

**FISCAL PROJECTIONS  
AND  
POLICY CONSIDERATIONS**

## II. FISCAL PROJECTIONS AND POLICY CONSIDERATIONS

This section of the report presents six year revenue and expenditure projections for general government services of the Municipality of Anchorage and for the Anchorage School District. The projections are intended to answer some of the "what if" questions that may occur as fiscal choices are discussed. The purpose here is not to project what the future will be, but to provide a framework for thinking about the implications of the budget choices facing the community.

The projections are predominantly revenue determined, rather than reflective of the current service level. Emphasis on the revenue side of the equation is appropriate given declines in state and federal revenues coupled with the local property tax limitation. Therefore, we have projected available revenues under alternative scenarios, all of which assume the existing revenue structure (i.e., no new types of taxes). Then the expenditure implications are discussed in view of the revenue constraints. Throughout the projections, we use two basic sets of assumptions for illustrative purposes. Case 1 shows the effects on the future of a "no capital growth" scenario. Case 2 shows the effects of a modest capital program in which new bonded debt is roughly equivalent to the amount of debt retired each year. These cases and assumptions are described more fully in the appendix. Both cases are shown only when there are significant differences in the trends which result.

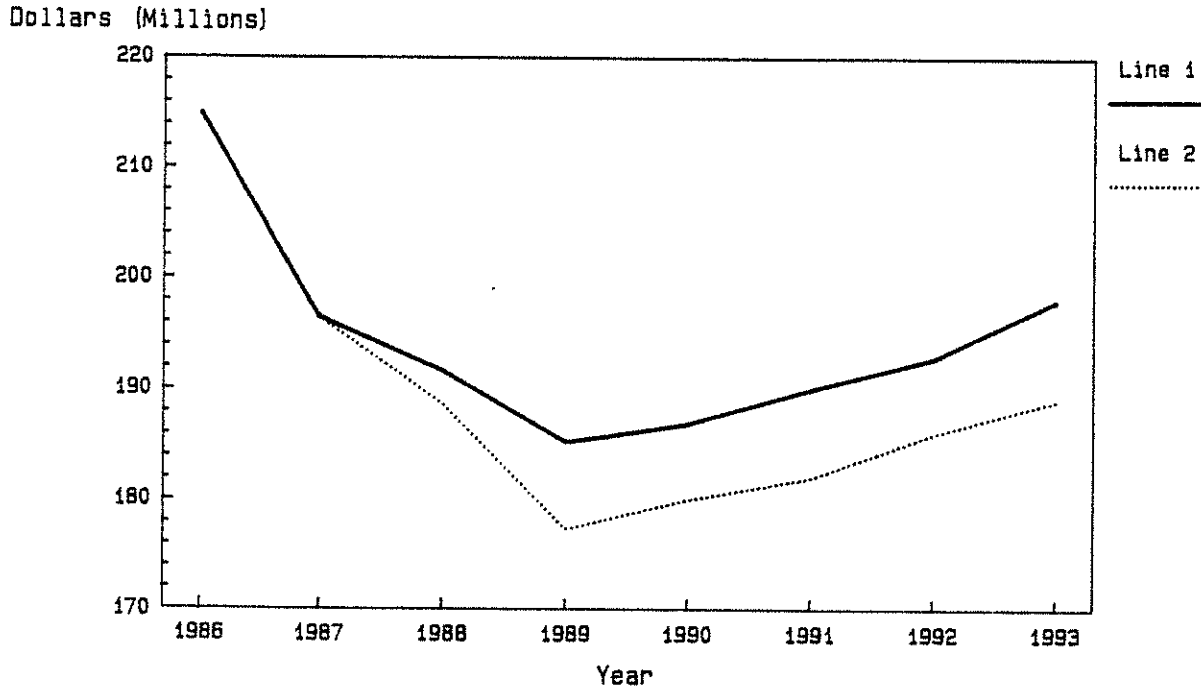
Emphasis on the revenue side does not imply that expenditures should be maximized. However, major components of revenues and expenditures are interdependent. For instance, under the tax limitation, future allowable levels of property taxes depend upon current tax collections and thus on past and current budget decisions. (The appendix includes a more detailed explanation of the tax limit.) Potential revenues also depend upon the composition of expenditures since some types of spending, such as debt service on new general obligation bonds, are exempt from the tax limit. Thus budget decisions in each year can dramatically alter the options available for the future years.

Figure 2-1 demonstrates these interdependencies by showing a range of potential revenues and expenditures. Line 1 shows projected revenues 1988 through 1993 assuming property taxes in 1988 of \$90.3 million as contained in the proposed budget, and property taxes in 1989 through 1993 at the maximum allowed under the charter property tax limitation. Total revenues would be \$198.1 million by 1993, or \$171 million when adjusted for inflation. Line 2 shows the impact of holding 1988 property taxes at the 1987 estimated actual level, and increasing taxes at 3% per annum thereafter, using 3% as a proxy for inflation. In this case, total revenues would be substantially lower by 1993, \$189 million; or when adjusted for inflation, \$163 million, 17% below the current level of \$196.4.

Appendices A-5, A-6 and A-9 show detailed numbers for a variety of tax and spending assumptions and for the 1988 budget as approved. Adoption of this 1988 Fiscal Trends Report shall not presage a position on the part of the Municipal Assembly to maintain, raise or lower property taxes for calendar year 1988 or any of the out years contained in this report. Rather, the adoption of this 1988 Fiscal Trends Report by the Assembly places the information contained herein before the Assembly and people of Anchorage for their considered review and discussion as the Assembly prepares to approve the various Municipal budgets for 1988 and future years.

Figure 2-1

**Total Revenues -- Case 1 Projections  
(Alternative Levels of Property Taxes)**



Line 1 - Projections of total revenues with 1988 property taxes at \$90.3 million, as contained in the Proposed Operating Budget and at level allowed by charter tax limitation thereafter.

Line 2 - Projections of total revenues with 1988 property taxes at \$87.3 million (estimated 1987 actual collections) and increased by 3% per year thereafter.

1986 and 1987 Revised Budgets, 1988-1993 Fiscal Model Projections. Assumptions are contained in appendix.

## Revenues

Revenues and expenditures in the proposed 1988 budget total \$191.7 million. Figure 2-2 shows the distribution of these revenues and projections through 1993 for Case 1. (Case 2 would be similar except property taxes would be higher with inclusion of debt service and operating and maintenance costs on voter approved capital projects.)

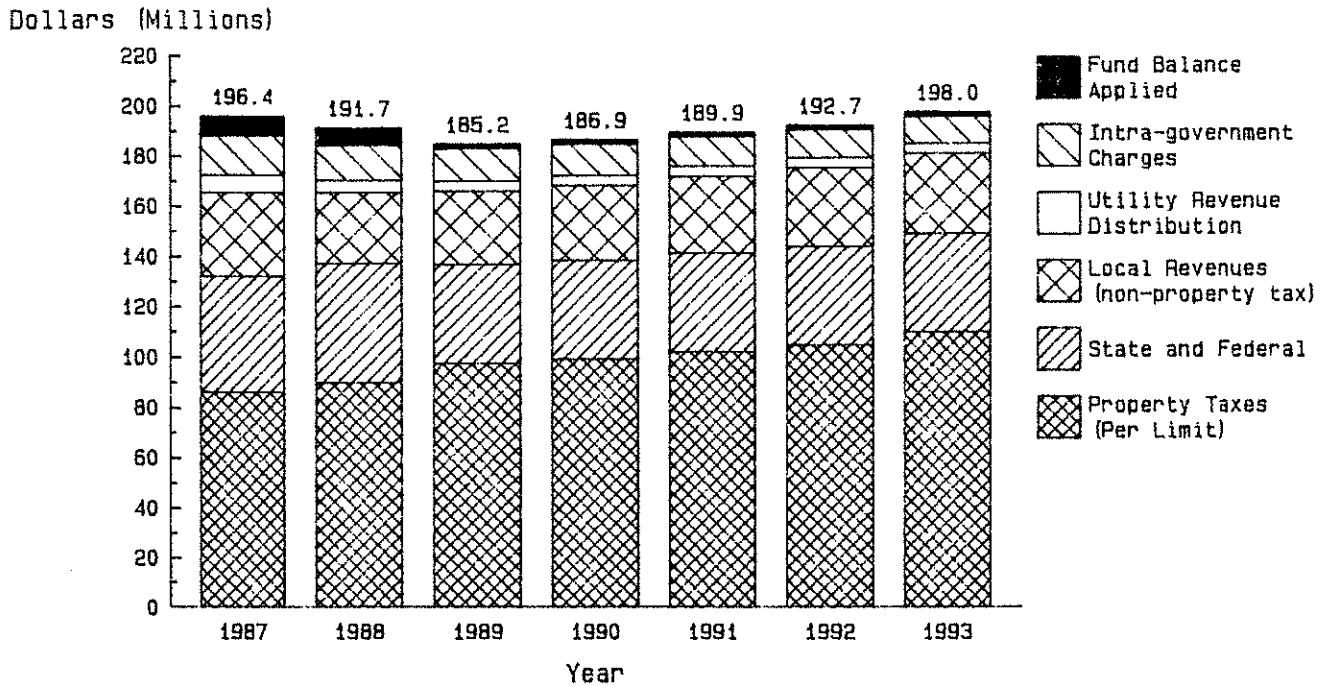
In 1988, state revenues increase slightly, even though the major categories of state funding to local governments -- revenue sharing and municipal assistance -- were reduced by 20% for state fiscal year 1987, and 15% in state fiscal year 1988. The increase shown for the Municipality for 1988 results from two factors. First, legislation was passed in 1987 which changes the timing of the revenue sharing payments to local governments from October and April to July (the beginning of the state's fiscal year). As a result, Anchorage will receive payments from the old and the new system during calendar year 1988 -- a payment in April based on state fiscal year 1988 and another payment in July based on State fiscal year 1989 appropriations. (The appendix describes this change in more detail.)

The second factor contributing to the increase in state revenues shown for 1988 is the inclusion of \$1.5 million which will be requested from the state to help offset the increased cost of jail facilities. The financial responsibility for this was transferred from the state to the municipality at a time when state oil income projections were substantially lower than is now the case.

It is assumed in our projections that the state commitment to municipal assistance and revenue sharing programs will remain at current levels. Local governments have taken a larger percentage share of state budget cuts in the past two years than have state agencies themselves. It seems reasonable to expect that local governments might see some relief from this over the next few years. Even with no further cuts, the impact of the 15% reduction in revenue sharing and municipal assistance is manifest in the 1989 municipal budget when these revenues are expected to decline from \$43.5 to \$37.3 million.

Figure 2-2

**Projected Revenues -- Case 1  
By Source**  
(Millions of Dollars)



1987 Revised Budget, 1988 Proposed Budget, 1989-1993 Fiscal Model Projections.

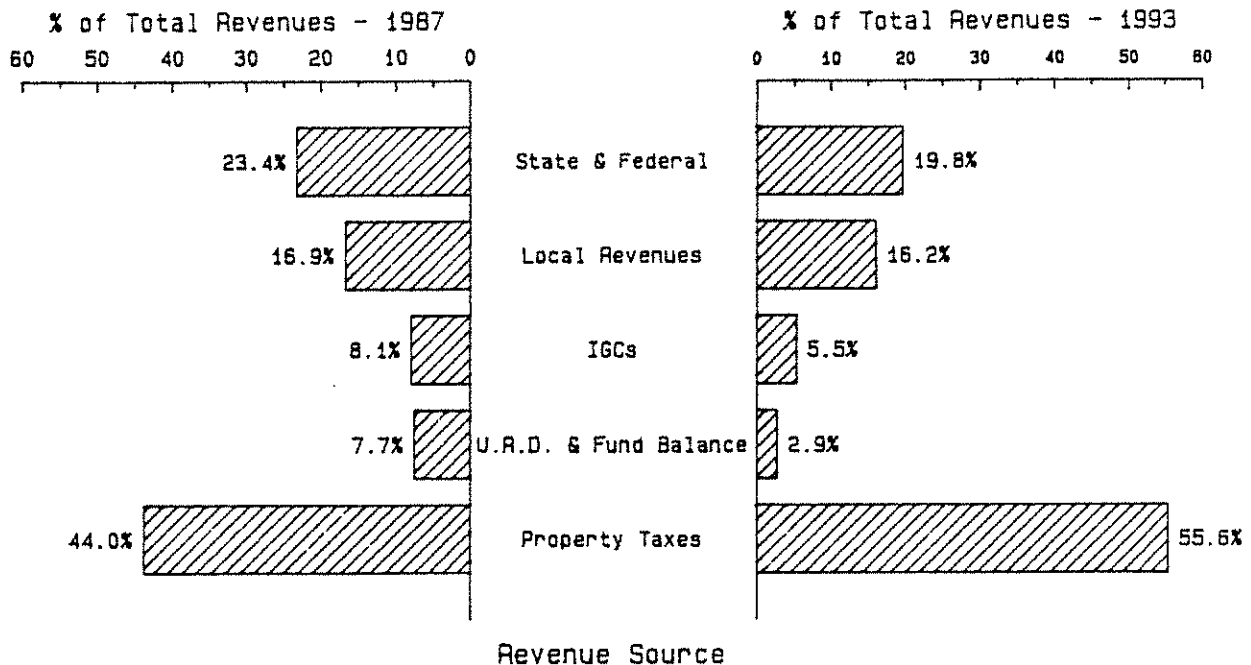
Local (non-property tax) sources, which include hotel motel tax, motor vehicle tax, user fees and other miscellaneous revenues, have declined with the downturn in the economy, but are expected to recover over the period. Another important assumption concerns the Utility Revenue Distribution which is reduced to \$4 million in 1989 and held at that level thereafter. This distribution, which represents an investment return to the owners of the utilities, the residents of Anchorage, has been a significant source of tax relief for the community. The reduction to \$4 million recognizes the impact that local economic conditions have had on utility earnings. While the amount could be higher (up to 5% of gross revenues), for general government fiscal planning purposes a more conservative number has been assumed. (The Utility Revenue Distribution and other ways in which the utilities participate in local services are discussed further in Section IV -- Utility Profile.)

Another major cutback in revenue results from the assumption of a lower level of fund balance contribution in 1989 through 1993. Over the last several years, the application of fund balance to the budget has been a source of tax relief. However, as revenues from all sources continue to tighten and the size of government declines, the amount of fund balance available to supplement expenditures is likewise expected to decline.

Figure 2-3 contrasts the percentage distribution of revenues in 1987 with that projected for 1993. This emphasizes the continuing shift back toward reliance on local rather than inter-governmental sources. Property taxes take on this higher responsibility for funding community services if new revenue generators are not developed to absorb some of the impact.

Figure 2-3

**Projections -- Case 1**  
**Comparative Revenue Source Distribution**  
 1987 and 1993



Local Revenues include user fees and charges, interest earnings, hotel/motel tax, automobile tax, and other miscellaneous revenues. IGCs - Intragovernmental Charges; URD - Utility Revenue Distribution.

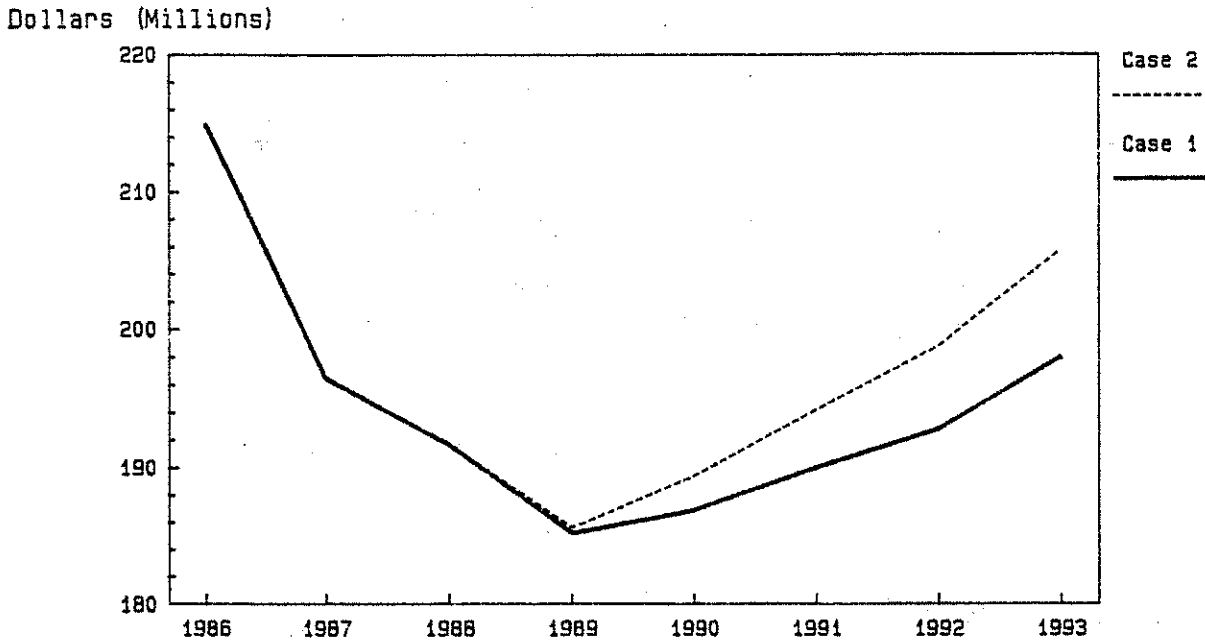
1987 Revised Budget, 1993 Fiscal Model Projection.

Expenditures

Since municipal budgets must be balanced, expenditures projected here are those implied by the revenue totals discussed above. Given the revenue scenario which assumes property taxes of \$90.3 million in 1988 and at the allowable level under the tax limitation, total expenditures through 1993 under Case 1 (no capital growth) and Case 2 (moderate capital growth) are shown in Figure 2-4. Expenditures under the two cases differ only by that portion of the capital costs which are exclusions from the tax limitation. To the extent that capital costs are not exclusions (e.g., projects funded with grant funds rather than voter-approved bonds), these costs must be absorbed within existing resources, replacing other services and activities.

Figure 2-4

**Projected Expenditures  
Allowed Under Tax Limit Cases 1 and 2  
(Millions of Dollars)**



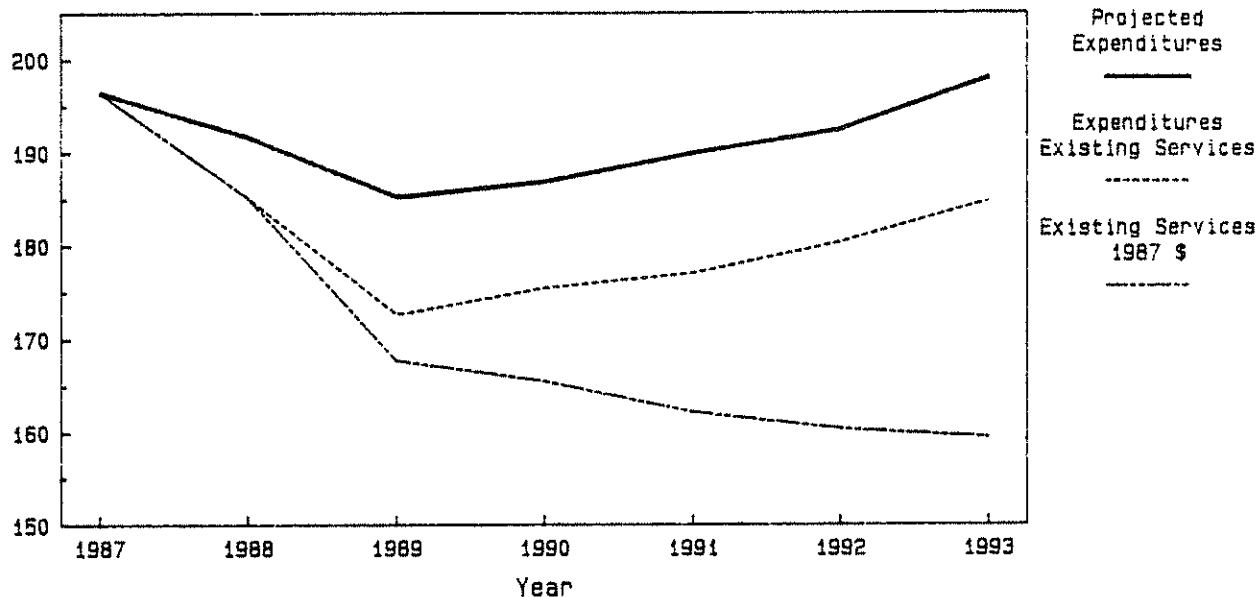
1986 and 1987 Revised Budgets; 1988 Proposed Budget; 1989-1993 Fiscal Model Projections.

Figure 2-5 repeats the expenditure line for Case 1 and also shows "adjusted" expenditures. The middle line shows expenditures available for existing services after deducting known new requirements for 1988, net changes in debt service, and operation and maintenance costs in the out years. The lowest line, expenditures for existing services in 1987 dollars, reflects the impact of price increases which reduce what can be purchased with a given dollar amount of spending. Three percent inflation is assumed for this purpose, consistent with the assumption used in projecting local revenues.

Figure 2-5

**Projected Expenditures -- Case 1  
Total Expenditures and Expenditures  
on Existing Services**

Dollars (Millions)



1987 Revised Budget; 1988 Proposed Budget; 1989-1993 Fiscal Model Projections.

When spending is adjusted for inflation, the level declines throughout the period. In 1987 dollars, total expenditures in 1993 would be 13% lower than in 1987. Expenditures on existing services would be nearly 19% less than the current level. Case 2 results are quite similar, because a large proportion of the operation and maintenance costs (and all debt service) would be exempt from the tax limitation. Inflation adjusted expenditures on existing services would be about \$600,000 lower in Case 2, the result of those capital costs which are not exclusions and must be absorbed.

The new requirements in 1988 used in calculating expenditures available for existing services total nearly \$8 million. These include increases in payments for workers compensation, vehicle depreciation, utility costs, police and fire retirees' medical coverage, jail costs, fire hydrant maintenance charges, and operation and maintenance costs of new facilities. These costs are expected to continue in future years. As other unanticipated new requirements occur, spending on existing services could well be tighter than shown above.



Table 2-1 shows property taxes and a range of mill rates implied by property taxes at the level allowed under the tax limitation. The mill rate projections depend upon the level of assessed valuation projected for 1988 and beyond. Such projections are particularly difficult in Anchorage's current economic readjustment. Official 1988 projections await the evaluation of the full year of sales data, so for our purposes we have shown a range of assessed values for 1988, at the high end showing no decline in the value of existing properties from 1987 and low-range of 20%. Beginning in 1989, there is an increase of 3% per year in the value of existing property, the rate of general inflation assumed throughout this report.

Table 2-1  
Projections of Property Taxes and Mill Rates  
Using Alternative Assumptions\*

	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
<u>Case 1:</u> No capital expansion after 1988.							
Proposed/Allowable Property Taxes (millions \$)	86.5	90.3	97.8	99.5	102.4	105.0	110.2
Implied Mill Rates**	7.16	7.37- 9.19	7.62- 9.51	7.40- 9.22	7.27- 9.06	7.12- 8.87	7.14- 8.90
<u>Case 2:</u> Moderate capital expansion after 1988.							
Proposed/Allowable Property Taxes (millions \$)	86.5	90.3	98.1	102.0	106.6	110.9	117.9
Implied Mill Rates**	7.16	7.37- 9.19	7.65- 9.54	7.59- 9.46	7.57- 9.44	7.52- 9.37	7.64- 9.52

\* 1987 Revised Budget; 1988 Proposed Budget; 1989-1993 Fiscal Model Projections.

\*\*Mill rate projections 1989-1993 shown as a range based on alternative assessed valuation projections.

As noted, the property taxes projected are those allowed under the tax limitation. Budgeted expenditures could be lower than implied by "allowable" tax revenues as they have been in 1985 through 1987. If budget decisions in the out years yield lower tax levels than those shown in Table 2-1, mill rates would likewise be less than those projected. As was shown in Figure 2-1, the level of taxes selected for any year alters the range of allowable taxes in later years.

Many factors could dramatically change these results. Even if Anchorage uses its full tax capacity under the current property tax structures, state assistance to municipalities could drop significantly, forcing service reductions which may not be acceptable to the community. Whether state funds hold steady or not, if the community were to decide that the reductions in services is too great, voters could approve new types of taxes (e.g., excise taxes on alcohol or gasoline) to fund the desired level of service. Alternatively, local voters could (as provided in the charter) approve expenditures for services or facilities as exemptions to the limit, and thus allow for a higher level of taxes under the limit.

Decisions about levels of service, taxation, user fees, etc. are particularly difficult in a changing economy. In some communities, local government services have been severely traumatized by similar economic changes. Fortunately, this has not been the case in Anchorage thanks to advance planning and spreading the adjustments throughout a multi-year period.

This Section Prepared by  
Anchorage School District

## ANCHORAGE SCHOOL DISTRICT

### Introduction

By District policy, the Superintendent presents a recommended revenue and expenditure pro-forma budget to the School Board for consideration and approval prior to directing the development of the School District's financial plan. The School Board then establishes a planned budget cost ceiling and sets the outside spending limits for the annual budget preparation process.

The Board has approved the General Fund budget plan for FY 1987-88 of \$198 million. The initial financial planning for the next school year is done in September after the school enrollment trend becomes more clear, and is then presented for School Board consideration prior to October 1 each year. Therefore the projections included in this Fiscal Trends are based on preliminary estimates and they will be changed during the course of budget development and financial planning later in the school year.

Several key factors are major determinants of the pro-forma budget. These factors include student population projections, debt service levels, the tax limitation, State revenue entitlements, and the prevailing and expected inflation rates. There is a substantial degree of uncertainty in these factors. Therefore the the annual budget planning process includes the development for School Board consideration of appropriate options to facilitate matching the projected revenues and expenditures.

From October 1987 through January 1988 the FY 1988-89 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 then hold public budget development hearings and consider the FY 1988-89 Preliminary Financial Plan in February 1988. The revisions made pursuant to School Board decisions will 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 1988. 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 next fiscal year which begins July 1, 1988.

### ANCHORAGE SCHOOL DISTRICT - EXPENDITURES

The student enrollment for FY 1987-88 was projected to be 40,800 at September 30, 1987, which is the baseline date. This enrollment is now projected to be very close to that number. For FY 1988-89 the incoming kindergarten class is presently expected to be approximately 800 fewer than for this school year. This reduction is because State law has changed the birthday deadline for kindergarten admission from November 2 to August 15. Partially because of the kindergarten change, the enrollment is projected to decrease to approximately 39,500 students in FY 1988-89, and then to range between 39,500 and 40,600 through FY 1991-92. In FY 1992-93 the projection is 41,200. For fiscal years after FY 1987-88 the year to year percentage change ranges from a 3.2% decrease for FY 1988-89 to a 1.5% increase for FY 1992-93. The full time equivalent enrollment (FTE) counts kindergarten students at one-half which is consistent with their half day program. The FTE enrollment is 4-5% lower than the full

count enrollment. Except for the incoming class next year, the kindergarten classes will continue to be substantially larger than the outgoing senior classes. These large incoming classes offset much of the outmigration in the projections.

The continuation of approximately the present service level of program expenditures is projected. Existing educational programs are presumed to continue if funds are available. Cost decreases or increases due to enrollment changes are estimated by providing for an acceptable level of teaching and direct instructional support staff and services as well as the necessary student supplies and equipment.

Cost increases are estimated using rates which vary depending on the expenditure object category group. These projected rates are intended to approximate the estimate of the School District's cost increases for employee salaries and benefits, supplies, equipment, contracted services, utilities, maintenance, etc. Annual rates of increase used are as follows: Salaries and Benefits 3% after FY 1988-89, Purchased Services 2-4%, Supplies and Materials 3%, Capital Outlay, and Other 3%. Overall inflation, based on the Anchorage area urban consumers' price index (CPI), is assumed to be approximately 0.0% for FY 1987-88 and FY 1988-89 and 3% from FY 1989-90 through FY 1992-93.

Debt service expenditure projections are prepared using the existing indebtedness and the estimated debt service on the remaining amount of approved but unissued bonds. Under the existing state reimbursement program 80% of new debt service is established as the entitlement for reimbursement in the same year that the debt service is paid. All State debt service is expected to continue to be reimbursed on a pro-rata reduced basis at 90% of entitlement.

Food Service expenditures are projected on a per student basis using per student yearly increases of 2% per year. State Projects expenditures for special State contract programs are projected using per student yearly increases of 2% per year. Federal Projects expenditures for special Federal programs are projected using per student yearly increases of 3% per year.

The following graph and table summarize the budgeted and projected expenditures for the ten fiscal years through FY 1992-93.

FIGURE 2 - 6

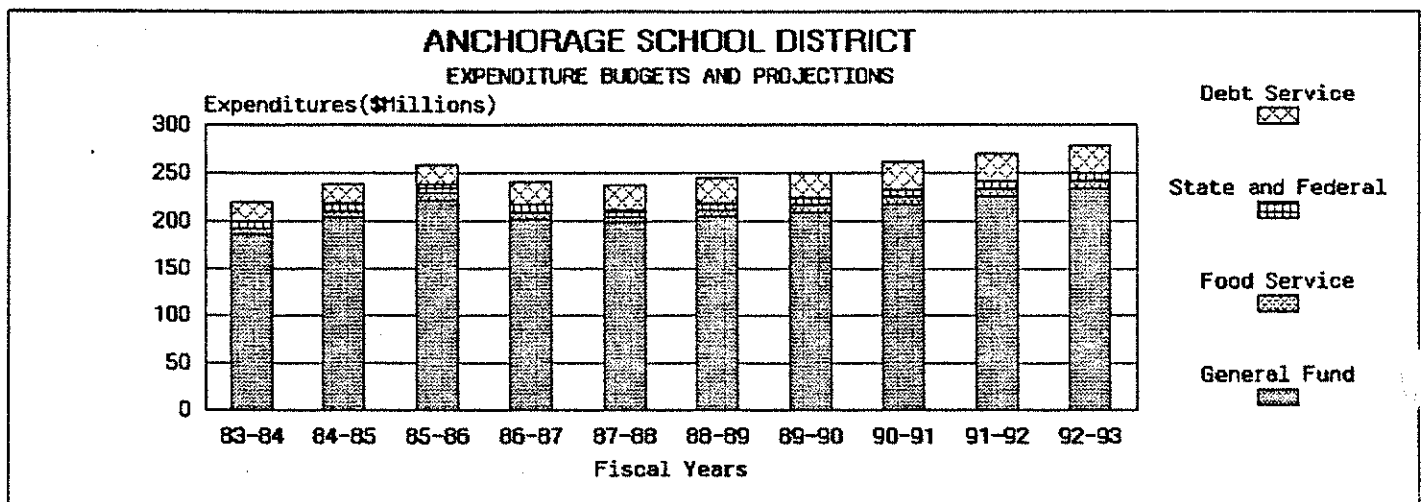


TABLE 2 - 2

ANCHORAGE SCHOOL DISTRICT  
EXPENDITURES  
(\$ MILLIONS)

<u>Budgeted/Projected</u> Expenditures	FY	83-84	84-85	85-86	86-87	87-88	88-89	89-90	90-91	91-92	92-93
Operating Funds:											
General Fund		185.8	203.4	221.7	201.3	198.0	205.5	210.0	218.0	226.5	235.0
Food Service Fund		6.3	7.0	7.2	6.8	6.2	6.2	6.5	6.7	7.0	7.3
State & Federal Projects		<u>7.1</u>	<u>8.4</u>	<u>9.6</u>	<u>9.6</u>	<u>6.9</u>	<u>7.3</u>	<u>7.5</u>	<u>7.8</u>	<u>8.0</u>	<u>8.2</u>
Total - Operating		199.2	218.8	238.5	217.7	211.1	219.0	224.0	232.5	241.5	250.5
Debt Service Fund		20.2	20.1	20.1	23.5	26.4	28.1	28.1	29.3	29.3	28.6
Total Expenditures Projected (\$ Millions)		<u>219.4</u>	<u>238.9</u>	<u>258.6</u>	<u>241.2</u>	<u>237.5</u>	<u>247.1</u>	<u>252.1</u>	<u>261.8</u>	<u>270.8</u>	<u>279.1</u>
Total Expenditures Adjusted to FY 1987-88 Base Year Dollars											
		<u>242.7</u>	<u>259.6</u>	<u>269.9</u>	<u>245.8</u>	<u>237.5</u>	<u>247.1</u>	<u>244.8</u>	<u>246.8</u>	<u>247.9</u>	<u>248.0</u>
Student Enrollment (Thousands)											
		<u>40.4</u>	<u>42.1</u>	<u>42.4</u>	<u>42.0</u>	<u>40.8</u>	<u>39.5</u>	<u>39.7</u>	<u>40.2</u>	<u>40.6</u>	<u>41.2</u>

Budgeted expenditures through FY 1985-86 and those of FY 1987-88 are from the Adopted Financial Plans for those years. FY 1986-87 expenditures have been decreased in accordance with the initial budget revision made in August 1986.

The expenditure projections presented previously in this section assume 3% annual increases in the Anchorage CPI after FY 1987-88. The total expenditures projected by year are presented in the accompanying schedule. The equivalent program service level projections indicate that expenditures would approximate revenues from FY 1988-89 through FY 1990-91 and exceed revenues thereafter. If the additional revenues which are projected do not become available it would probably be necessary to implement further cost reduction measures. Every effort would be made so that such cost reduction measures would impact the classroom educational programs as little as possible. However most of the direct expenditures of the School District are for student instruction and services and very significant reductions and eliminations have already been made. Therefore any further substantial cost reductions would probably have an adverse effect on the educational programs.

REVISED 12/01/87

## ANCHORAGE SCHOOL DISTRICT - REVENUES

Revenues for next year, FY 1988-89, are projected using as a base the current year's adopted budget as well as the most recent available information as to student enrollment and availability of funding. The remainder of the years are projected using the projected FY 1988-89 revenue as the base year revenue.

State Revenue - The State Public School Foundation Program is the largest single revenue source. For FY 1987-88 this program provides 60% of the General Fund revenues and 50% of total revenues. For projection purposes the revenue was estimated using the effective amount of \$3,088 per student, on a full time equivalent student (FTE) basis. An increase of 5% per student in the funding for this program is projected for FY 1988-89 consistent with the Foundation funding formula and projected funding levels. Yearly increases of 2% per year in Foundation funding are projected for the fiscal years 1989-90 through 1992-93.

Debt Service revenue is projected at 90% of entitlement. Depending on the year the bonds were issued the reimbursement entitlement is 100%, 90%, or 80% of the related expenditure. Therefore the effective reimbursement rates used for projection purposes are 90%, 81%, and 72%, respectively.

State Projects revenue for special State contracted programs is projected assuming increases per student of 2% per year.

The remaining State revenue is computed using the following bases.

- Tuitions + 3% per year increase
- Pupil Transportation + 2% per year increase
- Indirect Costs-no increase

### Local Revenue

Using the budgeted FY 1987-88 revenue as the base year revenue the following rates of increase are assumed in the projections:

- Sale of Property, and Miscellaneous - 2% increase per year
- Interest - No annual increase
- Sales and Rentals - Career Center revenues and facilities rentals are projected to increase by 2% per year. Food Service revenue is projected assuming 3% increases in per student sales to account for price increases as well as student participation increases.

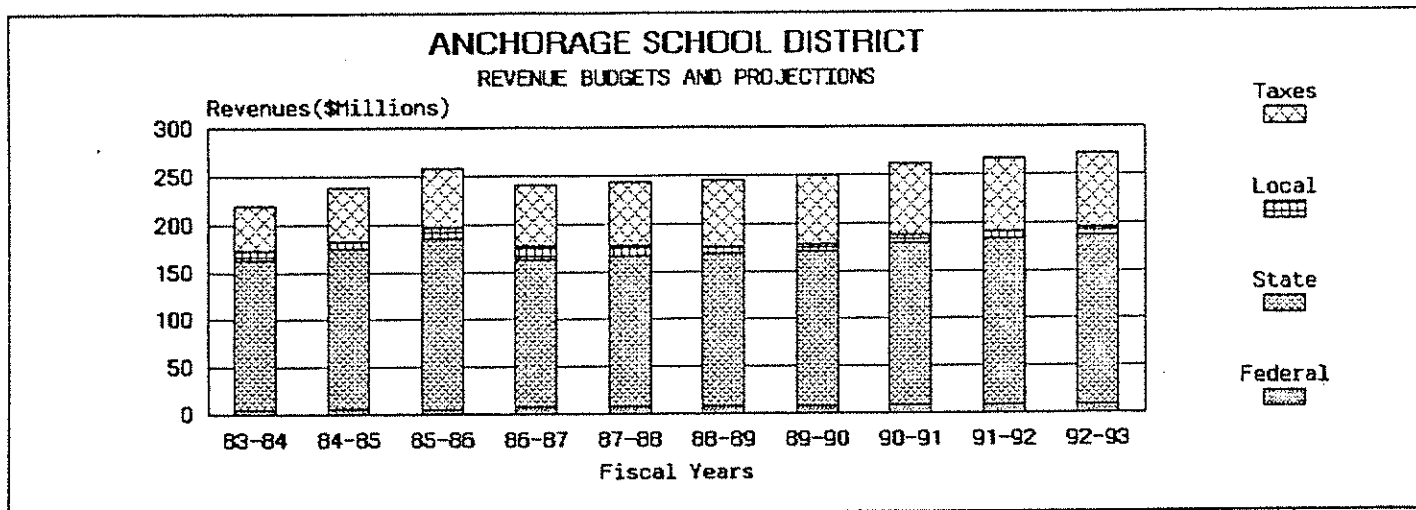
Local Taxes - local tax revenue increases necessary to provide for an acceptable level of services while staying within the projected property tax limitation are projected.

### Federal Revenue

Increases of 3% per year in the ROTC program and PL 81-874 revenue are projected. Federal Projects revenue is projected using increases of 3% per student per year. Food Service federal reimbursement revenue is projected assuming increases of 3% per year per student in the amount of reimbursement.

The following graph and table summarize the budgeted and projected revenues for the ten fiscal years through FY 1992-93.

FIGURE 2 - 7



T A B L E 2 - 3

REVENUES  
(\$ Millions)

Budgeted/Projected	FY	83-84	84-85	85-86	86-87	87-88	88-89	89-90	90-91	91-92	92-93
Revenues											
Federal		5.5	6.1	6.0	7.2	7.5	7.9	8.0	8.3	8.7	8.9
State		158.2	169.3	180.0	156.8	159.3	163.0	164.2	170.4	175.1	178.2
Sales, Interest, Other local and Fund Balance		9.1	6.7	10.9	13.4	10.0	10.2	7.2	9.3	7.3	7.9
Property Taxes		<u>46.6</u>	<u>56.8</u>	<u>61.7</u>	<u>63.8</u>	<u>66.9</u>	<u>66.0</u>	<u>72.7</u>	<u>73.8</u>	<u>76.3</u>	<u>78.2</u>
Total Revenues Projected		<u>219.4</u>	<u>238.9</u>	<u>258.6</u>	<u>241.2</u>	<u>243.7</u>	<u>247.1</u>	<u>252.1</u>	<u>261.8</u>	<u>267.4</u>	<u>273.2</u>
Calendar Year		<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
Mill Rate		3.66	4.27	4.00	4.04	5.41	6.03	5.98	6.02	5.88	5.78

Budgeted revenues through FY 1985-86 and FY 1987-88 are from the Adopted Financial Plans for those years. FY 1986-87 revenues have been decreased in accordance with the budget revisions made last year.