

I. EXECUTIVE SUMMARY

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During the late 1980's, the Municipality of Anchorage was 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 same fiscal difficulties remain, especially in the areas of decreasing State revenues and rising labor costs. On the positive side, the level of construction activity and real estate values seem to have taken an upward turn. In 1990 the average value of a home or condominium sold in Anchorage went up approximately 16% as compared to the steady decline since 1986.

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

- Describing the Proposed 1992 budget and the anticipated future forecast;
- Describing the various trade-offs and corresponding implications for services and revenues; and
- Providing information to allow for participation in the budget balancing process.

The Fiscal Gap of \$22 million was discussed in great detail during 1991, but it did not seem real to many since programs and services were not cut. The 1991 Fiscal Gap was solved by postponing the impact of labor contracts along with discretionary new requirements. Many of the same issues presented in 1991 still exist, but have been postponed or left unresolved. Examples include:

- Police/Fire retiree unfunded liability
- Deferred and on-going street maintenance
- Deferred and on-going building maintenance

The \$17 million Gap for 1992 carries with it a mix of many of the same new requirements. Of the \$17 million, \$10 million will result in actual program and service reductions to balance the 1992 budget within the proposed revenue level. The remainder will continue to be postponed or absorbed through new sources of revenues.

After careful consideration of historical trends and economic projections, the impending budgetary shortfall for 1992 indicates a need for the city to become more 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 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 \$17 million for 1992, 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 should be considered:

- Service/program reductions;
- Postponement of discretionary new requirements;
- Funding of Police and Fire Retirement Medical benefits through an affordable benefit program;
- New revenues.

The balance among the above options can be summarized in the following chart, which depicts the options available to solve the Fiscal Gap in 1992.

Figure 2-1

"Fiscal Gap" Solution Options

1992

	<u>Option # 1</u>	<u>Option # 2</u>	<u>Option # 3</u>	<u>Option # 4</u>	<u>Option #5</u>
Sale of ATU	\$ 3.8 M	\$ 0.0 M	\$ 0.0 M	\$ 0.0 M	\$ 3.8 M
Police/Fire Retiree Medical (not funded)	0.0	0.0	0.0	0.0	0.0
Service/Program Reductions	5.4	9.9	7.0	6.3	3.2
Discretionary New Requirements (not funded)	2.0	6.7	6.2	2.0	2.0
Tax Cap	0.0	0.0	2.9	2.9	2.9
State Grants	0.7	0.0	0.0	0.7	0.0
Bonds	5.2	0.5	0.5	5.2	5.2
Increased User Fees	<u>0.0</u>	<u>0.0</u>	<u>0.5</u>	<u>0.0</u>	<u>0.0</u>
TOTAL OF ALL SOLUTIONS	\$17.1 M	\$17.1 M	\$17.1 M	\$17.1 M	\$17.1 M

NOTES: Each of the above options has a different focus, which is outlined below:

1. Sale of ATU, grants/bonds, expenditure reduction
2. Expenditure reduction
3. Tax Cap, user fees, expenditure reduction
4. Grants/bonds, tax cap, expenditure reduction
5. Sale of ATU (average between the \$450M and \$500M sale price for ATU less IGC impact of \$0.5K), tax cap, grants expenditure reduction

At this time, the Administration supports Option #1 for 1992; however, we are open to other possible solutions. A solution to the Police and Fire retiree medical problem should be in place prior to the 1993 budget.