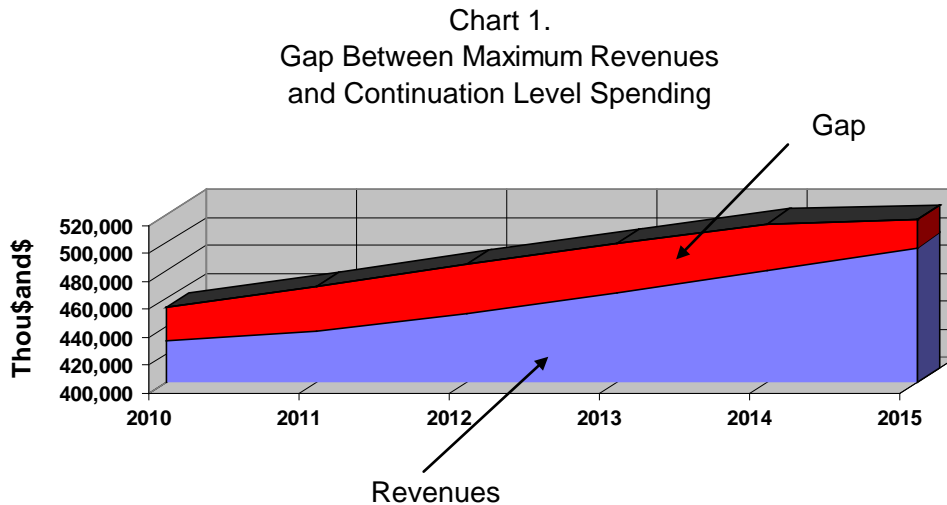


Overview

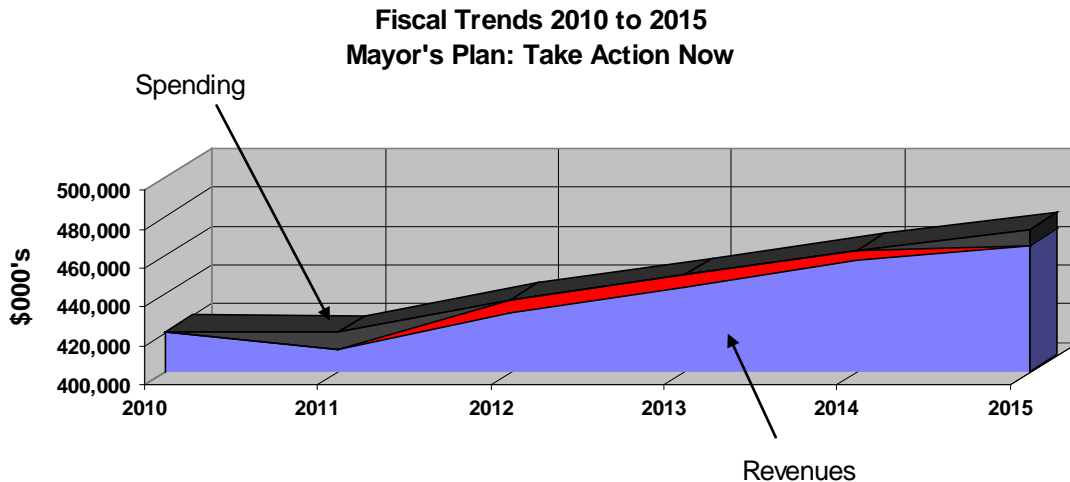
The Municipality of Anchorage is at an important juncture in Fiscal Year 2010. It faces significant cost increases, not only in 2010, but every year thereafter in the foreseeable future. Budget decisions made in 2010 can either compound the problem or start the Municipality on the path to fiscal stability.

The proposed 2010 budget represents a first important step to responsible fiscal management. It makes reductions to offset cost increases, maintains essential services, and charts a course that will not overwhelm taxpayers suffering their own economic downturn. The importance of starting to make spending reductions now cannot be overemphasized.

Chart 1 displays a “No Change” scenario in which the Municipality collects the maximum amount of property taxes and budgeted levels that pay for the labor contracts, contributes the required amount to the Police and Fire Retirement fund, meets debt service obligations, and allows other spending to increase 2.5%.



The proposed 2010 budget charts another course. As illustrated in Chart 2, substantial spending reductions are made in Fiscal Years 2010 and 2011. By doing so, the Municipality is much closer to a level of spending it can reasonably afford and sustain in future years.



2010 Proposed Spending

For Fiscal Year 2010, there are \$24.1 million in increases, without regard for inflation or other contractual or programmatic increases. These are:

Labor Contract Costs + \$12.1 million

Employee salary and benefit costs increase by \$12.1 million as a result of the labor contracts negotiated by the previous Administration and approved by the Assembly in December 2008. Estimates are that these contracts will increase personnel costs \$150 million over the next 7 years.

Police and Fire Retirement Fund + \$12 million

A \$12 million payment to the Police and Fire Retirement Fund is required as a result of the retirement fund's loss in value due to the stock market collapse. Based on the most recent valuation of the fund, a \$12 million payment will be required in each of the next 15 years, for a total cost of \$180 million.

Spending Priorities

Spending decisions in the proposed 2010 budget were guided by the Mayor's priorities:

- *Stability in Anchorage's finances* in which the Municipality operates essential services and recognizes that discretionary income is best left in the hands of Anchorage residents rather than in government's;
- *Stable and reliable energy source* with an effective emergency response plan for any interruption in supply;

- A *safer community* with a reduction in the level of violent crime and loss of life and property from fire;
- A business-friendly local government that *supports and encourages economic development*;
- *Improved transportation* and traffic flow—from the Anchorage Port expansion to longer lasting roads; and
- A municipal government that *efficiently and effectively delivers appropriate services*.

With these priorities in mind, the Administration worked with departments to achieve the required savings while protecting essential services, such as public safety. But that does not mean these departments avoided reductions. Front-line services were protected while savings was found in less essential areas such as middle management. For example:

Anchorage Police Department

The priority was protecting officers “on the street” and accordingly, no cuts are proposed in line officers. A majority of the \$4.6 million in savings is to come from not recruiting new officers; not filling positions as they become vacant during the year; Federal stimulus funds (\$835,000) that replace property tax dollars; and a full year of savings from positions that were not filled/laid off during 2009. The proposed budget, however, does cut three non-sworn Background Specialists and three mid-management positions (IT Supervisor, Fiscal Supervisor, Police Lieutenant).

Anchorage Fire Department

The priority was to protect the department’s response time to fires and emergencies. While \$2.8 million in reductions were taken, there will be no impact in the department’s response time. No reduction is taken in line fire fighters and the “rolling closures” implemented by the last Administration will stop. The budget, however, does reduce one fire inspector, but 8 remain. Other reductions are taken in mid-management and non-line positions.

Street Maintenance

One of the department’s most important responsibilities is to make Anchorage’s roads safe after a snowfall. Of the \$939,000 in reductions, the department still is committed to clearing streets within the current 72 hours after a snowfall. But some organizations will see less taxpayer support of community activities and municipal offices will experience changes in the level of janitorial and other cleaning services.

Revenues

Revenues are projected to total \$421 million, which is \$1.8 million less than 2009. Of this amount, \$239 million, or 57% will come from property taxes.

There also is a \$7.6 million decrease in non-property tax revenue. This reflects efforts to “true up” revenue estimates so spending decisions are based on realistic levels of expected income.

Non-property tax revenues in which there is a substantial change include:

Room Tax - \$3.6 million
Projected to drop 17% due to the downturn in tourism, bringing expected revenues to \$17.3 million.

MOA Trust Fund Contribution - \$1.4 million
Due to loss in value, the payout will be \$5 million, which is 4% of the Fund's market value instead of the customary 5%. This will help preserve the fund's balance over the long-term.

Loss of One-Time Sources - \$9.6 million
In 2009 the State passed through \$8.7 million in one-time Federal stimulus funds, of which \$3 million was used for “property tax relief” (the balance was saved). Another \$6.6 million in one-time funds was applied in FY 2009 to help meet reserve requirements. Neither revenue source is recurring, so will be unavailable to support spending in 2010.

Utility Payments - \$5.7 million
Proposition 9 approved by voters in April 2009 moved utility payments (called Municipal Utility Service Assessments, or “MUSA”) back under the Tax Cap. The practical affect is that \$5.7 million less in non-property tax revenue will be available to support the budget in 2010 and will correspond to a \$5.7 million reduction in the amount of property taxes to be collected.

An early part of developing each year's budget is projecting revenues for the upcoming fiscal year. The revenue projection process starts in the spring. To be as accurate as possible, a first step is to compare actual revenues collected to what was budgeted in the prior year.

This was an important step in preparing for the 2010 budget. Just after taking office on July 1, 2009, a review of current year finances was completed. OMB, working with Treasury, concluded that there was a projected \$9 million shortfall in revenues, primarily the result of basing the budget on unrealizable amounts. There also was an additional \$1 million in expenditures that had not been budgeted but were required to be paid. In response, Mayor Sullivan took steps to reduce spending to a level that could be supported by expected revenues. This demonstrates the importance of assessing expected revenues in order to better ensure a balanced budget.

Tax Cap and Property Taxes

Another important step in estimating revenue is calculating the Tax Cap. A preliminary estimate is used for the budget proposed in October. The final Tax Cap is calculated the following April as part of the first quarter budget amendment process, which is when mill levies are set.

The preliminary calculation of the overall Tax Cap for 2010 is \$265.2 million (a more detailed explanation of the Tax Cap can be found in the “Budget Overview” section of this book). While the Tax Cap increases \$10.4 million due to inflation, population and new construction, there is a \$12.5 million savings in debt service as a result of refinancing some general obligation debt.

In terms of property taxes, the maximum amount that could be collected is \$248.9 million. The Mayor’s proposed budget proposes to collect \$238.2 million, which is \$10.8 million less than the Tax Cap.

The following further discusses specific revenues budgeted in 2010 and compares them to the level budgeted in 2009.

Non-Property Taxes **\$43.4 million**

The Municipality collects five non-property taxes:

Automobile Registration Tax \$5.3 million
A drop of \$230,000 is projected for 2009. The tax, which is collected by the state at the time Anchorage residents register their vehicle, is based on the class and year of the vehicle. Vehicle owners are keeping their automobiles longer, thus contributing to less in revenue.

Tobacco Tax \$16.3 million
For 2010 the projection is the same amount as in 2009. The tax on cigarettes is 72.6 mills and is adjusted annually, effective January 1, by Finance based on Anchorage CPI. The tax on tobacco products is 15% of the wholesale price.

Aircraft Registration Tax \$210,000
This is a small decrease of \$15,000 less than 2009. The tax is \$75 per year for a single engine aircraft, hot air balloon, and glider. It is \$125 per year for aircraft with two or more engines.

Motor Vehicle Rental Tax \$4.3 million
This is a reduction of \$147,700 from 2009. The 8% tax is levied on retail rental of motor vehicles and the projected 3.4% reduction from FY 2009 is associated with an expected continuing decrease in tourism.

Room Tax \$17.3 million
This is \$3.6 million less than the 2009 budget for a 21% drop as a result of an expected continuing decrease in tourists visiting Anchorage. The room tax is 12%, of which 4% is for paying the debt incurred to construct the Convention Center; 4% goes for tourism promotion; and 4% goes to general government. The room tax is the only tax that does not fall under the Tax Cap.

Interest, Other Earnings **\$42.5 million**

A decrease of \$5.6 million is expected in 2010. A major reason is a \$1.4 million drop in the dividend from the MOA Trust Fund, which was created when the Municipality sold its telephone utility. In April 2002 voters approved converting it into an endowment, which changed how the annual dividend was calculated. Since 2004 it has been based on a

five-percent payout formula, under which the dividend was \$6.4 million in 2009. However, because of the stock market collapse in 2009, the Assembly determined the 2010 dividend should be 4%, resulting in a payment of \$5 million in 2010.

Interest earnings will net out fairly consistent with a \$1.7 million decrease in earnings from investment of bond proceeds (over budgeted in 2009) and a \$2.7 million expected increase in short term interest earnings. The slowdown in construction and other development activities will impact revenues by a loss of \$1.8 million, ranging from a decrease of \$320,000 in platting and zoning fees; \$570,250 in subdivision inspection fees; and \$743,800 less from land sales.

Program-Generated Fees/Fines **\$51.6 million**

Program-generated revenues are expected to be about \$5.3 less than 2009. This category of revenue achieves a policy goal of more closely associating cost-causer with cost-payer. In 2010 these fees and fines are budgeted to drop \$5.3 million. Of this, \$1.2 million is due to a lower Permanent Fund dividend. When debts are owed to the Municipality, it garnishes the dividend when possible. When the dividend is smaller, it means less opportunity to recoup funds. Other fees and fines range from building and electrical permits (\$6.4 million), library book fines (\$290,000), reimbursement from the State to maintain traffic signals (\$1.7 million), parking enforcement fines (\$752,130), to court fines (\$1.9 million).

Federal/State Revenues **\$17.5 million**

In 2010 about \$3 million less is expected when compared to 2009. This category primarily includes operational assistance received from the State of Alaska. In 2009 the state received \$18 million that included \$3 million in one-time stimulus funds passed through to local communities. In 2010, \$15 million is again expected.

Other examples of revenue in this category include Payment in Lieu of Taxes from the State and Federal governments (\$919,000), which compensate the Municipality for non-taxable land located within Anchorage's boundaries.

This category does not include grants that are received from the State and Federal governments for specific services (the general government operating budget includes information about each department's grants, but the grant amounts are not reflected in the Municipality's overall operating budget total).

Intra-governmental Charges (IGCs) **\$ 25.1 million**

These are charges for services provided by one Municipal organization to another. For example, the Maintenance and Operations Department maintains all general government buildings. Maintenance costs are budgeted in Maintenance and Operations and charged out to the appropriate users. By using an intra-governmental charge system, the full cost of a program—including overhead—is associated to a program. This system also allows general government departments/agencies to properly charge Municipal utilities, grants, and capital projects for services provided.

Fund Balance

As a result of the spending reductions made in the last half of Fiscal Year 2009, sufficient fund balance is expected at the end of this year. This will provide a base for building solid reserve balances in 2010, which will protect the Municipality's bond rating and provide for an emergency reserve. This compares to the negative \$10 million in fund balance that had to be addressed in 2009.

Refinancing Debt Savings

The 2010 budget also proposes to restructure certain general obligation debt outstanding with maturity dates that are due in Fiscal Year 2010. During the first quarter of 2010 the Finance Department expects to achieve an estimated savings of \$12.5 million by refinancing bonds, which will refund approximately \$12.5 million of bond principal due in 2010. The refinanced bonds will be repaid over an eighteen year time period, but not longer than the original maturity date of the respective refinanced bonds. It is anticipated at this time that additional restructuring of approximately \$10 million in debt will occur in the first quarter of 2011, thereby providing additional savings that year as well.

Summary Reconciliation

Department	2009 Revised Budget	Continuation Level Adjustments			2010 Continuation Level	Additional Requests	2010 Proposed Budget
		Salary, Benefits	All Other	Subtotal			
Assembly	\$ 2,816,623	\$ 36,224	\$ (200,000)	\$ (163,776)	\$ 2,652,847	\$ (123,618)	\$ 2,529,229
Chief Fiscal Officer	493,044	17,305	-	17,305	\$ 510,349	(29,612)	480,737
Development Services	9,128,032	80,060	-	80,060	\$ 9,208,092	(476,671)	8,731,421
Community Planning and Develop.	22,111,141	(7,689,675)	(3,960,211)	(11,649,886)	\$ 10,461,255	(1,242,820)	9,218,435
Employee Relations	4,834,896	355,419	126,251	481,670	\$ 5,316,566	(199,609)	5,116,957
Office of Equal Opportunity	181,153	(175,638)	(5,515)	(181,153)	\$ -	-	-
Equal Rights Commission	654,017	57,944	-	57,944	\$ 711,961	(43,099)	668,862
Finance	11,582,282	542,611	1,050,000	1,592,611	\$ 13,174,893	(533,462)	12,641,431
Fire	70,606,176	3,187,298	329,884	3,517,182	\$ 74,123,358	3,582,700	77,706,058
Health & Human Services	12,098,200	562,295	(58,048)	504,247	\$ 12,602,447	(1,231,090)	11,371,357
Heritage Land Bank	7,782,182	(179)	140,617	140,438	\$ 7,922,620	(135,334)	7,787,286
Information Technology	16,379,200	674,408	-	674,408	\$ 17,053,608	(1,623,298)	15,430,310
Internal Audit	529,272	16,859	-	16,859	\$ 546,131	(60)	546,071
Library		6,865,369	1,407,321	8,272,690	\$ 8,272,690	(911,983)	7,360,707
Maintenance & Operations	88,532,883	346,373	3,833,171	4,179,544	\$ 92,712,427	(12,549,045)	80,163,382
Management & Budget	908,652	29,586	-	29,586	\$ 938,238	31	938,269
Mayor	1,440,111	(61,569)	(18,990)	(80,559)	\$ 1,359,552	(6,156)	1,353,396
Municipal Attorney	7,311,385	204,109	-	204,109	\$ 7,515,494	(619,475)	6,896,019
Municipal Manager	11,357,112	(41,753)	(3,008)	(44,761)	\$ 11,312,351	272,206	11,584,557
Parks & Recreation	17,403,958	2,423,967	2,868,702	5,292,669	\$ 22,696,627	(1,793,120)	20,903,507
Planning	4,074,801	359,799	-	359,799	\$ 4,434,600	(443,158)	3,991,442
Police	82,838,544	3,994,992	96,160	4,091,152	\$ 86,929,696	1,913,699	88,843,395
Project Management & Engineering	8,053,877	657,066	-	657,066	\$ 8,710,943	(1,012,811)	7,698,132
Public Transportation	20,361,259	573,479	39,986	613,465	\$ 20,974,724	(1,098,525)	19,876,199
Purchasing	1,477,774	113,264	-	113,264	\$ 1,591,038	(60,244)	1,530,794
Traffic	7,142,140	157,422	-	157,422	\$ 7,299,562	(673,540)	6,626,022
	\$ 410,098,714	\$ 13,287,035	\$ 5,646,320	\$ 18,933,355	\$ 429,032,069	(\$19,038,094)	\$ 409,993,975
Convention Center Reserve							10,625,874
Total 2009 Updated Budget							\$ 420,619,849

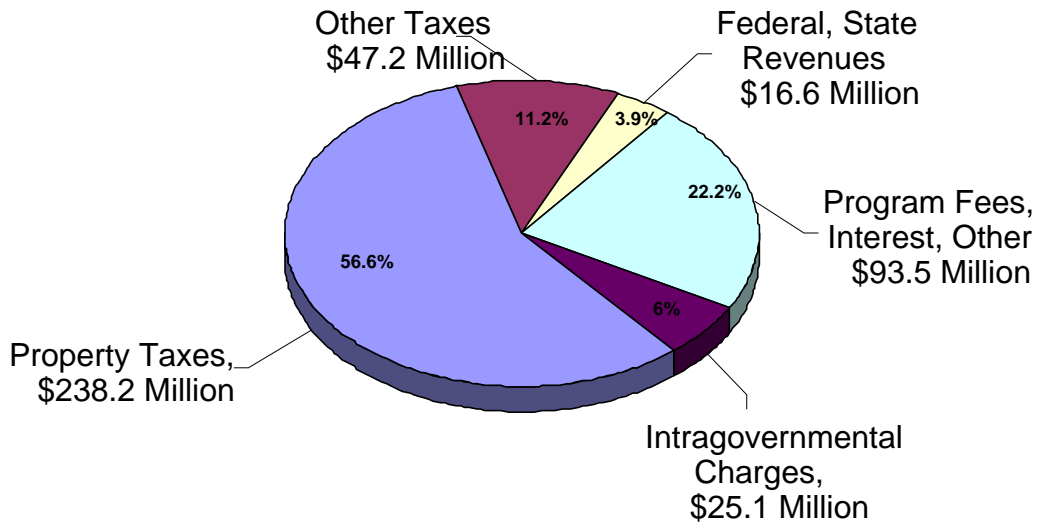
Personnel Summary by Department

Department	2009 Revised Budget				2010 Proposed Budget			
	FT	PT	Tmp	Total	FT	PT	Tmp	Total
Assembly	23	-	-	23	23	-	-	23
Chief Fiscal Officer	2	-	-	2	2	-	-	2
Development Services	86	-	1	87	65	-	-	65
Community Planning and Development	84	40	34	158	5	-	-	5
Employee Relations	20	-	-	20	18	1	-	19
Equal Rights Commission	6	2	-	8	6	2	-	8
Finance	106	-	-	106	101	1	-	102
Fire	398	-	-	398	376	2	-	378
Health & Human Services	70	9	-	79	61	8	-	69
Heritage Land Bank	8	2	-	10	8	-	-	8
Information Technology	89	1	-	90	77	-	-	77
Internal Audit	4	1	-	5	4	1	-	5
Library					62	28	-	90
Maintenance and Operations	163	1	31	195	157	1	14	172
Management and Budget	7	-	-	7	7	-	-	7
Mayor	9	-	-	9	9	-	-	9
Municipal Attorney	57	1	-	58	55	-	-	55
Municipal Manager	14	3	-	17	14	2	-	16
Parks and Recreation	82	58	132	272	76	59	161	296
Planning	34	-	-	34	31	-	-	31
Police	572	-	-	572	545	-	-	545
Project Management and Engineering	62	-	5	67	54	1	-	55
Public Transportation	152	-	-	152	143	-	-	143
Purchasing	14	-	-	14	13	-	-	13
Traffic	50	1	2	53	45	1	5	51
Total General Government	2,112	119	205	2,436	1,957	106	180	2,244

**Preliminary 2010
Tax Limit Calculation
As of September 30, 2009**

	<u>2009</u> <u>Revised</u> <u>FINAL</u>	<u>2010</u> <u>Proposed</u> <u>DRAFT</u>
<u>PRIOR YEAR LOCAL TAXES:</u>		
Real/Personal Property Taxes	\$ 218,372,412	\$ 234,643,123
Payment in Lieu of Taxes (State & Federal)	579,410	870,741
Automobile Tax	5,500,000	5,500,000
Tobacco Tax	16,300,000	16,300,000
Aircraft Tax	225,000	225,000
Motor Vehicles Rental Tax	4,819,000	4,419,000
MUSA/MESA	-	-
Total Prior Year Local Taxes	<u>\$ 245,795,822</u>	<u>\$ 261,957,864</u>
<u>LESS PRIOR YEAR ONE-TIME EXCLUSIONS:</u>		
Taxes Authorized by Voter-Approved Ballot (O&M Reserves)	-	(440,000)
Judgments/Legal Settlements	(210,000)	(83,345)
Debt Service	(45,962,780)	(47,823,086)
	<u>\$ 199,623,042</u>	<u>\$ 213,611,433</u>
<u>ADJUSTMENT FACTORS</u>		
Population 5 Year Average	0.90% 1,796,610	0.50% 1,068,060
Change in Consumer Price Index (2009 is 5 Year Average)	3.10% 6,188,310	3.10% 6,621,950
Total	4.00% 7,984,920	3.60% 7,690,010
Total Base Local Taxes Allowed	<u>\$ 207,607,962</u>	<u>\$ 221,301,443</u>
<u>PLUS CURRENT YEAR EXCLUSIONS:</u>		
New Construction	3,510,290	2,660,370
Taxes Authorized by Voter-Approved Ballot (Recurring O&M)	2,493,181	1,707,987
Taxes Authorized by Voter-Approved Ballot (One-time O&M Reserves)	440,000	440,000
Judgments/Legal Settlements	83,345	470,824
Debt Service	47,823,086	38,625,832
TOTAL LIMITATION FOR LOCAL TAXES	<u>\$ 261,957,864</u>	<u>\$ 265,206,456</u>
<u>LESS NON-PROPERTY TAXES:</u>		
Payment in Lieu of Taxes (State & Federal)	(870,741)	(919,000)
Automobile Tax	(5,500,000)	(5,270,000)
Tobacco Tax	(16,300,000)	(16,300,000)
Aircraft Tax	(225,000)	(210,000)
Motor Vehicle Rental Tax	(4,419,000)	(4,271,327)
MUSA/MESA	-	(5,769,732)
ALLOWABLE PROPERTY TAX CHARTER LIMIT	\$ 234,643,123	\$ 232,466,397
ALLOWABLE PROPERTY TAX SERVICE AREAS	15,704,837	16,474,012
TOTAL ALLOWABLE PROPERTY TAX	\$ 250,347,960	\$ 248,940,409
PROPERTY TAX RELIEF		
SOA Operational Assistance	(18,000,000)	-
Allowable Tax Capacity Remaining	-	10,762,249
TOTAL PROPERTY TAX TO BE COLLECTED	<u>\$ 232,347,960</u>	<u>\$ 238,178,160</u>

Where the Money Comes From.....\$420.6 Million



How the Money is Spent.....\$420.6 Million

