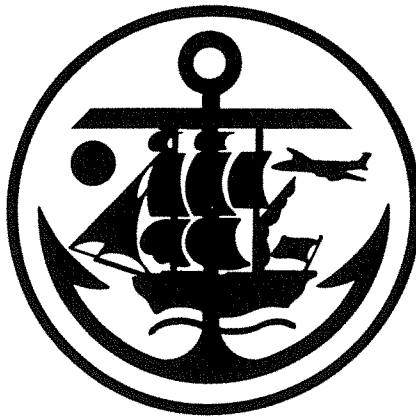


**SIX YEAR FISCAL PROGRAM  
2000 - 2005**



**Municipality of Anchorage**

**Rick Mystrom  
Mayor**

*2000 - 2005*  
*SIX YEAR FISCAL PROGRAM*  
*MUNICIPALITY OF ANCHORAGE*

*Rick Mystrom, Mayor*

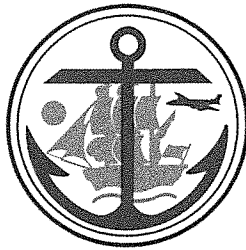
*ASSEMBLY*

George Wuerch, Chair  
Pat Abney  
Cheryl Clementson  
Anna Fairclough  
Dan Kendall  
Kevin Meyer  
Dan Sullivan  
Melinda Taylor  
Allan Tesche  
Dick Tremaine  
Fay Von Gemmingen

*ADMINISTRATION*

George J. Vakalis ..... Municipal Manager  
Mary K. Hughes ..... Municipal Attorney  
Thomas C. Tierney ..... Employee Relations Director  
Elaine A. Christian ..... Executive Manager

# Municipality of Anchorage



P.O. Box 196650  
Anchorage, Alaska 99519-6650  
Telephone: (907) 343-4431  
Fax: (907) 343-4499  
<http://www.ci.anchorage.ak.us>

*Rick Mystrom, Mayor*

OFFICE OF THE MAYOR

September 28, 1999

Dear Residents of Anchorage:

I am pleased to present the Six Year Fiscal Program for years 2000-2005. This program reflects the Administration's proposed long-term plan for the Community; it emphasizes this Administration's primary long-term objectives and it illustrates how local government can continue to help positively shape Anchorage's future.

Since 1994 we have done much to make Anchorage a better place to live and raise our families. Quality of life issues are not only important to our current residents but are important in fostering economic development. Much has been done during the past five years to make Anchorage a more livable city.

Anchorage's future is bright. Anchorage citizens and businesses alike continue to exhibit confidence in our City. The growth and diversification of Anchorage's economy over the past five years has continued. Our local economy remains strong with low inflation, low unemployment and low interest rates.

Significant progress has been made in making Anchorage a safer, cleaner, more attractive community in which citizens are proud to live and work. While we are pleased with the accomplishments achieved thus far, attention must continue to be paid to five major elements which will further assist in building a strong community, improve overall quality of life and make Anchorage a more livable city:

- A safe community
- A clean, attractive, well-planned community
- A community on solid financial footing
- A community with a growing economy
- A community that encourages volunteerism and citizen participation in sports, cultural and community activities

A discussion of significant accomplishments during the past five years related to these five major elements is included in the Six Year Fiscal Program.

*"City of Lights and Flowers"*

Anchorage has also made good progress in diversifying and expanding its economy, aided by a strong commitment to public safety and quality of life. Our ongoing efforts will make our community increasingly attractive for national and international business interests.


With respect to economic development opportunities, we will continue to work in partnership with the Anchorage Economic Development Corporation, the Anchorage Convention and Visitors Bureau, and the Anchorage and Eagle River Chambers of Commerce as well as other community groups, to aggressively promote Anchorage as a great place to live, visit and do business. Lastly, we will continue to foster a climate that encourages existing businesses to expand.

During the last year of my final term as mayor, I will continue to emphasize enhancing public safety and the maintenance and rehabilitation of municipal infrastructure (e.g., roads, parks, trails, and facilities). In addition, a top priority before leaving office, will be to complete the Comprehensive Plan which will guide future development in Anchorage for the next twenty years. Particular attention will also be paid to future neighborhood revitalization and functional/attractive roadway development.

The Six Year Fiscal Program contains long-term financial projections and broadly discusses several main options for the Administration, the Assembly, and the Public to consider regarding future fiscal policy decisions. All projections in the Six Year Fiscal Program were developed with information that was considered the most reliable and current at the time of development.

I continue to be very optimistic about Anchorage's economic future. I believe the initiatives described within the Six Year Fiscal Program will lead us toward furthering Anchorage's image as one of the most livable cities in America.

Sincerely,



Rick Mystrom

# *PREFACE*

In accordance with the Charter, the Mayor is required to submit to the Assembly 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 and personnel costs.”

Like all responsible governments, the Municipality of Anchorage must provide its citizens with an acceptable level of important and critical services. The purpose of the Six Year Fiscal Program is to provide policy options related to services demanded by the public. The options included in the report are offered for consideration.

The Six Year Fiscal Program is intended to encourage a balanced approach toward dealing with changing fiscal conditions. Achieving that balance starts with being mindful of and actively working toward keeping the cost of local government under control. In addition to cost containment, other fiscal strategies include encouraging economic development expenditure reductions and/or revenue enhancements. Key strategic policy decisions will need to be made in order to determine exactly what that mix should be.

If the reader desires more demographic and financial information, there are a number of alternative sources available at Municipal libraries, such as:

- Anchorage Indicators
- Comprehensive Annual Financial Report
- General Government Operating Budget
- General Government Capital Budget/Program
- Municipal Utilities Operating Budget and Capital Budget/Program

Presentation of this document by the Administration and approval by the Assembly does not constitute approval of any of the policy issues discussed herein, but simply acceptance of this document as a working tool.

**2000 - 2005**  
**SIX YEAR FISCAL PROGRAM**  
**TABLE OF CONTENTS**

<u>Section</u>	<u>Description</u>	<u>Page</u>
	<b>Mayor's Letter</b>	
	<b>Preface</b>	i
<b>1.</b>	<b>EXECUTIVE SUMMARY .....</b>	<b>1 - 1</b>
<b>2.</b>	<b>BACKGROUND</b>	
	• Major Accomplishments .....	2 - 1
	• Budget Trends .....	2 - 15
<b>3.</b>	<b>ECONOMIC TRENDS AND OUTLOOK</b>	
	• Major Economic Indicators (Population, Inflation, Assessed Valuations, New Construction) .....	3 - 2
	• Major Opportunities/Concerns .....	3 - 6
<b>4.</b>	<b>PUBLIC SERVICES AND CAPITAL PROJECT FUNDING</b>	
	• State Revenues (Operating and Capital) .....	4 - 1
	• Tax Cap Limit .....	4 - 4
	• Anchorage School District .....	4 - 4

<u>Section</u>	<u>Description</u>	<u>Page</u>
<b>5.</b>	<b>FISCAL PROJECTIONS AND POTENTIAL STRATEGIES</b>	
	<u>Projections:</u>	
	• Six Year Projection of Revenues and Expenditures . . . . .	5 - 1
	<u>Potential Strategies:</u>	
	• Broadened Tax Base Through Economic Development . . . . .	5 - 4
	• Expenditure Options . . . . .	5 - 5
	• Revenue Options . . . . .	5 - 6
<b>6.</b>	<b>CONCLUSION . . . . .</b>	<b>6 - 1</b>

# *1. EXECUTIVE SUMMARY*

The 2000-2005 Fiscal Program provides a six year fiscal profile which includes discussion of key initiatives of this Administration, economic trends and outlook, public services and capital project funding, long-term fiscal projections and fiscal policy options. The Six Year Fiscal Program is designed to generate public discussion so we can adequately plan for changing fiscal conditions and maintain a stable fiscal environment.

This document presents options for consideration by the Assembly and the public to address ways in which we can manage future fiscal requirements while continuing to expand our local economy. Options for responding to future fiscal requirements include economic development opportunities, expenditure reductions, new revenue sources or any combination of these options.

Issues to consider include:

**Public Safety** — The primary goal of this Administration is to provide Anchorage residents with one of the safest, cleanest and most livable cities in America. In order to achieve this goal, we must continue our focus on new and established public safety initiatives and their funding requirements. We have been able to reduce crime rate in Anchorage by 38% over the past four years and we are committed to continuing this trend. A number of major accomplishments in the area of public safety have occurred over the past year, most significantly, a design contract was awarded for the \$56 million replacement jail facility; a preferred site was identified for the replacement Downtown fire station; and community based policing began its first full year of implementation. The Administration continues to place high priority on the needs of the Anchorage Fire Department and the Office of Emergency Management as well.

**Fiscal Stability** — In order to ensure funding of public safety services as well as programs and services that make Anchorage a more livable city, we must strive to build a stable tax base through further economic growth and diversification. With taxes among the lowest in the nation and with utility rates remaining constant for the past five years, new businesses appear to be more and more attracted to Anchorage. Local government must continue to offer its services as efficiently as possible to the public and learn to do more with less.



We have been successful in providing the highest possible level of service to the people of Anchorage within the budget constraints facing us. We have done this by controlling costs over time and minimizing the impact on property taxpayers by budgeting significantly below the tax cap, instituting necessary budget cuts, enhancing employee productivity, and prudently applying fund balance to offset taxes.

**Quality of Life** — We must also capitalize on the unique cultural and recreational activities that Anchorage and Alaska provide. By providing our children with rewarding outlets through sports, cultural and recreational activities, we help to reduce juvenile crime. A number of new capital projects which will engage our youth include — Dempsey Anderson II Ice Arena, South Anchorage Sports Park, East/Midtown ballfields, and Mountain View Community/Recreation Center (a public/private partnership). In addition innovative new programs such as winter skating at Westchester Lagoon, Bridge Builders and Parent Networks have had a positive impact on the community.

**Economic Growth and Opportunities** — The outlook for Anchorage's economy is one of stable growth. Low unemployment, interest rates and inflation both locally and nationally have given confidence to consumers and businesses and have fueled the job increases and new construction.

Major driving forces in Anchorage's future economic growth include: oil and gas industry, seafood industry, Anchorage-based international freight and logistics operations, tourism industry and our universities. As these sectors grow in the future so will the level of growth in new construction, both residential and commercial. Currently, we are overhauling our building permit system and are constructing a streamlined one-stop permit and development center to be opened in early 2000.

**Fiscal Concerns** — One of the financial challenges facing the Municipality is how to achieve our goals despite the declines in financial support from the State. Safe Communities Funding (which replaced the former Municipal Assistance program in 1997) and State Revenue Sharing have decreased steadily since the mid-1980's. These decreases have had a direct and significant impact on the amount of property taxes required to fund the general government operating budget and have, in effect, caused a significant *tax shifting* from the State government to local government. Unfunded State and Federal mandates have also resulted in an increase in property taxes.

**Fiscal Projections** — The six year fiscal projections are contained in Chapter 5. The projected fiscal surplus/shortfall shown on Page 5-2 reflects the following three broad assumptions: (1) very modest growth in revenues, (2) negligible growth in expenditures, and (3) priority public services maintained at year 2000 base level through the six year

projection period. A number of additional fiscal impacts which could lead to more significant budgetary shortfalls are also analyzed in this chapter of the Six Year Fiscal Program.

It is important to keep in mind that circumstances may arise which can change the assumptions and thus the projected fiscal outlook. For example, if revenues from the State continue to decline over the next several years it will become more of a challenge to provide our residents with a safe city without requiring a significant increase in local taxes or a significant reduction in other important services.

## 2. *BACKGROUND*

### *MAJOR ACCOMPLISHMENTS*

This section of the Fiscal Program provides primarily a retrospective summary of the major, positive initiatives that have occurred during this Administration in a variety of areas associated with local government's mission. Areas covered in this subsection include the following:

*Safer City*

*Economic Development*

*Cleaner, More Livable City*

*Public/Private Partnership*

*Labor Contracts*

*Public Safety Employee Retirement Issues*

*Fiscal Stability*

*Anchorage Telephone Utility*

*Budgets*

*New Construction and Enhanced Infrastructure*

*Improved Government Processes*

### *Safer City*

**Crime Statistics** for the year ended 1998 continued a significant downward trend in Anchorage's crime rate. During the period 1994-1998 crime in Anchorage decreased at a rate more than three times the national average. Comparisons of the 1998 crime rate to 1994 show how much crime has been reduced in the last four years. Since 1994, Anchorage's crime rate has decreased by 38% overall, as follows:

- 14% decrease in homicides
- 20% decrease in rape
- 56% decrease in robbery
- 50% decrease in stolen autos
- 39% decrease in burglary
- 41% decrease in assaults
- 35% decrease in theft

This significant, sustained downward trend in crime gives a strong indication that Anchorage's aggressive actions to fight crime, including the move to community policing, are showing good results. The Mayor's 2000 budget fully supports these objectives by providing the funding necessary to properly staff and equip our police force.

**Public Safety Initiatives** undertaken to make our City safer were a direct result of recommendations by the Mayor's CAP Crime Task Force. To date, all of the following initiatives have been achieved:

- secured funding for new jail
- expanded bike and foot patrols
- initiated community-based policing program
- established new police substations
- increased prosecution
- created misdemeanor follow-up unit and a juvenile crime unit
- implemented juvenile crime prevention programs (e.g., the Parent Network and Youth at Risk programs)
- continued aggressive enforcement of the DWI program
- achieved passage of a number of anti-crime laws

Our fire and emergency medical response capabilities are further increased with additional funding for the purchase and operation of both an ambulance and ladder truck in South Anchorage, as well as for new replacement fire stations in Downtown and in the Jewel Lake/Sand Lake area. The fully integrated fire and emergency medical services have improved emergency response times, even as the number of emergency calls continues to increase due to population increases. This allows Anchorage to continue to receive favorable insurance ratings.

**1999 Public Safety Accomplishments** include the following:

- Design contract awarded on new \$56 million, 384-bed replacement jail
- Preferred site identified for replacement Downtown Fire Station
- Voters approved funding for purchase and operation of a new ladder truck to serve South Anchorage.
- Additional ambulance to serve South Anchorage.
- Additional firefighters to operate new ladder truck located at Eagle River Fire Station.
- Construction contract awarded for the replacement fire station in Eagle River.
- Traffic calming/safety improvements completed in Fairview and initiated in Mountain View.

- \$2.4 million federal grant received for the purchase and installation of mobile data terminals in police vehicles which will allow quicker access to information promoting operating efficiency and officer safety.
- Crime Analysis Section established within the Police Department.
- Number of outstanding traffic warrants substantially reduced due to publishing offenders' names in the newspaper.
- Community-based policing experienced its first full year of implementation.

Funding for public safety has been and will continue to remain this Administration's top priority. Over the past two years, the Administration has capitalized on one-time funding opportunities so that they benefit public safety first and foremost. In 1997/98 and leading into 1999, a number of key funding decisions were made to ensure long-term funding support of public safety, namely:

- The Public Safety Financial Plan introduced by the Mayor and approved by the Assembly in 1997 continues the Municipality's ability to provide financial support for public safety programs while reducing the impact on property taxpayers. The Plan utilized Anchorage's \$12.1 million share of the State's "Safe Communities" legislation early one-time payment to reduce existing long-term bonds or was used in lieu of selling new bonds associated with public safety programs which will save \$22 million over the life of the bonds.
- Through a combination of 1997 budgetary savings realized by municipal departments and increased revenues in a few areas, \$11.8 million was saved in 1997. Approximately \$7.1 million of the 1997 surplus was used to eliminate the need to bond for public safety improvements thereby saving \$10 million in future debt service costs. The balance of the surplus was then dedicated to help offset property taxes in the future.

## *Economic Development*

Anchorage's unique geographic location, diversified business community, transportation infrastructure and access to natural resources make our City a center of business opportunity for global trade and tourism and for business within Alaska. Over the past several years Anchorage's economy has grown and diversified significantly thereby providing a more stable tax base and contributing to a positive economic outlook. We intend to continue to pursue opportunities in the future that will expand and diversify the Anchorage economy consistent with maintaining our quality of life.

**The Oil and Gas industry.** This industry will continue to play a major, positive role in Anchorage's growing economy even with volatility in oil prices and industry consolidation.

Although there are potential job losses and other cutbacks that may result from British Petroleum's proposed acquisition of ARCO, BP Alaska announced it would spend \$5 billion in Alaska project investment over the next 5 years. Nonetheless, oil employment by BP/ARCO in 2000 will be less than half the level in 1990.

The oil industry with its development of marginal oil fields, modular construction, focus on reversing decline in production levels, local job hiring and new technological achievements project a positive, long-term future for Alaska and Anchorage. For instance, investments in new marginal oil field development such as Alpine, West Sak, Pt. McIntyre, Tarn, Northstar, Liberty and Sourdough to occur over the next several years. These marginal oil field sites are examples of the "satellite" accumulations in and around existing fields that play a large role in the oil industry's plans to slow the decline of North Slope production after the turn of the century. In addition, preliminary studies are currently being undertaken which could eventually lead to development of North Slope natural gas resources.

**Anchorage International Airport (AIA).** In November 1997 AIA announced its 10-year plan for improvements and expansion of airport facilities to support airport operations and access into the airport area. The entire "Gateway Alaska" program will lead to an investment of approximately \$350 million over 10 years. AIA is key to economic growth in Anchorage. As the State's #1 transportation hub, AIA serves over 5 million passengers per year and is associated with nearly 1 in 10 jobs in Anchorage. AIA has become a vital business center and Alaska's link to the world. Future economic development in Anchorage and throughout the State will be rooted in the airport's current "Gateway Alaska" program which is comprised of two major development components: domestic terminal redevelopment and improved road access to the airport improvement projects connecting airport facilities.

Through its airport, Anchorage can make a good first impression. Anchorage is the passenger gateway to Alaska. Vacationers and business travelers' first exposure to Alaska is the AIA. More than 11,000 jobs are already directly related to AIA's activities and further increases in airport activities are expected to create new employment opportunities.

**Air Cargo Industry.** Air cargo traffic in Anchorage has grown tremendously since the early 1990's adding over 4000 new jobs. The transportation and access corridors play an important part in the future growth of the cargo business in Anchorage and are a prime example of how Anchorage's economy has diversified. AIA has established itself

as one of the world's major air cargo airports. More than two dozen international cargo carriers have operations at AIA and the airport is ranked number one in America based on the landed-weight of all-cargo planes.

According to the Anchorage Economic Development Corporation (AEDC) the retention of cargo carriers and the expansion of multi-modal freight traffic between surface and air modes will depend on the fabrication, assembly, warehousing and order fulfillment activities that occur in Anchorage in the future.

An important transition has been taking place with the air cargo industry at AIA. A growing number of carriers are utilizing AIA to establish cargo transfer and hub operations. It started with Federal Express and United Parcel Service establishing a base in Anchorage in the early to mid-1990's. Atlas Air, a major cargo carrier, will soon base more personnel in Anchorage. Previously, United Airlines established its Trans-Pacific hub operations at Anchorage. Polar Air and Lynden, Inc. followed suit. Continued focus needs to be placed on the strength of our City's geographic location (i.e., to the Pacific Rim and Russian Far East especially) in order to develop Anchorage as a center for global logistics operations and increase emphasis on activities which add value to cargo in Anchorage.

To facilitate the development of these activities at AIA, the University of Alaska Anchorage has developed a four-year baccalaureate degree in Global Logistics Management. This program has been funded in part by a grant from the Municipality of Anchorage with matches from Federal Express; Lynden, Inc.; Totem Ocean Trailer Express; and Sea-Land Service, Inc.

**Increased Tourism and Convention Services.** There has been a boom in hotel construction throughout the City as a result of strong, consistent growth in tourism. The national economy remains remarkably healthy and Alaska largest source of visitors, older Americans, continues to grow. In response to the demand, new hotel and visitor attractions have come forth. Over the past five years the tourism industry has grown by an average of 4% per year. Over the past three years eleven new hotels have been constructed the largest of which is the 400-room Marriott Hotel in the downtown area. The \$14.8 million Alaska Native Heritage Center, which opened in 1999, has already proven itself as a significant tourist attraction.

Work continues on promoting Anchorage as an all-season tourist and convention destination industry in Anchorage. In addition, Anchorage will host the Special Olympics in 2001. This will bring approximately 6,000 athletes, coaches, delegates and dignitaries during the winter months for ten days with an estimated \$17 million of related spending injected into the local economy.

**Building Industry.** In recent years construction has become one of Anchorage's strongest and most stable industries. 1998 turned out to be the biggest building season since the boom years of the early to mid-1980's. Commercial construction activity (i.e., both public and private sector development) remains strong in 1999, while residential construction is down somewhat from the 1998 level. In order to encourage even more construction activity in the future, the Administration proposed and the Assembly approved a plan to proceed with construction of a new one-stop permit and development center in early 2000. In addition, a number of substantial improvements have been made to the City's permitting system. The end result of constructing a new one-stop permit center and improving the permit system process is that the building industry (and ultimately the consumer) will benefit from shortened turnaround times, greater efficiencies, reduced costs, and enhanced public interface.

**Promoting Anchorage as a Great Place to Live and Do Business.** Low taxes, a streamlined one-stop building permit system, low utility rates, functional/attractive roads, modern utility plant, enhanced recreational opportunities, enhanced facilities of our universities are all positive characteristics which make Anchorage a more livable and attractive city. In 1997 the Administration also developed a brochure titled "Livable Anchorage" which has been widely distributed to promote Anchorage as a great place to live and do business.

The Administration will continue to work closely with the Anchorage Economic Development Corporation (AEDC) in encouraging new business development in our City and with Anchorage Convention and Visitors Bureau (ACVB) to attract convention business and tourists.

**Neighborhood Revitalization.** Lower income areas of Anchorage have been identified as potential recipients of Community Development Block Grant (CDBG) funds to continue to revitalize our neighborhoods. CDBG funds have also been used to improve public safety and enhance the appearance of Fairview and Mountain View neighborhood streets.

## ***Cleaner, More Livable City***

As we enter the new century, quality of life will be the most important economic development force of our foreseeable future. People want to live and do business in a community they can take pride in. One that is safe, clean, and offers a healthy lifestyle. Business will seek out communities that can offer their employees a good place to live and raise a family.



A number of programs focused on making Anchorage a cleaner, more beautiful city have been initiated or enhanced since 1994.

- “Graffiti Busters”
- Litter hotline
- Operation “Clean Sweep”
- “My Part of Town”
- City of Lights and Flowers emphasis
- Business Improvement District

These programs have proven to be effective in making our City cleaner and more attractive. Streets are cleaner and air quality has improved as a result of using chipped rock and liquid de-icer in place of dirt and sand. In addition, more effective and efficient street sweepers have been put into service to collect sand and gravel on City streets. The Administration has developed a long-term program to use Recycled Asphalt Pavement (RAP) throughout the Anchorage Roads and Drainage Service Area (ARDSA) to cover gravel roads, improve air quality and reduce street operations and maintenance costs.

In making our City more attractive, the “lights and flowers” program continues to make a positive mark on our City. This program is a prime example of how well the public and private sectors can “team up” to improve the look of the City. The Beautification Task Force, established in 1995, continues to generate new ideas and solicit more volunteers to help beautify our City. In addition, a conscious effort has been made to water parks, fields, and medians in order to keep Anchorage green and attractive in the summertime.

New or enhanced landscaping is also now an important part of major road rehabilitation and upgrade projects. For example, in 1997 the City contributed \$500,000 combined with Intermodal Surface Transportation Efficiency Act (ISTEA) funding and private contributions to beautify the highly visible 5th and 6th Avenues.

Anchorage has received numerous commendations over the last several years. Reader’s Digest ranked Anchorage as one of the best fifty places in America to raise a family. The Water Utility received recognition for the “Best Tasting Water in the U.S.” and Solid Waste Services received the system excellence award for best overall landfill operation in North America. Anchorage was also previously recognized for having one of America’s best trail systems.

### ***Public/Private Partnership***

A number of programs ranging from crime prevention to cleanup/beautification to sports activities have all demonstrated how local government and private citizens and

organizations can work together to make our City a better place to live. Volunteers have played a key role in helping to improve City programs, services, and quality of life.

In 1997, an innovative Request for Proposal (RFP) approach was initiated by the Administration to facilitate the construction of a new community/recreation center in Mountain View. The RFP approach resulted in the Boys & Girls Club of Alaska entering into a contract with the Municipality to finance, design, build and operate a new community/recreation center for Mountain View for the next 20 years.

The Administration assisted in the formal creation of a Business Improvement District (BID) which enhances the viability of downtown by focusing on funding services which make downtown cleaner and safer for businesses and tourists. To achieve the goals of the BID, the Anchorage Downtown Partnership, a non-profit organization was formed to facilitate the enhancement of services downtown such as street patrol, litter cleanup, snow removal, etc.

## ***Labor Contracts***

The Administration has kept its focus on ensuring that wages, benefits and work rules are comparable to Anchorage's private sector. During the two rounds of labor contract negotiations that have occurred under this Administration we have successfully managed to hold the line on wages resulting in increases that are less than the annual rate of inflation.

Improved work rule provisions contained in the renegotiated labor contracts have resulted in hard dollar savings and increased productivity among municipal workers. The reduced leave policy, which now applies to one-third of the municipal workforce, brings municipal leave policy more in line with the private sector. This has resulted in real cost savings and increased worker productivity.

Currently, all labor contracts have been successfully negotiated with the exception of the contract with the International Association of Fire Fighters. Negotiations with that union are ongoing.

## ***Public Safety Employee Retirement Issues***

Since 1994, the Administration has worked hard to address critical issues related to retirement and affecting police officers and firefighters. With respect to retirement, two key items were successfully resolved:

- Since late 1994 all newly hired police officers and firefighters now participate in the State retirement system (i.e., PERS) which is consistent with all other public employers statewide.
- A Retiree Medical Funding Program was established for active employees who were members of the Police and Fire Retirement System. This funding program, which resulted from months of negotiations between the Administration and the Police and Fire labor unions, replaced the retiree medical health coverage previously available to these employees at retirement. The new funding program significantly reduced the retiree medical liability. Over the duration of this program taxpayers will end up saving approximately \$78 million in taxes that otherwise would have been collected to fund retirement benefits under the old system.

## ***Fiscal Stability***

Through prudent stewardship of the City's finances, we continue to maintain a strong and stable financial position despite decreasing State revenues as evidenced by the following:

- The two leading national bond rating agencies, Standard and Poor and Moody's, have each given Anchorage their highest short-term debt ratings based on the Municipality's stable financial outlook, strong financial performance, and excellent cash management.
- Furthermore, the most recent District of Columbia nationwide comparison of Tax Rates and Tax Burdens ranks Anchorage as having the lowest overall tax burden among the largest cities in each of the 50 states and the District of Columbia. In every category and household income measure Anchorage was cited as the city with the lowest taxes in the nation.

## ***Anchorage Telephone Utility***

In 1995 the Administration initiated an effort to sell ATU. Although that initial effort was not successful, the need for the Municipality to divest itself of this asset became increasingly apparent to the public as competitive market pressures mounted. As a result, a sale process was successfully completed. In April 1998, 63% of the voters approved selling ATU. The sale was closed in May 1999. The net proceeds of the sale are now invested in the Municipality of Anchorage Trust Fund, a permanent fund for our City. This fund is expected to grow and provide revenues for the Municipality in perpetuity.

## ***Budgets***

**Tax Cap.** The Administration's 2000 proposed operating budget is approximately \$9 million below the Tax Cap and existing property owners are not expected to see an overall increase in their taxes. This assumes, however, that no further cuts are made by the Legislature in 2000. Should the Legislature pass on further cuts to the Municipality, this will result in an increase in taxes on existing property owners.

Local taxpayers will have saved nearly \$73 million over the past 6 years with the passage of the 2000 operating budget. This cumulative savings is the result of keeping the operating budget significantly under the tax cap each year since 1994.

**General Government Operating Budget.** The 1999 Legislature reduced Safe Communities/State Revenue Sharing to Anchorage by 35%. In response to this unexpected \$6 million cut, the Administration was compelled to proceed with a comprehensive budget savings plan for 1999 and actual budget reductions in 2000 totaling nearly \$18 million. While holding the line on taxes for existing property owners and while minimizing the impact on public priorities and maximizing productivity, the Administration managed to realize 4% budget savings in 1999 and 6% of actual budget reductions in 2000. In all, 69 permanent and temporary budgeted positions were eliminated. Just over half the cuts in 2000 were derived from general reductions resulting from actions such as staffing efficiencies, and reductions in travel, tuition, contractual services, supplies and equipment. No reductions were made in the current level of public safety services, nor were any reductions made to the Department of Community Planning and Development due to the focus on completing the Comprehensive Plan. These reductions were made possible through increased productivity and other efficiencies accomplished through labor negotiations and system automation.

**Municipal Utilities' Operating and Capital Budgets.** Since Mayor Mystrom took office in July of 1994, this Administration has filed no utility rate increases for any of the Municipal utilities falling under the direct management control of the Mayor's office (i.e., Municipal Light and Power, Anchorage Water Utility, Anchorage Wastewater Utility, Refuse Collections, Solid Waste Disposal). This stability in rates, coupled with maintaining modern utility plants, make Anchorage a highly desirable location for new businesses to locate. These utilities continue to exhibit a strong financial condition and no rate increases have been proposed for 2000.

In 1998 a Municipal Enterprise Service Assessment was established in the Municipal Code to bring the Port of Anchorage in-line with all other municipal enterprise activities/utilities by requiring the Port to make a payment in lieu of property taxes to contribute to the cost of local government services.

**General Government Capital Improvement Program (CIP).** This program has undergone a transformation in recent years due to the sharp decrease in State grant funding. The Capital Program has been significantly reduced to reflect a much lower expectation relative to State and federal funding sources. Consequently, more focus has been given to local funding for the City's highest priority capital projects.

Taxpayer support of bond initiatives has been very strong over the last several years. Most recently, in the April 1999 voters approved 7 of 8 bond proposals for a total authorization of \$224 million. The majority of this money will help to build roads and schools.

Over the past five years, voters have approved 85% of the General Government and School District bonds proposed to pay for needed upgrade/enhancement and rehabilitation of highly used public facilities.

Emphasis will continue to be placed on rehabilitating and maintaining our Municipal infrastructure through an aggressive program to obtain State grant funding and through the use of bond proceeds and other local funds identified for this purpose.

Publicly funded construction projects over the next several years will be dominated by the new jail, roads, utilities, schools, and airport expansion.

### ***New Construction and Enhanced Infrastructure***

Over the past several years Anchorage has experienced very strong levels of new construction, both private and public sector construction. The Municipality's cost of borrowing through general obligation bonds has been close to historic lows, with 20-year general obligation bonds sold at interest rates below 5%. Similarly, interest rates available to the private sector have greatly spurred lending for residential and commercial real estate projects of benefit to new homeowners, contractors, real estate agencies and the financial services industry.

Below is a partial listing of major construction activity which has occurred over the past five years.

## **Private Sector Development**

- New major retail establishments (Home Depot, Office Depot, Williams Express, Tesoro, Barnes & Noble, GAP, Old Navy, Banana Republic, Pier One, Fred Meyer, Wal-Mart)
- New hotels (Anchorage Downtown Marriott, Holiday Inn Express, Courtyard by Marriott, Hampton Inn, Fairfield Inn, Microtel, Clarion Hotel, Hawthorn Suites, Ramada Limited, Residence Inn)
- Alaska Regional Hospital expansion
- New eating and entertainment establishments (Benihana, Applebees, Outback Steakhouse, Lone Star Steakhouse, Sullivan's Steakhouse, City Market, Act III Theatres, Century Theatres)
- New cargo facilities (Federal Express, UPS, Penn Air, Alaska Air, Lynden, Williams/Lynx CargoPort)
- Oil & Gas sector related facilities (Signature/AFSC jet fuel pipeline, marginal oil field development related projects such as Northstar modular construction)
- Manufacturing (Alaska Seafood International)
- New privately funded indoor skating rinks
- New auto dealer showrooms
- Strong, near-record-level residential home construction in 1998

## **Public Sector Development.**

- New Jail to replace Sixth Avenue facility
- Replacement Fire Stations for Jewel Lake/Sand Lake area, Downtown area, Eagle River and Girdwood
- New Permit and Development Center
- Second Rink at Dempsey Anderson Ice Arena
- South Anchorage Sports Park
- Skybridge connecting Egan Center and Alaska Center for the Performing Arts
- Various Road Upgrades (68th Avenue, Klatt, Lore, Denali, Baronoff/Eagle River, 100th Avenue)
- Safety/Roadway Upgrade 15th Avenue — L Street to Sitka
- Intersection Safety Improvements at Lake Otis & Tudor
- Traffic Calming Road Improvements within Fairview and Mountain View
- East Northern Lights Blvd. Rehabilitation and Beautification — Lake Otis to Muldoon
- Minnesota/International Airport Road Interchange
- Recycled Asphalt Pavement (RAP) program resulting in covering 36 miles of gravel roads within the bowl area over the past three years
- Road Improvement District (RID) program to reconstruct subdivision streets

- Cook Inlet Navigation Corridor Improvement Project (Knik Arm Shoal)
- Anchorage Loop Water Transmission Main Project
- New schools (elementary and middle schools)
- New hospitals (Native hospital and Elmendorf Hospital)
- New Commissary/Exchange at Elmendorf Air Force Base
- University of Alaska Anchorage (UAA) Student Housing
- Anchorage International Airport Expansion
- New State Court House
- McLaughlin Youth Center Expansion

## ***Improved Government Processes***

**Municipality of Anchorage's Internet Web Site.** In order to make local government more accessible to the public the Municipality established an Internet Web Site three years ago. Since its inception, the site has been very popular with local citizens and other interested parties (i.e., tourists and businesses) outside of Alaska.

The website offers an effective means of promoting Anchorage as a great place to live and work as well as providing useful, easy-to-access information to citizens about local government. Future enhancements to the Website which are currently being contemplated include offering on-line payment capability for select municipal services.

### **Anchorage Bowl Comprehensive Plan 2020.**

The Comprehensive Plan - *Anchorage 2020* is the principal focus of the Administration and will provide the foundation for the community's vision of the future including Anchorage's emergence as a premiere northern city. The Comprehensive Plan will streamline and improve public and private community development decisions for many years to come. The plan will outline the goals and objectives; assess current conditions and trends; evaluate alternative plan scenarios; and select a preferred plan scenario. Associated fiscal impacts will also be evaluated by an outside consultant. The Public Hearing Draft of the Comprehensive Plan is scheduled for completion in late 1999. The Assembly will hold its public meetings and hearing during early 2000 as the culmination of the public involvement process.

**Municipal Building Permit Process.** The Administration has implemented many recommendations received from developers and builders and our own consultants regarding the municipal permitting process. These recommendations have streamlined

the permitting process and made it more user-friendly, timely, and responsive to the community at large. In 1997, a new customer service concept as well as interim facility improvements were initiated by the Public Works' Building Safety Division, resulting in the following:

- construction of a streamlined one-stop permitting center
- implementation of an expediter task force
- located plan and review engineers at reception counter
- assigned project case managers to work with applicants from start to finish
- redesigned permit counter and added signage
- advance notification to contractors prior to Code and procedural changes
- regular meetings with building industry representatives
- improved informational materials

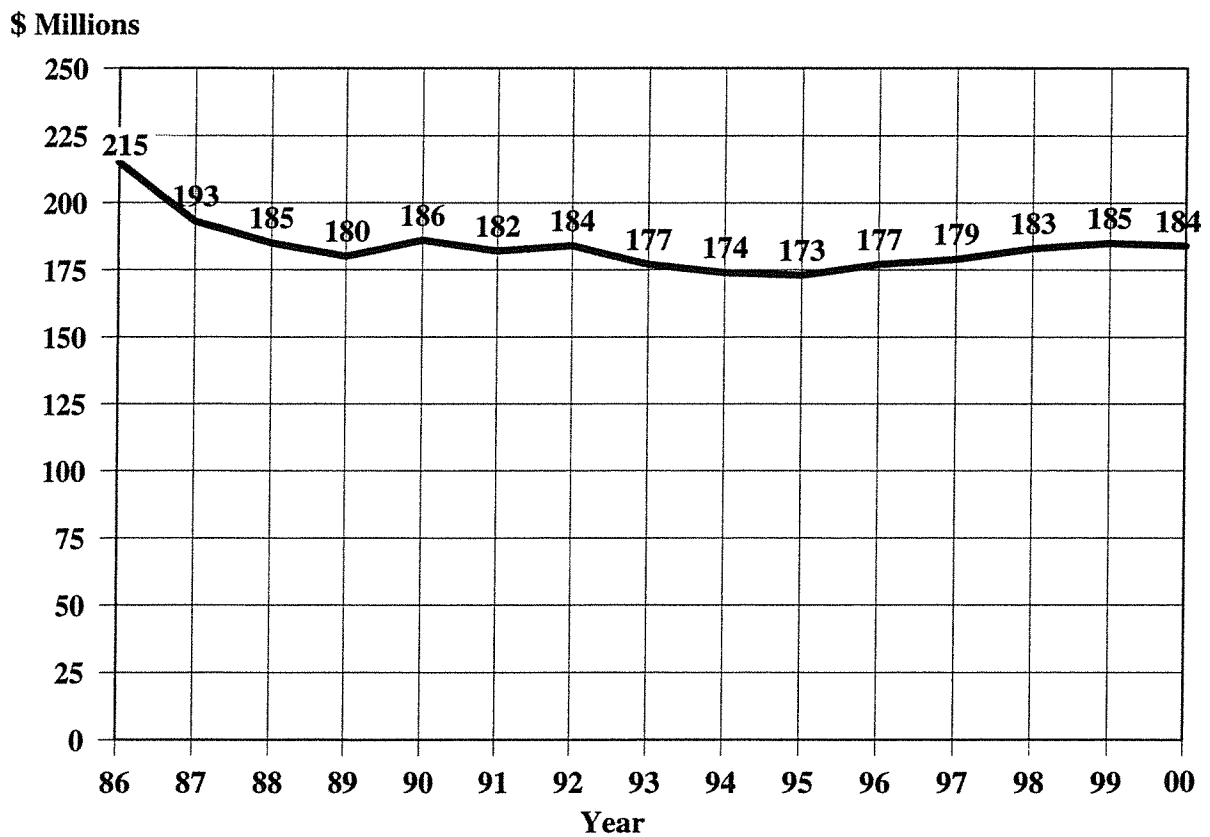
The results of this major initiative thus far have been very encouraging. The processing time for residential building permits has now been reduced from an average of 4 weeks to an average of 4 days.



## ***BUDGET TRENDS***

Adjusting for inflationary rates, the General Government Operating Budget has decreased by 14% since 1986 as shown in the following graph:

**General Government Operating Budgets  
1986 - 2000 \*  
(in real dollars) \*\***

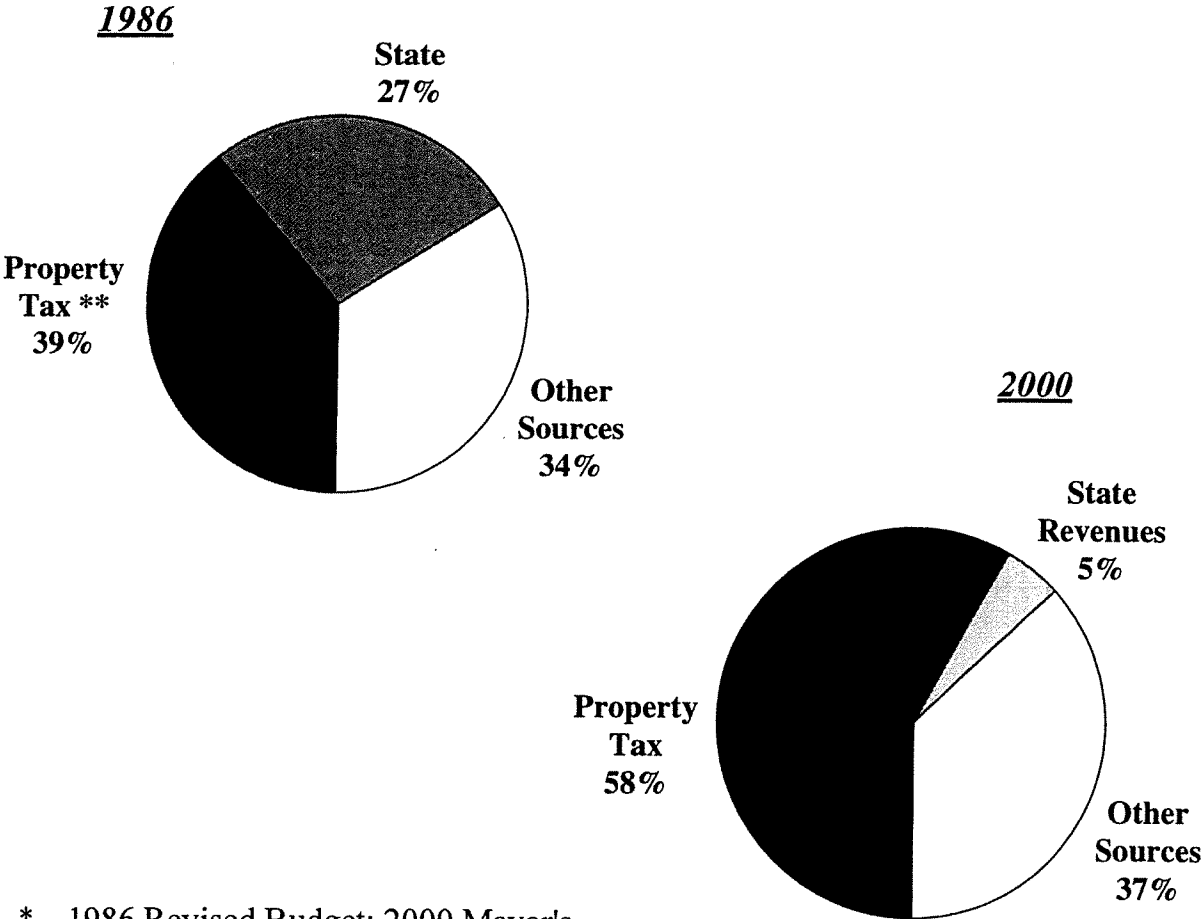


\* 1986-1999 Revised Budgets; 2000 Mayor's Budget

\*\* 1986 used as base.

Adjustments have been made to the General Government Operating Budget over the last decade to absorb inflation, and accommodate for reductions in State and federal revenue sharing. State and federal mandates such as ADA requirements and underground storage tank removal, have contributed to increases in expenditures in order to meet associated requirements. A major reason for the increase in property taxes over the past many years, however, is a direct response to reductions made by the State to Safe Communities Funding (which replaced the former Municipal Assistance program in 1997) and State Revenue Sharing. The following charts illustrate the effect of the tax shifting caused by the State's revenue reductions.

**General Government Operating Budget  
Revenue Sources  
1986 - 2000 \***

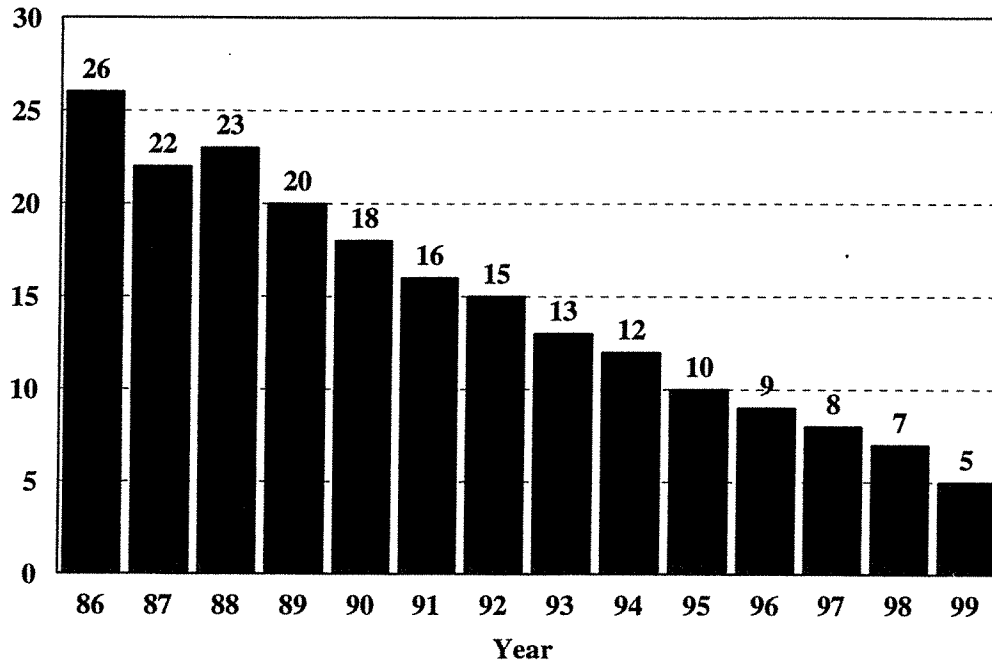


\* 1986 Revised Budget; 2000 Mayor's Budget

\*\* Including taxes on new construction.

## State Revenues as a Percentage of General Government Operating Budget 1986 - 1999 \*

Percent



\* 1986 - 1999 Actual Revenues received.  
1986 - 1999 Revised Budgets.

There has been a dramatic decline since 1986 in the amount of state revenue support for local government services. As a result, the percentage of local property taxes required to fund the general government budget has increased proportionately.

Since 1986, annual Safe Communities Funding/State Revenue Sharing to the Municipality has decreased \$44 million. Consider the following facts about the impact of legislative actions on the owner of a \$180,000 Anchorage home:

- Safe Communities Funding and Revenue Sharing cuts since 1986 totaled a cumulative \$371 million in 1999. This represents a cumulative tax burden of approximately \$4,600 to the owner of a \$180,000 home.
- The unfunded amount of the senior citizen/disabled veteran tax exemption totals \$99 million over the same period. The fact that the State originally started fully funding this program and then gradually reduced that funding to \$0 has created a cumulative tax burden of more than \$1,200 on a \$180,000 home.
- \$724, or 40%, of the 1999 property tax bill for city services, assuming a \$180,000 home, is directly attributable to State reductions since 1986 in Safe Communities Funding and Revenue Sharing and the lack of State funding for the mandated senior citizen/disabled veteran tax exemptions.

### ***3. ECONOMIC TRENDS AND OUTLOOK***

1999 will be Anchorage's 11th consecutive year of economic growth. Beyond 1999 the outlook is for the economy to remain stable with modest growth of 1%-2%. The State Department of Labor forecasts that Anchorage will experience 2,400 new jobs per year between 1999-2000, primarily in the services, transportation, trade and manufacturing sectors. The service sector includes healthcare, engineering, architects, computer services, and law firms. The construction industry in 1999 is projected to have \$587 million in projects and add 425 jobs. The only major job category anticipated to decline in 1999 is in the oil industry.

Health care, retail, finance and other services accounted for nearly two-thirds of the jobs created since 1990. While the oil industry still controls about 25% of the dollar value of the economic output, other sectors are strong and are less driven by oil prices and oil employment.

Low inflation and interest rates, together with a strong, diversified economy, helps to explain the continued high level of construction activity in Anchorage. Federal employment levels, particularly military appear to have stabilized. Growth in air cargo and tourism continue to be cornerstones to a larger, broader, healthier economy in Anchorage.

Oil prices have rebounded significantly since the first quarter of 1999. British Petroleum's acquisition of ARCO is still expected to result in the loss of at least 400 company jobs as well as many additional industry support jobs.

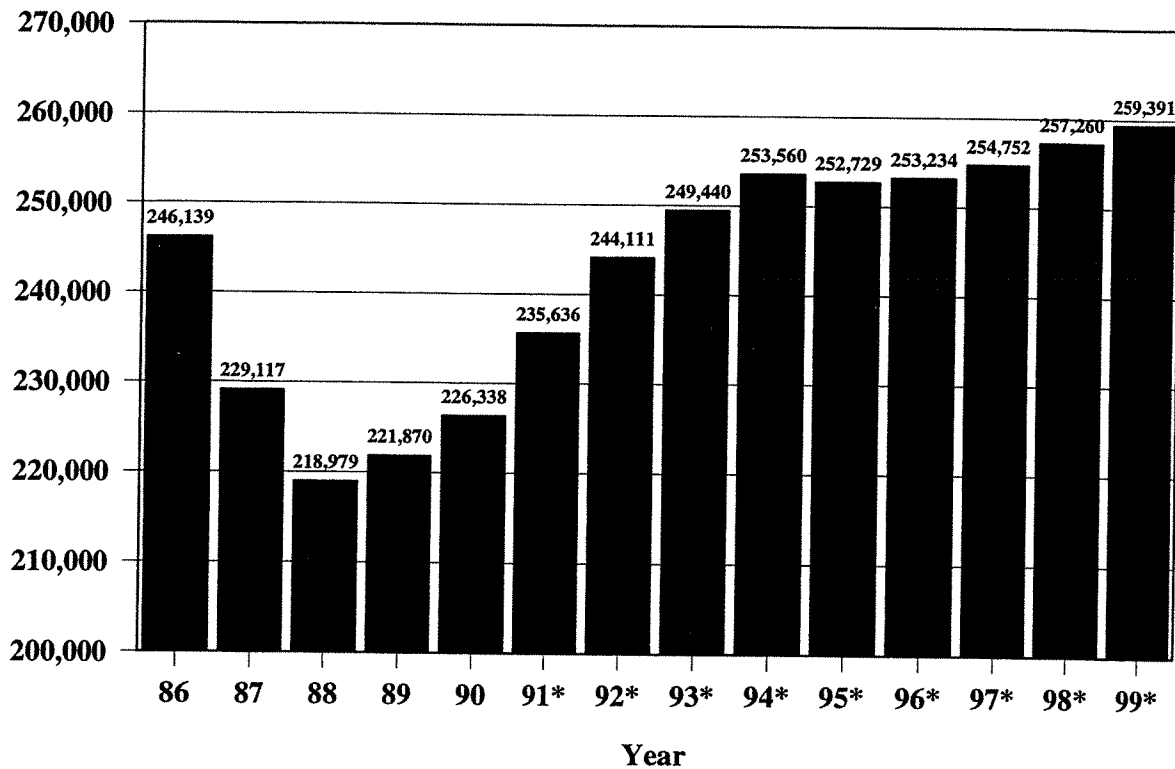
Because of its more diversified economy, Anchorage has shown resiliency in absorbing the loss of oil and gas industry jobs and military jobs over the past several years. There are fewer higher paying jobs today than there were ten years ago and Anchorage's economy has consequently changed its shape. While oil industry jobs in Anchorage have decreased in recent years, new jobs such as newly based United Airlines cargo pilots have helped balance out some of the effects of lost oil jobs.

Increases in services, air cargo handling, telecommunications, manufacturing, trade and the visitor sector employment is expected to offset oil industry job losses.

## *Major Economic Indicators (Population, Inflation, Assessed Valuations, New Construction)*

**POPULATION** — Since 1990 Anchorage's population has grown over 14%, significantly higher than the national average of approximately 9%. In the past year, Anchorage's population increased from 257,260 to an estimated 259,391. The Department of Labor projects that Anchorage's population will grow on average 1% per year over the next five years. The school age population is expected to decline slightly over this time period while the senior citizen population is expected to exhibit the strongest upward trend.

**Anchorage Population  
1986 - 1999**

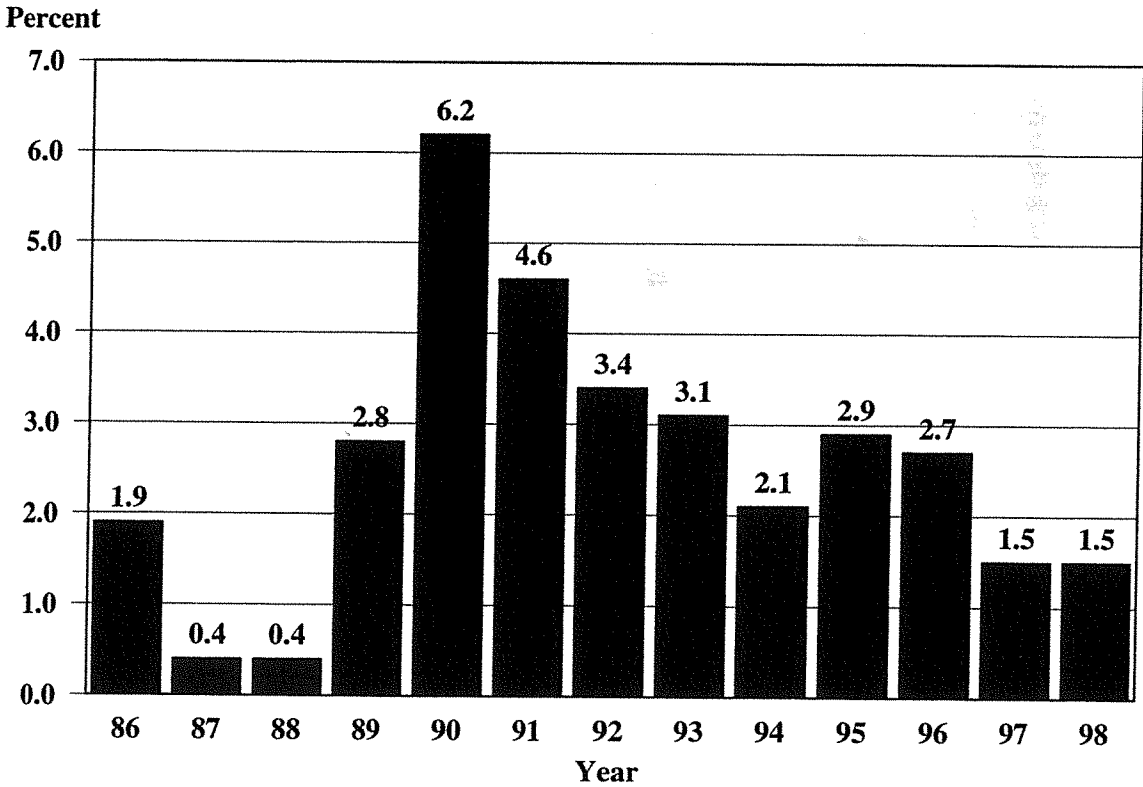


\* The 1991-98 totals reflect revised estimates made by the Alaska Department of Labor (September, 1999)

Source: U.S. Census, Alaska Department of Labor and Municipality of Anchorage, Community Planning and Development Department.

**INFLATION** — The Consumer Price Index for Urban Consumers (CPI-U) measures price changes (inflation) in consumer expenditures such as housing, transportation, food & beverage, medical care, apparel, recreation and other goods & services. Inflation in 1998 was 1.5% for the second year in a row due in part to relatively flat housing prices. Inflation for budgetary purposes is assumed by the administration to be 2.0% for 2000. The most recent Alaska Department of Revenue estimate for long-term inflation rate is 2.2%. An update to the state's projection is not expected until November of 1999. The medical care component of the CPI-U continues to be the driving inflationary force with 7-9% annual increases in recent years while housing costs and food/beverage costs have only risen 1-2%.

**Anchorage Consumer Price Index (CPI-U)  
Annual Change for All Items  
for All Urban Consumers  
1986 - 1998 Historical Trend**

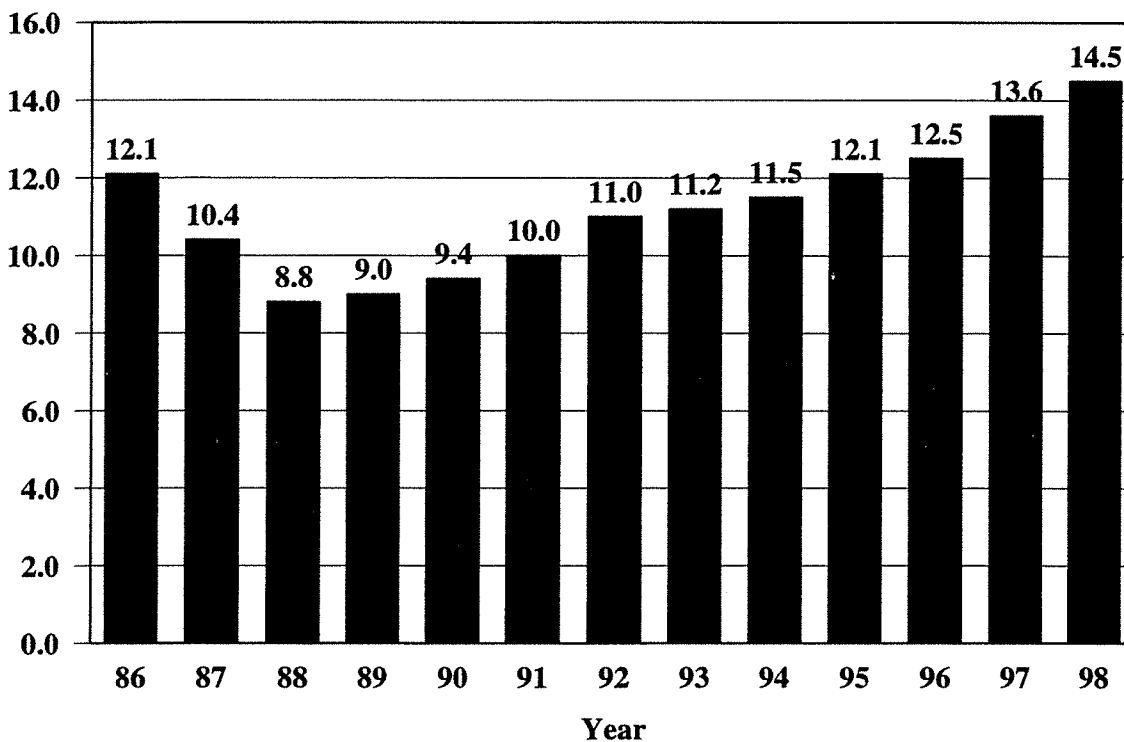


Source: U.S. Department of Labor, Bureau of Labor Statistics

**ASSESSED VALUATIONS** — As shown below, assessed values have rebounded since 1990 such that they now exceed the peak levels of the mid-1980's. Due to the positive trends in new construction coupled with active market trends, assessed values are expected to moderately increase during the period 2000-2005.

**Assessed Valuation of Real and  
Personal Taxable Property  
1986 - 1998 Historical Trend**

**\$Billions**

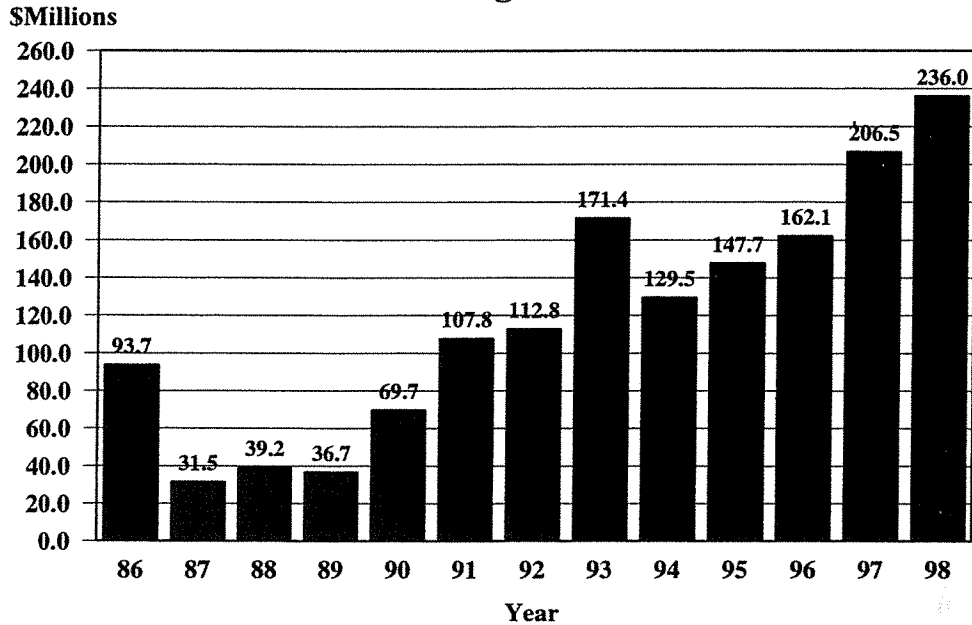


**NOTE** The total number of real property parcels appraised in 1998 (for the 1999 mill levies) is 89,843. Values shown above include residential property, personal property, commercial property, and Utility Net Plant (i.e., MUSA).

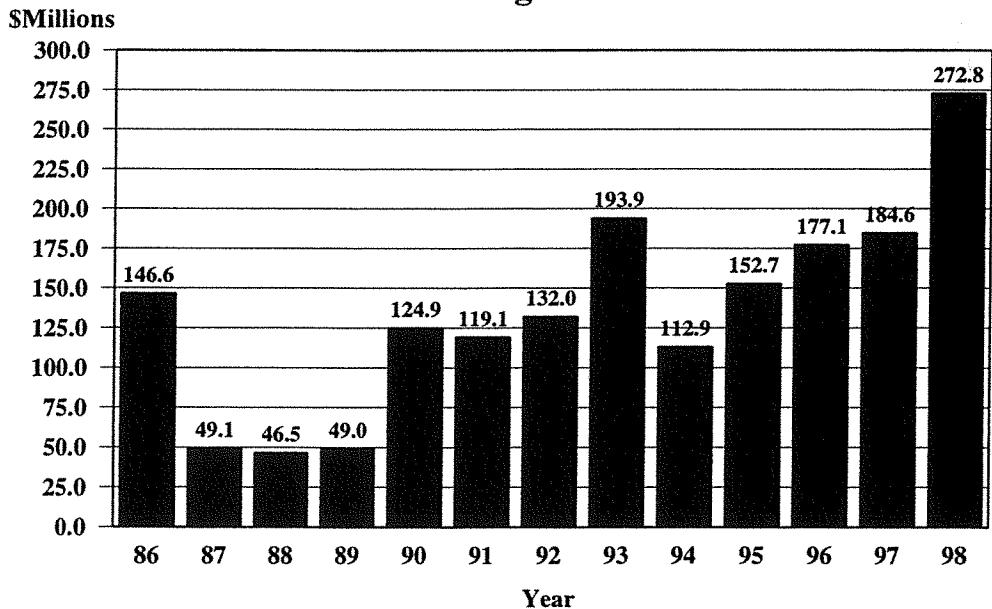
Source: Property Appraisal Division, MOA

**NEW CONSTRUCTION** — Anchorage’s construction activity peaked at slightly over the half billion dollar mark in 1998. Although new construction valuation is expected to be slightly lower in 1999 than in 1998, it continues to be very strong. Commercial construction valuation continues to exceed residential — 64% of total 1999 valuation at June 30 — indicating Anchorage’s continued economic stability. Current forecasts from the construction community are that these levels will continue into next year.

### Residential Building Permit Dollar Value



### Commercial Building Permit Dollar Value



Note: The graphs shown above are based on recorded permit activity. The dollar values shown represent estimated values prior to construction. Permits are issued for all construction regardless of whether it is taxable. These figures may not correspond with those used in the tax cap calculation for taxable new construction.

Source: Public Works Department, MOA



## ***Major Opportunities/Concerns***

Economic opportunities affecting Anchorage abound. Our primary economic development task is to assist the private sector in pursuing opportunities. We also must be aware of the concerns facing our City so we can take appropriate steps to address their impact. Below is a list of opportunities and concerns:

### **Current and Future Economic Activities and Opportunities**

- Creation of new jobs (*construction, service, and retail*)
- Continuation of commercial construction activity (*hotels, retail stores, food/beverage/entertainment establishments, State and Municipal facilities, local schools, utility infrastructure*)
- Sustained, healthy level of residential construction activity (*new housing units, renovation of existing stock, subdivision platting and development*)
- Creation of Business Improvement District for Downtown
- Continued growth in tourism and convention industry
- Enhancement of All-Season tourism (*Girdwood area development, Alaska Native Heritage Center, Potter Marsh Nature Center, multi-use trail system expansion*)
- Ship Creek area development/revitalization, working with Alaska Railroad
- Development of Anchorage as a seafood center for fisheries industry statewide (*Alaska Salmon Research and Fisheries Support Centers, private aquarium*)
- Expansion of Anchorage International Airport
- Increased use of Anchorage International Airport as a global logistics, international warehousing and cargo distribution hub
- Relocation of new industries to Anchorage (*seafood processing and distribution, software development, light manufacturing*)
- Increased activity and infrastructure expansion at the Port of Anchorage (*multi-purpose dock, Cook Inlet navigation improvements, improved road access*)
- Allocation of Transportation Equity Act for the 21<sup>st</sup> Century (TEA-21; formerly known as "ISTEA") funds for transportation projects (*roads, trails, overpasses, bridges, beautification, air quality*)
- Allocation of Community Development Block Grants (CDBG) to fund projects which improve quality of life and revitalize low income neighborhoods
- Increased development of smaller, marginal oil fields (*North Star, Badami, Alpine, West Sak, Tarn, Liberty, Sourdough*)
- Transportation of natural gas from North Slope
- Development of new oil exploration within National Petroleum Reserve lands
- Settlement dollars from Exxon Valdez Oil Spill
- Undersea fiber optic cable from Lower 48 to Alaska
- Rebound of the Asian economy and its effect on exports, tourism, and oil revenues

## **Current and Future Economic Concerns**

- Continuing trend in labor arbitration awards which view the Municipality as having "deep pockets"
- Continued decline in Prudhoe Bay oil production
- Oil price volatility
- Potential escalation of interest rates and inflation
- Continued trend of health costs rising at rates many times that of inflation
- Continued decline in State revenues to Anchorage
- Shifting of State or Federal responsibilities to local government without adequate funding (*i.e., unfunded mandates*)

## ***4. PUBLIC SERVICES AND CAPITAL PROJECT FUNDING***

Public services and capital project funding enhance the quality of life in Anchorage by:

- making our City safer, cleaner and healthier
- responding effectively to fire, rescue and emergency medical situations
- balancing responsible development with rational environmental concerns
- improving our roadway public transportation systems
- providing cultural, recreational and educational activities and programs
- providing critical human services to people in need

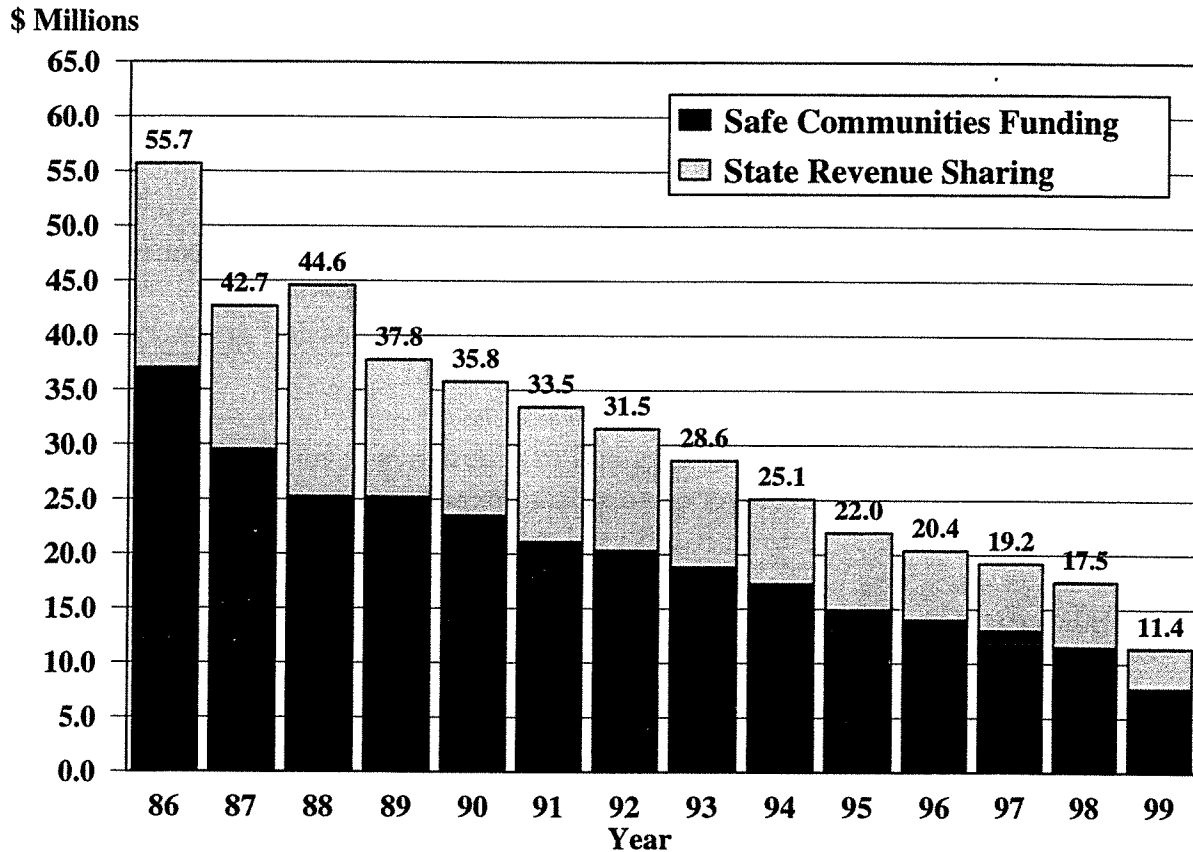
Unless significant expenditure reductions and/or alternative revenue sources occur in the future, the local property taxpayer can expect to experience an increased tax burden.

### ***State Revenues (Operating and Capital)***

Since 1986, Safe Communities Funding (which replaced the former Municipal Assistance Program in 1997) and State Revenue Sharing have decreased an average of nearly 13% per year. In 1999, alone, the Municipality experienced an unexpected cut of 35%, or \$6 million, which led to immediate budget cuts and the elimination of a proposed property tax decrease. We believe Alaskan cities have shouldered a disproportionate share of State revenue reductions. Local taxpayers have experienced an increase in the property tax burden in direct proportion to the cuts made by State government to Safe Communities Funding and Revenue Sharing. Should the State continue with *tax shifting* the Municipality will need to find additional ways to reduce expenditures or increase revenues through an increase in property taxes or other sources.

The following graph illustrates the dramatic decrease in State operating assistance over the last fourteen years:

### Safe Communities Funding\* and State Revenue Sharing 1986 - 1999



**Does not include the one-time double payment received in 1997 due to a change in the program payment date.**

\* In 1997, the State legislature changed the name of Municipal Assistance to "Revenue Sharing for Safe Communities."

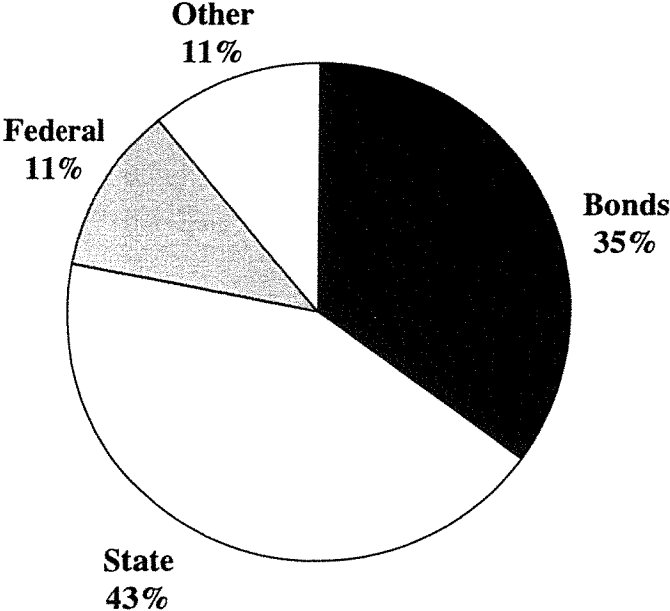
Increasingly the State has been balancing its budget on the backs of local taxpayers through reductions to the Safe Communities Funding and Revenue Sharing programs. As this graph indicates, this tax shifting has been occurring since 1986.

NOTE: The cumulative effect since 1986 of the cuts made to Safe Communities Funding/Revenue Sharing totaled a cumulative \$371 million in 1999 in nominal dollars.

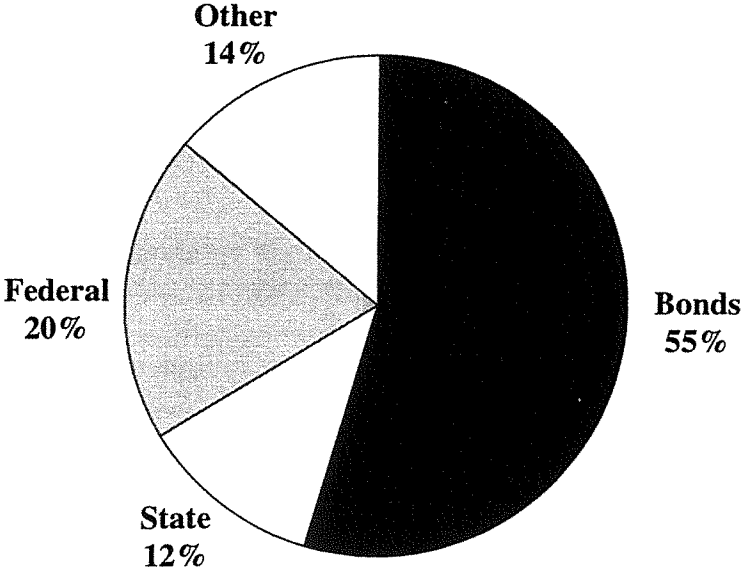
Over the last several years there has been a dramatic decrease in the amount of discretionary capital funding that the State has granted to Alaskan cities. As a result, there has been a change in our capital funding approach. The Municipality's capital budget currently focuses more on obtaining State matching grants (as opposed to discretionary grants) and relies more heavily on voter-approved bonds to provide local funds for match purposes and to help offset the reduction in State capital funding. The following charts demonstrate the trend toward increased local funding of capital projects:

**Capital Funding Requested  
Funding Sources as % of Total Capital Budget  
1995/2000 Comparison**

**1995 Mayor's Budget**



**2000 Mayor's Budget**



## ***Tax Cap Limit***

The tax limitation was established by Charter amendment through the initiative process in October of 1983.

The tax limit is set each year based on the amount of taxes levied in the prior year adjusted for debt service, inflation, and changes in population (5-year average population).

The Charter allows certain exclusions as part of determining the total allowable level of taxes. Specific examples of exclusions are new construction and property improvements, taxes required to fund the costs of judgments entered against the Municipality and items specifically approved by the voters as outside the tax cap such as voter approved operation and maintenance costs for bond-funded capital projects.

Factors such as population growth, new construction, inflation, and additional debt service are all expected to be significant components in the calculation of future tax caps. Since Mayor Mystrom took office in July 1994, and including his current 2000 Operating Budget, the City has been consistently under the tax cap and the cumulative tax cap savings to local taxpayers totals nearly \$73 million.

## ***Anchorage School District***

Although this report addresses mainly general government concerns, it is important to remember that the Anchorage School District has a significant impact on Anchorage property taxes.

The Anchorage Municipal Charter grants the Mayor and the Assembly the responsibility for determining the level of taxes that the community will pay for the support of the Anchorage School District; where those dollars are spent is the responsibility of the Anchorage School Board.

Anchorage taxpayers continue to shoulder an ever increasing burden to pay for our schools. The School Budget Advisory Commission (SBAC) has consistently stated that the quality of the education system is not directly related to the level of spending. According to the SBAC's March 1999 report to the Assembly, over the past three years District spending has grown about 25% faster than that of the City. In addition, taxes paid to support the District have grown about 50% faster than those paid to support the City and five times as fast as the number of students.

The Administration will continue to closely monitor the level of the Anchorage School District budget. Over the past five years, the Mayor-appointed School Budget Advisory Commission has played an important role in challenging the School District to find better ways to contain growth in their budget.

## ***5. FISCAL PROJECTIONS AND POTENTIAL STRATEGIES***

We recognize that there are a number of significant fiscal challenges which we should prepare ourselves for in the coming years. Examples include

- further declines in State revenues
- health insurance costs nationwide may continue to rise
- interest rates and inflation may also rise
- unfunded federal/state mandates

As discussed below, the three major alternative strategies to help us work through potential future fiscal challenges involve:

- broadened tax base through economic development
- expenditure options
- revenue options

The alternative strategies presented below are for discussion purposes only. They are not intended to be recommendations.

### **PROJECTIONS**

The previous four sections of this report have helped to provide the background and perspective necessary to support the six year fiscal projections which follow. Without a comprehensive view of historical trends, accomplishments over the past 5 years, and the current fiscal environment, the numerical projections would not be fully understood. Below is a recap of the key areas discussed in the previous 4 sections of the report which provide the basis for the numerical projections:

- Administration accomplishments over the past 5 years, many of which have had a favorable fiscal impact on the City.
- Historical budget-related trends
- Historical economic trends and general outlook in major areas impacting the City such as population, inflation, assessed values and new construction
- Current and future economic activities and opportunities
- Other fiscal environment consideration such as State revenues, tax cap limit, debt service and O&M costs, and Anchorage School District



**SIX YEAR FISCAL PROGRAM  
PROJECTIONS OF REVENUES & EXPENDITURES (in \$ Millions)  
2000-2005**

<b>Six Year Budget Projection Assumes Continuation Level Budget</b>	<b>2000 Oper'g Budget</b>	<b>PROJECTIONS</b>				
		<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
<b>REVENUES</b>						
Federal Revenues (no decrease beyond 2000)	\$0.41	\$0.41	\$0.41	\$0.41	\$0.41	\$0.41
State Revenues (no decrease beyond 2000)	14.32	14.32	14.32	14.32	14.32	14.32
Local Revenues (+1.0% per yr beyond 2000)	69.09	69.78	70.48	71.18	71.89	72.61
Property Taxes (+1.5% beyond 2000-due to new constr. only)	147.80	150.02	152.27	154.55	156.87	159.23
Fund Balance Applied (beyond 2000 assume the annual average fund balance applied in years 1994-1999)	8.01	7.95	7.95	7.95	7.95	7.95
IGC's (+1.1% beyond 1999)	16.19	16.37	16.55	16.73	16.91	17.10
<b>TOTAL REVENUES</b>	<b>\$255.82</b>	<b>\$258.85</b>	<b>\$261.98</b>	<b>\$265.15</b>	<b>\$268.37</b>	<b>\$271.62</b>
<b>EXPENDITURES</b>						
Personal Services (step/longevity increases only -- +0.62% beyond 2000) *	\$144.41	\$145.31	\$146.21	\$147.12	\$148.03	\$148.95
Debt Service, net of retirements (projected for all 1999 and prior authorized debt)	29.75	28.75	27.75	26.75	25.75	24.75
Other (+2.25% beyond 1999)	81.66	83.50	85.38	87.30	89.26	91.27
<b>TOTAL EXPENDITURES</b>	<b>\$255.82</b>	<b>\$257.56</b>	<b>\$259.34</b>	<b>\$261.16</b>	<b>\$263.04</b>	<b>\$264.97</b>
<b>FISCAL SURPLUS/SHORTFALL--REVENUES OVER/(UNDER) EXPENDITURES</b>	<b>(\$0.00)</b>	<b>\$1.30</b>	<b>\$2.64</b>	<b>\$3.99</b>	<b>\$5.33</b>	<b>\$6.66</b>

\* All known contractual obligations have been factored into the 2000 expenditure base.

**Note 1:** The Six Year Projections of Revenues & Expenditures shown above represent the projected result if we:

- (1) realize a very modest growth in total revenues,
- (2) assume negligible growth in total expenditures, and
- (3) maintain the current level of service to the public through the year 2005.

There are a number of fiscal impacts affecting both revenues and expenditures which could lead to budgetary shortfalls, some of which are cited in the matrix on the following page. Any fiscal shortfalls that might result would require appropriate fiscal solutions to be implemented.

**Note 2:** Due to rounding, amounts shown above may not total exactly.

**SIX YEAR FISCAL PROGRAM  
FUTURE POTENTIAL REVENUE & EXPENDITURE IMPACTS (in \$ Millions)  
2000-2005**

The cumulative effect of potential fiscal impacts shown below have been provided for analytical purposes only to provide policy makers the opportunity to project the dollar impact of future fiscal policy decisions.

*For a downloadable Excel spreadsheet of future potential revenue and expenditure impacts, please visit our website at [www.ci.anchorage.ak.us](http://www.ci.anchorage.ak.us)*

**FOR ANALYTICAL PURPOSES ONLY**  
(six-year cumulative effect of potential fiscal impacts)

	2000	2001	2002	2003	2004	2005
State Revenue Decrease (5% per year)	(\$0.58)	(\$1.14)	(\$1.66)	(\$2.16)	(\$2.64)	(\$3.09)
State Revenue Decrease (33% cut/yr -- last 2 years of a potential 3-year phase out)	(\$5.83)	(\$5.83)	\$0.00	\$0.00	\$0.00	\$0.00
Wage Increase (annual avg. increase of 1.5% per yr.)	\$0.00	(\$2.52)	(\$5.08)	(\$7.69)	(\$10.33)	(\$13.03)
Medical Insurance (annual avg. increase of 7% per yr.)	\$0.00	(\$1.00)	(\$2.07)	(\$3.22)	(\$4.45)	(\$5.76)
Additional Debt Service costs (assuming 70% passage for all bonds proposed in 2000-2005 CIB/CIP)	\$0.00	(\$2.25)	(\$4.51)	(\$6.76)	(\$9.01)	(\$11.27)
Additional O&M Costs for all projects cited in the 2000-2005 CIB/CIP (assuming 70% of the funding requests are realized)	\$0.00	(\$0.30)	(\$0.38)	(\$0.43)	(\$0.75)	(\$1.69)
Mandated Service Increases (flat \$500K per year)	\$0.00	(\$0.50)	(\$1.00)	(\$1.50)	(\$2.00)	(\$2.50)
Discretionary Budget Increases (flat \$1M per year)	\$0.00	(\$1.00)	(\$2.00)	(\$3.00)	(\$4.00)	(\$5.00)

**Note 1:** Using 1999 as a base year, a 1% decrease in State Revenue equates to approximately \$116,561 in lost revenues. Additionally, a 1% Cost of Living Adjustment (COLA) equates to approximately \$1.7M in additional labor costs.

**Note 2:** The 1.5% average annual wage increase shown above is not specific to any particular labor group. The 1.5% figure reflects the inflation rate used in the Tax Cap calculation over the past 2 years.

**Note 3:** Numbers shown above in brackets would result in an increased fiscal shortfall.

The base model for the six year fiscal projections shown on Page 5-2 reflects very conservative growth assumptions in revenues and expenditures. In reality a number of potential fiscal impacts exist which should also be considered by policy makers. For analysis purposes, the cumulative effect of key potential fiscal impacts is shown on Page 5-3.

## **POTENTIAL STRATEGIES**

### ***Broadened Tax Base Through Economic Development***

Economic development is important to the City in that it leads to a broadened tax base and minimizes the amount of tax support required of existing taxpayers. As high paying oil industry jobs are eliminated, we must strive to replace them with other high paying jobs from different sectors to further diversify and strengthen our local economy.

If the Municipality of Anchorage is to continue to provide an adequate level of government services to its residents and if Anchorage is to maintain a strong, stable, diversified economy, we must aggressively work toward encouraging economic development. We have already made significant progress toward making Anchorage a better place to live. The more attractive we can make our City, the more new businesses and visitors will realize what a great place Anchorage is to live, work and visit.

In the coming years the Administration anticipates economic development to occur in a number of key areas or projects:

- Anchorage International Airport expansion (global logistics and cargo hub expansion)
- Alaska Seafood International
- Alaska Salmon Research and Fisheries Support Centers
- Continued growth of tourism and convention business
- Oil development within National Petroleum Reserve lands
- Ship Creek area development/revitalization
- Port of Anchorage
- Girdwood area development
- Transportation Equity Act for the 21st Century (TEA-21; formerly known as "ISTEA") and Community Development Block Grant projects

## ***Expenditure Options***

The following is a list of potential ways to reduce or contain Municipal expenditures:

- **Labor Policy** — Continue to bring Municipal compensation (wages and benefits) more in line with the private sector and to seek changes in our labor agreements which will enable us to deliver public services in the most productive and cost effective manner. Since wages and benefits comprise nearly two-thirds of the operating budget, not including debt service, labor costs have a significant impact on the ability to provide an acceptable level of public services.
- **Efficiency Measures / Consolidation** — Provide government services using fewer resources through improved work methods and scheduling.
- **Increased Automation** — Provide more complete and timely information through the prudent use of automated tools and equipment. By automating manual processes and providing better access to information, decision making will be enhanced and worker productivity will increase.
- **Service Contracting** — Contract for those services that can be delivered more cost effectively by the private sector. Possible areas include contracting to smooth seasonal and cyclical costs, construction project management, and similar activities. Contract out to nonprofits when those organizations can provide services more efficiently and cost effectively.
- **Reduced “Red Tape”** — Change cumbersome, inefficient policies, ordinances and regulations that do not provide enough benefit to be cost effective through a careful evaluation of current methods and processes such as hiring private consulting firms to perform management reviews in specific areas.
- **Increased Use of Volunteers** — Continue to facilitate cooperative efforts between private citizen volunteer groups and local government in order to minimize costs of providing government services and to help clean and beautify our City.
- **Infrastructure Maintained** — Continue to emphasize maintenance and rehabilitation of Municipal infrastructure (roads, parks, trails, facilities, computerized information management systems) so as to limit increases in future operation and maintenance costs. Maximize use of non-Municipal funding sources such as State grants, TEA-21 funds, and CDBG funds to help fund maintenance and rehab projects.

## ***Revenue Options***

While Anchorage enjoys the lowest overall taxes of major American cities, our local property taxes are higher than the average of these cities.

Primarily as a result of declines in State revenues, this increased burden on local property taxpayers cannot be allowed to continue.

In budget year 2000, budget cuts will be instituted in response to a \$6 million, 35% cut in State revenues. Future years will undoubtedly present similar and possibly greater fiscal challenges which the Municipality may not be able to absorb without sacrificing higher priority public services.

In order to provide long-term relief to property taxpayers, ways to diversify our revenue stream should be considered. New permanent revenue sources need to be evaluated for potential implementation in order to maintain our current fiscal stability.

Below is a list of optional sources for new or increased revenues, presented for discussion purposes only.

### **Optional Sources of Revenue**

- **User Fees** — Consider new or increased user fees that may be justified by the cost causer/cost payer principle.
- **Taxes** — As our City continues to grow the issue of whether to move toward a more balanced tax base will necessitate a public discussion among public officials, local business leaders, and interested individuals/organizations. At the time of this Report, the Assembly Budget Committee has already held a series of meetings to discuss alternative revenue sources.
- **Utility Contributions** — Utilities, both public and private, receive government services and therefore should continue to help to support the operation of general government in Anchorage. Continual monitoring needs to occur as to the type and amount of payments made by all utilities, both private and public, so that payments made by utilities to general government for services received are fair and equitable.

## ***6. CONCLUSION***

We will continue our emphasis on maintaining our downward trend in crime. We will continue to work on improving our City's quality of life with a cleaner environment; functional, more attractive roads, more cultural and recreational opportunities; low taxes and utility rates; and sound fiscal policies. We will continue to promote Anchorage, as one of America's most livable cities and in so doing new businesses, visitors and prospective residents will be encouraged to come to Anchorage.

Quality of life will be the most important economic development force of our foreseeable future. The enhancement of our City's quality of life does not come without a cost. As we strive to improve our City, we are faced with declining State revenues. While Anchorage has been identified as having the lowest overall taxes of any major city in America, local homeowners/property taxpayers bear a disproportionate share of the taxes collected. We need to ask ourselves how best to achieve a more balanced tax base. We need to strive to lower property taxes in the future by considering all possible alternatives, for example: pursuing economic development opportunities, decreasing expenditures, and increasing revenues other than property taxes. This Six-Year Fiscal Program has presented some of these alternatives for future consideration.