IV. "FISCAL GAP" --

PROBLEM AND SOLUTIONS

IV. "FISCAL GAP" - PROBLEM AND SOLUTIONS

This section was developed in 1990 and has been continued in this report to identify corrective action to resolve the Fiscal Gap facing the Municipality. The term Fiscal Gap is derived from the shortfall that exists when desired expenditures are greater than available revenues. The Administration's recommendation to resolve the Gap is contained later in this section.

PROCESS

Many of the factors directly impacting the model have been reviewed and analyzed by the administration, department directors, and the Fiscal Policy Committee. Input from these various groups provided a strong base for the planning process involved in the fiscal gap model.

"FISCAL GAP"

The proposed General Government operating budget contains a recommended reduction of about $9 million in various programs and services. Additional cuts will also have to be made if the $3.0 million 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 $20 million in 1993, which does not include the potential Police and Fire unfunded retiree medical liability that could approximate $22 million per year, or high priority new/increased programs and services. 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 <u>realistic</u> new requirements that would impact the operating budget during the 1993 to 1998 time frame. All cost information reflects expenditures over the 1992 approved budget level, adjusted for first quarter revisions and one-time expenditures.

The New Requirements section of the Fiscal Gap Report is divided into several sections, which are outlined below:

1. Federal/State Mandated Services -- This category encompasses services or programs mandated by Federal, State, or Municipal law, statute, ordinance, code, or regulation. The components of this category should receive priority funding because of the implications of non-compliance.

2. Additional costs of existing programs/services -- This category centers on the additional cost of current contracts or programs, other than inflationary increases, needed to provide the same level of service.

3. Utility Increases -- This area focuses on utility rate increases.

4. High Priority New or Increased Programs/Services -- This category entails all the increased programs/services that would be beneficial to the Municipality to increase. This is not a wish list, but a well developed management plan for the effective functioning of the various Municipal departments.

Items 1 though 3 (subtotal $4.5 million) are additive to the Fiscal Gap that results from the shortfall between planned revenues and anticipated expenditures (subtotal $15.5 million) to arrive at the combined Fiscal Gap of $20 million. The high priority new requirements ($19.6 million) nor the potential Police/Fire retiree medical liability ($21.8 million) have not been included and would raise the fiscal gap to over $60 million for 1993.

In order to cover the costs of certain mandated new requirements, it is anticipated that the city will receive State grant assistance or voter approved bonds in the following areas:

- Underground Storage Tanks
- National Pollution Discharge Elimination System (NPDES)
- Americans with Disabilities Act (ADA)

Additionally, certain High Priority new or increased programs/services will comprise the 1993 Legislative Program for the Municipality. Some of these key projects include:

- Building Maintenance (deferred and ongoing)
- Street Maintenance and Repair
- Police -- Communications System Upgrade
- Park and Trail Compliance with ADA

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 -- over $142 million -- 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 increasing per existing contractual obligations 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 probably conservative.

Figure 4-1

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

	1993	1994	1995	1996	1997	1998
REVENUES						
Federal Revenues (0%)	$ 1.22	$ 1.22	$ 1.22	$ 1.22	$ 1.22	$ 1.22
State Revenues (-2% after 1993)	32.44	31.79	31.16	30.53	29.92	29.32
Local Revenues (2%)	40.97	41.79	42.62	43.48	44.35	45.23
Property Taxes (Constant + New Construction)	107.83	109.03	110.23	111.43	112.63	113.83
Fund Balance Applied (2% Prior Yr. Expend.)	3.99	4.41	4.61	4.81	5.03	5.26
IGC's (5% after 1993)	18.46	19.38	20.35	21.37	22.44	23.56
TOTAL REVENUES	$204.90	$207.62	$210.19	$212.84	$215.59	$218.43
EXPENDITURES						
Personnel Services (5.6%)	$129.14	$136.37	$144.01	$152.07	$160.59	$169.58
Debt Service	24.30	24.30	24.30	24.30	24.30	24.30
Other (4%)	66.97	69.65	72.43	75.33	78.34	81.48
TOTAL EXPENDITURES	**$220.41**	**$230.32**	**$240.74**	**$251.70**	**$263.23**	**$275.36**
FISCAL GAP (Reference Figure 4-2)	**$ 15.51**	**$ 22.70**	**$ 30.56**	**$ 38.86**	**$ 47.65**	**$ 56.93**
ADDITIONAL REQUIREMENTS - INCREASES TO THE GAP						
Federally/State Mandated Services:						
Internal Audit	$ 0.00	$ 0.00	$ 0.01	$ 0.00	$ 0.00	$ 0.01
Clerk -- S.S./Add. Election Work	0.03	0.03	0.03	0.03	0.03	0.03
Law -- ADA Req.	0.00	0.50	0.50	0.10	0.05	0.03
P&FM -- ADA	0.22	0.22	0.00	0.00	0.00	0.00
Employee Relations -- ADA	0.04	0.02	0.02	0.02	0.02	0.02
Cost of Medicare for Certain Employees	0.00	0.00	0.00	0.00	0.00	0.00
H&HS -- ADA (Suppl. Trans. Vans)	0.05	0.05	0.05	0.04	0.04	0.04
H&HS -- Clean Air Conf. Analysis	0.04	0.04	0.04	0.04	0.04	0.04
Cultural & Rec -- ADA	0.19	0.17	0.14	0.14	0.14	0.14
Fire -- OSHA Req.	0.17	0.18	0.19	0.20	0.21	0.21
NPDES	0.39	0.23	0.23	0.23	0.23	0.23
Full Accrual of Leave	0.00	0.00	0.00	0.00	0.00	0.00
Police/Fire Unfunded Liability	0.00	0.00	0.00	0.00	0.00	0.00
Asbestos Removal	0.07	0.42	0.42	0.00	0.00	0.00
Underground Storage Tanks	0.25	0.25	0.25	0.20	0.15	0.15
Subtotal	**$ 1.44**	**$ 2.10**	**$ 1.87**	**$ 1.00**	**$ 0.90**	**$ 0.89**
Additional Cost of Existing Programs/Services:						
COBRA Liability for Health Insurance	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Police/Fire Retiree Medical	0.83	0.45	0.46	0.49	0.50	1.48
Police -- Jail Contract	2.00	2.00	2.00	2.00	2.00	2.00
Police -- Repair/Maint. of Equipment	0.00	0.00	0.00	0.00	0.00	0.00
Fire Hydrant Maintenance	0.00	0.00	0.00	0.00	0.00	0.00
Non-Departmental	0.00	0.00	0.00	0.00	0.00	0.00
Subtotal	**$ 2.83**	**$ 3.15**	**$ 3.16**	**$ 3.19**	**$ 3.20**	**$ 4.18**
Utility Increases or IGC's:						
P&FM	$ 0.14	$ 0.01	$ 0.01	$ 0.01	$ 0.01	$ 0.01
Police	0.03	0.03	0.03	0.03	0.03	0.03
Cultural & Rec Services	0.06	0.06	0.06	0.06	0.06	0.06
Subtotal	**$ 0.23**	**$ 0.10**	**$ 0.10**	**$ 0.10**	**$ 0.10**	**$ 0.10**
FISCAL GAP (Prior to New Requirements and Police/Fire Retiree Medical Liability)	**$ 20.01**	**$ 28.05**	**$ 35.69**	**$ 43.15**	**$ 51.85**	**$ 62.10**

	1993	1994	1995	1996	1997	1998
High Priority New or Increased Programs/Services:						
Health & Human Services	$ 0.24	$ 0.29	$ 0.35	$ 0.35	$ 0.35	$ 0.35
P&FM -- Deferred/Ongoing Building Maint.	2.20	2.50	2.60	2.60	2.60	2.60
P&FM -- Replacement of Heavy Equipment	1.20	0.00	0.00	0.00	0.00	0.00
Employee Relations	0.33	0.35	0.35	0.35	0.35	0.35
Pub. Works -- Deferred/Ongoing Maintenance	8.07	10.66	11.97	13.27	13.27	13.27
Finance	0.63	0.63	0.63	0.63	0.63	0.63
Law	0.00	0.00	0.00	0.00	0.00	0.00
Cultural & Recreation	3.56	4.61	2.78	3.03	3.39	3.53
Police	0.33	0.33	0.33	0.33	0.33	0.33
Police -- 911 System Upgrade	2.00	0.20	0.20	0.20	0.20	0.20
Fire	1.04	2.93	3.12	3.33	3.35	3.36
Subtotal	**$19.60**	**$22.51**	**$22.34**	**$24.09**	**$24.47**	**$24.63**
Total New Requirements	**$24.10**	**$27.85**	**$27.46**	**$28.38**	**$28.67**	**$29.80**
TOTAL FISCAL GAP	**$39.61**	**$50.55**	**$58.02**	**$67.25**	**$76.32**	**$86.73**
Police/Fire Retiree Medical Benefits (Based on 20-year % of Payroll)	$21.76	$21.97	$22.23	$22.53	$22.53	$22.53
Gap with Unfunded Liability for Police/Fire	**$61.36**	**$72.52**	**$80.25**	**$89.78**	**$98.85**	**$109.27**

Figure 4-2

TOTAL FISCAL GAP "MOST LIKELY CASE"

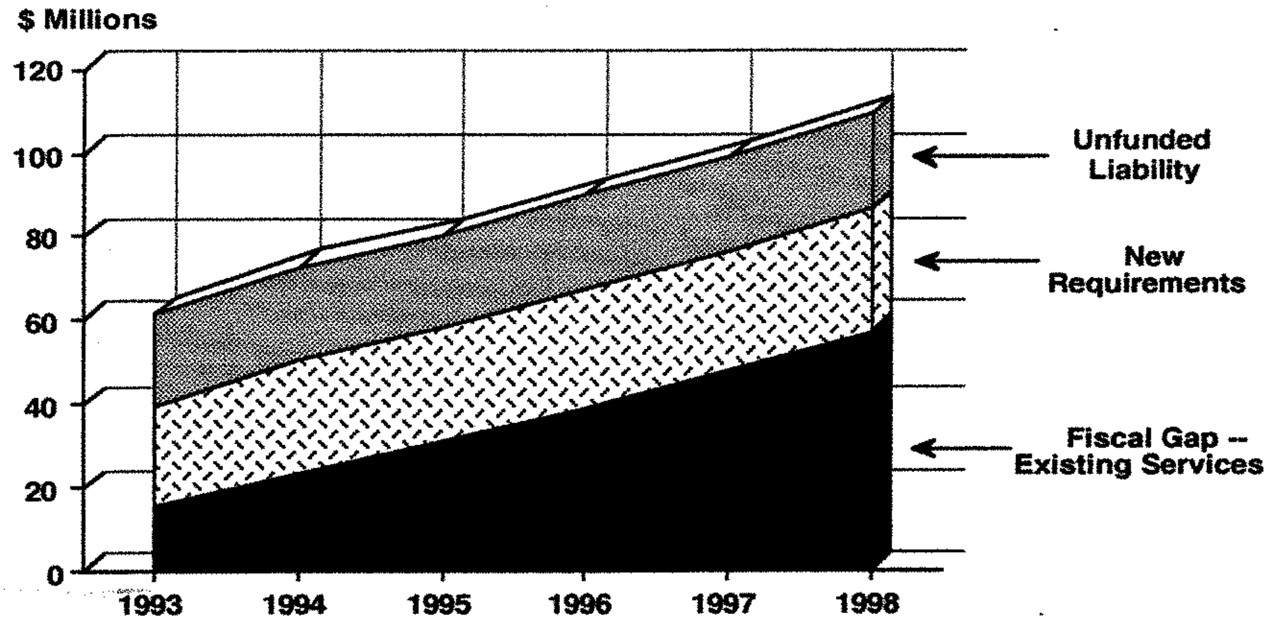
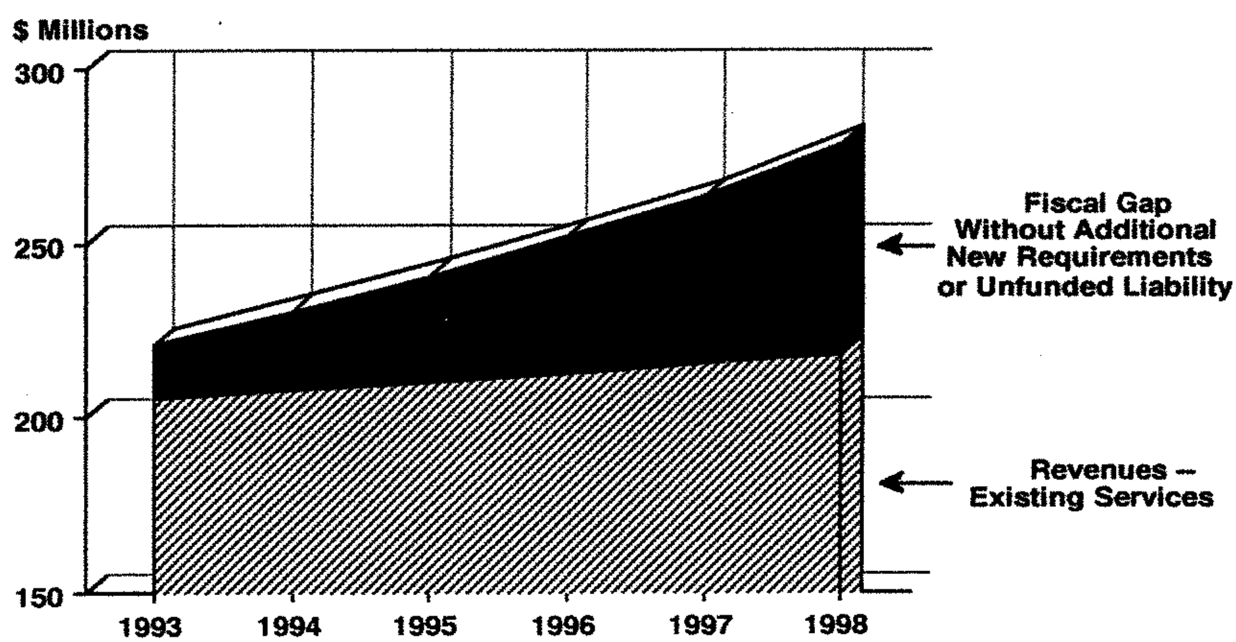


Figure 4-3

CURRENT LEVEL EXPENDITURES MINUS EXPECTED REVENUES



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.

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
- Utility Policy
- Service and Program Adjustments
- New Revenues

These options are presented for analytical purposes. The Administration does not support higher utility rates, taxes or user fees beyond those already proposed in the 1993 Operating Budgets.

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 1993 and the outyears. Labor concessions from the various bargaining units would alleviate some of the potential departmental reductions.

Cost of Living Adjustments (Benefits) - Inflationary increases for health benefits have not been included in the Fiscal Gap model. Should they occur, they would increase the Fiscal Gap.

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 over $142 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 1993 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.

- $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 could be used to close the Fiscal Gap.

In addition, this solution would provide a source of funds for critical 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.

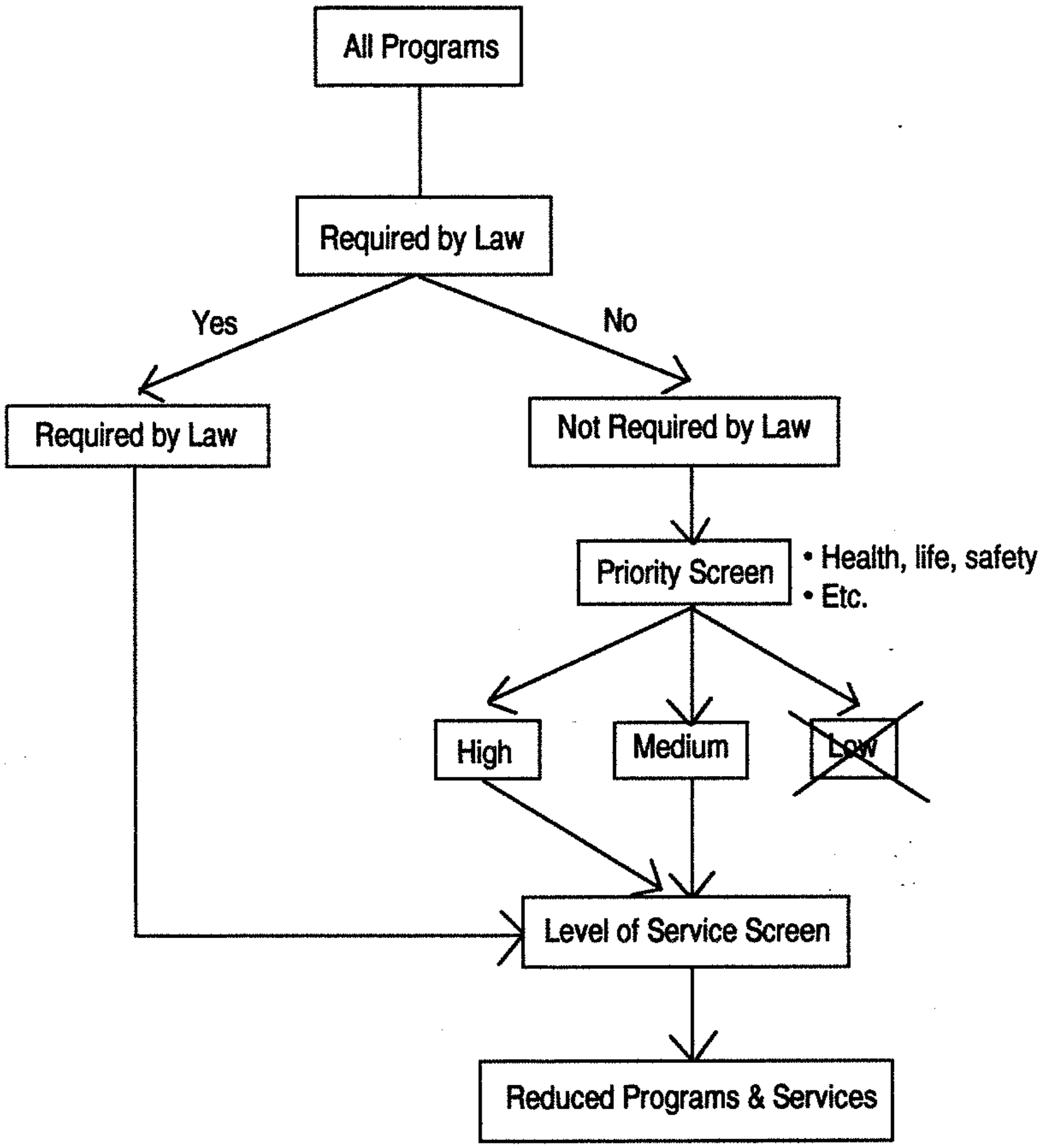
Increased Utility Revenue Distribution - These amounts are directly dependant on the Municipality's dividend policy, the Utilities' ability to pay and, in most cases, Alaska Public Utilities Commission rulings. Projected utility rates will be affected by the anticipated URD's.

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 more 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 1993, which will vary with the assumptions utilized in determining service/program priorities and desired levels of service.

The model on the following page was utilized in establishing priorities for services and programs.


All Programs
Required by Law
Yes
No
Required by Law
Not Required by Law
Priority Screen
• Health, life, safety
• Etc.
High
Medium
Low
Level of Service Screen
Reduced Programs & Services

New Revenues

State Assistance for Mandated Programs - More emphasis should be put on assistance with federally mandated requirements.

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

Exemption Program for 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 $5.6 million, which would be available for reallocation. The Municipality is anticipating funding at approximately 20% for 1993. This option would be a redistribution of taxes rather than additional money.

User Fees - This category would entail an increase to the fee structure imposed by the Municipality on its users.

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

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 without voter approval. Additionally, recent surveys indicate that the public is opposed to any new form of general taxation. Examples are as follows:

- <u>Alcohol Tax</u> - 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.

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

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

- <u>Seasonal Sales Tax</u> 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.

* Automobile Registration Tax - This solution would include a revision to the State statute which sets the fee schedule for automobile registration taxes. 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 1993 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 various 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 program and service reductions, transfer of certain mandated increases into the General Government Capital Improvement Budget, and some assistance from the State.

The Proposed 1993 General Government Operating Budget reduces the costs of existing services by $9 million. Additional cuts will have to be made if certain assumptions involving labor contracts and State assistance do not materialize.

Option 1 also establishes the use of $1.2 million of bond proceeds to reduce the mandated new requirements.

Finally, this recommended option entails the postponement of $20 million in high priority new or increased programs/services. This option does not fund the potential Police/Fire retiree medical liability at this time, but does come with the recommendation that this problem be resolved by the Assembly, and not by an artibrator.

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. It is apparent from the submitted 1993 General Government Operating Budget that approximately $11 million of the $20 million has already been addressed in detail and the remaining $9 million will result in reduced or eliminated services and programs, even if the Assembly taxes to the cap.

Figure 4-4

"FISCAL GAP" SOLUTION OPTIONS
1992

	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
Addt'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**