I. EXECUTIVE SUMMARY

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Over the past few years, the Municipality of Anchorage has been faced with declining State revenues, lowered real estate values, losses in construction activity and employment, rising labor costs and a fairly shaky local economy. Today, some of these fiscal difficulties still remain, especially in the areas of decreasing State revenues and rising labor costs, although the possibility of upward growth and economic revitalization for the future does appear more promising than prior years.

The primary objective of this document is to enhance public administrative understanding of the Municipality's fiscal situation by:

- Describing the current 1990 budget and the anticipated future forecast;
- Describing the various trade-offs and corresponding implications for services and revenues; and
- Providing a forum for participation in the budget balancing process for our future.

After careful consideration of historical trends and economic projections, the impending budgetary shortfall for 1991 indicates a need for the city to become active in setting the path for a six-year planning process coupled with the implementation of a corrective strategy. Strategic planning, management control and updated fiscal projections provide a powerful framework through which Anchorage can take the lead to reshape its economic picture. After the planning process, the management control system becomes the forum through which Anchorage can achieve the strategies established under the planning process. Finally, joint involvement by the Administration, Assembly, advisory commissions, business leaders and interested citizen groups create the nucleus through which solutions to solve the Fiscal Gap are realized.

ASSUMPTIONS

To address the possible budget scenarios for Anchorage, we developed three cases using optimistic, most likely and pessimistic assumptions. The revenue assumptions used in each case were developed with the concurrence of the Institute of Social and Economic Research (ISER). The greatest variable in each case centers on the assumption used for State revenues: The optimistic case depicts State revenues increasing at 2% per year as compared to the pessimistic case of State revenues declining 5% per year. In order to present the information in a consolidated format, most of the information will be presented based on the "Most Likely Case." In this case, State revenues are projected to decline 2% each year beginning in 1992.

The variance that arises from revenue and expenditure differences is referred to as the Fiscal Gap. There are several ways to reduce this gap of approximately $22 million for 1991, and we have attempted to outline some of the more feasible possibilities.

CORRECTIVE STRATEGIES

To effectively deal with the budgetary shortfall facing the Municipality, some of the following options must be considered:

- Consolidation/efficiency savings;
- Salary/benefit reductions;
- Funding of Police and Fire Retirement Medical benefits through employee contributions;
- Property tax allocation; and
- Raising revenues (new or expanded taxes, fees and charges).

The balance among the above options can be summarized in the following chart, which depicts the three basic options available to solve the Fiscal Gap in 1991.

Table 2-1

"Fiscal Gap" Solution Options

	Option 1	Option 2	Option 3
Local Tax Transfer	$ 8.5 M	$ 8.5 M	$ 8.5 M
State Capital Program Assistance	4.9	4.9	4.9
Police/Fire Retiree Medical	2.4	-0-	-0-
Compensation Concessions	5.0	-0-	-0-
Productivity Savings	0.8	-0-	-0-
Service/Program Reductions	0.4	-0-	6.0
New/Increased Taxes:			
Fuel	-0-	3.6	-0-
Tobacco	-0-	2.6	2.6
Special Sales	-0-	-0-	-0-
Population & Inflation Increase	-0-	-0-	-0-
Subtotal Taxes	-0-	9.5	2.6
Increased Utility Revenue Distribution	-0-	2.4	-0-
Increased User Fees	-0-	-0-	-0-
Total	$22.0 M	$22.0 M	$22.0 M

Each option focuses on significantly different approaches to closing the gap:

- Option 1 emphasizes compensation concessions.
- Option 2 emphasizes the implementation of new taxes and increased utility rates.
- Option 3 emphasizes service/program reductions as an alternative to compensation concessions or new taxes.

The Administration recommends Option 1 as the optimal solution to closing the $22 million shortfall in the 1991 budget.