

I. EXECUTIVE SUMMARY

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Real estate values, construction activity and employment figures are showing positive signs. At the same time, the Municipality of Anchorage continues to face declining State revenues and must strive to further contain labor costs. Determining the long-term net economic effect of positive and negative factors affecting our economic future involves varied speculation. This report is not intended to reach conclusions but to provide pertinent information regarding the Municipality's fiscal outlook.

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

- Presenting a preview of the 1994 General Government Operating Budget outlook 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 budget for 1994 along with outyear projections indicate a need for the Municipality 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 adjust to economic conditions. 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, and interested citizen groups create the nucleus through which solutions to solve a Fiscal Gap can be 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.

Revenue assumptions are:

- Federal revenues will remain fairly consistent with prior years and experience a 0% growth.

- State revenues will decrease 5% per year beyond 1994 based on historical data.
- Given both an 11.5% reduction in State Revenue Sharing and a 7% reduction in Municipal Assistance over the prior year, we can expect the following in 1994: (1) \$17.5 million of Municipal Assistance which has already been appropriated by the State Legislators in 1993; and (2) \$9.8 million of State Revenue Sharing which will be appropriated in the spring of 1994 assuming it remains the same as 1993.
- 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. Also included in the local revenue estimate is a \$3.0 million Utility Revenue Distribution (URD) from the Anchorage Telephone Utility.
- 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 5.2% per year after 1994.

Population growth is projected at +1.0% in 1994 per the Municipality's demographer.

Inflation for 1994 is projected to be 3.8% per recent historical Urban Consumer Price Index data.

The Fiscal Gap projections beyond 1994 assume no solutions have been implemented. New revenues and/or cost reduction measures would reduce the magnitude of the Fiscal Gap in the outyears. For example, a 1994 wage freeze not only benefits our 1994 fiscal standing, but also carries over as a benefit to the Fiscal Gap in years 1995-1999.

CORRECTIVE STRATEGIES

To effectively deal with projected budgetary shortfalls facing the Municipality, some of the following options should be considered in addressing fiscal gap projections:

- Compensation concessions.
- Service/program reductions.
- Postponement of high priority new requirements.
- Funding of Police and Fire Retiree Medical benefits through an affordable benefit program.
- New revenues.
- Sale of ATU and ML&P.