

II. INTRODUCTION

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The Fiscal Trends Report presents a strategic planning approach to solving the Fiscal Gap facing the Municipality over the next six years. This process was designed so that the Assembly, Budget Advisory Commission, and citizen groups can provide input and recommendations on problem determination, strategy evaluation and identification of solutions for the Municipality's long-range fiscal objectives.

The assumptions used are a compilation of data from several sources. State revenue and inflation projections were derived with the concurrence of the Institute of Social and Economic Research (ISER). Population projections were derived from the city demographer and assessed values from the Property Appraisal Division.

The Assembly and the Administration should develop and implement long-range solutions to correct the Fiscal Gap. Section IV of this report details the options available to fill the gap for 1993, which could be carried over to the outyears. Unfortunately the service and program reductions are very real for 1993 and reflect the downsizing or the elimination of certain services. The detailed list of services and programs identified for elimination or reduction will be included in the 1993 General Government Operating Budget.

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The 1993 Proposed Operating Budget for general government services totals \$208.5 million and is based on the following goals:

1. Economic Development -- The Municipality shall strive to contribute to the long-term stable recovery and growth of the Anchorage economy.
2. Fiscal Stability -- The Municipality shall strive to maintain vital services to the public while adjusting to changing fiscal circumstances and assuring the long-term financial integrity of local government.
3. Public Safety -- The Municipality shall strive to provide services necessary to ensure a safe environment for its residents. These services include police, fire, emergency medical and emergency preparedness, public health and environmental services.

4. Maintenance of Municipal Facilities -- The Municipality shall strive to maintain existing facilities on a schedule that will allow our children to enjoy the benefits of these improvements for many years. We believe maintaining basic facilities, roads and public buildings, as well as parks, bike trails and cultural facilities should be a high priority.
5. Balanced Community Values -- The Municipality shall strive to achieve a balance in meeting expressed community needs despite diminished resources. Basic services will continue to be given the highest priority. The Municipality will continue to provide recreation and leisure activities and city beautification within funding constraints.

These goals were attained in the 1992 General Government Operating Budget with the exception of partial funding of the retiree medical cost, which is part of Goal #2 -- Fiscal Stability.

As shown in this report, 1993 presents more difficult problems. Even continued savings and a slight upturn in the Anchorage economy have not been sufficient to offset the impact of increased labor costs and mandated new requirements, which result in a Fiscal Gap of over \$20 million for 1993.

We are definitely at the point where Anchorage residents will again feel the toll of budget reductions -- mainly in the area of cultural and recreational services, transit and contributions to non-profit organizations.

As a result, the Administration has devoted an extensive section of this report to the identification of the problem facing the Municipality, as well as corrective strategies to "Fill the Gap."

LONG RANGE PLANNING

Currently, the Municipality of Anchorage requires a one-year operating budget, a six-year program for fiscal policies and a six-year capital improvement plan (AMC 6.10). By examining the Fiscal Trends Report, the Administration, Assembly and community groups can get a good indication of future funding levels for services and programs as well as anticipated revenues.

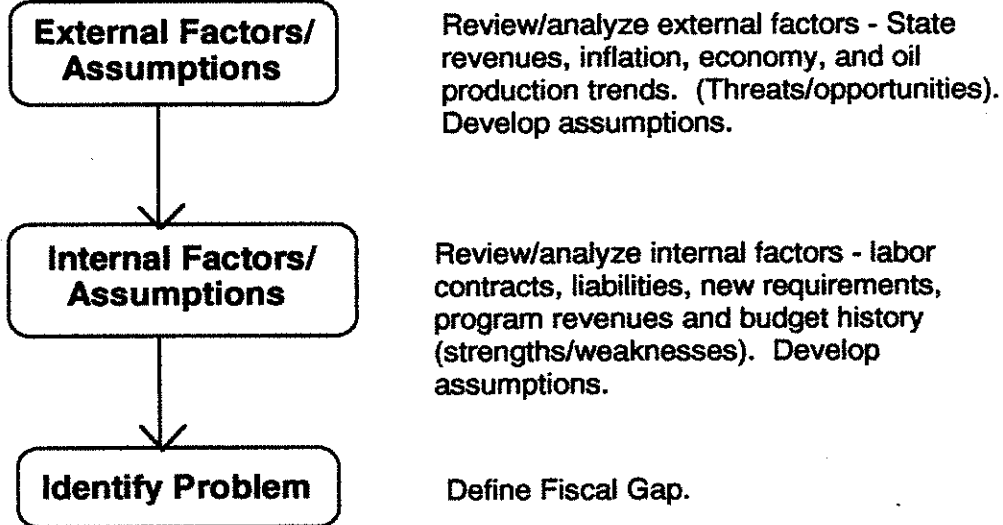
PLANNING PROCESS

For your reference, Page 2-4 contains a flow chart of the planning process that was used in the development of this year's long-range budget forecast. The planning process consisted of three key phases:

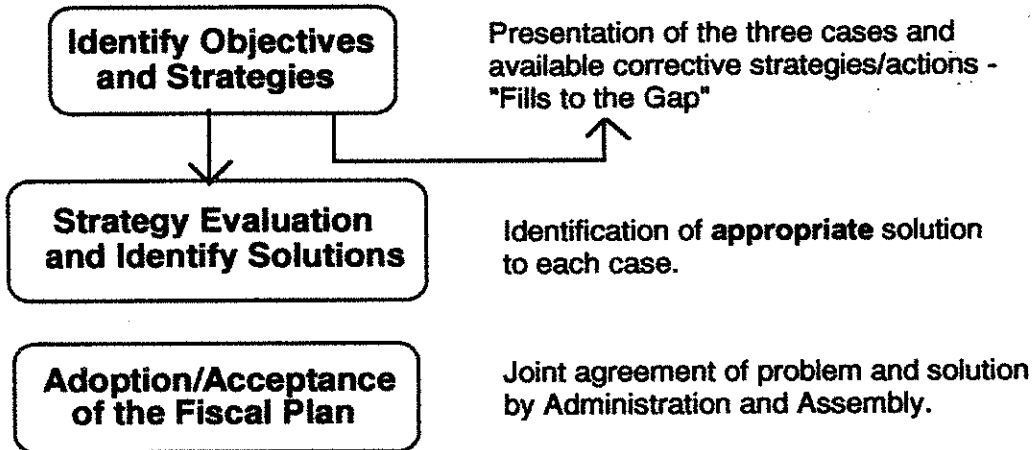
- I. Strategic Thinking - This is the phase where the external and internal factors affecting the budget are reviewed and analyzed, in conjunction with the development of assumptions. At the end of this phase, the problem is identified and the Fiscal Gap defined.
- II. Decisions - During this phase, three cases and available corrective strategies are presented. Each of the strategies is then evaluated and the optimal solution to each case identified. The final step in this phase is intended to be the joint agreement of the problem and solution by the Administration and the Assembly.
- III. Strategy Implementation - This final phase centers on the implementation, monitoring and review of the Fiscal Plan.

GENERAL GOVERNMENT SIX-YEAR BUDGET FORECAST PLANNING PROCESS

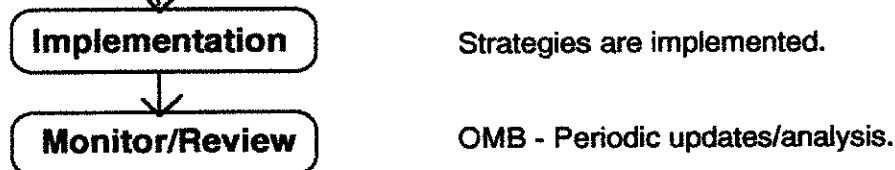
STRATEGIC THINKING



DECISIONS/PLAN ADOPTION



STRATEGY IMPLEMENTATION



In line with the six-year planning process described in the introduction, the following pages outline and describe the external factors directly impacting Anchorage. Some of these factors are more consistent with operational problems at the State level, but it is realistic to assume that some of these could also influence Anchorage's economy.

We have attempted to offset the "THREATS" looming on the horizon with a listing of some positive "OPPORTUNITIES" facing Anchorage. Unfortunately, the list of "OPPORTUNITIES" appears more futuristic while the list of "THREATS" is more probable. Without expanded comment on the probability of some of these opportunities actually coming to fruition, it is important to realize that they do provide diversification to a fairly stagnant economy.

During the 1992 Legislative session, we have seen evidence of declining oil revenues in the struggle to arrive at a balanced State budget. 85% of the State revenues come from the production of oil. After a dozen years at record levels, the depletion of the North Slope field has set in. Alaska continues to spend as if the oil production curve has not changed over the past several years. Hopefully, the State will follow a policy of cutting back without balancing the budget on the back of local government. We would see more cost-effective government services under this scenario.

Finally as you read through the list of Threats and Opportunities facing Anchorage, keep in mind that all economic assessments are probable at best and are subject to many unknown external influences.

IMPACT ON ANCHORAGE

Threats/Opportunities

THREATS

- Decline in Oil Industry Presence in Alaska
- Fiscal Gap/Declining Revenues at the State Level
- Limited Diversification
- New Jobs at the Service/Retail Level vs. Executive Jobs (Seasonality Issue as well)
- Reductions in Federal Military Budget
- Increasing Cost of Government - Local, State, Federal
- Decline in International Passenger Travel
- Federal and State Mandates
- Potential Decline of COLA for Federal Employees

OPPORTUNITIES

- Expansion of Tourism - Ship Creek, Hatcher's Pass, Airport
- Cold Storage and Secondary Processing Center for Alaskan Fisheries
- International Warehousing and Distribution Center - AIDA Bond Potential (\$85 Million)
- Encouragement of Light Industry (i.e., Software Development)
- Expansion of Facilities and Services at the International Airport
- Expansion of the Port - Coal Loading Facility
- Operations/Staging Location for Russian/Siberian Exchange
- Expansion of Winter Facilities/Tourism Enhancement
 - Kincaid Park
 - Glacier/Winner Creek Development - Four Season Destination
 - Alyeska Ski Resort
- Federal Highway Money (\$1.4 Billion Over 6-Year Life of the Act)