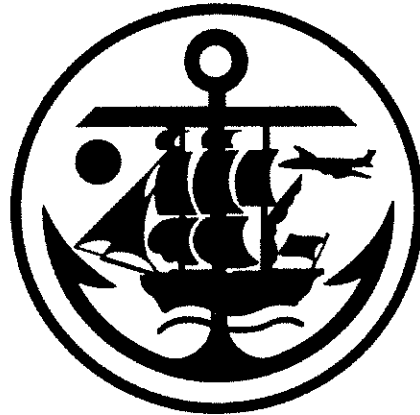


**SIX YEAR FISCAL PROGRAM
1999 - 2004**



Municipality of Anchorage

**Rick Mystrom
Mayor**

1999 - 2004
SIX YEAR FISCAL PROGRAM
MUNICIPALITY OF ANCHORAGE

Rick Mystrom, Mayor

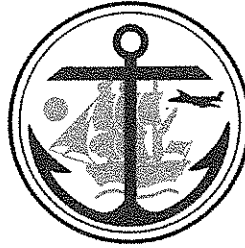
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Rick Mystrom, Mayor

OFFICE OF THE MAYOR

September 29, 1998

Dear Residents of Anchorage:

I am pleased to present the Six Year Fiscal Program for years 1999-2004. This program reflects the Administration's proposed long-term business plan for the Community; it emphasizes this Administration's primary long-term objectives and it illustrates how local government can help to positively shape Anchorage's future.

I am optimistic about Anchorage's future. Anchorage citizens and businesses alike continue to share a sense of confidence and pride in our City, as evidenced by the growth and diversification of Anchorage's economy over the past several years.

One-third of the way into my second term as mayor, I am very pleased with all the positive news about our great City. 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 proud of 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 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 four years related to these five major elements is included in the Six Year Fiscal Program.

"City of Lights and Flowers"


During the course of my second term as mayor, I will continue to emphasize enhancing public safety and maintenance and rehabilitation of municipal infrastructure (e.g., roads, parks, trails, facilities). Particular attention will also be paid to neighborhood revitalization, commercial development, and functional/attractive roadway development.

A number of exciting economic development opportunities exist which we are actively pursuing. Specific discussion of these opportunities is included in the Six Year Fiscal Program. Additionally, we are continuing to work in partnership with the Anchorage Economic Development Corporation, Anchorage Convention and Visitors Bureau, and the Anchorage and Eagle River Chambers of Commerce and other 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 and new businesses to locate in Anchorage.

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 — i.e., economic development opportunities, reduced expenditures, new revenue sources or any combination of these options. 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 am 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 Mystem

Rick Mystem

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 (CAFR)
- General Government Operating Budget
- General Government Capital Budget/Program
- Public 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.

1999 - 2004
SIX YEAR FISCAL PROGRAM
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1. EXECUTIVE SUMMARY

The 1999-2004 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.

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 in Anchorage by 30% 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, \$56 million of funding was secured for a replacement jail facility. In addition, community-based policing is being implemented. 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 the lowest taxes in the nation and with utility rates remaining constant for the past several 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.

Economic Growth -- The outlook for Anchorage's economy continues to be strong. New construction in 1998 is at a near-record level. Interest rates and inflation continue to be low. The Oil & Gas sector is in the midst of a turnaround both in terms of employment opportunities and new exploration. The State Department of Labor estimates 4,000 new jobs will be generated over the next two years.

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 will be constructing a one-stop Permit and Development Center.

Quality of Life -- We must also capitalize on the unique cultural and recreational activities that Anchorage and Alaska provide. If we can provide our children with rewarding outlets through sports, cultural and recreational activities, this will help to reduce juvenile crime. A number of new capital projects are in progress which will engage our youth — Dempsey Anderson II, South Anchorage Sports Park, Skateboard Park, and Mountain View Community/Recreation Center (a public/private partnership).

Fiscal Concerns -- One of the financial challenges facing the Municipality is how to achieve our goals despite the declines in State revenues. 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 *tax shifting* from the State government to local government. Unfunded federal and State mandates have also resulted in an increase in property taxes.

Fiscal Opportunities -- The potential impact of the sale of the Anchorage Telephone Utility will be of prime consideration in the coming year. The results of the invitations to bid are expected to be known October 14, 1998.

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) current level of services to the public maintained through the year 2004. 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.

* * * * *

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.

2. BACKGROUND

MAJOR ACCOMPLISHMENTS

This subsection 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 1997 were down significantly from 1996 in all categories. Comparisons of the 1997 crime rate per 100,000 population to 1995 show how much crime conditions have improved in the last two years. During the last two calendar years, Anchorage has experienced the following reduction in crime:

- 28% decrease in homicides
- 36% decrease in rape
- 43% decrease in stolen autos
- 32% decrease in burglary
- 27% decrease in assaults
- 20% decrease in theft

The crime statistics are a positive sign that Anchorage is moving toward being the city we all want, but there is still work to be done. The 1999 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

1998 Public Safety accomplishments include the following:

- \$56 million of funding was secured from the Alaska Legislature for a new 384 bed jail to replace the Sixth Avenue Jail.
- Voters approved Anchorage Fire Service Area bonds to proceed with new fire stations in the areas of Jewel Lake/Sand Lake, Downtown and Eagle River.
- Alternative funding sources (e.g., 1997 budget savings and federal grant appropriations) were identified for a mobile data terminals in police vehicles which will allow quicker access to information promoting operating efficiency and officer safety.
- The Police Department was reorganized to expand community based policing throughout the entire Anchorage Metropolitan Police Service Area.
- Two new police substations were established in Fairview and in South Anchorage, raising the total number of community police substations to twelve.
- A police recruit academy commenced in August 1998 in order to maintain full staffing of our force. At full strength in 1998, we will have 356 sworn officers compared to 248 sworn officers actually on board in November 1994 -- this equates to a 44% increase in the number of sworn police officers over the past 4 years.

Public Safety remains this Administration's #1 funding priority. Over the course of the past year, 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 \$15 million in future debt service costs. The balance of the surplus was then dedicated to help offset property taxes in the future.
- Our fire and emergency medical response capabilities are increased in the 1999 budget. The fully integrated fire and emergency medical services have improved emergency response times, while the number of emergency calls continue to increase due to population increases. In 1999, our major emphasis on public education and cost-effective fire and emergency medical response will continue.

Economic Development

Anchorage's unique geographic location, strong 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.

Oil and gas industry continues to play a major, positive role in Anchorage's growing economy. 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 future for Alaska and Anchorage. Over the past year, ARCO and BP have announced billions of dollars of investment 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 halt or even reverse 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 mass transport of natural gas from the North Slope.

Anchorage International Airport (AIA) In November 1997 AIA announce 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. Vacationers and business travelers' first exposure to Alaska is the AIA. Anchorage is the passenger gateway to Alaska. 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 by double digits over each of the past three years. The transportation and access corridors play an important part in the future growth of the cargo business in Anchorage. AIA has established itself as one of the world's major air cargo airports. More than two dozen international cargo carrier have operation at AIA and the airport is ranked number one in America, based on the landed-weight of all-cargo planes.

An important transition has been taking place with the air cargo industry at AIA. A growing number of carriers are beginning to utilize AIA as more than just a transit stop and are establishing cargo transfer and hub operations. United Airlines, for example has established its trans-Pacific hub operations at Anchorage. Polar Air and Lynden, Inc. have 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.

Increased tourism has spurred a boom in hotel construction throughout the City as a result of strong, consistent growth in tourism. Over the past 4 years the tourism industry

has grown by 4% annually. Over the past two years at least nine new hotels have been constructed or are in process, the largest of which is the 400-room Columbia-Sussex Hotel which is currently being constructed in the downtown area. The \$14.8 million Alaska Native Heritage Center, due to open in 1999, will be a significant tourist attraction. In 1998 eleven cruise ships docked at the Port as compared to zero in the previous year. Work continues on promoting Anchorage as an all-season tourist destination industry in Anchorage. In addition, news was announced over the past year that 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 1998 is shaping up to be the biggest building season since the boom years of the early to mid-1980's. Both private and public sector, residential and commercial, figures are very strong year-to-date. 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 by March 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, streamlined building permit system, low utility rates, newly-built functional/attractive roads, modern utility plant, enhanced recreational opportunities, enhanced facilities of our universities. . . these all are positive characteristics which make Anchorage a more livable and attractive city. In 1997 the Administration also developed a brochure titled "Livable Anchorage" which was 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, additional tourists, and new residents.

Neighborhood Revitalization. Over the past year the Municipality received a planning grant from the U.S. Economic Development Administration to evaluate business development opportunities in its older neighborhoods.

Cleaner, More Livable City

A number of new 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 to be 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 two years. Most recently the Water Utility received recognition for the “Best Tasting Water in the U.S.” and the Solid Waste Disposal Utility received preliminary notification that it is to receive the gold medal for best overall landfill operation in America. Over the past year, Reader’s Digest ranked Anchorage as one of the best fifty places in America to raise a family. Anchorage was previously recognized for having one of America's best trail systems.

Renaissance zones in lower income areas of Anchorage have also been identified as potential recipients of Community Development Block Grant (CDBG) funds to continue revitalizing our neighborhoods. In 1996 the Hollywood Vista Complex was demolished with the help of CDBG funds to make way for a private developer to construct modern residential housing. CDBG funds have additionally been used to improve public safety and enhance the appearance of Fairview neighborhood streets as well as to provide beautification grants to Renaissance Zone neighborhood groups.

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 \$6 million facility is expected to be built in record time due to partnering with the Boys and Girls Club.

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

Labor Contracts

During the first round of labor contract negotiations, this Administration successfully completed negotiating all labor contracts with the exception of the Fire contract. Progress was made in changing leave programs so that they more closely model the private sector.

The Administration also managed to hold wage increases to moderate levels for all represented labor groups. Negotiated labor contracts contained improved work rule provisions which are expected to result in hard dollar savings and increase the productivity of municipal workers.

Beginning in late 1997 and throughout the summer of 1998, labor contracts for Joint Crafts Council and IBEW/ML&P were renegotiated, which maintained and/or improved upon the results in the last round of negotiations. The remaining three labor contracts are again up for re-negotiation in 1998. The Administration will continue its efforts to ensure that wages, benefits and work rules are comparable to the private sector in the Anchorage community.

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 and will save the taxpayer millions of dollars. 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

- 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 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 amongst the 51 largest cities of the U.S. In every category and household income measure Anchorage showed the lowest percentage of income paid to taxes.

Anchorage Telephone Utility

During the budget process in the fall of 1997 it became apparent that the Anchorage Telephone Utility (ATU) dividend to General Government was in jeopardy due to competitive market pressures. ATU management indicated that the 1998-99 dividend to General Government was expected to be less than initially projected. As a result of concern over the ATU dividend level, the issue of whether to sell ATU came to the forefront of public debate. A comparison of the estimate of ATU's value and the potential earnings of ATU sale proceeds trust fund could generate demonstrated that the Municipality's investment risk would decrease and earnings would increase if ATU were privatized. In April of 1998 nearly 63% of the Anchorage voters voted to sell ATU at fair market value. On June 25, 1998 invitations to bid were mailed to prospective bidders and interested parties. Bids are due October 14, 1998. Once the successful bidder and the ATU sale price are known more evaluation will occur as to the financial benefits of the sale of ATU.

Budgets

Tax Cap. The Administration's 1999 proposed operating budget is \$1.5 million below the Tax Cap. With the passage of the 1999 Proposed operating budget, the accumulated Tax Cap savings to local taxpayers over the past five budget cycles totals nearly \$36 million. 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 Administration's proposed 1999 operating budget reflects a status quo budget compared to 1998 except for voter approved increases (e.g., bond debt service costs), public safety funding requirements, Year 2000 computer solution/accounting system replacement increase and Paratransit ADA Federal mandate increases. Overall, the proposed 1999 operating budget represents an increase over the prior year of approximately 1.5%.

Municipal Utilities' Operating and Capital Budgets. Since July of 1994, this Administration has filed no utility rate increases for any of the seven 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, Port of Anchorage and Merrill Field Airport). This stability in rates coupled with maintaining modern utility plants make Anchorage a highly desirable location for new businesses to locate. These seven utilities continue to exhibit a strong financial condition and no rate increases have been proposed for 1999.

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 (i.e., utilities) and with the private sector 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) 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.

Over the past four years, voters have approved 77% of the General Government bonds proposed to pay for needed upgrade/enhancement and rehabilitation of highly used public facilities. Also, during the last four calendar years \$71 million of General Government General Obligation bonds have been paid off compared to the \$81 million of General Government General Obligation bonds sold/added.

The City will continue to work closely with the State in developing the 3-year Transportation Improvement Plan which prioritizes transportation projects within Anchorage.

New Construction and Enhanced Infrastructure

Over the past several years Anchorage has experienced very strong levels of new construction, both private sector construction and public sector construction. Below is a partial listing of many examples of major construction activity.

Private Sector Development

- New major retail establishments (i.e., Home Depot, Mapco, Tesoro, Barnes & Noble, GAP)
- New hotels (Columbia Sussex Marriott Hotel, Courtyard by Marriott, Hampton Inn, Fairfield Inn, Microtel, Clarion Hotel, Hawthorn Suites, Ramada Limited, Residence Inn)
- New eating and entertainment establishments (Outback, Pizza Hut, Sullivan's Steak House, City Market, Act III Theatres, Century Theatres).
- new cargo facilities (Federal Express, UPS, Penn Air, Alaska Air, Lynden, Mapco/Lynx)

- Oil & Gas sector related (Mapco fuel pipeline, marginal oil field development related projects such as Northstar modular construction)
- Manufacturing (Alaska Seafood Center)
- Strong, near-record-level residential home construction

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 to 15th Avenue--L Street to Sitka
- Intersection Safety Improvements at Lake Otis & Tudor
- Traffic Calming Road Improvements within Fairview
- East Northern Lights Blvd. Rehab and Beautification-Lake Otis to Muldoon
- Whittier Access Tunnel
- Minnesota/International Airport Road Interchange
- Seward Highway-Bird Creek to Girdwood
- Recycled Asphalt Pavement (RAP) program resulting in covering 24 miles of gravel roads within the bowl area over the past two years
- Road Improvement District (RID) program to reconstruct subdivision streets
- Port multi-purpose dock expansion
- Cook Inlet Navigation Corridor Improvement Project (Knik Arm Shoal)
- Anchorage Loop Water Transmission Main Project
- Replacement Financial Information and Payroll/Human Resource Management System
- New schools (Goldenview and Mirror Lake Middle Schools)
- New hospitals (Native hospital and Elmendorf Hospital)
- New Commissary Exchange at Elmendorf Air Force Base
- University of Alaska Anchorage (UAA) Student Housing
- 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 two 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. Overall, the web site 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. Over the past year, Municipal job postings were added as an enhancement to the Municipal Web Site. Future enhancements to the Website which are currently being contemplated include offering on-line payment capability for select municipal services such as to pay fixed building permit fees. In addition, the Website is being considered for use as a tool in community-based policing. Over the past year the Municipality's Website was honored by Anchorage Economic Development Corporation (AEDC) with a "superior rating" for website design.

Anchorage Bowl Comprehensive Plan 2020. The preparation of a new Anchorage Bowl Comprehensive Plan, which will provide guidance for the City's development over the next twenty years, is well under way. The Comprehensive Plan will streamline and improve public and private community development decisions for many years to come. This plan will be based on our community's vision of the future. It will present goals, policies, and strategies which can be used to guide our daily urban design decisions. Resources have been made available to produce data to do trend and population analysis, develop and identify essential planning districts and provide interface with current planning activities, and to develop transportation plans which are all necessary for the update of our Comprehensive Plan.

Municipal Building Permit Process. The Administration has implemented many recommendations received from a consultant as well as suggestions received from developers and builders 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:

- 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

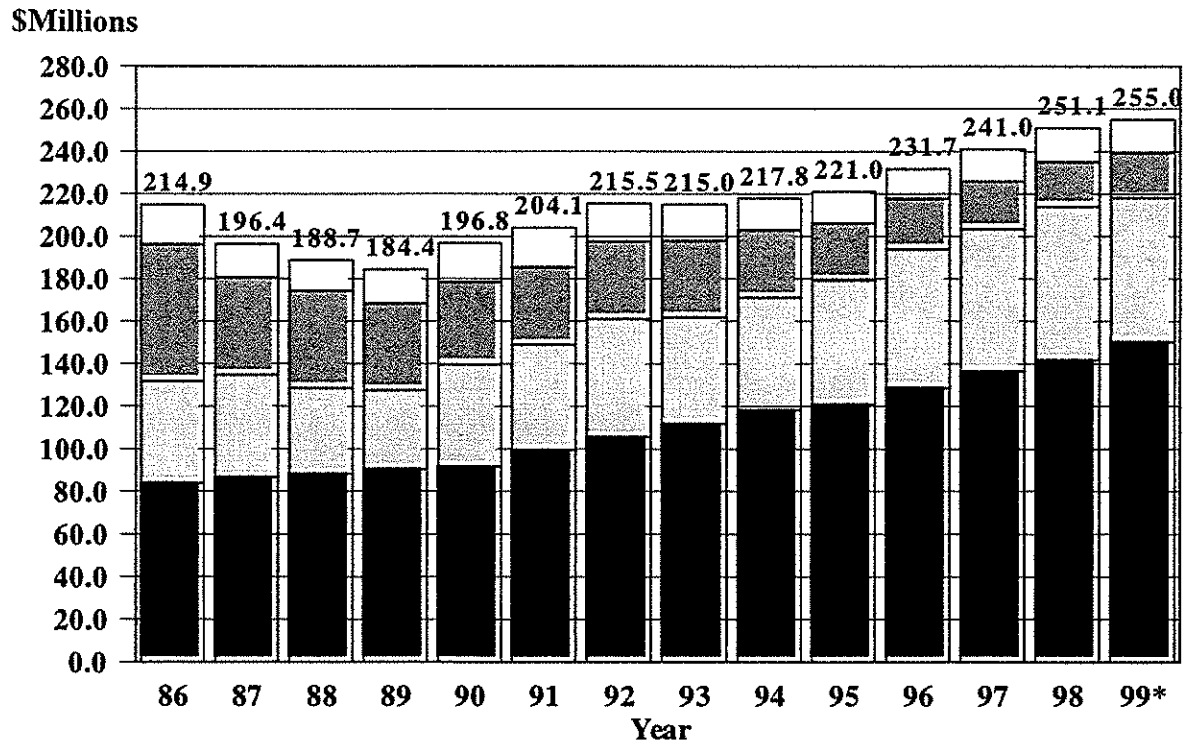
After one year the results of this major initiative are very encouraging. The 1995/96 processing time for residential building permits has now been reduced from 3-5 weeks to five days or less.

Financial Information/Human Resources/Payroll System. In August 1997 the Administration recommended and the Assembly approved a vendor contract to provide a new Financial Information/Human Resources/Payroll System. This new system will replace the existing system which is technologically obsolete and not Year 2000 compliant. Once implemented, the new system will provide an integrated, real-time, intuitive system which will improve timeliness and accuracy of information as well as reduce the need for redundant shadow systems. This new system also brings with it the opportunity to re-engineer government processes to become more efficient and effective in delivering government services.

BUDGET TRENDS

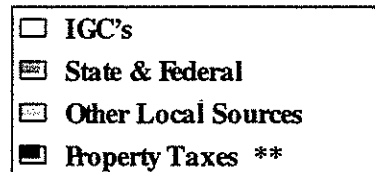
Reductions have been made to the General Government Operating Budget over the last decade to absorb inflation, react to a major economic downturn and adjust for reductions in State and federal revenue sharing. State and federal mandates (e.g., ADA requirements and underground storage tank removal) have 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 cuts made by the State to Safe Communities Funding (which replaced the former Municipal Assistance program in 1997) and State Revenue Sharing — this effectively is a *tax shifting* from State to local government.

General Government Operating Budget Revenue Sources 1986 - 1999 *

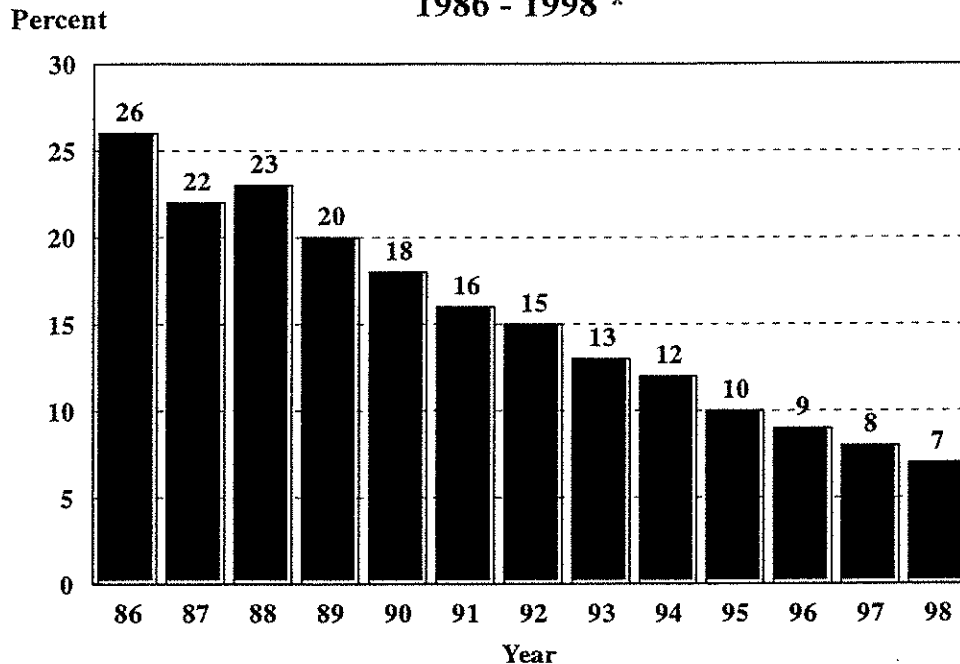


* 1986 - 1998 Revised Budgets; 1999 Proposed Budget.

** Including taxes on new construction.



**State Revenues as a Percentage of
General Government Operating Budget
1986 - 1998 ***



* 1986 - 1998 Actual Revenues received.
1986 - 1998 Revised Budgets.

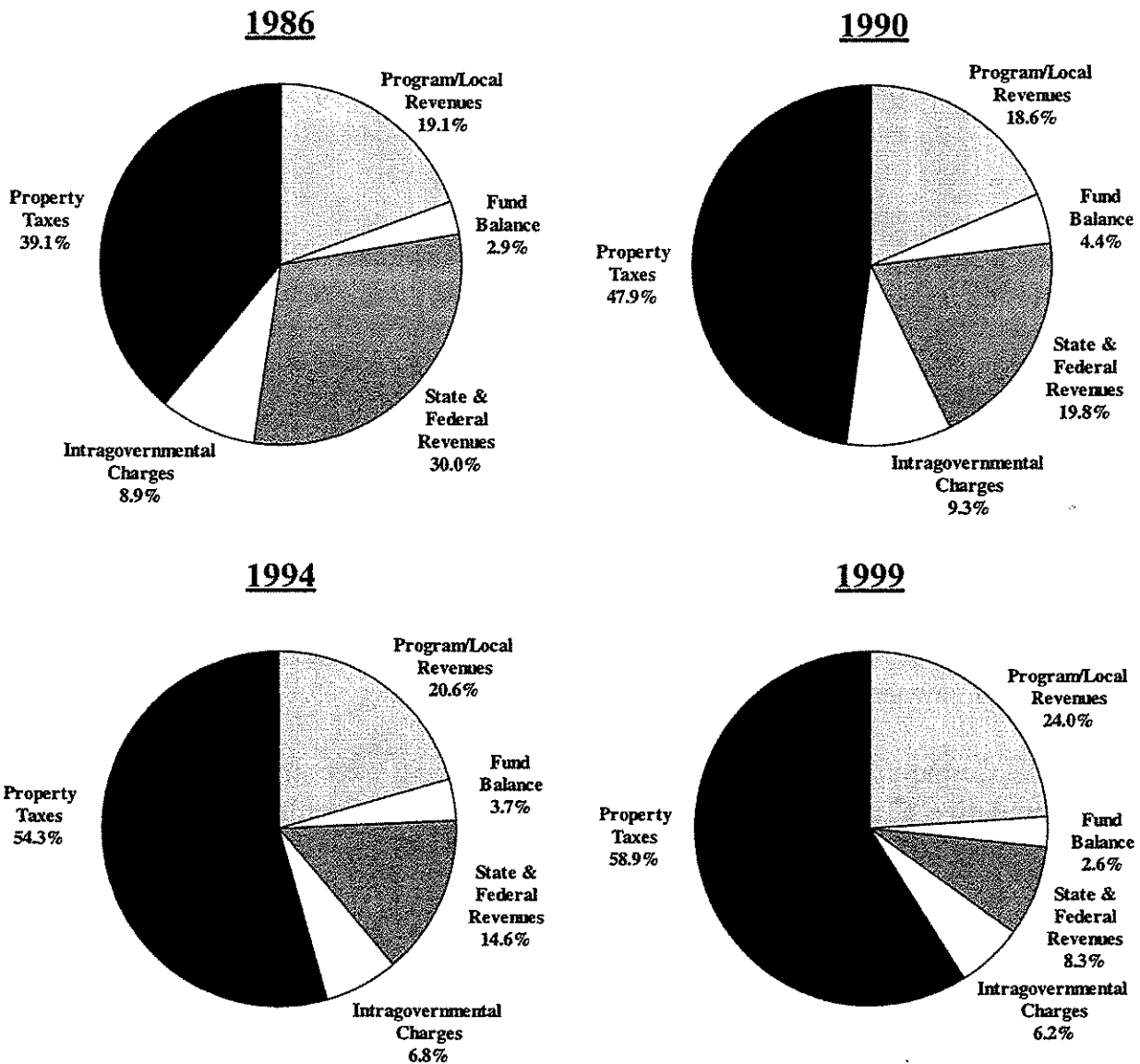
There has been a dramatic decline since 1986 in the amount of state revenue support for local government services. As a result, the percentage of local property taxes required to fund the general government budget has increased proportionately.

Since 1986, annual Safe Communities Funding/State Revenue Sharing to the Municipality has decreased \$38.2 million. Consider the following facts about the impact of legislative actions on the owner of a typical \$180,000 Anchorage home:

- Safe Communities Funding and Revenue Sharing cuts since 1986 totaled a cumulative \$309 million in 1998. This represents a cumulative tax burden of nearly \$4,100 to the owner of a \$180,000 home.
- The unfunded amount of the senior citizen/disabled veteran tax exemption totals \$84 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 \$1,100 on a \$180,000 home.
- \$670, or 36%, of the 1998 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.

The following charts further illustrate the results of the *tax shifting* caused by the State's actions. Namely, property taxes which funded 39.1% of the budget in 1986 now fund more than half (i.e., 58.0%) of the budget in 1999.

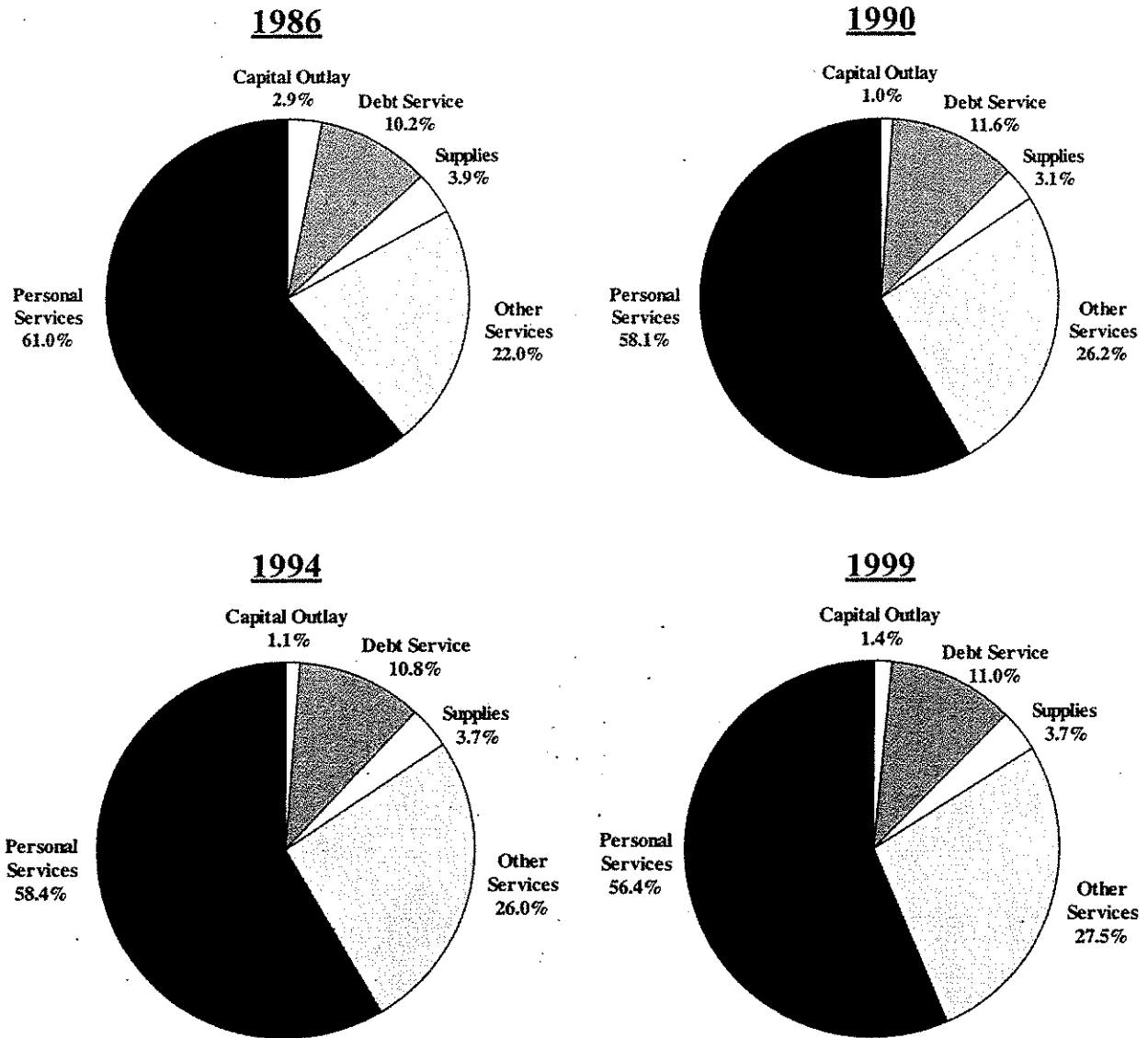
Operating Budgets by Source of Funds 1986 - 1999 *



* 1986 - 1994 Revised Budgets; 1999 Proposed Budget.

As shown in the following graph, the proposed 1999 General Government Operating Budget is comprised of 56.5% personal service costs and 11.0% debt service primarily related to general obligation bonds.

**General Government Budgeted Expenditures
Direct Cost by Type
1986 - 1999 ***



* 1986 - 1994 Revised Budgets; 1999 Proposed Budget.

3. ECONOMIC TRENDS AND OUTLOOK

Since 1994, employment in Anchorage has experienced a net gain of approximately 6,400 new jobs. This reflects gains of approximately 4,900 jobs in the service sector and 2,400 jobs in the trade sector; offset by losses of 500 jobs in the mining (i.e., Oil & Gas) sector and 1,300 jobs in the federal government sector.

In 1997 the Anchorage economy grew a healthy 1.48%, adding an estimated 1,791 new jobs. Much of the growth in 1997 can be attributed to the success of health services, air transportation, and communications.

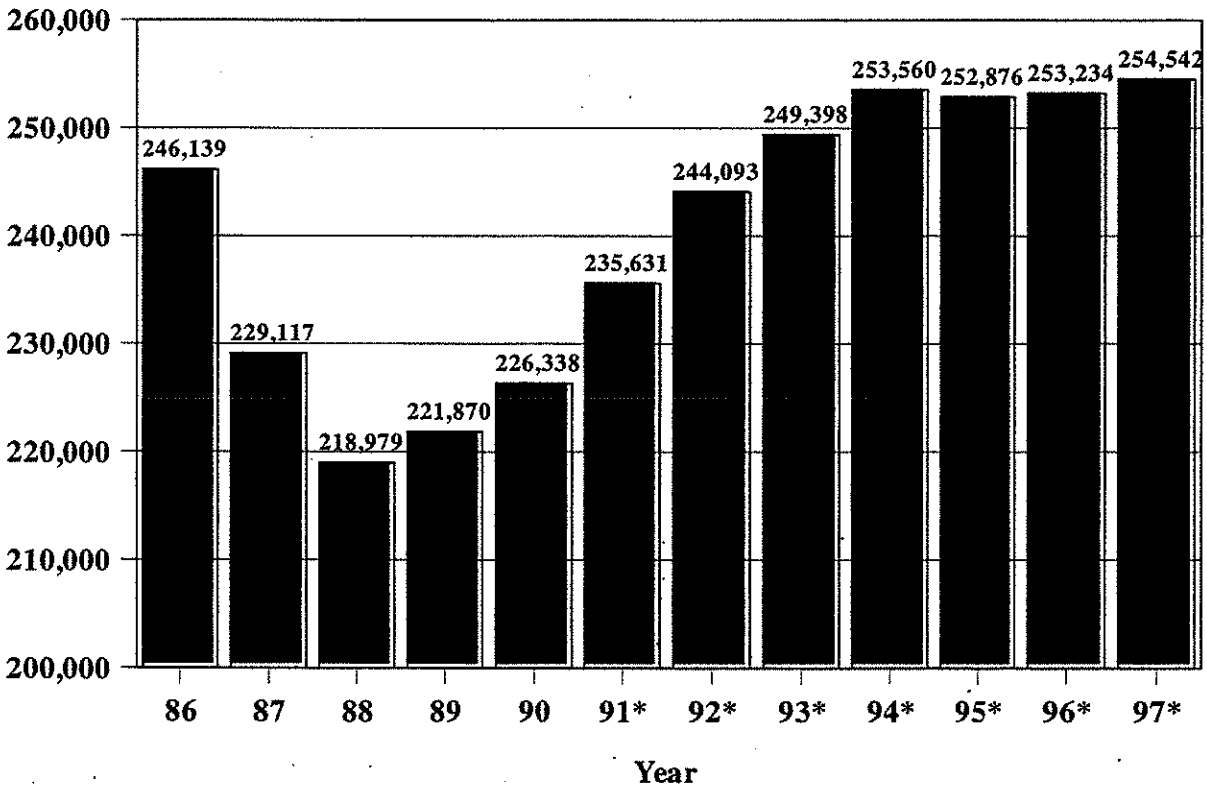
1998 will be Anchorage's 10th year of economic growth. Beyond 1998 the outlook is for the economy to remain stable with modest growth. Fortunately, during the next couple years the rate of job loss trend experienced in the mining (i.e., Oil & Gas) sector over the past several years is expected to reverse itself due to growth in marginal oil field development projects on the North Slope. The State Department of Labor forecasts that Anchorage will experience 4,000 new jobs between 1998-1999, primarily in the services, trade and transportation sectors. New schools have also generated demand for teacher jobs.

Higher paying industries like oil & gas and construction now make up a smaller percentage of Anchorage's jobs than they did a decade ago. Anchorage has shown resiliency in absorbing the loss of oil & 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 patch jobs in Anchorage have decreased in recent years (i.e., most recently, the transfer of Alyeska Pipeline employees to Fairbanks and Valdez), new jobs such as newly based United Airlines cargo pilots have helped balance out some of the effects of lost oil jobs. Unemployment in Anchorage, as well as inflation, remain low which explains in large part near record level construction activity in Anchorage. Federal employment levels (i.e., particularly military) appear to have stabilized. Growth in air cargo and tourism continue to be cornerstones to a larger, broader, healthier economy in Anchorage. Real estate values are expected to appreciate.

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

POPULATION — Since 1990 Anchorage's population has grown 13%. The national average growth rate over the same period was approximately 8%. Anchorage's population has not changed significantly over the past 4 years. The 1998 population in Anchorage is estimated at approximately 258,800 which represents a healthy increase compared to the past several years. The most recent University of Alaska Anchorage's Institute of Social and Economic Research (ISER) mid-case forecast estimates that Anchorage's population growth over the next six years to be 1.3% per year.

**Anchorage Population
1986 - 1997**

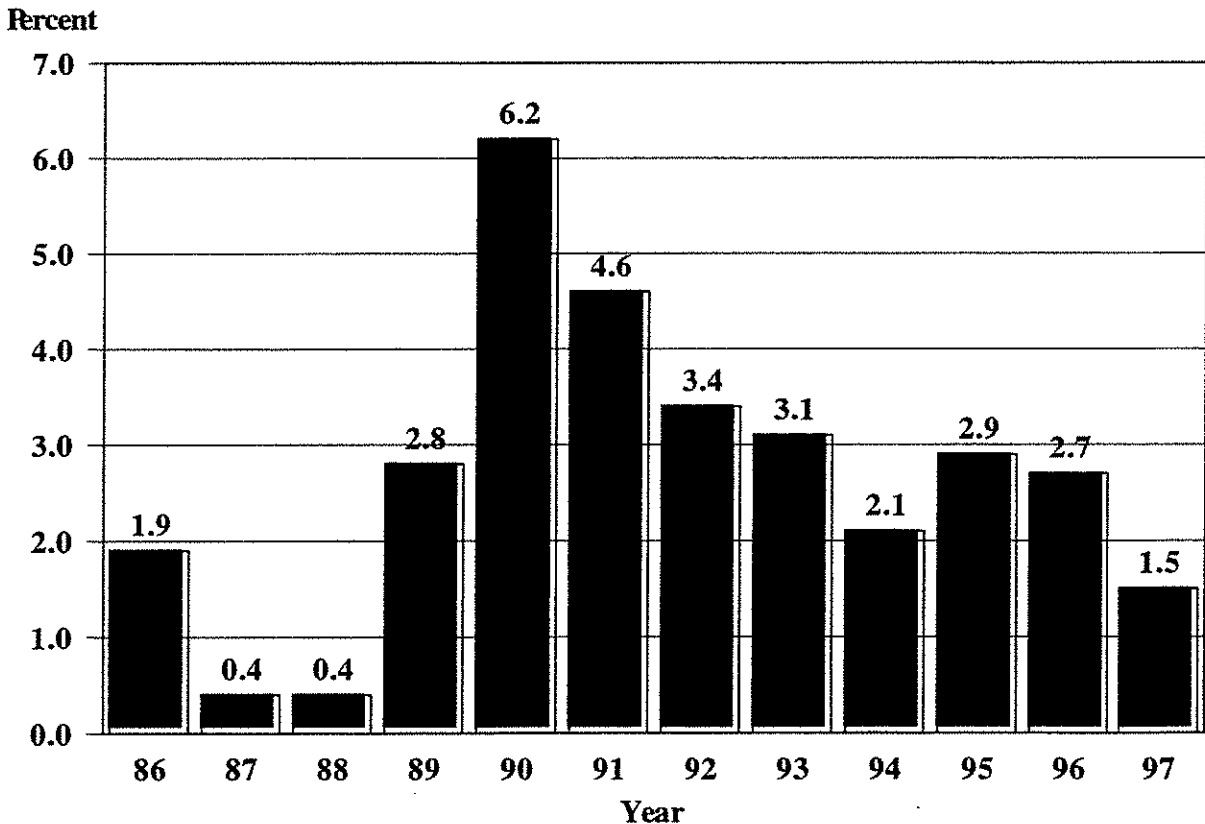


* The 1991-97 totals reflect revised estimates made by the Alaska Department of Labor, August 1998. (Revised 8/27/98)

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

INFLATION — Inflation for budgetary purposes is assumed by the Administration to be 2.0% for 1999. A long-term inflation rate of 2.8% was last projected by the State of Alaska Department of Revenue in November of 1997. An update to the State's projection is not expected until November of 1998. 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%. Also of note, the Municipality's cost of borrowing (i.e., general obligation bonds) has been nearly at close to historic lows with 20-year general obligation bonds being sold at 5.29% interest. Similarly, interest rates available to the private sector have greatly spurred lending for residential and commercial real estate ventures of benefit to new home owners, contractors, real estate agencies and the financial services industry.

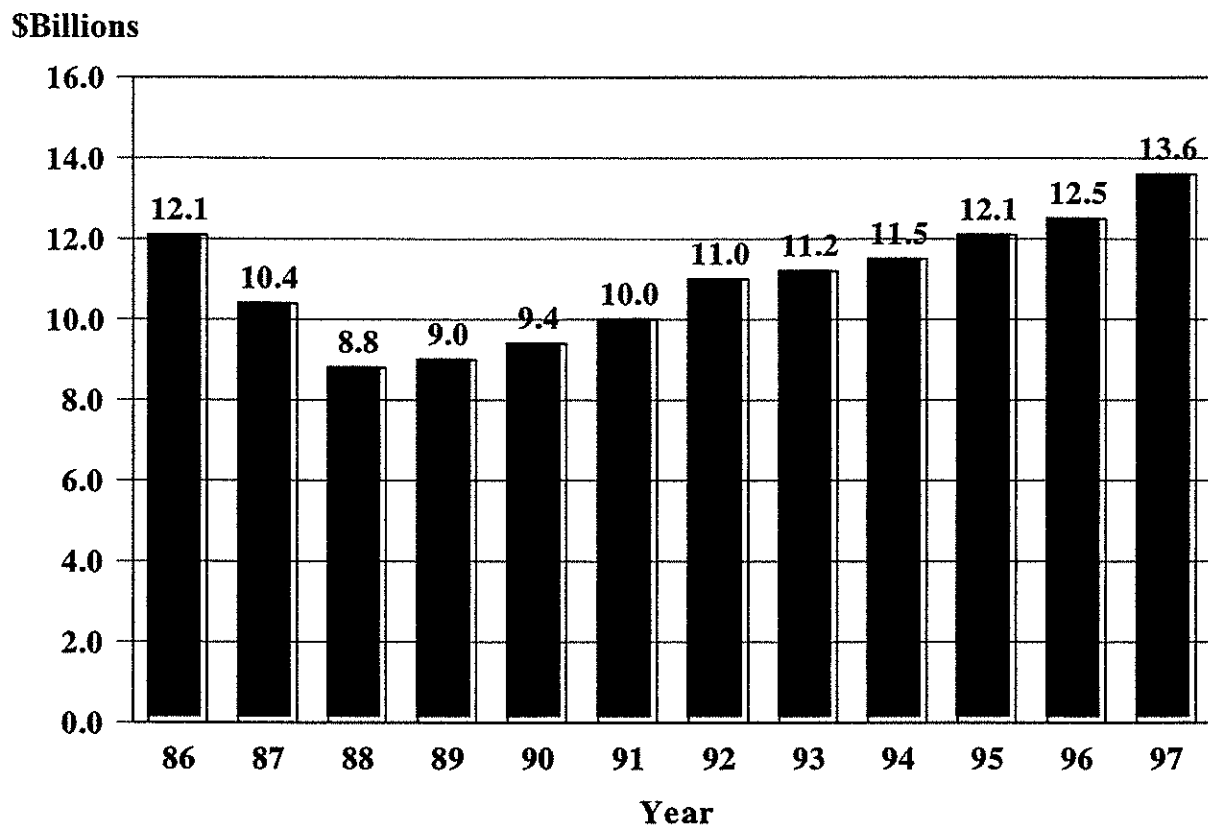
**Anchorage Consumer Price Index
Annual Change for All Items
for All Urban Consumers
1986 - 1997 Historical Trend**



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 1999-2004. Increases in value are expected to occur mostly in new construction and in residential values.

**Assessed Valuation of Real and
Personal Taxable Property
1986 - 1997 Historical Trend**

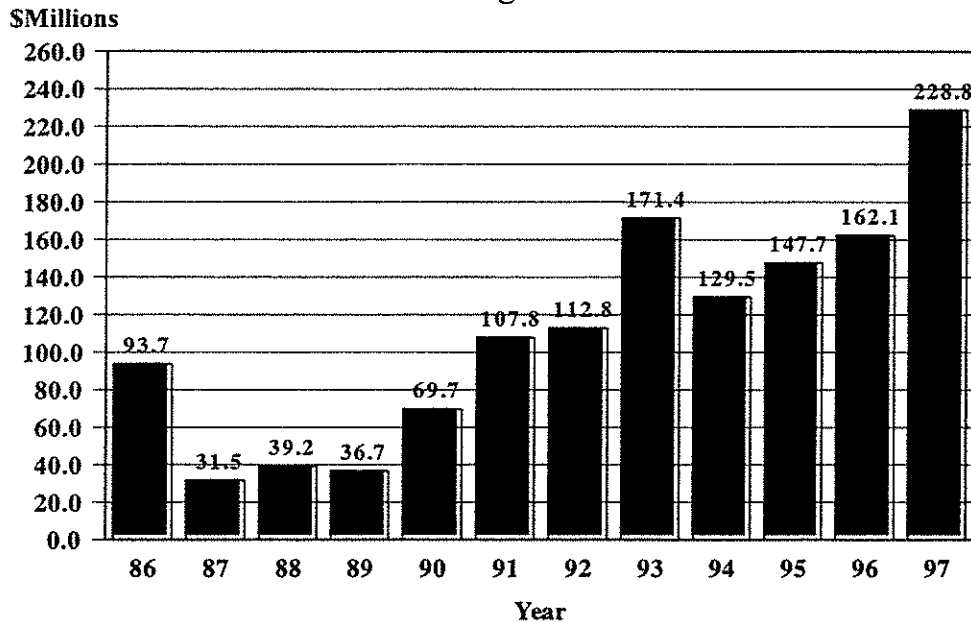


NOTE The total number of real property parcels appraised in 1998 (for the 1998 mill levies) is estimated to be 87,943. Values shown above include residential property, personal property, commercial property, and Utility Net Plant (i.e., MUSA).

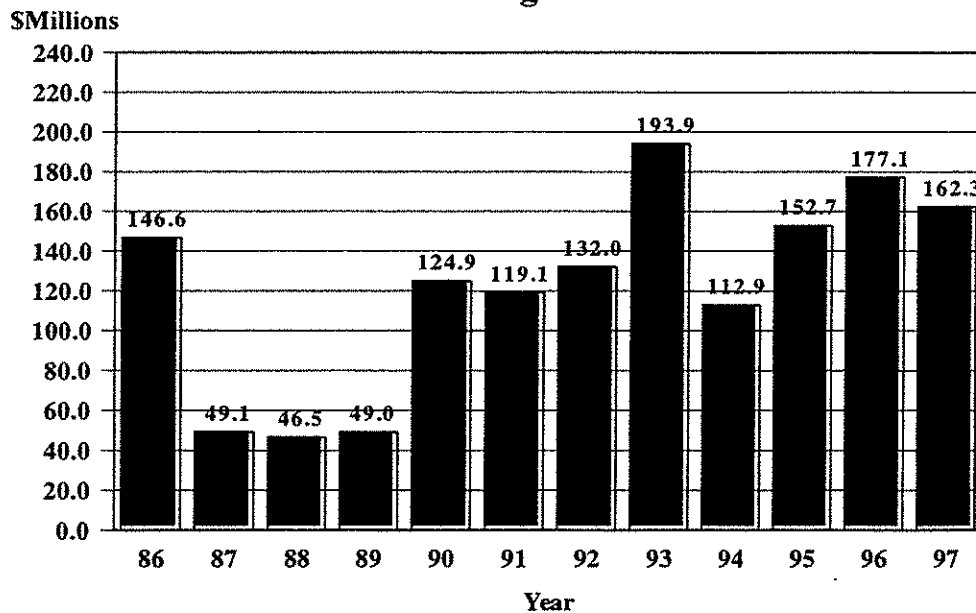
Source: Property Appraisal Division, MOA

NEW CONSTRUCTION — Residential and commercial construction is projected at very strong levels in 1998. Year-to-date figures indicate a 30% increase in construction valuation and permit activity level over the same period last year. Both residential and commercial permit values are especially strong and are approaching near record levels. Construction industry growth over the last two or three years indicates a potentially stronger sustainable construction level for the next several years. The following graphs illustrate recent trends.

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. There is no direct link between these figures and those included in the tax cap calculation (i.e., taxable new construction).

Source: Public Works Department, MOA

Major Opportunities/Concerns

There are many economic opportunities available in Alaska and in Anchorage. 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, retail, oil & gas*)
- Continuation of commercial construction activity (*hotels, retail stores, food/beverage/entertainment establishments, State and Municipal facilities, local schools, University student housing, utility infrastructure*)
- Increased level of residential construction activity (*new housing units, renovation of existing stock, subdivision platting and development*)
- Creation of Business Improvement District for Downtown businesses and tourism
- Continued growth in tourism
- Enhancement of All-Season tourism (*e.g., Ship Creek area development/revitalization, Alaska Native Heritage Center, trails system expansion, Girdwood development, Sealife Center -- a Southcentral Alaska attraction*)
- Development of Anchorage as a seafood center for fisheries industry statewide (*e.g., Alaska Salmon Research and Fisheries Center*)
- Expansion of Anchorage International Airport (*i.e., 10 year Gateway Alaska program*)
- Increased use of Anchorage International Airport as a global logistics, international warehousing and cargo distribution hub
- Relocation of new industries to Anchorage (*e.g., seafood processing and distribution, software development, light manufacturing*)
- Increased activity and infrastructure expansion at the Port of Anchorage (*multi-purpose dock and Cook Inlet Navigation improvements*)
- Allocation of Transportation Equity Act for the 21st 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
- Export of water/associated water bottling plant
- Increased development of smaller, marginal oil fields (*e.g., 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
- Consideration of future effect of any restructuring in Electric Industry
- Sale of Anchorage Telephone Utility
- Settlement dollars from Exxon Valdez Oil Spill

Current and Future Economic Concerns

- Increasing trend in arbitration relative to labor, compensation and benefit issues towards viewing the Municipality as having “deep pockets” and disregarding the cost impacts to the public
- Continued decline in Prudhoe Bay oil production
- Asian Financial Market Crisis and its effect on exports, tourism, oil revenues
- 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

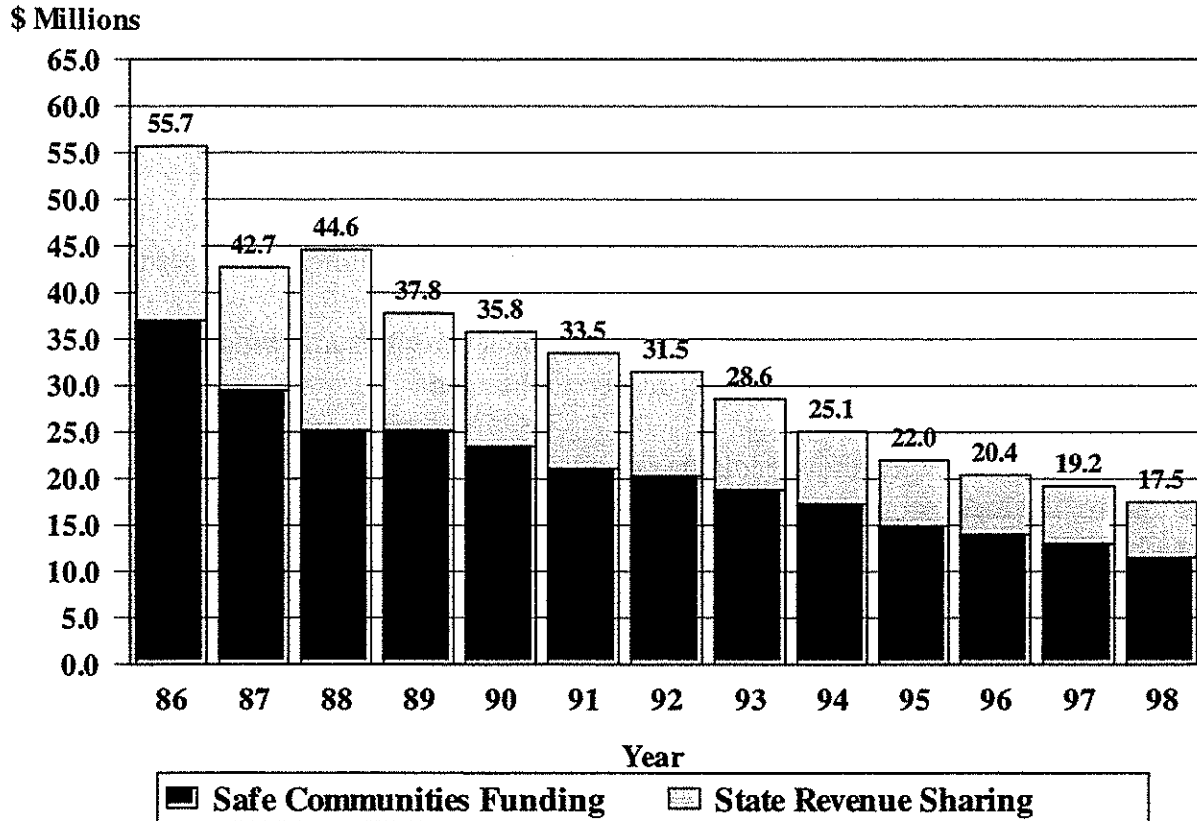
Unless significant expenditure reductions and/or alternative revenue sources occur in the future, the local property taxpayer can expect to experience an increased tax burden which will be driven primarily by voter-approved increases, public safety enhancements, and to support infrastructure maintenance increases.

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 9.0% per year. We believe that Anchorage has taken more than its fair share of cuts to Safe Communities Funding and Revenue Sharing. 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 thirteen years:

Safe Communities Funding* and State Revenue Sharing 1986 - 1998



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

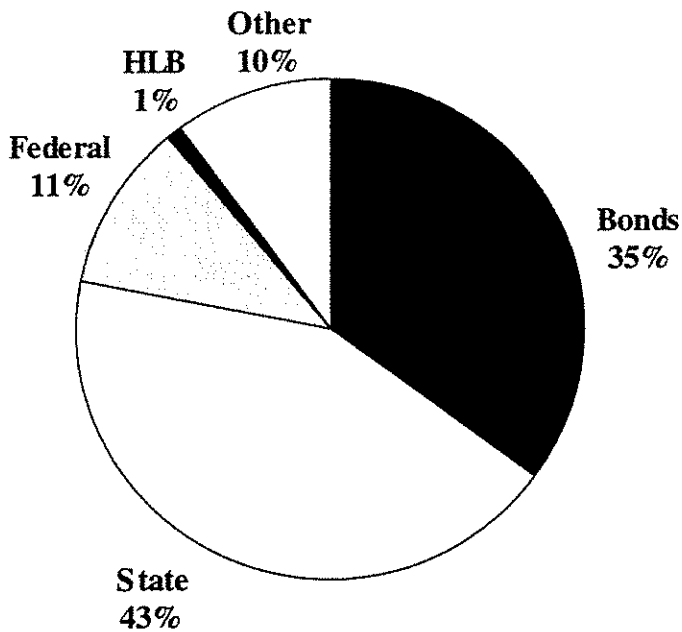
Pressure has been put on the property taxpayer to help shoulder the burden of State revenue cuts. As the graph on Page 2-8 indicated, *tax shifting* from State to local government has been occurring since 1986.

NOTE: The cumulative effect since 1986 of the cuts made to Safe Communities Funding/ Revenue Sharing totaled a cumulative \$309 million in 1998 in nominal dollars.

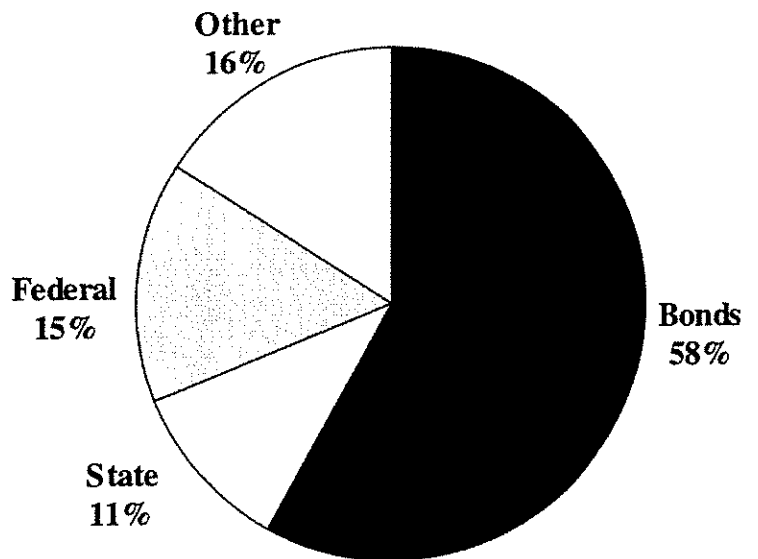
Over the last several years there has been a dramatic decrease in the amount of discretionary capital funding that the State has granted to Alaskan cities. As a result, there has been a change in our capital funding approach. The Municipality's capital budget currently focuses more on obtaining State 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 pie charts demonstrate the trend toward increased local funding of capital projects:

**Capital Funding Requested
Funding Sources as % of Total Capital Budget
1995/1999 Comparison**

1995 Proposed Budget



1999 Proposed 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, changes in prices (Consumer Price Index for Anchorage), and changes in population (5-year average population, using certified data from the Alaska Department of Community and Regional Affairs).

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, debt service on bonds, and items specifically approved by the voters as outside the tax cap (e.g., voter approved operation and maintenance [O&M] 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 July 1994, and including the currently Proposed 1999 Operating Budget, the City has been consistently under the tax cap and the cumulative tax cap savings to local taxpayers totals nearly \$36 million.

Debt Service and O&M Costs

The proposed 1999-2004 General Government Capital Improvement Program (CIP) includes a variety of projects that will help to improve and maintain the City's infrastructure. Most of the capital projects programmed for funding are dependent on future voter approval of bonds and/or future State grants.

The following table estimates the approximate impact on property taxpayers due to increased debt service if 70% of all bond projects in the Proposed 1999-2004 CIP were funded. In addition, the table estimates the net increase in annual operation and maintenance costs if 70% of all projects in the Proposed 1999-2004 CIP were funded.

1999 - 2004 General Government Capital Improvement Program	By Year 2004		
	Estimated Dollar Impact	Average Mill Rate Impact	Estimated Cost Per \$100,000 Valuation
Total projected net increase in annual Debt Service costs	\$9,965,000	.87 mills	\$87
Total projected net increase in annual Operation and Maintenance costs	\$2,411,000	.21 mills	\$21

Voter approved debt service and O&M costs are outside the tax cap, so there is no legal limitation on the source of tax funds to support the construction and maintenance of these new or improved facilities. Each individual bond proposal brought before the voters is evaluated carefully as to whether additional taxes are needed to fund future operation and maintenance of bond-funded Municipal facilities.

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 of 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.

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 1998 report to the Assembly, Anchorage School District property taxes have risen by about 10% per year for five years in a row. This rate of increase is roughly twice as fast as that for City taxes. Such a rate of increase is not sustainable in the opinion of the SBAC.

The Administration will continue to closely monitor the level of the Anchorage School District budget. Over the past four years, the Mayor-appointed School Budget Advisory Commission has played an important role in challenging the School District to find ways to better 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. For example, further declines in State and federal revenues to Anchorage may occur. Health insurance costs nationwide may continue to rise many times the rate of inflation. Interest rates and inflation may also rise and could lead to an economic slowdown. Unfunded federal/state mandates also present a fiscal concern for local governments.

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 as recommendations.

PROJECTIONS

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.

**SIX YEAR FISCAL PROGRAM
PROJECTIONS OF REVENUES & EXPENDITURES (in \$ millions)
1999-2004**

Six Year Budget Projection Assumes Continuation Level Budget	1999 Prop'd Oper'g Budget	PROJECTIONS				
		2000	2001	2002	2003	2004
REVENUES						
Federal Revenues (no decrease beyond '99)	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76
State Revenues (no decrease beyond '99)	20.42	20.42	20.42	20.42	20.42	20.42
Local Revenues (+1.0% per yr beyond '99)	61.22	61.83	62.45	63.07	63.70	64.34
Property Taxes (+1.5% beyond '99--due to new constr. only)	150.23	152.49	154.77	157.10	159.45	161.84
Fund Balance Applied (beyond 1999 assume the annual average fund balance applied in years 1994-1999)	6.63	7.95	7.95	7.95	7.95	7.95
IGC's (+1.1% beyond 1999)	15.69	15.86	16.04	16.22	16.39	16.57
TOTAL REVENUES	\$254.96	\$259.32	\$262.40	\$265.52	\$268.69	\$271.90
EXPENDITURES						
Personal Services (step/longevity increases only -- +0.42% beyond '99) *	\$143.85	\$144.45	\$145.06	\$145.67	\$146.28	\$146.90
Debt Service, net of retirements (projected for all 1998 and prior authorized debt)	28.06	32.18	31.05	29.91	28.78	27.64
Other (+2.25% beyond 1999)	83.05	84.92	86.83	88.78	90.78	92.82
TOTAL EXPENDITURES	\$254.96	\$261.55	\$262.93	\$264.36	\$265.84	\$267.36
FISCAL SURPLUS/SHORTFALL--REVENUES OVER/(UNDER) EXPENDITURES	\$0.00	(\$2.23)	(\$0.53)	\$1.16	\$2.85	\$4.54

* The future fiscal impact of labor contracts re-negotiated thus far in 1998 is factored into the 1999 expenditure base. See next page for illustration of potential fiscal impact of wage increases beyond 1999 which are non-specific to any particular labor group.

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 2004.

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)
1999-2004**

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

	1999	2000	2001	2002	2003	2004
State Revenue Decrease (5% per year)	(\$0.87)	(\$1.70)	(\$2.49)	(\$3.24)	(\$3.96)	(\$4.63)
Wage Increase (annual avg. increase of 1.5% per yr.)	\$0.00	(\$1.92)	(\$3.88)	(\$5.86)	(\$7.87)	(\$9.91)
Medical Insurance (annual avg. increase of 7% per yr.)	\$0.00	(\$0.95)	(\$1.96)	(\$3.05)	(\$4.21)	(\$5.46)
Additional Debt Service costs (assuming 70% success rate for all bonds proposed in 1999-2004 CIB/CIP)	\$0.00	(\$1.99)	(\$3.99)	(\$5.98)	(\$7.97)	(\$9.97)
Additional O&M Costs for all projects cited in the 1999-2004 CIB/CIP (assuming 70% of the funding requests are realized)	\$0.00	(\$0.72)	(\$1.42)	(\$1.66)	(\$2.06)	(\$2.41)
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 \$175,000 in lost revenues. Additionally, a 1% Cost of Living Adjustment (COLA) equates to approximately \$1.3M in additional labor costs.

Note 2: Numbers shown above in brackets would result in an increased fiscal shortfall.

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.

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 (i.e., Gateway Alaska program, global logistics and cargo hub expansion)
- Alaska Seafood Center
- Alaska Salmon Research and Fisheries Center
- Alaska Heritage Native Center
- Continued growth of tourism
- Export of water (and associated bottling plant)
- Oil development within National Petroleum Reserve lands
- Ship Creek Area Development/Revitalization
- Port of Anchorage
- Girdwood Area Development (e.g., golf course)
- Transportation Equity Act for the 21st Century (TEA-21; formerly known as "ISTEA") and Community Development Block Grant (CDBG) 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 (e.g., implementation of muni-wide e-mail in 1998).
- **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 (i.e., 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

Below is a list of options for new or increased revenues. Note that the revenue options are presented for discussion purposes only and are not intended as recommendations:

Revenue Options

- **User Fees** — Consider new or increased user fees that may be justified by the cost causer/cost payer principle.

- **Taxes** — While Anchorage has been identified by two national publications as having the lowest overall taxes of any major city in America, an extraordinarily high percentage of our City's taxes are derived from homeowners/property taxpayers. 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.
- **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 contributions 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.