discussion of policy considerations; Section III, historical data on Anchorage's fiscal structure; Section IV, a profile of Anchorage's municipally owned utilities, highlighting some of the linkages between utilities and general government; and Section V, a community profile with general descriptive information on the community, its resources, and public services.

Summary Findings

Projections

- The level of available revenues from current revenue sources is projected to decline in real terms over the next six years.
- The reduction in total revenues in 1988 is mitigated by a new state law changing the timing of revenue sharing payments.
- The trend toward increased reliance on local revenue sources is projected to continue through 1993.
- Case 1 projections (no capital growth after 1988) indicate that revenues available for expenditure on current services after adjustment for known new requirements and inflation would be 19% lower in 1993 than in 1987.
- Reductions of this magnitude would necessitate serious choices among program reductions and/or revenue enhancements.

Fiscal Profile

- The 1987 revised budget was $18.5 million less than that of 1986. The 1988 proposed budget reflects a further reduction of $4.7 million. When adjusted for new requirements, expenditures for continuation of services provided in 1987 will be reduced by $12.7 million (from $196.4 million to $183.7 million), a de facto reduction of 6.5%.
- 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.
- Anchorage residents enjoy low property tax rates when compared with other large cities, and a low overall tax burden.
- The Utility Revenue Distribution of profits from Anchorage Telephone Utility has played a crucial role in easing the tax burden in 1986, 1987 and in the proposed 1988 budget.
- The composition of expenditures of the last few years shows an increased emphasis on public safety.
- State capital grants to the Municipality of Anchorage since 1980 exceed $850 million. The largest share of these funds have been devoted to roads and transportation, recreation and cultural facilities, utilities and schools.
- From October 1978 through October 1986, local voters have approved $495 million in general obligation bonds -- approximately 34% for sewer, water and solid waste utilities; 38% for schools; and 28% for general government purposes such as roads, drainage, water quality and parks.

- 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 68.5% for 1987-88. School property taxes have risen from less than 16% to 27.4% of the total budget over the same period.

- 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, and 2.0% in FY88.

Utility Profile

- Intragovernmental charges, the Utility Revenue Distribution and Municipal Utilities Service Assessment represent important revenue linkages between the municipal utilities and general government.

- The dollar level of intragovernmental charges to utilities for services provided by general government has declined each year since 1985.

- The 1987 assessed value of utility properties to which MUSA applied was $663 million, or 5.5% of total taxable property.

- The economic downturn has affected utility net incomes in 1986 and 1987, in some cases requiring expenditure and rate adjustments.

Fiscal Policy Recommendations

(These apply to both general government and utilities unless otherwise specified.)

- The annual operating and capital budgets should be evaluated in the context of the best available information on out-year revenues and expenditures.

- It should be recognized that the current level of local general government services can be maintained in the out years only if there are changes in the revenue structure to offset any further losses in state funds.

- Alternative sources of revenue should be evaluated as one of the options to further service reductions.

- In making capital and operating budget reductions, consideration should be given to the following criteria:

  - Minimize impact on direct service delivery to the public;

  - Minimize negative impact on the local economy;

  - Minimize short-term reductions which will result in increased costs over the long-term;

  - Invest in automation and other efficiency measures which will have a positive cost-benefit impact;

   - Maintain financial integrity of funding for future liabilities such as retirement and health claims coverage;

   - Involve the public in the process of setting priorities and making service reduction choices.

- Capital expenditures should emphasize repair and rehabilitation of existing facilities, and projects which contribute to economic revitalization or development.

- Downstream costs of capital expenditures (operations, maintenance and debt service) should be identified and considered in making spending decisions.

- Capital funds should not be used to supplement the operating budget. State capital grant and bond funds cannot be used for operating purposes. While interest earnings on capital grant funds are not legally restricted, they should be applied to capital purposes such as construction contingencies, major repairs, rehabilitation and equipment.

- As a general rule, one-time general government operating revenues should be used to fund one-time operating expenses. If such revenues are used to bolster expenditures or reduce taxes, this should be done as part of an intentional fiscal strategy and with awareness of the impact on subsequent budgets.

- Potential reductions in state and federal operating grants and capital appropriations could 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.

- Target rates of cost recovery from general government user fees should be reviewed, 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 decision makers.

- Evaluation of municipal activities should include analysis of the overall effect of decisions on Anchorage residents as recipients of services, as taxpayers and as ratepayers.

- Fund balances should be carefully monitored and maintained at fiscally prudent levels. Balances above those required for fiscal prudence can be added to revenues to cushion the reduction of public services resulting from declining budgets.

- Decision makers should receive periodic briefings on general fiscal conditions including the status of budgeted vis-a-vis actual expenditures and revenues; changes in state and federal funding; fund balances; and interest on capital funds.