

INTRODUCTION AND SUMMARY RESULTS

I. INTRODUCTION AND SUMMARY RESULTS

In January 1988 the new municipal administration was faced with the realities of a difficult fiscal situation -- declining state and federal revenues, plummeting real estate values, a shaky local economy, rising labor costs, and local government operations adjusting to substantial expenditure and personnel reductions.

The 1988 Approved Operating Budget for general government services totaled \$190.7 million, down over \$24 million from the 1986 level. Early in the year, budget revisions increased the budget to \$191.95. The budget as originally approved and revised was based upon two assumptions which proved to be problematic. First, it was expected that Anchorage would receive additional revenues from the State of Alaska through supplemental legislative appropriations. However, as the legislative deliberations proceeded, those revenues were not forthcoming. Second, the approved municipal budget assumed that municipal union contracts could be adjusted to accommodate a wage freeze, or altered in some other way so as to approximate the savings effect of such a freeze. This assumption was only partially accomplished.

As a result, major effort by the administration and Assembly was required to reduce the 1988 expenditure levels to meet available revenues. This process was accomplished in June, resulting in a revised budget of \$188.7 million. This reduction was accomplished with half the budget year remaining; thus, equating to full year savings of approximately \$7.6 million from the originally approved budget.

Even savings of this magnitude are not sufficient to meet the further decline in revenues projected for 1989, when Anchorage will feel the full impact of past reductions in State local assistance programs, declining utility revenues, and continuing drops in assessed valuation.

As a result, the 1989 budget process is a particularly difficult one. The choices are painful. Services provided by local government such as public safety, street maintenance, health, recreation, transit, education, utilities are vital to the efficient functioning of private business and day to day life of residents. When these and other services to which residents have become accustomed are reduced or curtailed, people feel the negative effect. To maintain these activities requires increased revenues and/or more efficient ways of doing things. Although efficiencies must continue to be pursued, they are not a panacea, especially in the short run. If the current (1988) level of service is to be provided (absent State assistance), revenues must be raised locally. Increased taxes and user charges are seldom popular, especially not when the economy is weak.

This is the dilemma. Reductions in services and the attendant layoffs of municipal and private sector employees hurt individuals and have a negative impact on the local economy. Increased local taxes and fees also negatively impact individuals and businesses.

To try to get a grip on public sentiment regarding these trade-offs the budget process has included numerous meetings with the Assembly and press, a budget issues poll, and appointment, deliberations and recommendations of the Mayor's Special Committee on Fiscal Policy. Revisions of the 1988 budget involved public hearings which gave an indication of views not only on the 1988 budget, but on budgets yet to come.

This discussion and analysis will continue. The Fiscal Trends Report is designed to provide information which may contribute to informed fiscal choices by the community and to meet the Charter requirement for a 6-year plan. Section I includes summary results and fiscal policies; Section II, 6-year projections and discussion of policy consideration; Section III, historical data on Anchorage's fiscal structure; Section IV, a profile of Anchorage's municipally owned utilities; and Section V, a community profile with general descriptive information on the community, its resources, and public services.

Summary Findings

Projections

- The level of available revenues from current revenue sources is projected to decline in real terms over the next six years, the largest drop occurring in 1989.
- The trend toward increased reliance on local revenue sources is projected to continue through 1994.
- Case 1-B projections (no capital growth after 1989; property taxes held to 1988 dollar amount plus new construction) indicate that revenues available for expenditure on current services after adjustment for new requirements and inflation would be approximately 27% lower in 1994 than in 1988.
- Reductions of this magnitude would necessitate serious choices among program reductions and/or revenue enhancements.

Fiscal Profile

- The 1988 revised budget was \$7.7 million less than that of 1987. The 1989 proposed budget reflects a further reduction of \$13.9 million. When adjusted for new requirements, expenditures for continuation of services provided in 1988 will be reduced by \$18.5 million (from \$188.7 million to \$170.2 million), a de facto reduction of 9.8%.
- The composition of municipal revenue sources has returned to the pattern of the late 1970's; that is more reliance on local sources rather than state and federal funding.
- Anchorage residents enjoy low property tax rates when compared with other large cities, and a low overall tax burden.

- The Utility Revenue Distribution of profits from Anchorage Telephone Utility helped ease the tax burden in the 1986 through 1988 budget. No revenue from this source is included in the 1989 proposed budget.
- State capital grants to the Municipality of Anchorage since 1980 total approximately \$880 million. These funds have been devoted primarily to roads and transportation, recreation and cultural facilities, utilities and schools.
- From October 1978 through October 1987, local voters have approved over \$520 million in general obligation bonds -- approximately 35% for sewer, water and solid waste utilities; 36% for schools; and 29% for general government purposes such as roads, drainage, water quality and parks.
- Anchorage School District budgeted expenditures (inflation-adjusted) peaked in FY86, and in FY89 were 4.9% below that peak level.

Utility Profile

- Intragovernmental charges, the Utility Revenue Distribution and Municipal Utilities Service Assessment represent important revenue linkages between the municipal utilities and general government.
- The dollar level of intragovernmental charges to utilities for services provided by general government has declined each year since 1985.
- Changes in the formula for calculating the Municipal Utility Service Assessment are under discussion. It is assumed that whatever changes are accepted will be revenue neutral, i.e., will not change total revenues to general government and the school district.
- The economic downturn has affected utility net incomes in 1986, 1987 and in some cases requiring expenditure and rate adjustments.

Fiscal Policy Recommendations

- The annual operating and capital budgets should be evaluated in the context of the best available information on out-year revenues and expenditures.
- It should be recognized that the current level of local general government services can be maintained in the out years only if there are changes in the revenue structure to offset any further losses in state funds.
- Alternative sources of revenue should be evaluated as one of the options to further service reductions.
- In making capital and operating budget reductions, consideration should be given to the following criteria:
 - Minimize impact on direct service delivery to the public;
 - Minimize negative impact on the local economy;
 - Minimize short-term reductions which will result in increased costs over the long-term;
 - Invest in automation and other efficiency measures which will have a positive cost-benefit impact;
 - Maintain financial integrity of funding for future liabilities such as retirement and health claims coverage;
- The public should be involved in the process of setting priorities and making service reduction choices.
- Capital expenditures should emphasize repair and rehabilitation of existing facilities, and projects which contribute to economic revitalization or development.
- Downstream costs of capital expenditures (operations, maintenance and debt service) should be identified and considered in making spending decisions.
- Capital funds should not be used to supplement the operating budget. State capital grant and bond funds cannot be used for operating purposes. While interest earnings on capital grant funds are not legally restricted, they should be applied to capital purposes such as construction contingencies, major repairs, rehabilitation and equipment.
- As a general rule, one-time general government operating revenues should be used to fund one-time operating expenses. If such revenues are used to bolster expenditures or reduce taxes, this should be done as part of an intentional fiscal strategy and with awareness of the impact on subsequent budgets.

- Potential reductions in state and federal operating grants and capital appropriations could have a significant effect on the distribution of general government overhead as well as the potential requirement to include some of these services in future tax supported operating budgets. These impacts should be carefully considered in budget planning.
- The trend of debt service as a percentage of operating expenditures and other debt capacity indicators should continue to be monitored and considered in making decisions on bond authorizations and sales.
- Target rates of cost recovery from general government user fees should be reviewed, and actual rates of cost recovery evaluated annually in light of these targets.
- The public and private economic impact of proposed ordinances and resolutions should continue to be identified and considered by decision makers.
- Evaluation of municipal activities should include analysis of the overall effect of decisions on Anchorage residents as recipients of services, as taxpayers and as ratepayers.
- Fund balances should be carefully monitored and maintained at fiscally prudent levels. Balances above those required for fiscal prudence can be added to revenues to cushion the reduction of public services resulting from declining budgets.
- Decision makers should receive periodic briefings on general fiscal conditions including the status of budgeted vis-a-vis actual expenditures and revenues; changes in state and federal funding; fund balances; and interest on capital funds.