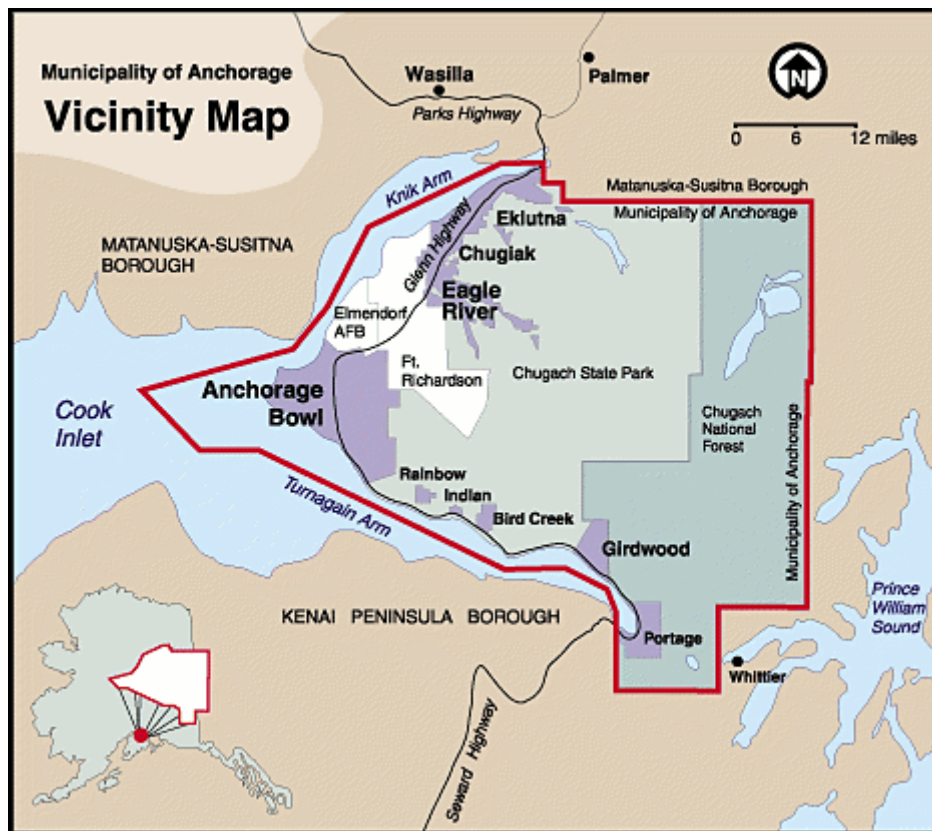


Budget Background

This section presents the reader with basic background information that provides context for the general government revenue and expenditure plans presented in later sections of the budget document.

Community Profile

Surrounded by the beauty of the Chugach Mountains and Cook Inlet, Anchorage is located in a spectacular natural setting and is one of the country's most livable cities. The Municipality encompasses 1,955 square miles that span an area from Eklutna on the north to Portage on the south. With a population of almost 283,000, Anchorage is the largest city in Alaska and home to approximately 42% of the state's residents. Anchorage is a young, vibrant city where day-to-day living is further enriched by smaller communities as unique as Eagle River and Girdwood.



Anchorage is the hub of the state's communication, transportation, health care, finance and trade industries. The local economy is driven by four major sectors: oil/gas, military, transportation and tourism. Together these sectors provide a measure of stability that has given Anchorage 19 consecutive years of economic growth.

- Anchorage serves as administrative center for the oil industry. The oil/gas sector provides over 3,000 jobs for the local economy and also supports a thriving support sector with advanced manufacturing capabilities and engineering skills. With support from the state legislature and governor, Anchorage and other communities statewide have received some benefit from record high oil prices through modest levels of one-time, operational assistance from the state.
- Anchorage is home to Elmendorf Air Force Base, Fort Richardson Army Post and Kulis Air National Guard base located at the Ted Stevens Anchorage International Airport. Command activity at Elmendorf AFB is increasing substantially with the receipt of new C-17 cargo transports as well as new generation F-22 jet fighters. As part of the 2005 Department of Defense Base Realignment and Closure Plan, Kulis is slated for closure; however, the command and aircraft assets will be transferred to Elmendorf AFB, with the bulk of the relocation work planned for the 2008/2009 federal fiscal year.
- Anchorage's transportation sector consists of air cargo, railroad service, and maritime transportation. The Ted Stevens Anchorage International Airport continues to be one of the busiest cargo airports in the world, ranked third in tonnage volume in 2006. The Alaska Railroad, owned by the State of Alaska and headquartered in Anchorage, provides both freight and passenger service throughout the railbelt and reported over \$10 million in net income last year. The municipal-owned Port of Anchorage also plays a vital role in the local economy. The Port is undergoing a \$376 million expansion project involving road/rail extensions and marine terminal redevelopment. Major objectives of this expansion are to improve cargo flow, accommodate larger ships, support new military rapid deployment requirements, and upgrade cruise ship facilities.
- Tourism is a major economic driver for Anchorage due to its central location, transportation and visitor industry infrastructure, and abundant recreational opportunities. Anchorage is the gateway to the state for many travelers journeying to Alaska. The convention industry is also an important economic driver. Developers and the city are moving full speed ahead on the new Denaina Civic and Convention Center approved by voters in April 2005. The center is scheduled to open in 2008, and national conventions at the center are already being booked.

Anchorage offers diverse and dynamic educational opportunities. Primary and secondary education (K-12) is provided by the Anchorage School District (ASD). At the beginning of the 2007-08 school year, ASD's enrollment was 48,339, down from an enrollment of 49,068 last year. Anchorage is also home to public and private universities and a variety of vocational and business schools. The University of Alaska Anchorage (UAA) and Alaska Pacific University (APU) have combined enrollments in excess of 18,000 students.

Local Government Profile

The City of Anchorage was incorporated in 1920 and unified with the Greater Anchorage Area Borough in 1975 to create the Municipality of Anchorage. As a unified government, the Municipality is responsible for a wide range of public services that in other states are commonly provided through both a city and a county government.

The Municipality operates under a strong mayoral system. Executive and administrative power is vested in the Mayor, who is elected at-large for a three-year term. Legislative power is vested in an assembly of 11 members, elected by district for staggered three-year terms.

Senior executives and department directors are appointed by the Mayor. Within the executive branch, most department functions are organized under and overseen by the Municipal Manager, Chief Fiscal Officer, and Executive Director of Economic and Community Development who, together with the Municipal Attorney, report directly to the Mayor.

The Assembly carries out all legislative responsibilities. Municipal ordinances, resolutions, budgets, major contracts, and specific mayoral appointments are subject to Assembly approval. Municipal ordinances, Assembly schedules, agendas and other legislative information are available on-line at www.muni.org.

The Municipality has 50 citizen boards and commissions to advise and assist the administration and Assembly with issues that range from animal control to zoning. Members are appointed by the Mayor and confirmed by the Assembly. Board members and commissioners volunteer their services and typically serve three-year, staggered terms.

The Municipality provides a full range of general government public services. These include but are not limited to police, fire, emergency medical services, health and human services, maintenance and operations, recreation and public transportation. Separate from its general government operations, the Municipality owns and operates several enterprise activities: Anchorage Water & Wastewater Utility, Municipal Light & Power, Solid Waste Services, Port of Anchorage, and Merrill Field Airport. The Municipality also has two public corporate authorities: the Anchorage Community Development Authority and the Anchorage Cooperative Services Authority.

Biennial Budgeting Process

In 2005, the Municipality implemented a biennial budgeting process for general government and enterprise operations. This is the Municipality's second general government biennial budget, and sets forth annual budget requirements for Fiscal Year 2008 (Year 1) and Fiscal Year 2009 (Year 2.)

Biennial budgeting is a key component in the Municipality's commitment to provide stable, sustainable services and programs and prudent use of taxpayer dollars. In August 2006, when Anchorage received a credit rating upgrade on its long-term general obligation bonds, Standard and Poor's cited Anchorage's diversified economy and commitment to a structurally balanced city budget, aided by the newly implemented biennial budgeting process.

The biennial budget presented here sets forth planned expenditures and revenues for two consecutive fiscal years. In order to meet Charter requirements, the Municipality uses a rolling biennial budget process. Under a rolling biennial budget, Year 1 and Year 2 expenditure and revenue plans are presented by the administration in a single document. At the conclusion of the biennial budget review and deliberation process, Year 1 of the biennial budget is approved and appropriated by the Assembly. The Year 2 budget also is approved, but is subject to mid-cycle review and appropriation action in the following year.

Seven basic procedures are fundamental to the Municipality's biennial budgeting process:

1. A biennial budget for general government operations is prepared in each odd-numbered year. The biennial budget consists of balanced revenue and expenditure plans for Year 1 (next even numbered fiscal year) and Year 2 (next odd numbered fiscal year.)

2. In each odd numbered year, the biennial budget document for general government is prepared and submitted by the Mayor to the Assembly in conformance with Charter requirements.

Year 1 and Year 2 budgets presented in the biennial budget document also conform in form and content to requirements set forth under Anchorage Municipal Code, inclusive of minor changes required to accommodate presentation of the Year 2 budget.

3. In each odd-numbered year, the Assembly conducts public hearings on the proposed Year 1 and Year 2 budgets in conformance with Charter requirements. At the conclusion of its deliberations, the Assembly adopts and appropriates funds for Year 1 of the biennial budget in conformance with Charter requirements; Year 2 of the biennial budget is adopted in concept but no appropriation action is taken.

4. In each even-numbered year, the conceptually approved Year 2 budget for general government is brought back to the Assembly as part of a biennial budget mid-cycle review and update.

The mid-cycle update consists of proposed adjustments and amendments, if any, to Year 2 budgets conceptually approved in the prior year. The mid-cycle review and update process is intended to be a tune-up of Year 2 budgets, not another budget development process. Its intent is to address circumstances and issues not known or anticipated at the time Year 2 budgets were originally submitted and approved, such as changes in financial conditions, programs, or authorizing laws that affect Year 2 expenditures and revenues.

5. Abbreviated budget documentation is submitted to the Assembly as part of the mid-cycle review and update process and to ensure that all Charter and Code requirements are met prior to appropriation action by the Assembly.

6. As part of the mid-cycle review and update process, the Assembly conducts public hearings on the Year 2 budget in conformance with Charter requirements. At the conclusion of its deliberations, the Assembly approves and appropriates funds for Year 2 of the biennial budget in conformance with Charter requirements.

7. In the next odd-numbered year (2009) the biennial budget process will start through a new cycle. At that time, a biennial budget for general government operations will be prepared by the incoming administration for the following two fiscal years, Fiscal Year 2010 (Year 1) and Fiscal Year 2011 (Year 2).

Budget Structure

The Municipality of Anchorage budgets for general government operations on a fiscal year basis that begins January 1 and ends December 31. The operating budget summarizes planned expenditures and revenues for all departments that comprise general government. Balanced budgets are required for each department and for general government as a whole. This means that planned revenues must be sufficient to pay for planned expenditures.

The general government operating budget is structured to summarize each department's direct cost, function cost, and net cost. *Direct cost* reflects estimated expenses for personnel, supplies, contracts and other purchased services, capital outlay and debt service. *Function cost* reflects direct cost adjusted for the net of intragovernmental charges (IGC) received from other departments, or charged to other departments, utilities, grants or capital projects for services provided. *Net cost* reflects function cost less total program revenues anticipated to be earned by

the department. As described below, direct cost and function cost are fundamental to the manner in which the general government operating budget is appropriated and funded.

Service Areas and Funds

The Municipality of Anchorage operates under a *service area concept*. By law, some public services are offered and paid for on an areawide basis. Examples within general government include health and environmental protection, animal control, property appraisal and tax collection, library services, mass transit, planning and zoning, and emergency medical services. In addition to areawide services, residents of particular areas have voted to approve specific public services that are paid for by taxes collected within that service area only.

Service area expenditures and revenues are budgeted in unique *funds* based on the combined total of all applicable function costs. A fund is an accounting entity that isolates the expenses and revenues of a particular program or service. Funds operate somewhat like separate checking accounts. Only the expenses and revenues that pertain to each unique service area are reflected in the service area fund.

Appropriations

The Assembly appropriates the general government operating budget by each department's direct cost and by each fund's function cost. Appropriations set the level of funding authorized by the Assembly. Appropriations that have not been used at the end of one fiscal year do not carry over to the next fiscal year.

Limitations on Taxes and Tax-supported Spending

General government operations are funded by a combination of program revenues (earned or received by specific departments from fees for services, fines and other charges), allocated revenues (earned or received by the Municipality as a whole), fund balance and taxes. Function costs not covered in whole or in part by program revenues, allocated revenues or fund balance are funded by taxes.

The Municipality operates under two types of tax limits: (1) a Charter limit which sets a dollar limitation from year to year on specified local taxes, and (2) voter-approved service area tax limitations which set a limit on the service area's annual tax rate.

The voter-approved Charter limitation has been in effect since 1984. It sets an upper limit on the total amount of taxes that can be levied by the Municipality from one fiscal year to the next. Taxes on automobile registration, tobacco, aircraft registration, motor vehicle rentals, and real and personal property are subject to the tax limit. Room taxes are exempt from the Charter limit as are taxes to support service areas with voter-approved maximum tax rates.

The Charter tax limit provides for modest, controlled growth to meet the needs of a dynamic community. This is accomplished through annual adjustments for changes in inflation and population as well as allowable annual adjustments for taxes on new construction and property improvement, judgments and settlements, debt service on voter-approved general obligation bonds, and voter-approved operations and maintenance costs.

Voter-approved service area tax limits establish a maximum tax rate that can be set each year. Service Area Boards of Supervisors submit annual tax rate requests for consideration by the Assembly.

Tax limit calculations are still preliminary at the time the operating budget for the upcoming fiscal year is approved and appropriated by the Assembly. Final tax limit calculations are submitted to the Assembly each spring during the first quarter budget revision process, when the assembly sets tax rates and levies property taxes for the budget year.

The Municipality also operates under a spending limit on tax-supported services which was incorporated into the Anchorage Municipal Code effective with the 1984 budget. Allowable annual adjustments include inflation, population change, and expenditures associated with voter/legally mandated services.