IV. "FISCAL GAP" --

PROBLEM AND SOLUTIONS

IV. "FISCAL GAP" - PROBLEM AND SOLUTIONS

This section was developed in 1990 with the intent of identifying and providing corrective action to the Fiscal Gap facing the Municipality. The same approach was undertaken in 1991 to again address the fiscal shortfall facing the city. The term Fiscal Gap is derived from the shortfall that exists when desired expenditures are greater than available revenues. In order to alleviate this budgetary shortfall, corrective solutions were identified. The Administration's recommendation to resolve the Gap is contained later in this section.

PROCESS

The Municipality has undertaken an extensive planning process in the development, analysis and presentation of the data contained in this section. The process is defined in Section II of this report, along with the flow chart diagram utilized by the Administration in developing solutions to the Fiscal Gap.

"FISCAL GAP"

The proposed General Government operating budget contains the recommended reduction of about $10 million in various programs and services. Additional cuts will also have to be made if the major maintenance bond proposition fails, since it entails federally mandated improvements to handicap access problems throughout the city. Figure 4-1 depicts the assumptions utilized for revenues and expenditures, resulting in the Fiscal Gap of $17.1 million in 1992, which does not include the potential Police and Fire unfunded retiree medical liability of approximately $22 million per year. Keep in mind that three cases with different Fiscal Gaps were developed during the planning process. We have presented the "Most Likely Case" for purposes of evaluating solutions to the Fiscal Gap in this document.

The new requirements have been developed by each of the departments in General Government. The direction given to these departments centered on providing realistic new requirements that would impact the operating budget during the 1992 to 1997 time frame. All cost information reflects expenditures over the 1991 approved budget level, adjusted for first quarter revisions and one-time expenditures.

The majority of the new requirements is derived from labor contract increases, safety, federal mandates, and prudent policy directives of the Municipality. They do not reflect a "wish list" of new programs for the departments, yet concentrate on maintaining public services and safety requirements.

In order to cover the costs of mandated new requirements, it is anticipated that the city will receive $1.2 million in State program assistance to offset the cost of the National Pollution Discharge Elimination System (NPDES) program and handicap access improvements at various Municipal facilities. Additionally, the following components of new requirements will also be State grant requests:

• Underground storage tanks	$0.9 M
• Building maintenance (deferred and ongoing)	2.1 M
• Street maintenance and repair	2.1 M
	$5.1 M

By far the largest component of New Requirements would be the potential unfunded liability for Police and Fire retirees. This $22 million number is shown below the line, but by no means is it any less important. The present value of benefits -- $167-$173 -- resulting from a valuation of the Municipality's Police, Fire and command officers Retiree Health Plan has been estimated by Mercer, Inc., health case consultants for the Municipality, and confirmed by Martin E. Segal Company.

Figure 4-1 on the following page outlines the Fiscal Gap if nothing is done to correct our current situation. All assumptions for revenues have been delineated within parentheses next to the revenue source. Wages and benefits are remaining constant and other services increasing at a rate of 4% during the future years. With recent projections on health care benefits indicating potential increases of 16%, the expenditure portion is conservative.

Figure 4-1

"Fiscal Gap"
Before Implementation of Solutions
(In $ Millions)

	1992	1993	1994	1995	1996	1997
REVENUES						
Federal Revenues (0%)	$ 1.1	$ 1.1	$ 1.1	$ 1.1	$ 1.1	$ 1.1
State Revenues (-2% after 1992)	35.2	34.5	33.8	33.2	32.5	31.9
Local Revenues (2%)	30.6	31.2	31.8	32.4	33.1	33.7
Sales Tax (Hotel at 4%, Tobacco at 2%)	8.2	8.2	8.5	8.8	9.0	9.0
Utility Revenue Distribution	2.5	2.5	2.5	2.5	2.5	2.5
Property Taxes (Constant + New Construction)	100.9	102.1	103.3	104.5	105.7	106.8
Fund Balance Applied (2% Prior Yr. Expend.)	8.2	4.1	4.2	4.2	4.3	4.4
Services to Non-Govt. Units (IGC's at 2%)	19.2	20.0	20.8	21.6	22.5	23.4
TOTAL REVENUES	$205.9	$203.7	$206.0	$208.3	$210.7	$212.8
EXPENDITURES						
Wages/Benefits	$122.3	$122.3	$122.3	$122.3	$122.3	$122.3
Debt Service	23.4	23.4	23.5	23.4	23.4	23.4
Other (4%)	60.2	62.6	65.1	67.8	70.5	73.3
TOTAL EXPENDITURES	$205.9	$208.3	$210.9	$213.5	$216.2	$219.0
FISCAL GAP (Reference Figure 4-2)	**$ 0.0**	**$ 4.6**	**$ 4.9**	**$ 5.2**	**$ 5.5**	**$ 6.2**
ADDITIONAL REQUIREMENTS - INCREASES TO THE GAP						
Mandatory New Requirements	$ 1.8	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Underground Storage Tanks	0.9	1.0	0.9	0.7	0.0	0.0
Building Maintenance (Deferred & Ongoing)	2.1	2.2	2.5	2.6	2.6	2.6
Street Maintenance and Repair	2.1	3.1	4.2	5.2	5.2	5.2
Health and Human Services	0.1	0.2	0.2	0.2	0.2	0.2
Property & Facility Management	0.5	0.6	0.6	0.1	0.1	0.1
Public Works - Federally Mandated Programs	0.0	0.5	0.6	0.6	0.6	0.6
Public Works	0.6	0.6	0.7	0.5	0.6	0.6
Cultural & Recreational Services	0.3	0.6	0.5	0.6	0.7	0.7
Police	0.1	0.1	0.1	0.1	0.1	0.1
Fire	0.2	0.5	2.4	2.6	2.8	2.8
Employee Relations	0.3	0.5	0.8	0.4	0.4	0.4
Transit	0.1	0.1	0.1	0.1	0.0	0.0
Subtotal	**$ 9.1**	**$ 10.0**	**$ 13.6**	**$ 13.7**	**$ 13.3**	**$ 13.3**
JCC Contract Increases	$ 1.6	$ 1.7	$ 1.8	$ 1.8	$ 1.8	$ 1.8
AMEA Contract Increases	1.3	2.0	2.7	2.7	2.7	2.7
Non-Rep Equity Increases	2.3	2.8	2.8	2.8	2.8	2.8
Police Contract Increases	1.6	1.6	1.6	1.6	1.6	1.6
Fire Contract Increases	1.1	1.1	1.1	1.1	1.1	1.1
IBEW Contract Increases	0.1	0.2	0.3	0.3	0.3	0.3
Subtotal Contracts - Gen Govt Only	**$ 8.0**	**$ 9.4**	**$ 10.3**	**$ 10.3**	**$ 10.3**	**$ 10.3**
Police/Fire Annual Medical Increases	$ 0.0	$ 0.3	$ 0.4	$ 0.8	$ 0.4	$ 0.6
Utility Increases	0.0	0.1	0.1	0.1	0.1	0.1
TOTAL NEW REQUIREMENTS	**$ 17.1**	**$ 19.8**	**$ 24.4**	**$ 24.9**	**$ 24.1**	**$ 24.3**
TOTAL FISCAL GAP with increases (Reference Figure 4-3)	**$17.1**	**$24.4**	**$29.3**	**$30.1**	**$29.6**	**$30.5**
P/F Retiree Med. Bnfts. (20 yr. % Payroll)	**21.6**	**21.7**	**22.0**	**22.2**	**22.5**	**22.5**
Gap Including P/F Unfunded Liability	**38.7**	**46.1**	**51.3**	**52.3**	**52.1**	**53.0**

Figure 4-2

TOTAL FISCAL GAP "MOST LIKELY CASE"

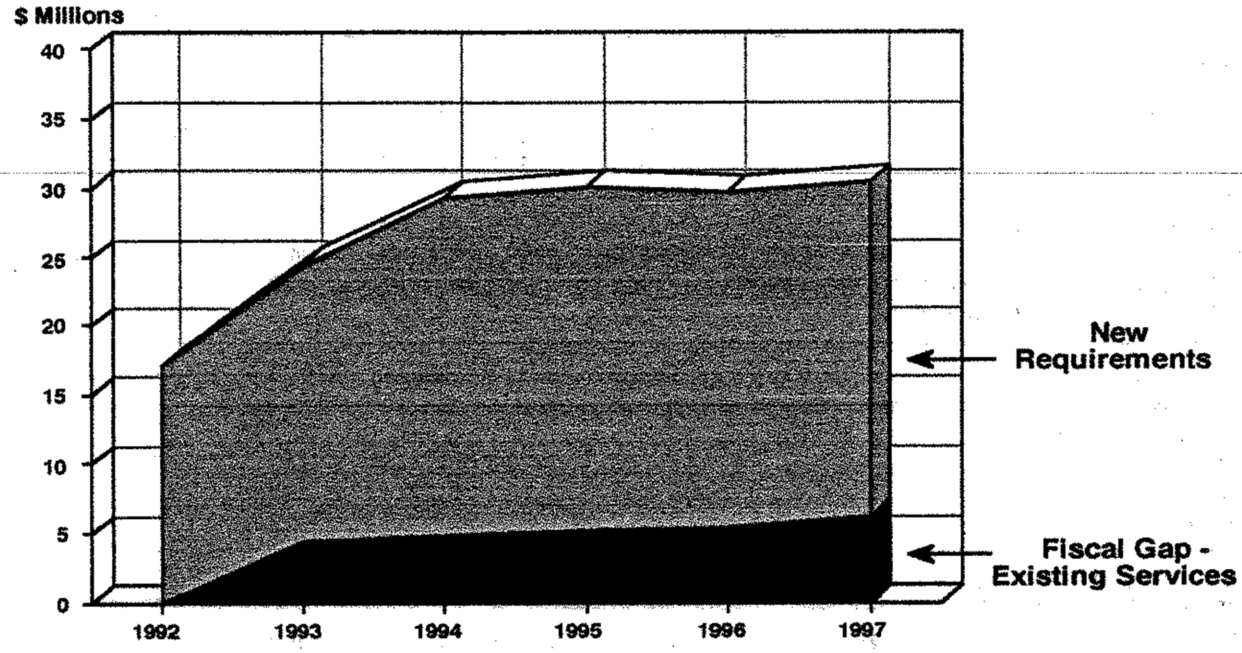
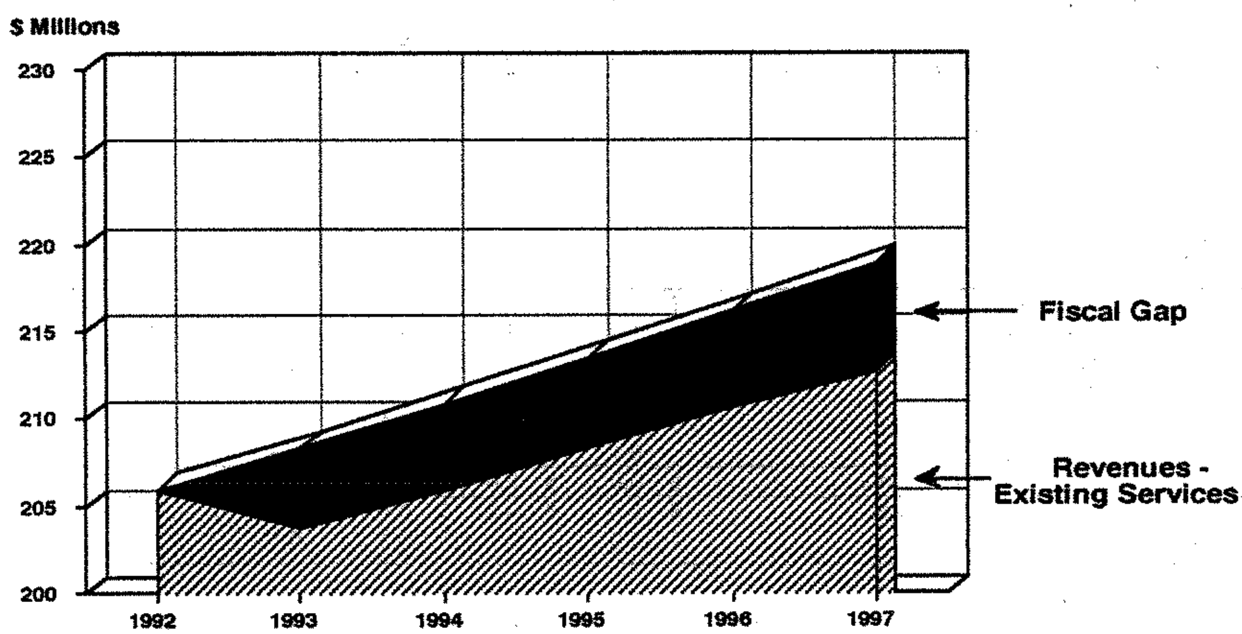


Figure 4-3

CURRENT LEVEL EXPENDITURES MINUS EXPECTED REVENUES



Based on First Quarter Budget Revisions - One-time expenditures

Property Taxes held at 1990 level plus New Construction

FISCAL POLICY ANALYSIS

This portion of the Fiscal Trends document explains the policy analysis that took place when solutions to the Fiscal Gap were being evaluated.

In order to develop a comprehensive plan to solve the Fiscal Gap, it was necessary to agree on the solution option that would resolve the projected gap. The feasibility of the most desirable public policy solution options was assessed as the final step in the process.

The Fiscal Gap is a projection prior to implementing any solutions to solve the problem. The fiscal model forces the identification and prioritization of solutions to ensure the Municipality's long-term fiscal integrity.

Once the Gap was identified, the next logical step was the establishment of solutions necessary to remedy the problem. Policy options were defined in the following categories:

- Compensation Concessions (not applicable)
- Utility Policy - Sale of ATU
- Service and Program Adjustments
- New Revenues

Compensation Concessions

Salaries - The result of labor negotiations has increased the cost of the various bargaining units and non-reps in the 1992 operating budget, which carries over to the outyears. The Police and Fire contracts have not been finalized, but additional increases are likely.

Cost of Living Adjustments (Benefits) - Inlationary increases for health benefits have not been included in the Fiscal Gap model. The impact of increases in this area could be fairly substantial with increases forecasted around 16%.

Police and Fire Retiree Medical Benefits - Martin E. Segal Company has confirmed the present value of benefits resulting from a valuation of the Municipality's Police and Fire retiree health plan at approximately $173 million. This amount equates to a $22-$24 million a year (FASB 106) potential expense. A prudent fiscal policy objective would be to implement certain cost containment measures. The 1992 solution to the Gap does not account for any funding of this potential liability, yet the need still exists and should be resolved.

Utility Policy

Sale of ATU - Under this solution, the Municipality could sell ATU and use some of the revenues to assist in closing the Fiscal Gap. This solution would be utilized for half a year in 1992 and in total for 1993 and the outyears.

- $150 million of outstanding debt at ATU would be eliminated.

- Invest $100 million for retiring general obligation debt, which has a corresponding impact on the taxpayer.

- Establish a permanent fund for approximately $201 - $251 million. The interest earnings after inflation-proofing are approximately $7.6 - $9.5 million annually, which chould be used to close the Fiscal Gap.

In addition, this solution would provide a source of funds for critical fiscal priorities upon approval of the voters.

Sale of Other Utilities - Solid Waste Collections and ML&P appear to be the only other feasible candidates. These two would not be expected to generate near the revenues predicted from the sale of ATU.

Increased Utility Revenue Distribution - These amounts are directly dependant on the Municipality's dividend policy and the Utilities' ability to pay. Projected utility rates will be affected by the anticipated URD's. As revenues increase, so would the MUSA surcharge percentage of the calculation.

Service and Program Adjustments

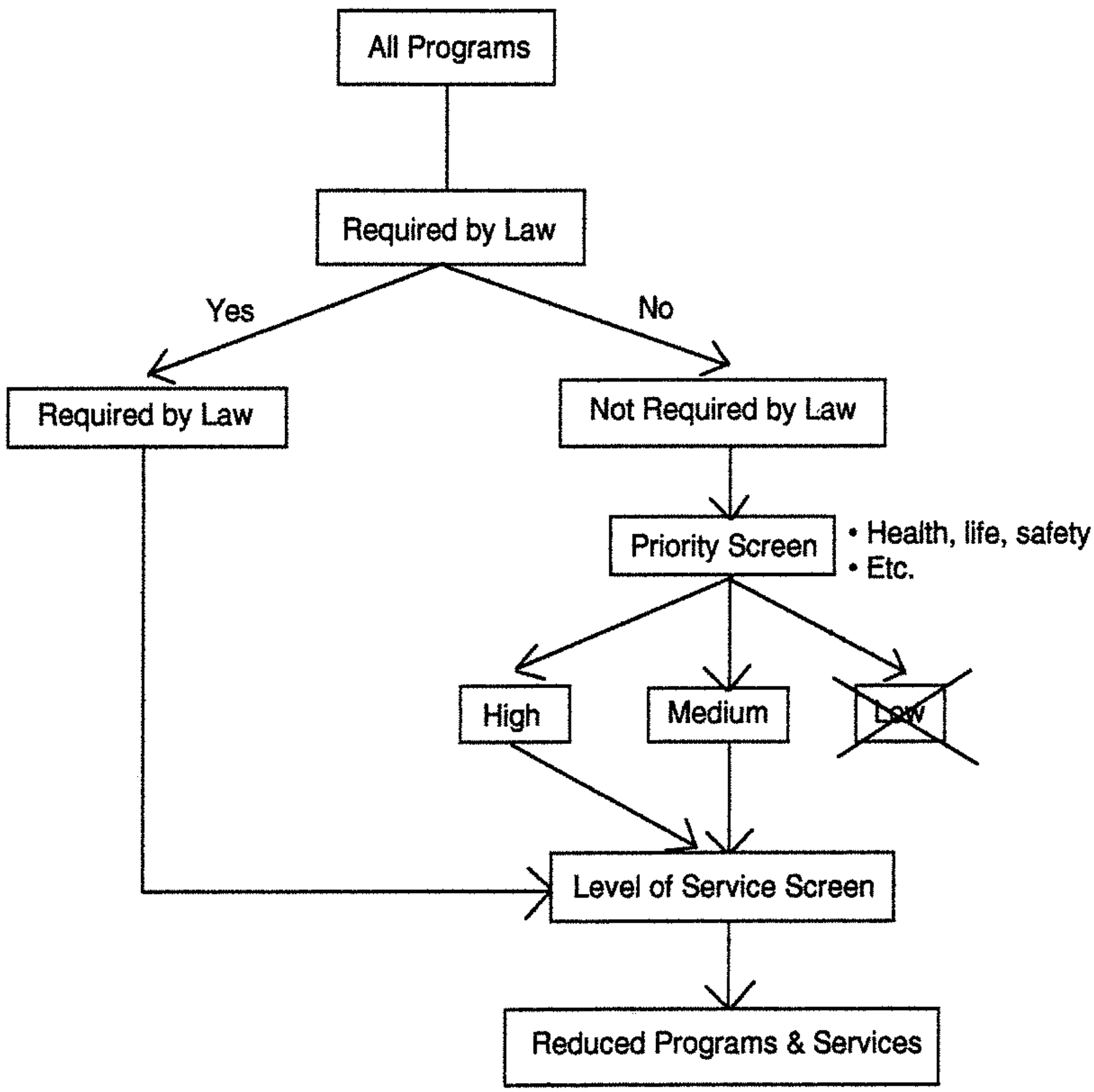
Consolidation and Efficiency Savings - Many of these reductions have already been implemented. The identification of additional savings in this category will likely require a comprehensive analysis. Any substantial savings will require time to implement.

Service and Program Reductions - This category will encompass a wide range of dollar savings for 1992, which will vary with the assumptions utilized in determining service/program priorities and desired levels of service.

- Services - The Mayor's Committee on Fiscal Policy (Sept. 1988) determined that the citizens of Anchorage receive a broad range of services, more than provided in many other cities. Many of these services were expanded and made more sophisticated when revenues were plentiful. The past level of State assistance has not continued, but some of the expanded services continue to be offered. Under this solution, some of the programs developed during the high revenue days will be reduced.

- Contributions - Organizations such as the Alaska Center for the Performing Arts, Anchorage Convention and Visitors Bureau and Anchorage Economic Development corporation currently receive operating assistance from the Municipality. Under this solution, the contribution will be reduced.

The following model of a decision tree can be referenced for an overview of prioritization of service and program adjustment:



New Revenues

Property Tax - This solution would incorporate taxing the maximum allowed under the cap.

State Assistance for Mandated Programs - The historical premise of the Municipality's Capital Budget has centered on projects that such as roads, facilities and recreational areas. The philosophy that would be more consistent with the economic conditions facing Anchorage would put more emphasis on federally mandated requirements. Under this component of our solution set, the Municipality would request approximately $1.2 million from the State for the 1992 budget, which would further reduce the Fiscal Gap.

Major Repairs and New Requirements - Under this solution, Anchorage would place emphasis on major road and maintenance of the existing infrastructure.

Exemption Program Senior Citizens and Disabled Veterans - The Municipality could reduce taxes to existing taxpayers if the Legislature would fully fund the exemption program for senior citizens and disabled veterans, as set forth in Alaska Statute 29.45.030. Fully funded, this program would generate an additional $4 million, which would be available for reallocation. The Municipality currently receives funding at approximately 27%.

User Fees - This category would entail an increase to the fee structure imposed by the Municipality on its users. Any increase in fees would provide a long-term solution to the Gap.

Additional Taxes - This solution has various possibilities for generating a range of revenues. It is presented here for analytical purpose. The Administration does not support substantial new taxes at this time. Additionally, recent surveys indicate that the public is opposed to any new form of general taxation. Examples are as follows:

- Alcohol Tax - Average package store retail prices from local sources ($10 for a bottle of liquor, $7 for a bottle of wine and $12 for a case of beer) were used to estimate package store sales. Sales volumes for the remaining 18% of alcohol volume from restaurants and bars were calculated on a per drink basis. Both of the aforementioned sales were then multiplied by a 6% tax to arrive at estimated revenues of $6.57 million per year after administrative costs.

- Sales Tax - $10 million annually. Current estimates indicate that a broadly based tax at a 1% rate would raise approximately $10 million after administrative costs.

- Sales Tax with a Sunset Clause - Same as above, but it would be for a fixed term.

- Seasonal Sales Tax with effective dates during the summer season (mainly May through September). The revenue from this tax varies with the level imposed. For purposes of this model, we can assume that $3 million would be the net yield on a 1% sales tax, after administrative costs.

- Fuel Tax - By taxing the individuals benefitting from the fund's reserves, an equitable basis for taxation has been established. (There are several indirect benefits that individuals will receive in addition to the improved roads, such as cleaner air, increased usage of the transit system and possibly a reduction in traffic congestion.) It is difficult to determine at what point the indirect benefits will come into play, but for the purposes of this paper it can be assumed that with increasing levels of taxation the indirect benefits will also increase due to the increased burden on the taxpayer. The yield on a 4 cents per gallon fuel tax would be approximately $3.6 million.

- Automobile Registration Tax - This solution would include a revision to the State statute which sets the fee schedule for automobile registration taxes. Currently, the fee schedule for automobile registration taxes is below the equivalent personal property tax, which might be levied as an alternative. This solution would be a redistribution of the taxes, rather than additive money, unless it was taken to the voters for specific approval.

* * * * *

Once the fiscal policy analysis was completed, the solutions to the Fiscal Gap were identified and presented to the Assembly in the Preliminary 1992 Operating Budget. The remainder of this section of the report outlines the various solutions and presents future recommendations

PROPOSED SOLUTION TO THE FISCAL GAP

Since June, the development of the Fiscal Gap solution matrix has been an evolutionary process. The final options have been identified in Figure 4-4 for a consolidated view of the solutions. Option 1 is the recommendation of the Administration and focuses on the sale of ATU, program and service reductions and some assistance from the State.

The Proposed 1992 General Government Operating Budget reduces the costs of existing services by $10 million. Additional cuts will have to be made if Proposition #1 -- Major Maintenance on Municipal Facilities -- is not approved by the voters on October 1, 1991, since the federally mandated handicap access requirement must be met. Additional cuts may also be necessary if the voters do not approve Proposition #2 -- Replacement of Underground Storage Tanks.

Option 1 also establishes the use of bond proceeds to reduce the discretionary new requirements. These proceeds would be derived from:

- $2.5 M major maintenance
- 2.0 M underground storage tanks
- 0.7 M heavy equipment

$5.2 M

Finally, this recommended option entails the postponement of $2.0 million in discretionary new requirements. This option does not fund the potential Police/Fire retiree medical liability at this time, but does come with the recommendation that a comprehensive plan to resolve this problem should be adopted by the Assembly.

If the sale of ATU is forthcoming, $3.8 million of services and programs can be reinstated. Additional programs ($2.8 million) can also be reinstated if it becomes apparent that Anchorage citizens have weighted increased taxes against reduced services and a clear public consensus develops for increasing taxes to the cap. In this case, the Administration would not oppose Option 5 should be Assembly select this approach.

The "Most Likely" projection represents the Fiscal Gap if no solutions are implemented to solve the problem and the assumptions regarding revenues and expenditures actually occur. The reason for displaying the case in this manner is to present the full magnitude of the Fiscal Gap, which could materialize unless we take appropriate action.

Figure 4-4

"FISCAL GAP" SOLUTION OPTIONS
1992

	Option # 1	Option # 2	Option # 3	Option # 4	Option #5
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	0.0	0.0	0.5	0.0	0.0
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 (average between the $450M and $500M sale price for ATU less IGC impact of $0.5K) needs to be resolved during the 1992 budget period, 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, tax cap, bonds, expenditure reduction