

**Municipality
of
Anchorage**



**1990
Fiscal Trends
Report**



Tom Fink, Mayor

1990
FISCAL TRENDS
REPORT



MUNICIPALITY OF ANCHORAGE

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1990 FISCAL TRENDS REPORT
TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION AND SUMMARY RESULTS	1-1
Summary Findings	1-2
Fiscal Policy Recommendations	1-4
 FISCAL PROJECTIONS AND POLICY CONSIDERATIONS	 2-1
General Government Revenues	2-2
General Government Expenditures	2-7
Anchorage School District Expenditures	2-15
Anchorage School District Revenues	2-18
 FISCAL PROFILE	 3-1
Operating Revenues	3-1
Budgeted Operating Expenditures	3-11
Capital Funding	3-14
Anchorage School District	3-20
 UTILITY PROFILE	
Introduction	4-1
Intragovernmental Charges	4-1
Municipal Utility Service Assessment (MUSA)	4-3
Utility Profit Sharing or Revenue Distribution	4-4
Fiscal Summaries	4-5
Anchorage Telephone Utility	4-7
Anchorage Water and Wastewater Utilities	4-10
Municipal Light and Power	4-15
Solid Waste Services	4-19
Port of Anchorage	4-23
Merrill Field Airport	4-25
 COMMUNITY PROFILE	
General Facts	5-1
Economy	5-2
Land and Housing	5-6
Public Safety	5-10
Transportation	5-12
Leisure	5-14
Public Utilities	5-17
 APPENDICES	

1990 FISCAL TRENDS REPORT
LIST OF FIGURES

	<u>Figure</u>	<u>Page</u>
Comparative Revenue Source Distribution 1989 and 1990	2-1	2-2
1990 Revenue Comparison	2-2	2-5
Total Revenues - Case 1 Projections	2-3	2-6
Projected Expenditures	2-4	2-7
Projected Expenditures - Case 1-A, Total Expenditures and Expenditures on Existing Services	2-5	2-8
Projected Total Revenues - Case 1-A, Impact of State Revenue Reductions	2-6	2-11
Anchorage School District - Expenditure Budgets and Projections	2-7	2-17
Anchorage School District - Revenue Budgets and Projections	2-8	2-19
Budgeted Revenues - General Government Operating Purposes	3-1	3-1
Changes in General Government Operating Revenue Sources	3-2	3-2
State and Federal Revenues - General Government Operating Budget	3-3	3-3
Summary of State and Federal Categorical Grants by Purpose	3-4	3-4
Detail on "Other" Category - Categorical Grants	3-5	3-4
Property Taxes and State/Federal Revenues as Percentage of General Government Operating Revenues	3-6	3-5
Mill Rate Trends for Property Taxation	3-7	3-6
Local Sources - Detail, 1989 Budgeted Revenues	3-8	3-7
Estimated Burden of Major Taxes for a Family of Four by Income Level, 1987 Average for 51 cities Compared to Anchorage	3-9	3-9

1990 FISCAL TRENDS REPORT
LIST OF FIGURES

	<u>Figure</u>	<u>Page</u>
Budgeted Operating Expenditures - General Government Purposes	3-10	3-11
Budgeted Expenditures Per Capita, Inflation Adjusted	3-11	3-11
Distribution of Budgeted Expenditures by Major Functions	3-12	3-12
General Government Budgeted Expenditures - Direct Cost by Type	3-13	3-13
Categories of Capital Projects - Total Appropriations by MOA	3-14	3-14
General Obligation Bond Propositions	3-15	3-14
General Obligation Bonds Approved by Voters	3-16	3-15
State Capital Grants Appropriated by MOA	3-17	3-16
State Capital Grants Appropriated by MOA - Total Distribution by Purpose	3-18	3-17
Major Federal Capital Grants	3-19	3-17
Interest Appropriations for General Government Capital Projects	3-20	3-18
Summary of Appropriations to General Government Capital Projects - MOA	3-21	3-19
Anchorage School District Budgeted Expenditures	3-22	3-20
Anchorage School District Budgeted Revenues	3-23	3-21
Anchorage School District Student Enrollment	3-24	3-22
Percent Delinquent Taxes to Tax Levy	3-25	3-23
Net Direct Debt to Assessed Value	3-26	3-23
Intragovernmental Charges - Utilities, Grants and Capital Improvements	4-1	4-2
Anchorage Telephone Utility Actual Revenues and Expenses	4-2	4-7
Anchorage Telephone Utility Net Income	4-3	4-7

1990 FISCAL TRENDS REPORT
LIST OF FIGURES

	<u>Figure</u>	<u>Page</u>
Anchorage Telephone Utility Debt Service Coverage	4-4	4-8
Anchorage Water Utility Actual Revenues and Expenses	4-5	4-10
Anchorage Water Utility Net Income (Regulatory)	4-6	4-10
Anchorage Wastewater Utility Actual Revenues and Expenses	4-7	4-11
Anchorage Wastewater Utility Net Income (Regulatory)	4-8	4-11
Anchorage Water Utility Debt Service Coverage	4-9	4-12
Municipal Light and Power Utility Actual Revenues and Expenses	4-10	4-15
Municipal Light and Power Utility Net Income (Regulatory)	4-11	4-15
Municipal Light and Power Utility Debt Service Coverage	4-12	4-16
Solid Waste Services - Refuse Collection Actual Revenues and Expenses	4-13	4-19
Solid Waste Services - Refuse Collection Net Income (Regulatory)	4-14	4-19
Solid Waste Services - Disposal Actual Revenues and Expenses	4-15	4-20
Solid Waste Services - Disposal Net Income (Regulatory)	4-16	4-20
Solid Waste Services - Refuse Collection Debt Service Coverage	4-17	4-21
Port of Anchorage Actual Revenues and Expenses	4-18	4-23
Port of Anchorage Net Income (Regulatory)	4-19	4-23
Port of Anchorage Debt Service Coverage	4-20	4-24
Merrill Field Airport Actual Revenues and Expenses ...	4-21	4-25
Merrill Field Airport Net Income (Regulatory)	4-22	4-25

1990 FISCAL TRENDS REPORT
LIST OF TABLES

	<u>Figure</u>	<u>Page</u>
Major Policy Assumptions	2-1	2-4
Alternative Revenue Scenarios - 1990 Impact	2-2	2-5
Projected Changes in Expenditures Cases 1-A Through 1-D	2-3	2-9
Projections of Property Taxes and Mill Rates Under Alternative Assumptions	2-4	2-10
Projected Total Revenues Case 1-C, Alternative Inflation Assumptions	2-5	2-12
Projected Total Revenues Case 1-C, Alternative Population Assumptions	2-6	2-12
Anchorage School District Expenditures	2-7	2-17
Anchorage School District Revenues	2-8	2-19
Property Taxes Under Charter Limitation	3-1	3-7
Residential Property Tax Rates in Selected Large Cities, 1987	3-2	3-8
Estimated Burden of Major State and Local Taxes for a Family of Four, 1987	3-3	3-10
Summary 1990 Intragovernmental Charges to Utilities	4-1	4-2
MUSA - Paid 1976 through 1989	4-2	4-4
Utility Net Profit Distribution to Former City Service Area	4-3	4-4
Anchorage Telephone Utility Authorized Positions	4-4	4-8
Average Telephone Rate for Single Party Service Push Button Dialing Unlimited Calling	4-5	4-9
Projected Rate Increases - Anchorage Telephone Utility	4-6	4-9
Anchorage Water and Wastewater Utility Authorized Positions	4-7	4-12
Comparative Water and Wastewater Rates Based on Assumed Water Usage of 8000 Gallons Per Month	4-8	4-13

1990 FISCAL TRENDS REPORT
LIST OF TABLES

	<u>Figure</u>	<u>Page</u>
Anchorage Water and Wastewater Utility Rate Increase Summary 1976 Through 1989	4-9	4-14
Comparison of Average Revenues and Typical Billings ..	4-10	4-17
Municipal Light and Power Rate History	4-11	4-18
Refuse Collection Comparative Rates	4-12	4-21
Solid Waste Disposal Rates	4-13	4-22
Rate History - Solid Waste Services	4-14	4-22
Port of Anchorage Rate Changes Percent of Increase ...	4-15	4-24
Merrill Field - Summary of Rate Changes	4-16	4-26

I. INTRODUCTION AND SUMMARY RESULTS

The difficult fiscal situation faced by the administration in 1988 has not improved in 1989 and shows little hope for upward growth in 1990. The municipal administration has been faced with declining state and federal revenues, plummeting real estate values, losses in construction employment, a shaky local economy, rising labor costs, and local government operations adjusting to substantial expenditures and personnel reductions.

The 1989 Approved Operating Budget for general government services totaled \$178.7 million, down over \$36.2 million from the 1986 level. Early in the year, budget revisions increased the budget to \$184.4 million. The assumptions used to formulate the 1989 budget proved to be valid with the exception of a \$600 thousand shortfall in anticipated state revenues of \$25.2 million of Municipal Assistance.

Fund balances have been reduced as much as possible to ensure adequate levels of public services consistent with cash flow requirements, maintenance of bond ratings and types of contingencies which could increase a particular fund balance. User fees have been estimated in a conservative framework due to the population decline, stagnation of economic activity and problems incurred in 1988 with optimistic revenue projections.

Even savings of the aforementioned magnitude were not sufficient to meet the decline in revenues of over \$4 million in 1989. We are at the point where Anchorage residents will feel the full impact of past reductions in State local assistance programs, declining utility revenues, and continuing drops in assessed property valuation.

As a result, 1990 will be a year of continued constraint on budgetary expenditures. Services provided by local government such as public safety, street maintenance, health, recreation, transit, education, utilities are an integral part of the efficient functioning of private business and day-to-day lifestyles of the Anchorage population. When these and other services to which residents have become accustomed are reduced or curtailed, people feel the negative effects. 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 always attainable in the short run. If the current (1989) level of service is to be provided (minus State assistance), revenues must be raised locally. Increased property taxes, user charges and the seldom-mentioned sales tax are definitely not popular phrases, especially when the economy is depressed. This year, the sale of ATU has been introduced to the voters as a possible offset to the budgetary and economic problems facing the city. The voters will also be asked to support a tobacco tax, generating \$2.5 million of revenue for the city.

The dilemma facing the Municipality seems to be a "Catch 22." A reduction in services is accompanied by layoffs in municipal and private sector employees, which undoubtedly will have a negative impact on the local economy. Increased local taxes, user fees or the implementation of a sales tax also negatively impact individuals and businesses in Anchorage. But the reality of the issue at hand tells us that something has to give.

In an attempt to inform the public and receive some feedback regarding these trade-offs, the budget process has included numerous meetings with the Assembly and press, the Budget Advisory Commission and Community Councils.

Revisions of the 1989 budget involved public hearings which gave an indication of views not only on the 1989 budget, but on budgets yet to come.

The previously discussed budget 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

- Many analysts projected the state's 1990 operating budget to decline; but oil prices higher than anticipated helped support the budget. This is a positive trend, since government should be able to sustain or improve the revenue share going to the Municipality.
- The level of available revenues from current revenue sources is projected to maintain over the next six years; the largest drop was in 1987, with a leveling off in 1990.
- The trend toward increased reliance on local revenue sources is projected to continue through 1995.
- Case 1-B projections (which is based on the sale of ATU) indicates that revenues available for expenditure on current services after adjustment for new requirements and inflation would be approximately \$189 million in 1990 and approximately \$185 million in the outyears.

Fiscal Profile

- The 1989 revised budget was \$4.3 million less than that of 1988 revised and \$12.0 less than 1987. The 1990 proposed budget reflects total revenues of \$187.6 million. The percentage of personnel and supplies to the total budget has increased in 1990 over 1989.
- The composition of municipal revenue sources has returned to the pattern of the late 1970's, with a heavier reliance on local sources rather than state and federal funding, especially in the areas of grants.

- Anchorage residents enjoy low property tax rates when compared with other large cities, and one of the lowest overall tax burdens. Alaska is only one of the five states that does not impose a general sales and use tax, one of seven states that does not levy a state individual income tax and the state with the lowest "estimated burden of major taxes for a family of four with an income between \$20,000 and \$100,000!"
- The Utility Revenue Distribution of profits from Anchorage Telephone Utility helped ease the tax burden in the 1986 through 1989 budget. It is projected that Utility Revenue Distribution and savings from ATU will contribute \$4.0 million in 1990 and \$5.0 million if ATU is sold.
- State capital grants to the Municipality of Anchorage since 1980 total approximately \$908.4 million. These funds have been devoted primarily to roads and transportation, recreation and cultural facilities, utilities and schools.
- From October 1980 through October 1988, local voters have approved over \$445 million in general obligation bonds -- approximately 37% for sewer, water and solid waste utilities; 39% for schools; and 24% for general government purposes such as roads, drainage, water quality and parks.
- Anchorage School District budgeted expenditures (inflation-adjusted) peaked in FY '85-86 with expenditures of \$272 million and FY '90-91 is expected to exceed the FY '85-86, with budgeted expenditures of \$274.1 million.

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 have been implemented. These changes are revenue neutral, i.e., will not change total revenues to general government and the school district, but changes will occur on the distribution of these assessments to the utilities.
- The economic downturn has affected net incomes for the Utilities in 1986, 1987, 1988 and probably 1989 - 1992, which has caused in some cases an adjustment of expenditures and consumer rates.

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, health claims coverage and labor negotiations.
- 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 (operation, 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. The high fund balances of prior years have been reduced to just under \$2 million for the outyears.
- 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.

II. FISCAL PROJECTIONS AND POLICY CONSIDERATIONS

General Government

Introduction

This section of the report presents six year revenue and expenditure projections for general government services and the Anchorage School District. The projections are intended to answer some of the "what if" questions that may occur as fiscal choices are discussed. The purpose here is **not** to predict what the future will be or should be, but to provide a framework for thinking about the implications of the budget choices facing the community.

Revenues are the driving force behind the projections. This does not imply that spending should always rise to meet available revenues. Rather, this approach reflects the necessity of presenting a balanced budget, coupled with dramatic declines in state assistance to local government; plummeting property values which represent Anchorage's major tax base; and substantial reductions in expenditure levels over the last two years.

For purposes of projections, alternative revenue scenarios are presented and the resultant expenditure implications are discussed in terms of these revenue constraints. **To reiterate, these scenarios do not represent recommendations of the Administration or the Assembly, rather they are examples of the multitude of paths which the community could choose to follow.**

Revenues

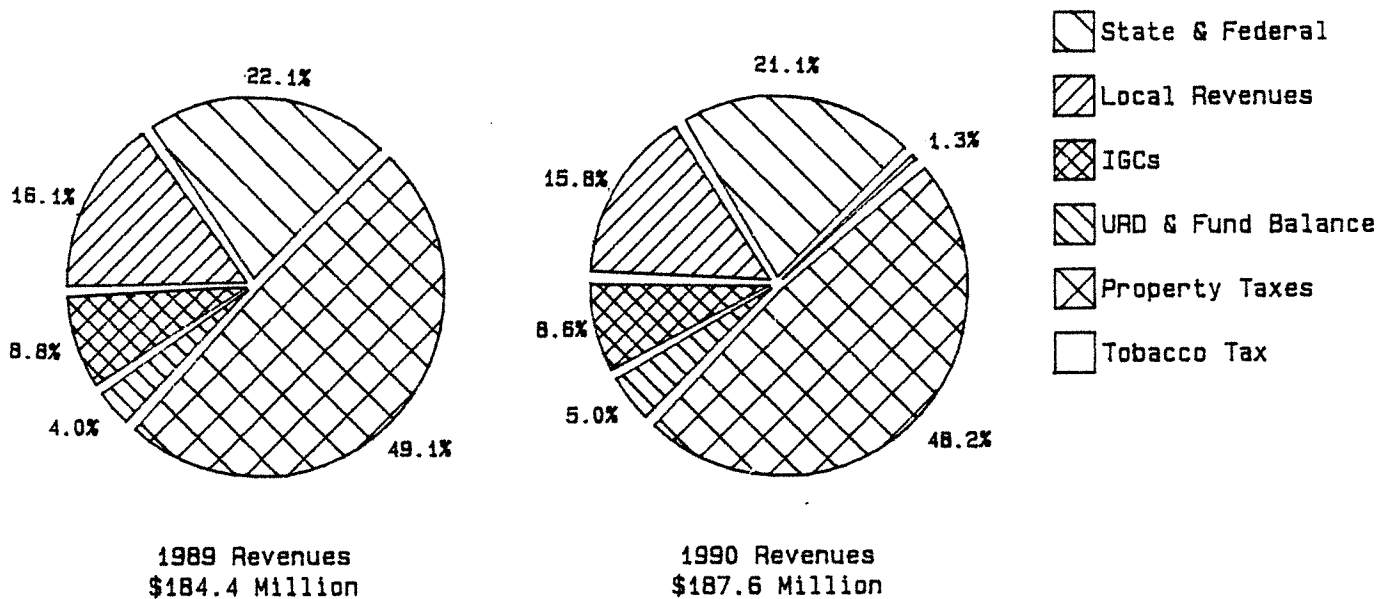
By early December the Assembly will adopt a 1990 General Government Operating Budget. The level of that budget is as yet uncertain. These budget decisions will not only determine the structure and amount of taxes for 1990 but will also strongly influence taxes and expenditures in future years. In this section of the report we present several alternative sets of projections for purposes of comparison and discussion. These alternative projections are based upon different sets of assumptions as to policy decisions on the 1990 budget level, projected local taxes, and future levels of capital activities.

Certain assumptions are consistent among the various alternatives. For example, assumptions regarding inflation rates, population growth, changes in assessed valuation and State revenues are the same among the standard projections. These assumptions are detailed in Appendix A-2. (Changes in some of these variables are discussed separately in a brief section on sensitivity analyses.)

Before proceeding to a comparison of alternatives, we will note some of the important features of projected revenues. Figure 2-1 shows the distribution among major sources of revenues in 1990 General Government Operating Budget (Revised as of September 18, 1989) and the 1990 Proposed General Government Operating Budget.

Figure 2-1

Comparative Revenue Source Distribution
1989 and 1990



Local Revenues include user fees and charges, interest earnings, hotel/motel tax, automobile tax, and other miscellaneous revenues. IGCs - Intragovernmental Charges; URD - Utility Revenue Distribution.

1989 Revised Budget, 1990 Proposed Budget.

In 1990 State revenues dropped precipitously from \$44.7 million in 1988 to \$38.6 million in 1990. This decline occurs even though we are assuming a constant level of State appropriation to local assistance programs (i.e., revenue sharing, municipal assistance, and locally shared State taxes). This anomaly results from the effects of a State law passed in 1987 which changed the distribution schedule of the State Revenue Sharing payment to July, the beginning of the State fiscal year, rather than October and April. Early receipt of funds provided Anchorage (and other communities on calendar fiscal years) a one-time boost in revenue sharing receipts. That timing change served to postpone some of the negative impact of declining State appropriations for revenue sharing and municipal assistance. That impact was dealt with in 1989 and continues into 1990.

The Utility Revenue Distribution, established by ordinance to allow for a distribution to general government from surplus revenue of municipally owned utilities (analogous to the return paid to owners of private utilities), dropped from \$5 million in 1988 to \$2.9 million in 1989. We are forecasting an increase in 1990 to \$4.0 million.

The Intragovernmental Charge (IGC) revenue item reflects the mechanism used by the Municipality to account for the costs of certain services provided by one unit of government for another. Specifically, net charges for operating services made against utilities and capital grants comprise a revenue source to general government. As the overall budget (and level of services provided) declines, charges to utilities fall. Similarly, the level of capital activity has fallen substantially, resulting in lower charges against capital grants. IGCs are shown as maintaining the 1990 budget level through 1995.

Another major cutback in revenue results from the assumption of a lower level of fund balance contribution in 1990 through 1995. Over the last several years, the application of fund balance to the budget has been a source of tax relief. However, as revenues from all sources continue to tighten and the size of government declines, the amount of fund balance available to supplement expenditures is likewise expected to decline.

Other Local Revenues, which include user fees and charges, interest earnings, hotel/motel tax, automobile tax, and other miscellaneous revenues are expected to remain fairly stable over the period, increasing gradually with growth in the local economy.

The distribution among revenues continues to move toward local sources over the period. Any further drops in State revenues would accelerate that shift.

Table 2-1 below summarizes the alternative 1989 budget and future year tax policy assumptions which define the alternative scenarios presented here.

Table 2-1

<u>Scenario Title</u>	<u>Major Policy Assumptions</u>
A	1990 Base Budget: Currently at the tax limit. Assume tobacco tax is approved by the voters, generating \$2.5 million in revenue. Utility Revenue Distribution is increased \$1 million.
B	Sale of ATU: All of the base budget assumptions hold, plus assume ATU is sold mid-year; \$150 million at 8%, CPI 3% for half year. \$100 million is used to repay debt. service of approximately \$10 million per year. Taxes decrease in 1990 by \$5 million; IGC's decrease by \$0.8 million.
C	Permanent Sales Tax: A sales tax (excluded from tax limit) yielding \$10 million instituted in 1990. Property taxes for 1990 and out-years assume level allowable under Charter Tax Limitation.
D	1990 "Pessimistic" Base Budget: Assumes the tobacco tax does not pass, the sale of ATU does not occur, and a temporary sales tax is not implemented.

The various revenue and expenditure alternatives are presented in scenarios A through D, as described above. All of the scenarios involve the assumption that bond-funded capital activity will be strictly limited in the future. All scenarios assume that the 1990 Capital Improvement Budget (CIB) will be approved and funded, and that the bond propositions on the October 1989 ballot will be approved by local voters. It is further assumed in the scenarios that there will be moderate operating budget impact from capital expenditures.

Table 2-2 summarizes 1989 revenues and alternative revenues in 1990 for each of the scenarios described above.

Table 2-2

Alternative Revenue Scenarios -- 1990 Impact
(Millions of Dollars)

Revenues	1989	Base	ATU	Sales Tax	Bad News
		Case 1-A 1990	Case 1-B 1990	Case 1-C 1990	Case 1-D 1990
Federal	\$ 1.1	1.1	1.1	1.1	1.1
State	39.6	38.5	38.5	38.5	38.5
Local	29.6	29.7	38.5	29.7	29.7
Utility Rev.	2.8	4.0	5.0	4.0	4.0
Property Tax	90.5	90.4	85.4	90.4	90.4
Sales Tax	0	0	0	10.0	0
Tobacco Tax	0	2.5	2.5	2.5	0
Fund Balance	4.6	5.3	5.3	5.3	5.3
IGCs	16.2	16.1	15.4	16.1	16.1
TOTAL	\$ 184.4	187.6	191.7	197.6	185.1
Change in Revenues from 1989 Revised		3.2 1.7%	7.3 3.8%	13.2 6.7%	.7 .4%

All revenue scenarios show an increase between 1989 and 1990. The largest increases occur in Cases 1-B and 1-C, where the sale of ATU and a sales tax increase revenues.

Figure 2-2

1990 REVENUE COMPARISON

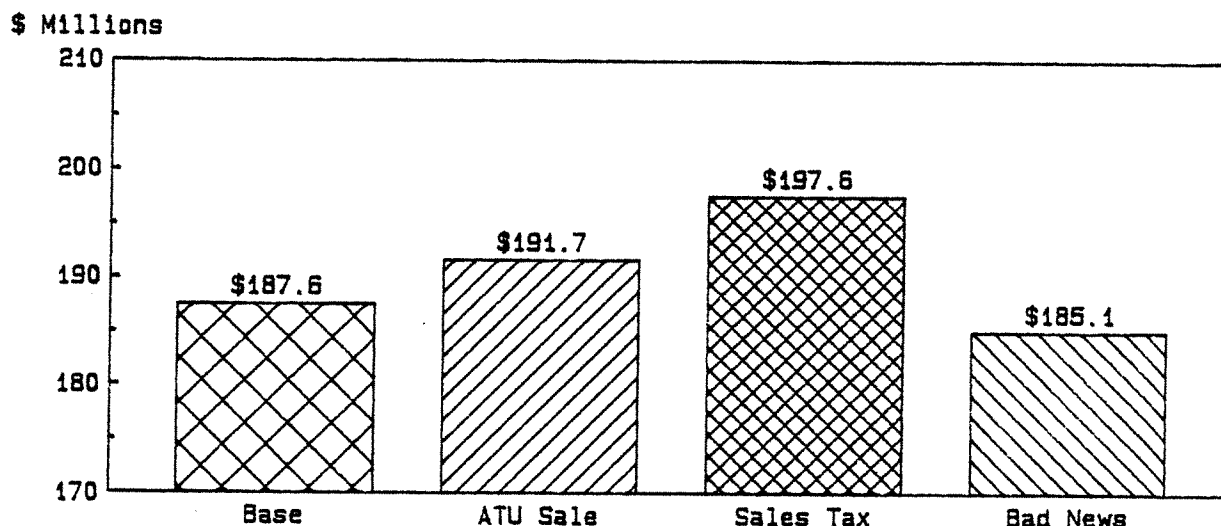
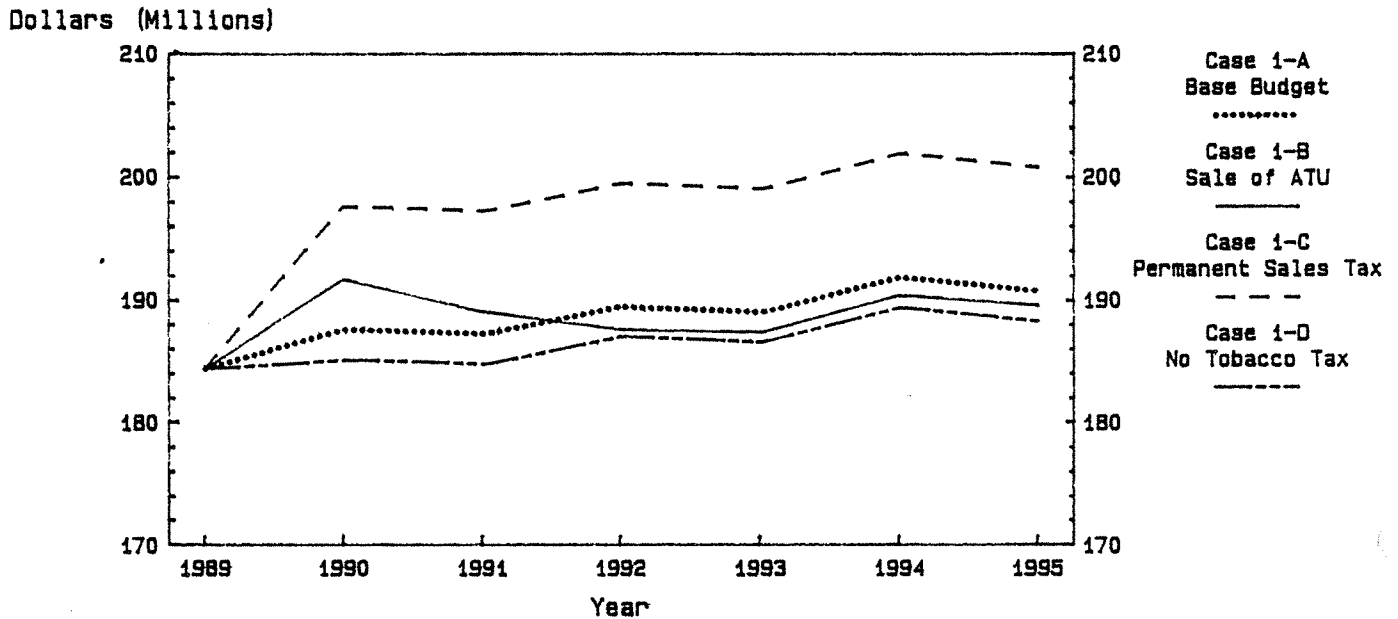


Figure 2-3 uses the data shown in Table 2-2 as a starting point, and shows the implications for total revenues through 1995.

Figure 2-3

Total Revenues -- Case 1 Projections



For detailed projections, see Appendices.

The best revenue scenario is Case 1-B, which depicts the sale of ATU. Under this case, property taxes are reduced by \$10 million and local revenues are increased by approximately \$18 million in the outyears.

Case 1-C, which presents the sales tax alternative is unlikely for the 1990 budget, but is presented as an alternative revenue source scenario. Case 1-A and 1-D differ in the revenue projection realized through the tobacco tax.

Expenditures

Since Municipal budgets must be balanced, the expenditure levels projected here are those implied by the alternative revenue totals discussed above. Figure 2-4 repeats these projections for Cases 1-A through 1-D.

Figure 2-4

Projected Expenditure Alternative Scenarios

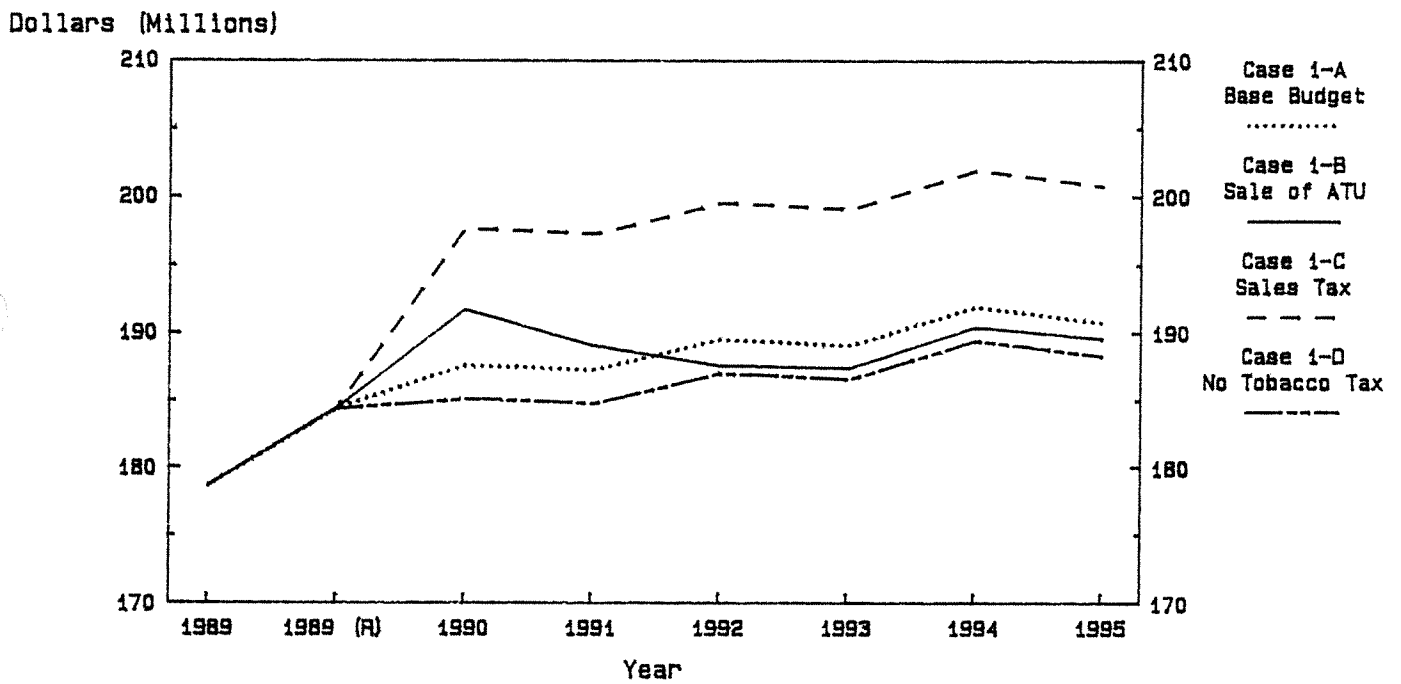


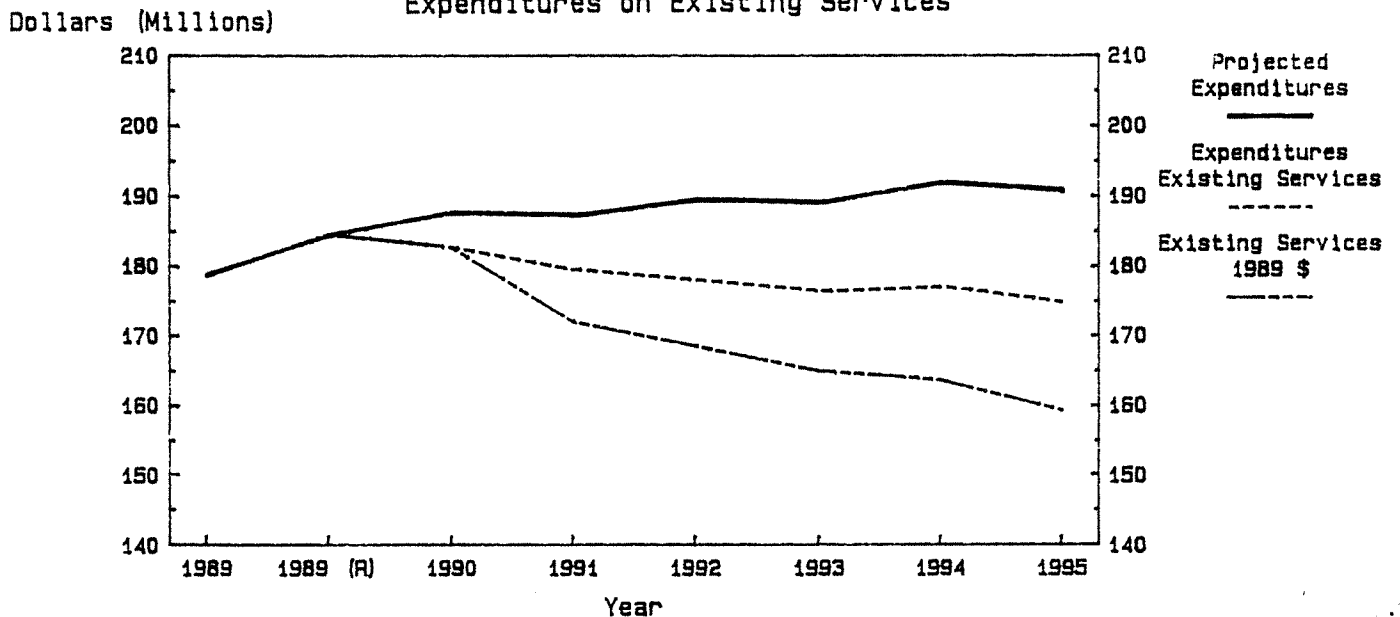
Figure 2-5 repeats the expenditure line for Case 1-B (Sale of ATU) and also shows "adjusted" expenditures. The purpose here is to approximate the amount of funds available for expenditure on goods and services provided in 1989. To derive this, deductions are made for new requirements coming on line in 1990 net of prior year one-time costs and other non-required expenses. The new requirements in 1990 used in calculating expenditures available for existing services are comprised of items such as changes in wage and benefit costs, increased parking facility tax increment expense, water charges, police and fire retirement costs. One-time items and expenses no longer required after 1989 are deducted from the total, such as \$4 million of MIS expenditures for 1992-1995. Many of these costs are expected to continue in future years. An assumption of an additional \$2 million dollars in unanticipated new requirements per year is included in the outyears.

Other adjustments used to derive expenditures on programs available in 1989 include net changes in debt service, and operation and maintenance costs in the outyears. The lowest line, expenditures for existing services in 1989 dollars, reflects the impact of price increases which reduce what can be purchased with a given dollar amount of spending. Three percent inflation is assumed for this purpose, consistent with the assumption used in projecting local revenues.

This approach is intended to give a rough idea of service level impacts over time, using expenditures contained in the 1989 General Government Operating Budget as a point of comparison. Possible offsets to service declines include technological improvements, increases in efficiency and/or declining factor costs.

Figure 2-5

Projected Expenditures - Case 1-A
 Total Expenditures and
 Expenditures on Existing Services



* 1989 Budget as Approved; 1990 Proposed Budget; 1990-1995 Fiscal Model Projections, Case 1-B: Sale of ATU, capital growth in 1992 and 1994.

When spending is adjusted for inflation, the level declines throughout the period. In 1989 dollars, total expenditures in 1995 for this scenario would be 5% lower than in 1989.

All alternatives examined result in increased expenditures over the period. Table 2-3 summarizes these results. It is possible to assume that the level of service would be substantially reduced, lowering the expenditures in Cases 1-B and 1-C.

Table 2-3

Projected Changes in Expenditure
Cases 1-A through 1-D
(millions of dollars)

	CASES			
	1-A	1-B	1-C	1-D
1989 Approved Budget	178.7	178.7	178.7	178.7
1989 Revised Budget	184.4	184.4	184.4	184.4
1990 Budget	187.6	191.7	197.6	185.1
1995 Budget				
Total Expenditures	190.7	189.5	200.7	188.2
\$ change*	6.3	4.8	16.3	3.8
% change	3.4%	2.6%	8.8%	2.1%
Expenditures 1989 Svcs	174.7	177.5	184.7	172.2
\$ change*	-9.7	-6.9	-.3	-12.2
% change	-5.3%	-3.7%	-.2%	-6.6%
1989 Svcs. Infl Adjusted	124.1	133.9	138.2	138.2
\$ change*	-60.3	-50.5	-46.2	-46.2
% change	-33.0%	-27.0%	-25.0%	-25.0%

* Changes shown are from 1989 Budget (and service levels) as revised as of June 30, 1989.

Table 2-4 shows property taxes and range of mill rates implied by Alternatives B and C. (Mill rate for Alternative A is held at the 1987 level of 8.65 mills or less, and the mill rate for Alternative D is the same as C, shown below.) These results are uncertain in that the crucial determining factor -- assessed valuations -- is highly uncertain. More important than the absolute numbers are the relative trends.

Table 2-4

Projections of Property Taxes and Mill Rates
Under Alternative Assumptions

Case 1 - A: Base Budget - Additional bond debt in 1992 and 1994.

	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Property Taxes (millions \$)	90.5	90.4	93.0	94.8	93.7	96.0	94.2
Implied Mill Rates	10.32	10.85	10.70	10.91	10.78	11.22	11.01

Case 1 - B: Sale of ATU - Property taxes reduced.

	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Property Taxes (millions \$)	90.5	85.4	83.0	84.8	83.7	86.0	84.2
Implied Mill Rates	10.32	10.25	9.55	9.76	9.63	10.05	9.84

Case 1 - C: Sales Tax - Capital growth.

	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Property Taxes (millions \$)	90.5	90.4	93.0	94.8	93.7	96.0	94.2
Implied Mill Rates	10.32	10.85	10.70	10.91	10.78	11.22	11.01

1989 Approved Operating Budget; 1990 - 1995 Fiscal Model projections under alternatives shown.

Mill rate projections 1990 - 1995 are shown as a range based on alternative assessed valuation projections. Assessed values are assumed to fall about 5% between 1989 and 1990. Assessed values will increase by 4.3% in 1991 and remain constant through 1993. In 1994 assessed values will adjust downward by 2%.

Sensitivity Analyses

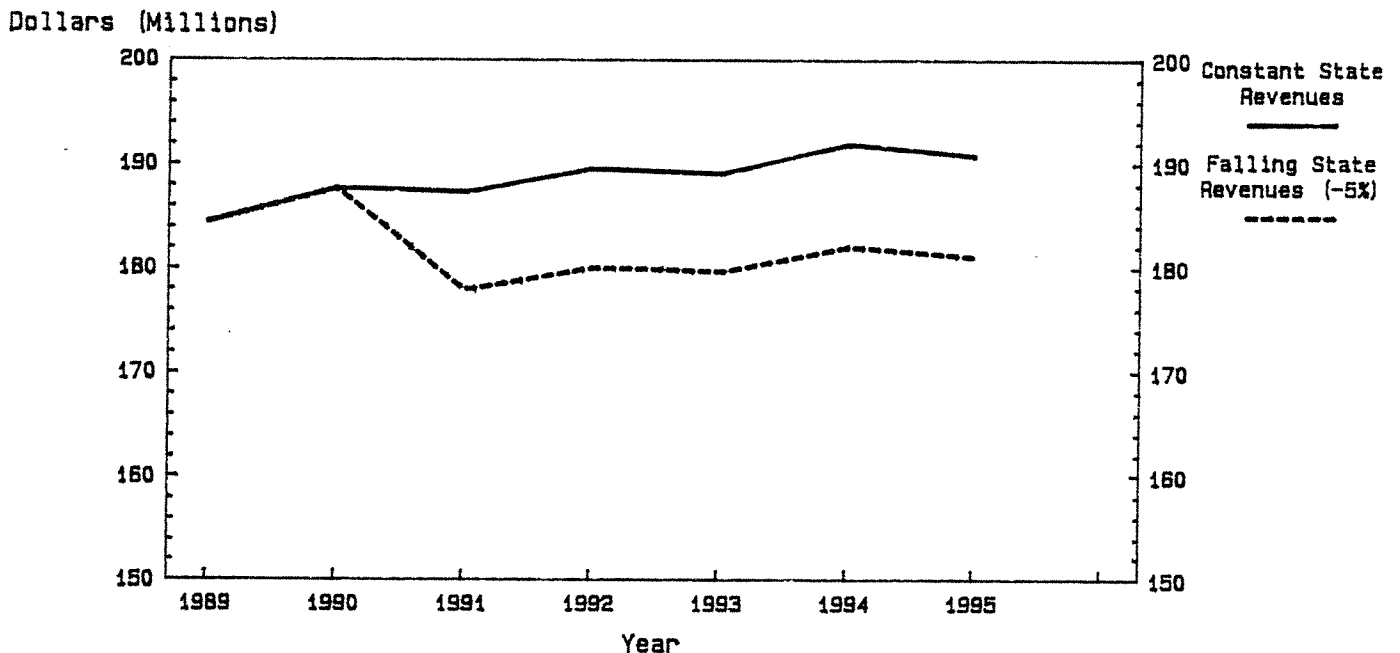
The projections generated reflect the assumptions on which they are based. These assumptions are, by their very nature, uncertain. It is therefore useful to examine the sensitivity of the results to changes in these assumptions. One particularly crucial assumption regards the amount of State revenue which will be provided to the Municipality through the State-funded Municipal Assistance and State Revenue Sharing Programs. State revenues, though they have fallen in relative importance, comprised 21% of revenue in 1989. For purposes of our standard projections, we have assumed no further cutbacks in State funding.

Long-range revenue projections by the Alaska Department of Revenue show state unrestricted general fund revenues declining at an average rate near 5% per year between 1990 and 1995.

Figure 2-6 shows the impact were State Revenue Sharing and Municipal Assistance to decline at 5% beginning with State fiscal year 1991 appropriations. Using this assumption, revenues in 1995 would be \$9.7 million lower than the projections presented elsewhere in this report.

Figure 2-6

Projected Total Revenues -- Case 1-A Impact of State Revenue Reductions



* 1989 Approved Budget; 1989 Revised Budget; 1990 Proposed Budget; 1990-1995 Fiscal Model Projections.

The projections are also influenced by changes in assumptions regarding inflation and population. These assumptions influence local revenues (primarily fees and charges) and allowable property taxes under the tax limitation. Tables 2-5 and 2-6 show the impact on total revenues of alternative population and inflation assumptions.

Table 2-5

Projected Total Revenues Case 1-A
Alternative Inflation Assumptions
(Millions of Dollars)

<u>Inflation Rate</u> <u>1990-1995</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
2%	\$187.6	186.5	188.8	188.3	191.0	189.8
3% *	187.6	187.2	189.5	189.0	191.9	190.7
4%	187.6	188.0	190.4	189.8	192.7	191.5

* Standard assumption used in projections.

Although a change in the inflation rate for any one year has a relatively minor impact, the compound effect of changing the assumption throughout the period is significant.

Table 2-6

Projected Total Revenues Case 1-A
Alternative Population Assumption
(Millions of Dollars)

<u>Population</u> <u>Growth Rate</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
0% 1990-1995	\$187.6	187.0	188.9	187.8	190.1	188.5
1.5% 1990-1995*	187.6	187.2	189.5	189.0	191.9	190.7
2% 1990-1995	187.6	187.4	189.9	189.5	192.5	191.4

* Standard assumption used in projections.

Projections of total revenues appear fairly insensitive to changes in the population growth assumptions. Per capita expenditure, revenue and tax calculations also vary with this assumption.

This limited discussion of the impact of various assumption highlights the importance of reviewing alternatives and updating information as circumstances change. The Municipality of Anchorage Fiscal Model can be used to produce updated projections as new information becomes available, or when decision makers wish to evaluate the impact of alternative assumptions.

Summary

This section of the Fiscal Trends Report has presented several alternative revenue and spending scenarios for the Municipality of Anchorage. Total revenues, when adjusted for inflation, fall over the next six years, and in some cases the decline is dramatic. However, there are factors which could alter these results. For example, were the State of Alaska revenue picture to improve, that source could well increase rather than hold constant as assumed. Alternatively, if the community were to decide that pending reductions in services were too great, voters could approve new taxes, or (as provided in the Charter) approve expenditures for services or facilities as exemptions to the limit, and thus allow for a higher level of taxes under the limit. Conversely, voters could decide that they can no longer afford the current level of services (and taxes) and reduce expenditures below the proposed level. The options shown seek to highlight some of the downstream impacts of those current decisions.

ANCHORAGE SCHOOL DISTRICT

Introduction

By District policy, the Superintendent presents a recommended revenue and expenditure pro-forma budget to the School Board for consideration and approval prior to directing the development of the School District's financial plan. The School Board then establishes a planned budget cost ceiling and sets the outside spending limits for the annual budget preparation process.

The initial financial planning for the next school year is usually done in the last half of September after the school enrollment trend becomes clear, and is then presented for School Board consideration. Therefore, the projections included in this Fiscal Trends are based on preliminary estimates and they will be changed during the course of budget development and financial planning later in the school year. The FY 1989-90 expenditures are included at the amount approved by the School Board and the Municipal Assembly. A budget revision increase will be necessary primarily to reflect the cost of recently negotiated employee bargaining group contracts. Financial projections prepared after a budget revision is requested would reflect the revised amounts.

Several key factors are major determinants of the pro-forma budget. These factors include student enrollment projections, debt service levels, the tax limitation, State revenue entitlements, and the prevailing and expected inflation rates. There is a substantial degree of uncertainty in these factors. Therefore the annual budget planning process usually includes the development for School Board consideration of appropriate options to facilitate matching the projected revenues and expenditures.

From October 1989 through January 1990, the FY 1990-91 budget will be developed by school and administrative staff with the input and involvement of teachers, principals, staff members, community members and community organizations. The School Board will then hold public budget development hearings and consider the FY 1990-91 Preliminary Financial Plan in February 1990. The revisions made pursuant to School Board decisions will be incorporated into the next version of the budget which is the Proposed Financial Plan. The Municipal Assembly will hold public hearings and consider the Proposed Financial Plan in April 1990. At that time, they will approve and appropriate the total budget and the property taxes included in the approved budget. Any revisions which may then be necessary will be made and incorporated into the final version of the budget, the Adopted Financial Plan, for next fiscal year which begins July 1, 1990.

ANCHORAGE SCHOOL DISTRICT - EXPENDITURES

The student enrollment for FY 1989-90 is expected to meet or exceed the enrollment projection of 40,800 at September 30, 1989, which is the baseline date. For FY 1989-90 the incoming kindergarten class is presently expected to be up to 500 more than the unusually small class of FY 1988-89. The kindergarten entry birthday eligibility date was changed from November 2 to August 15 effective for the first time last year, FY 1988-89. Incoming classes in the future will not be affected by this change.

The enrollment is projected to increase by approximately 600 students per year, which is 1.5%, to 41,400 students in FY 1990-91, and to 42,000 in FY 1991-92.

It is then projected to increase by 1,000 students over a three year period to 43,000 in FY 1994-95. The full-time equivalent enrollment (FTE), on which the budgeted revenues and expenditures are based, counts kindergarten students at one-half which is consistent with their half-day program. The FTE enrollment is approximately 4% lower than the full count enrollment. It is projected that the kindergarten classes will continue to be somewhat larger than the outgoing senior classes. If the full-day kindergarten program were to be expanded that would increase the total full time equivalent (FTE) count because full-day kindergarteners are counted as whole students for budgetary purposes. These large incoming classes offset the net out-migration in the projections.

The continuation of approximately the present service level of program expenditures is projected. Existing educational programs are presumed to continue if funds are available. Cost increases due to enrollment changes are estimated by providing for an acceptable level of teaching and direct instructional support staff and services as well as the necessary student supplies and equipment.

Cost increases are estimated using rates which vary depending on the expenditure object category group. These projected rates are intended to approximate the estimate of the School District's cost increases for employee salaries and benefits, supplies, equipment, contracted services, utilities, maintenance, etc. Annual rates of increase used are as follows: Salaries and Benefits 2.5% after FY 1990-91, Purchased Services 3-5%, Supplies and Materials 4-5%, Capital Outlay, and Other 3%. Overall inflation, based on the Anchorage area Urban Consumers' Price Index (CPI), is assumed to be approximately 3% per year from FY 1990-91 through FY 1994-95.

The General Fund equivalent program and service level projections indicate that expenditures would exceed available revenues for FY 1990-91 through FY 1994-95. Therefore, the General Fund projected expenditures for these years have been reduced to match the revenue projected to be available. If the additional revenues which are needed do not become available, it would be necessary to implement further cost reduction measures. Every effort would be made so that such cost reduction measures would impact the classroom educational programs as little as possible. However, most of the direct expenditures of the School District are for student instruction and services. Therefore, any further substantial cost reductions would probably have an adverse effect on the educational programs.

Debt service expenditure projections are prepared using the existing indebtedness and the estimated debt service on the remaining bonds expected to be issued, including the bonds which are on the October 1989 ballot proposition. Under the existing State funding program up to 80% of new debt service is established as the entitlement for reimbursement in the same year that the debt service is paid. All State debt service is projected to be reimbursed on a pro-rata reduced basis at 95% of entitlement.

Food Service expenditures are projected on a per student basis using per student yearly increases of 3% per year. State Projects expenditures for special State contract programs are projected using per student yearly increases of 2% per year. Federal Projects expenditures for special Federal programs are projected using per student yearly increases of 3% per year.

The following graph and table summarize the budgeted and projected expenditures for the ten fiscal years through FY 1994-95.

FIGURE 2-7

ANCHORAGE SCHOOL DISTRICT
Expenditure Budgets and Projections
Expenditures (\$ Millions)

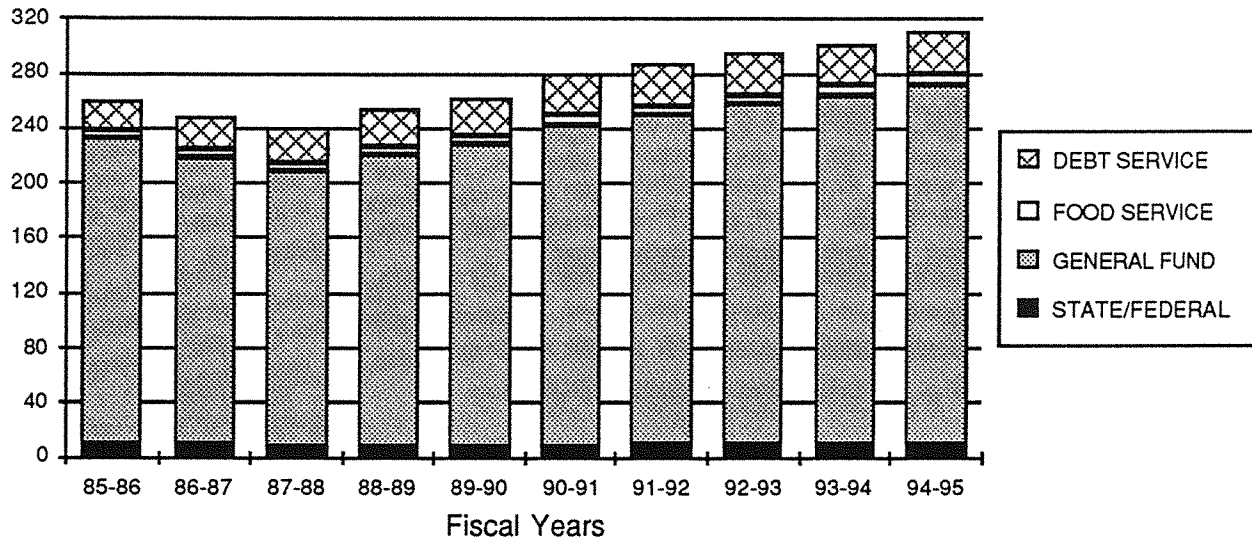


TABLE 2-7
ANCHORAGE SCHOOL DISTRICT
EXPENDITURES
(\$ MILLIONS)

Budgeted/Projected Expenditures	FY	85-86	86-87	87-88	88-89	89-90	90-91	91-92	92-93	93-94	94-95
Operating Funds:											
General Fund		222.6	209.0	200.6	212.6	220.1	234.5	240.5	247.5	254.5	262.0
Food Service Fund		7.2	6.8	6.2	6.2	6.4	6.8	7.1	7.4	7.7	8.0
State & Federal Projects		9.6	9.6	7.7	8.1	8.1	9.1	9.5	9.9	10.2	10.6
Total - Operating		<u>239.4</u>	<u>225.4</u>	<u>214.5</u>	<u>226.9</u>	<u>234.6</u>	<u>250.4</u>	<u>257.1</u>	<u>264.8</u>	<u>272.4</u>	<u>280.6</u>
Debt Service Fund		<u>20.1</u>	<u>23.5</u>	<u>26.4</u>	<u>27.2</u>	<u>27.1</u>	<u>29.2</u>	<u>30.5</u>	<u>30.2</u>	<u>30.1</u>	<u>30.1</u>
Total Expenditures Projected (\$ Millions)		<u>259.5</u>	<u>248.9</u>	<u>240.9</u>	<u>254.1</u>	<u>261.7</u>	<u>279.6</u>	<u>287.6</u>	<u>295.0</u>	<u>302.5</u>	<u>310.7</u>
Total Expenditures Adjusted to FY 1989-90 Base Year Dollars											
		<u>271.7</u>	<u>255.9</u>	<u>246.7</u>	<u>259.2</u>	<u>261.7</u>	<u>274.1</u>	<u>273.7</u>	<u>272.6</u>	<u>271.4</u>	<u>270.7</u>
Student Enrollment (Thousands)											
		<u>42.4</u>	<u>42.0</u>	<u>40.9</u>	<u>40.3</u>	<u>40.8</u>	<u>41.4</u>	<u>42.0</u>	<u>42.4</u>	<u>42.7</u>	<u>43.0</u>

Budgeted expenditures through FY 1988-89 are from the Financial Plans, including any budget revisions, for those years. The expenditure projections presented in this section assume 3% annual increases in the Anchorage CPI after FY 1989-90.

ANCHORAGE SCHOOL DISTRICT - REVENUES

Revenues for the current fiscal year, FY 1989-90, are projected using as a base the most recent available information as to student enrollment and availability of funding. The remainder of the years are projected using the projected FY 1989-90 revenue as the base year revenue.

State Revenue - The State Public School Foundation Program is the largest single revenue source. For FY 1989-90 this program is expected to provide 63% of the General Fund revenues and 53% of total revenues. For projection purposes the revenue was estimated using the existing Foundation Program funding formula. Increases of 2% per year in the Foundation Unit funding value are projected for the fiscal years 1990-91 through 1994-95.

State reimbursement for debt service at 95% of entitlement is projected. The State reimbursement entitlement rates are 100%, 90%, or 80% of related debt service depending on the year in which the debt was approved. The bonds issued since 1985 have an 80% debt service reimbursement entitlement in the same year in which debt service is paid. Given a 95% overall funding level the effective reimbursement to be received would be 95%, 86%, or 76%. The annual funding to be received will be based on the legislative appropriation for that year.

State Projects revenue for special State contracted programs is projected assuming increases per student of 2% per year.

The remaining State revenue is computed using the following bases.

- Tuitions - by State funding formula, primarily based on prior year's taxes
- Pupil Transportation - no annual increase
- Indirect Costs - no annual increase

Local Revenue

Using the projected FY 1989-90 revenue as the base year revenue, the following rates of increase are assumed in the projections:

- Sale of Property, and Miscellaneous - 2% increase per year
- Interest - No annual increase

Sales and Rentals - Career Center revenues and facilities rentals are projected to increase by 2% per year. Food Service revenue is projected assuming yearly 3% increases in per student sales to account for price increases as well as student participation increases.

Local Taxes - local tax revenue increases necessary to provide for an acceptable level of services while staying within the projected property tax limitation are projected.

Federal Revenue

Increases of 3% per year in the ROTC program are projected. Federal Projects revenue is projected using increases of 3% per student per year. Food Service federal reimbursement revenue is projected assuming yearly increases of 3% per year, per student in the amount of reimbursement.

The following graph and table summarize the budgeted and projected revenues for the ten fiscal years through FY 1994-95.

FIGURE 2-8

ANCHORAGE SCHOOL DISTRICT
Revenue Budgets and Projections
Revenues (\$ Millions)

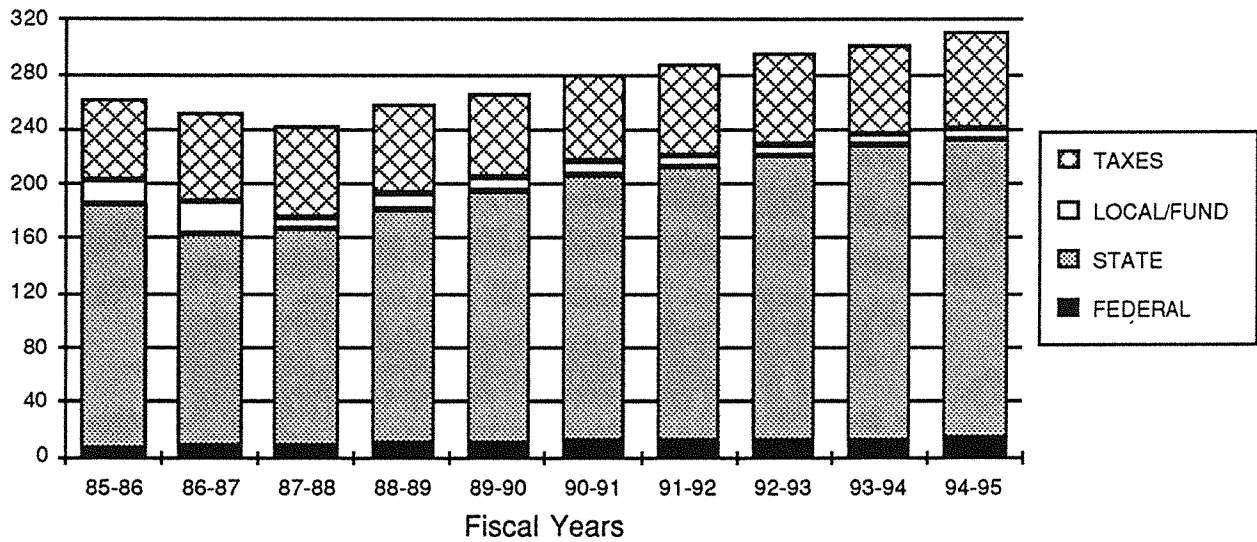


TABLE 2-8
ANCHORAGE SCHOOL DISTRICT
REVENUES
(\$ Millions)

Budgeted/Projected Revenues	FY 85-86	86-87	87-88	88-89	89-90	90-91	91-92	92-93	93-94	94-95
Federal	6.3	7.3	8.1	10.4	11.1	11.5	12.1	12.5	13.0	13.5
State	179.7	156.4	159.4	171.9	183.5	196.5	201.7	207.5	215.9	219.8
Sales, Interest, Other Local and Fund Balance	17.1	24.4	7.7	10.7	9.8	8.5	7.6	8.0	8.0	8.1
Property Taxes	<u>59.4</u>	<u>63.8</u>	<u>66.9</u>	<u>64.8</u>	<u>62.2</u>	<u>63.1</u>	<u>66.2</u>	<u>67.0</u>	<u>65.6</u>	<u>69.3</u>
Total Revenues Projected	<u>262.5</u>	<u>251.9</u>	<u>242.1</u>	<u>257.8</u>	<u>266.6</u>	<u>279.6</u>	<u>287.6</u>	<u>295.0</u>	<u>302.5</u>	<u>310.7</u>
Calendar Year	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
Mill Rate	4.00	4.04	5.41	6.46	7.17	7.41	7.36	7.59	7.55	7.54

Budgeted revenues through FY 1988-89 are from the Adopted Financial Plans, including any budget revisions, for those years.