

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, the economy appears to have improved yet some of these same fiscal difficulties remain, especially in the areas of decreasing State revenues, rising labor costs and unemployment. On the positive side, the level of construction activity (mainly non-residential) and real estate values seem to have taken an upward turn. In 1991 the average value of a home or condominium sold in Anchorage went up approximately 8% as compared to 1990.

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

- Describing the Proposed 1993 General Government Operating Budget and the anticipated long-range fiscal 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 \$20 million Gap for 1993 carries with it a mix of many of the same requirements dealt with in the 1992 budget process. Of the \$20 million, \$9 million will result in actual program and service reductions to balance the 1993 budget within the proposed revenue level. The remainder will continue to be postponed, eliminated or absorbed through new sources of revenues.

After careful consideration of historical trends and economic projections, the impending budgetary shortfall for 1993 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 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

Although three cases using optimistic, most likely and pessimistic assumptions were developed, the focus will be on the most likely case and the corresponding assumptions and corrective strategies.

Revenues:

- Federal revenues will remain fairly consistent with prior years and experience a 0% growth.
- State revenues will decrease 2% per year from the base established in 1992. The \$18.7 million of Municipal Assistance included in the 1993 General Government Operating Budget has already been appropriated by the State Legislators. The \$11 million of State Revenue Sharing will not be appropriated until the spring of 1993 and is assumed to be the same amount as the Municipality received in 1992. No new State revenues are assumed for the purposes of this report; however, we will continue to propose greater State support and economic relief from mandated requirements.
- Local revenues are assumed to increase 2% over the base because of projected increases in population and consumption spending patterns. An extensive review of user fees has been undertaken. Small adjustments have been made to fee totals for 1993. Also included in the local revenue estimate is a \$2.5 million Utility Revenue Distribution (URD) from the Anchorage Telephone Utility, which is contingent upon approval from the Alaska Public Utilities Commission (APUC).
- Property taxes are assumed to be held constant with increases for new construction and increased debt service only.
- Fund balances have been reduced as much as possible, consistent with cash flow requirements, maintenance of bond ratings and various contingencies with respect to a specific fund.
- Intragovernmental charges (IGC's) are estimated to increase 5% after 1993. This estimate needs to be reviewed in greater detail once the long-term agreement for IGC's to ATU has been finalized. The 1993 IGC's to ATU are approximately \$1.8 million lower than 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 \$20 million for 1993, 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.
- Compensation concessions.
- Postponement of high priority new requirements.
- Funding of Police and Fire Retirement Medical benefits through an affordable benefit program.
- New revenues.
- Sale of ATU. (Note: Only a portion of the proceeds have been applied to balance the Gap.)

The balance among the above options can be summarized in the chart on Page 1-4, which depicts the options available to solve the Fiscal Gap in 1993. It is important to note that solutions are already in place to resolve the first half of the solution matrix (which totals \$11.3 million).

Figure 2-1

"Fiscal Gap" Solution Options
1993

	Option #1	Option #2	Option #3	Option #4	Option #5	Option #6
Legislative Approved CIB	\$ 3.0 M	\$ 3.0 M	\$ 3.0 M	\$ 3.0 M	\$ 3.0 M	\$ 3.0 M
No Increase in Jail Contract	2.0	2.0	2.0	2.0	2.0	2.0
Repayment of Contribution to Bldg Safety	0.9	0.9	0.9	0.9	0.9	0.9
Move Certain Mandated/Continuing						
Increases to the 1993 CIB	1.2	1.2	1.2	1.2	1.2	1.2
Heritage Land Bank Funding	0.5	0.5	0.5	0.5	0.5	0.5
Subtotal A	\$ 7.6 M	\$ 7.6 M	\$ 7.6 M	\$ 7.6 M	\$ 7.6 M	\$ 7.6 M
Salary & Benefits Adjustment Reduction	0.8	0.8	0.8	0.8	0.8	0.8
Inflation Adjustment Reduction	0.5	0.5	0.5	0.5	0.5	0.5
Hill Building/MISD Reduction	0.5	0.5	0.5	0.5	0.5	0.5
Increased Program Revenues	1.2	1.2	1.2	1.2	1.2	1.2
Increased Hotel-Motel Tax Rev (92 & 93)	0.6	0.6	0.6	0.6	0.6	0.6
Net Savings to Enable Funding of Current						
Service Levels	3.1	3.1	3.1	3.1	3.1	3.1
Add'l State Revenue Sharing Reduction	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)
Reduction in IGC's Outside Gen Govt						
Due to Budget Reductions	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)
Other/Rounding	0.1	0.1	0.1	0.1	0.1	0.1
Subtotal B	\$ 3.7 M	\$ 3.7 M	\$ 3.7 M	\$ 3.7 M	\$ 3.7 M	\$ 3.7 M
Subtotal of A + B	\$11.3 M	\$11.3 M	\$11.3 M	\$11.3 M	\$11.3 M	\$ 11.3 M
Service/Program Reductions	8.7	0.0	5.6	2.0	2.0	0.0
Compensation Concessions	0.0	0.0	0.0	0.0	6.7	0.0
Sale of ATU	0.0	0.0	0.0	0.0	0.0	8.7
Tax Cap	0.0	3.1	3.1	3.1	0.0	0.0
Increased User Fees	0.0	0.0	0.0	0.6	0.0	0.0
New/Increased Taxes	0.0	5.6	0.0	3.0	0.0	0.0
TOTAL FISCAL GAP SOLUTION	\$20.0 M	\$20.0 M	\$20.0 M	\$20.0 M	\$20.0 M	\$20.0 M