

I. EXECUTIVE SUMMARY

Construction activity in Anchorage will continue to be significant over the next several years due to completion of projects currently under construction and due to the passage of \$194.2 million in School bonds approved by voters in 1993/94. Real estate values are expected to be mostly stable in 1995, with only a slight upward trend. Similarly, population levels in 1995 are expected to experience only a minimal increase. Inflation in Anchorage should remain low, partially as a result of increased retail competition; national trends also will affect local cost of living. The impact of recent declines in military population, as well as the recent ARCO layoffs will become more evident within the next 1-2 years.

Of more immediate concern to the Municipality is the potential further decline in State Revenue Sharing in 1995. The Administration's Proposed 1995 General Government Operating Budget has assumed no further decrease in State Revenue Sharing. Furthermore, the Administration has assumed that there will be no personnel cost increases in 1995. The potential exists, however, for personnel cost increases to occur should binding arbitration so mandate or should the Assembly approve contracts which include personnel cost increases.

Attempting to predict the long-term net economic effect of positive and negative factors that may affect Anchorage in the near future is beyond the scope of this document. 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 1995 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 1995 along with outyear projections indicate a need for the Municipality to continue to emphasize a six-year planning process coupled with the implementation of corrective strategies. Strategic planning, management control and updated fiscal projections provide a framework within which Anchorage can adjust to economic conditions. The management control system is the mechanism by which Anchorage can follow through 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 various scenarios using optimistic, most likely and pessimistic assumptions were considered, the focus will be on the most likely case and the corresponding assumptions and corrective strategies.

Revenue assumptions are:

- Based on the actions taken by the Legislature in 1994 (a 20.5% reduction in State Revenue Sharing and a 14.6% reduction in Municipal Assistance over the prior year), we can expect the following in 1995: (1) \$14.9 million of Municipal Assistance which has already been appropriated by the State Legislators in 1994; and (2) \$7.9 million of State Revenue Sharing which will be appropriated in the spring of 1995 assuming the total State Revenue Sharing appropriation remains the same as 1994.
- State revenues to the Municipality are assumed to decrease at the same rate as the State budget, with a limit of 5% per year beyond 1995 based on historical data.
- 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.
- The tax cap should be considered a ceiling and not a target. Property taxes are assumed to be at least \$3.5 million under the tax cap after adjusting for population, inflation and new construction factors.
- Local revenues are assumed to increase 2% over the base because of projected increases in population and consumption spending patterns.
- Utility Revenue Distributions (URD's) should represent an appropriate return to the Utilities' owners, the general public. In 1995, ATU's total dividends are assumed to be \$6.8 million, which results from the lesser of 9.5% of prior year equity or 60% of prior year net income. The \$6.8 million figure represents a \$5.5 million URD plus \$1.3 million of 1.25% MUSA. The Port's dividend in 1995 is assumed to be \$358,000, which is 10% of net operating income before depreciation and amortization. The Port's Utility Revenue Distribution is considered a Residual Equity Transfer which does not affect the Port's bottom line net income.
- Federal revenues will remain fairly consistent with prior years and experience a 0% growth.

Fund balances are at levels that reflect prudent fiscal management, with primary consideration given to cash flow requirements, maintenance of bond ratings and various contingencies related to specific funds.

Intragovernmental charges (IGC's) are estimated to increase 4.7% per year after 1995.

Population growth is projected at +1.0% in 1995 per the Municipality's demographer.

Inflation for 1995 is projected to be 3.0% per recent historical Urban Consumer Price Index data.

The Fiscal Gap projections beyond 1995 are based on those assumptions presented in this document; fiscal gap projections beyond 1995 are shown prior to any solutions being implemented. New revenues and/or cost reduction measures would reduce the magnitude of the Fiscal Gap in the outyears. For example, a 1995 wage freeze not only benefits our 1995 fiscal standing, but also carries over as a benefit to the Fiscal Gap in years 1996-2000.

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/Work rule changes
- Lowest priority service/program reductions
- Postponement of some high priority new requirements
- Design and implementation of an affordable defined contribution medical program which establishes a payment mechanism for medical premiums of individual police and fire retirees
- New revenues
- Sale of ATU
- Sale of other Municipal assets

