

## **Appendix S**

### **Financial Policies**

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The Municipality of Anchorage has established financial policies to achieve and maintain a positive long term financial condition. These policies provide guidelines for current activities as well as future programs.

#### **Revenue**

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The City will try to maintain a diversified and stable revenue system to shelter it from unforeseeable short-run fluctuations in any one-revenue source.

The City will estimate its annual revenues by an objective, analytical process, wherever practical. The City will project revenues for the next year and will update this projection annually. Each existing and potential revenue source will be reexamined annually.

Each year the City will recalculate the full costs of activities supported by user fees to identify the impact of inflation and other cost increases.

#### **Tax Cap**

In October 1983 the voters of Anchorage passed an amendment to the Charter known as the Tax Cap. While some think of it as a property tax cap, it actually sets a limit on how much all taxes can increase from one year to the next. Other taxes collected by the Municipality that are under the Tax Cap are on automobile registration, tobacco, aircraft registration and motor vehicle rental.

Proponents of the Tax Cap recognized that it was important that taxes be allowed to increase (although controlled) in order to keep up with demands of a growing community. Growth in taxes under the Tax Cap is permitted by annual adjustments for inflation, population, and new investment in the community. Voters also increase the Tax Cap when they approve general obligation bonds and corresponding increased operations and maintenance costs, both of which is disclosed in the bond proposition on the ballot.

In 2003 a substantive change to the Tax Cap was made by the Mayor and Assembly when they decided to exclude payments by municipal-owned utilities and enterprises. From 1984 to 2003, utility and enterprise payments were considered payment-in-lieu-of-taxes (PILT) and accordingly, fell under the Tax Cap. From a property taxpayer point of view, the practical effect of this was that these payments reduced the amount of property taxes that could be collected – every dollar paid in a PILT meant a dollar less in property taxes could be collected.

The 2003 change excluded PILT payments from the Tax Cap. At the same time, the Mayor and Assembly substantially increased how much utilities and enterprises were to pay in PILTs. Since property tax PILT revenue was no longer included in the total tax calculation, municipal government got more money to spend.

This prompted a citizen initiative (Proposition 9) in 2009 to return the Tax Cap to how it originally worked. The initiative passed with 60% of the vote and PILT payments were again included in the Tax Cap's calculation. This change, which is being phased over three years, is expected to result in approximately \$18 million in property tax savings annually when it is fully implemented in 2012.

#### Spending Limit

The Municipal Code also includes a Spending Limit that restricts expenditure increases to inflation, population, and voter/legally mandated services. Both the Tax Cap and the Spending Limit were effective with the 1984 budget.

#### Intra-governmental Charges (IGCs)

These are charges for services provided by one Municipal organization to another. For example, the Maintenance and Operations Division 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.

### **Capital Improvement**

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The Capital Improvement Program (CIP) is a six-year plan that guides the Municipality's capital improvement plans into the future. Each year it is updated and serves as the starting point for developing the current year's Capital Improvement Budget (CIB).

Municipal departments prepare a comprehensive list of capital projects that are needed. Projects for this "Needs List" are proposed to departments by staff, the Municipal Administration, and others such as community councils, municipal boards and commissions, and Assembly members. Projects are scored against criteria such as the project's impact on safety, economic benefits, level of public support, if it is mandated, readiness and technical feasibility.

To gather community input, each spring OMB sends out a survey to community councils to solicit their comments on CIP projects as well as ideas to new projects in their area. This feedback is integrated into the prioritization process along with the other criteria.

### **Investment**

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It is the policy of the Municipality to invest public funds in a manner that provides the highest investment return consistent with preservation of capital while meeting the daily cash flow demands of the Municipality. Investment decisions shall be guided by the Municipal Code, the Operating Policy and Procedures for investment of Municipal funds, as modified from time to time by the Chief Fiscal Officer.

The Chief Fiscal Officer shall obtain the services of such investment managers, advisors, custodians and other professionals as are reasonably prudent and necessary to manage and invest all Municipal Funds. The Chief Fiscal Officer shall solicit input

from the Investment Advisory Commission members prior to the final selection of any service providers. For an investment manager, advisor, custodian or other professionals contracted under the provisions of this section, assembly approval is not required. The Chief Fiscal Officer shall report within 90 days to the Assembly, by Assembly Informational Memorandum, on contracts entered into pursuant to the provisions of this section including, but not limited to, the duties to be performed by the contractor and the compensation paid.

## **Debt**

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No general obligation bonded indebtedness may be incurred unless authorized by the assembly and ratified by a majority vote of those in the municipality voting on the question, except that refunding bonds may be issued without an election. General obligation debt of service areas must receive dual majority votes.

Tax, revenue and grant anticipation notes shall be repaid within 12 months from their date of issuance. When the taxes, revenues or grants anticipated are not received within this time, the assembly may renew the notes for a period not to exceed six months.

## **Reporting and Audit**

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The Chief Fiscal Officer shall submit to the Assembly on an annual basis reports addressing portfolio performance and compliance. The annual report shall address the use of investment consultants and external money managers, the use of derivatives, securities lending activities and bank lines of credit. The report shall also include compliance with the requirements regarding portfolio diversifications, maximum holdings by type of authorized investment, and portfolio performance compared with portfolio benchmarks.

The Assembly shall provide for an annual independent audit of all municipal accounts by a certified public accountant. The audit shall be completed within 90 days following the close of the fiscal year.

## **Fund Balance**

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Fund balance is generally defined as the difference between a fund's assets and liabilities. The Municipality has a policy to maintain a certain amount of fund balance to be used as reserves.

Two fund balance reserves are calculated during the First Quarter Budget Amendment process:

The largest reserve (usually about \$26 million) is designated for bond rating purposes and consists of 8.25% of each of the five major fund's prior year revenue. This reserve assures bond rating agencies that if there was a substantial decrease in the Municipality's revenue, funding still would be available to pay debt service (this reserve

helps keep down the interest rate of the Municipality has to pay when it borrows funds through issuing bonds).

The second reserve is for operating emergencies and consists of between 2 to 3 percent of prior year revenue. This reserve provides funding to pay unanticipated obligations such as legal settlements. This reserve usually is between \$6 and \$9 million in total.

## **Budget**

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It is illegal to expend money outside of the budget. AMC (Anchorage Municipal Code) 6.30.050 prohibits any contract, agreement, or other obligation, ordinance, resolution or order involving the expenditure of money, unless the Chief Fiscal Officer has certified that the money required for the expenditure has been appropriated for that purpose. AMC 6.10.040 requires the Mayor to submit a proposed budget for the next fiscal year to the Assembly at least 90 days before the end of the current fiscal year. And, AMC 6.10.070 allows the Assembly to increase or decrease, add or delete; but requires them to approve a budget and appropriate the necessary resources by ordinance at least 21 days prior to the end of the current fiscal year; otherwise, the Mayor's proposal becomes the budget and appropriation.

### Accountability for Results

In early 2010 the Mayor launched an initiative by which departments report on the effectiveness of programs. This accountability initiative, called "Anchorage: Performance. Value. Results. (PVR)" reports the "return on investment" to citizens of their tax dollars in terms of services. It is not sufficient for programs to spend money and do a lot of activities without accountability to the results from that spending.

To report results to citizens, the budget includes the PVR framework for each department and division that includes its purpose, services, goals, performance measures and data that communicates how well the goals are being achieved. Performance measure information will be updated throughout the year and can be viewed at [www.muni.org](http://www.muni.org).

### Transparency in Budgeting

In addition to the inclusion of reports about program performance measurement, the 2012 operating budget also provides significant detail on spending at the department and division level. This includes detailed breakdown on the components of salary and benefit spending (over 50 percent of the entire budget); details regarding the revenue that supports each department and division, and the types of positions that deliver services.

### Balanced Budget

The Municipality is required to have a balanced budget, a budget in which revenues and financing sources and expenditures and financing uses are equal. The Municipality may use fund balance to supplement unexpected revenue shortfall when needed, in order to achieve a balanced budget. The mayor shall notify the assembly in writing within 21 days if a projected revenue shortfall in aggregate exceeds one percent of the total general government operating budget. The notice shall be delivered to the municipal clerk's office for distribution to the assembly.

Reports

The chief fiscal officer shall provide financial reporting on a monthly basis to the assembly, with an executive summary. On a quarterly basis, monthly reporting shall include the additional reporting requested by the assembly. Reported positive or negative variances of five percent or more for expenses by department and one percent or more for revenues in aggregate for all general government funds within the one hundred series of accounts shall be noted with specificity in the executive summary.

Six Year Plan

At least 90 days before the end of the fiscal year of the Municipality, the Mayor shall submit to the assembly, with recommendations from the planning commission, a six-year program for public services, fiscal policies and capital improvements of the municipality. The program shall include estimates of the effect of capital improvement projects on maintenance, operation and personnel costs. The assembly shall hold at least one public hearing on the six-year program prior to adoption.

## Budget Procedures

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The Municipality's budget process primarily focuses on general government's annual operating budget that includes day-to-day operation of programs and services—from paying police officer salaries, to maintaining parks, and plowing snow. The primary source of the revenue required to support the operating budget comes from property taxes. The Municipality's fiscal year runs from January to December.

The capital budget pays for improvements to the Municipality's infrastructure, such as roads, park construction and repairs, and new fire stations. The main source of funds to pay for these improvements is voter-approved bonds, which are a financing tool similar to a loan that is paid back over time with interest. Payment on these bond proceeds is called debt service and is included in the operating budget.

In addition to general government, the Municipality also operates five Enterprises—Anchorage Water and Wastewater, Municipal Light and Power, Solid Waste Services, Port of Anchorage, and Merrill Field. Each enterprise has its own operating and capital budget, which is paid for by ratepayers or users of their respective services.

The Anchorage School District budget year runs from July 1 to June 30. The budget is proposed by the School Superintendent and approved by the School Board. In the spring it is submitted to the Anchorage Assembly for their approval, which is limited to approval of the budget's bottom line.

### Budget Planning and Timeline

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The Mayor is required to submit the proposed operating and capital budgets to the Assembly 90 days prior to the end of the fiscal year (October 2<sup>nd</sup>).

Prior to that (120 days prior to the end of the fiscal year), the Administration is required to provide preliminary information on the budget, revenues, Tax Cap, and major reorganizations.

Preparation of the budget starts much earlier. A preliminary planning phase gets underway in the summer. The Office of Management and Budget (OMB) works with departments to review their programs and responsibilities, assess what is being done during the current year, and begins to make plans for the next budget year. Some considerations during this phase are:

Key Dates in Budget Process	
Summer	Preliminary budget information gathered
September 1	Preliminary budget information to Assembly
October 2	Mayor proposed budgets
October, November	Assembly deliberates, holds public hearings
December	Deadline for Assembly approval
April	Finalize budget revisions, set property tax rates
May 15	Property tax bills in mail

- Contractually obligated increases, such as labor contracts and health insurance premiums;
- New facilities that will open during the next fiscal year that will require staff, supplies, and other operating expenses;
- New responsibilities or programs required by Federal, State or local laws;
- New or changed programs to meet community needs or interests;
- Programs that can be eliminated because they are ineffective, no longer required, or desired; and/or
- Efficiencies and savings that can be achieved through organizational management.

During this period of time OMB also reviews projected revenue information in order to get an early indication of the Municipality's ability to afford current spending levels and/or the potential need for reductions.

#### Balanced Budget

The Municipality is required to have a balanced budget, a budget in which revenues and financing sources and expenditures and financing uses are equal. This, coupled with the Tax Cap, requires an early estimate of both expenditures and revenues. Once this revenue/spending assessment is made, each department is given guidance for developing its preliminary budget proposal. Such guidance includes general direction from the Mayor regarding his/her program priorities.

#### **Mayor Proposes/Assembly Appropriates**

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The Mayor submits the proposed operating and capital budgets to the Assembly in early October, the Assembly holds work sessions at which the Administration and department directors discuss the Mayor's proposal.

#### Public Comment

The budget books are put on the Office and Management and Budget's website, as well as the Mayor's website, for the public to view. The Assembly is required to hold two public hearings on the Mayor's proposed budget, which is the official opportunity for the public to comment and the Assembly to consider amendments. These are usually held during October and November. The Anchorage Charter requires that the Assembly approve the budget 21 days before the end of the year (by December 10). But if for some reason they still have not reached agreement, the Charter was amended to allow the Assembly and Mayor to continue to work. Once agreement is reached, that budget is known as the "Approved Budget."

#### Veto Process

The Mayor has the ability to strike or reduce an appropriation in the operating or capital budget within 7 days from Assembly action. The Assembly then has 21 days from the Mayor's veto to override his/her action and must have a super-majority of 8 Assembly members to be successful. If a veto is sustained, the Mayor's action is implemented.

### **First Quarter Budget Amendments**

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During the spring following the budget's approval, the Administration finalizes the prior year's spending numbers and firms up revenues available to support the current year budget. This process, called "First Quarter Budget Amendments," takes place in April and May and results in the Assembly's approval of a "Revised Budget."

Unlike the proposed budget process in the fall that requires two public hearings; the first quarter amendment process only requires one public hearing and usually is at the Assembly meeting that follows the Mayor's introduction of the proposed amendments.

Based on these final spending decisions, the Assembly then sets the tax rates for each service area. The Municipality's schedule is to mail tax bills on May 15<sup>th</sup> with the first half payment due June 15<sup>th</sup> (state law requires that taxpayers be provided a minimum period of 30 days before taxes are due).

### **Budget Monitoring and Controls**

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The budget allocates spending among seven categories: personnel (salaries and benefits); supplies; travel; other services (contracts, utilities, leases); debt service; depreciation; and capital outlay. Each department is responsible for monitoring their budget. Actual expenditures may not exceed budget appropriations at the individual fund and department (agency) levels. Departments also monitor their program performance measures throughout the year to ascertain if goals are being met. Spending reports are provided monthly to the Assembly which reflect labor, overtime, and non labor expenditures compared to budget. Quarterly, the spending reports, contributions to non profit organizations, and travel are provided to the Assembly.

### **Appropriation Amendments**

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The Assembly may, by resolution, reduce or increase appropriations during the course of the fiscal year. A resolution reducing or increasing appropriations by an amount in excess of \$100,000 shall be subject to a public hearing.

The Budget Office is authorized to transfer budget amounts within departments. Revisions that change the total expenditures of any department, or fund, must be approved by the Assembly. Appropriations that are not expended, encumbered, or designated to be carried over, lapse at the end of the fiscal year.



2012 Approved General Government Operating Budget  
**2012**  
**General Government**  
**Operating Budget Preparation Calendar**

Action	Due Date
OMB estimates benefits rates and costs	May 27
Department deadline for proposed reorgs submitted to Employee Relations	May 31
OMB coordinates with departments for IGC data	June 1
Analyst/department training	June 1-3
OMB distributes 2012 budget preparation guidance to departments	June 10
OMB personnel rollover to 2012 in TeamBudget	June 6 - 15
Departments review 2012 rollover in TeamBudget	June 16-24
Departments submit 2012 IGCs and program revenue	June 24
Departments submit 2012 budget proposals to OMB	July 8
Mayor meets with departments to review proposed 2012 scenarios and 2011 2Q PVR data	July 13-29
Mayor makes preliminary decisions	Aug 5
Mayor finalizes decisions	Aug 12
OMB run IGCs	Aug 17
OMB delivers 120-day submission to Assembly (revenues, tax limit, service priorities and reorgs)	Sept 2
OMB prepares budget book narratives and data presentation	Aug 12-26
OMB completes General Government Operating Budget Book	Sept 16
OMB submits budget to Assembly	Sept 30
Assembly worksession(s)	Oct, Nov
Formal introduction of ordinance to Assembly	Oct 11
Public Hearing #1 on Proposed Budget (proposed date)	Oct 25
Public Hearing #2 on Proposed Budget (proposed date)	Nov 8
Assembly adoption of operating budget (proposed date)	Nov 22
OMB / IT load adopted budget into PeopleSoft	Dec 17

**2012**

**General Government Capital Improvement Budget  
2012-2017 Capital Improvement Program  
Budget Preparation Calendar**

<b>Action</b>	<b>Due Date</b>
Distribute Community Council surveys	March 15
OMB distributes initial funding guidance and priorities to depts	May 27
Community Council surveys due to OMB	June 1
Analyst/Department training on budget system	June 1-3
Departments submit changes to 2011-2016 CIP and 2017 additions	June 10
Mayor's preliminary review	June 17 - 30
Mayor's Final Decisions on CIB/CIP	July 1
Departments finalize projects in TeamBudget	July 11
Departments review proposed budget	July 20
OMB completes CIB/CIP AR, AM, AO	July 29
OMB completes Proposed CIB/CIP Book	Aug 15
OMB delivers 120-day submission to Assembly	Sept 2
Planning Department reviews CIB/CIP for recommendations to Assembly	Sept 12 - 16
OMB presents CIB/CIP to Planning & Zoning Commission for recommendations	Sept 12
OMB Submit budget to Assembly	Sept 30
Formal introduction of CIB/CIP ordinance & resolution	Oct 11
Assembly worksession(s)	Oct/Nov
Public Hearing #1 (proposed date)	Oct 25
Public Hearing #2 (proposed date)	Nov 8
Assembly adoption CIB/CIP (proposed date)	Nov 22