

# **SIX YEAR FISCAL PROGRAM**

**2011-2016**



**Municipality of Anchorage**

**Dan Sullivan  
Mayor**

**MUNICIPALITY OF ANCHORAGE**  
**Six Year Fiscal Program**  
**2011 - 2016**

**Dan Sullivan, Mayor**

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## PREFACE

In accordance with the Municipal 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 critical public services. The purpose of this "Six Year Fiscal Program" is to provide various public policy scenarios related to the services demanded by the public for review and consideration.

The "Six Year Fiscal Program" is intended to encourage a balanced approach towards responding to ever changing fiscal conditions. Achieving balance starts with a mindful approach and engaged activities to keep the cost of local government in focus. In addition to cost containment, other fiscal strategies include economic development, expenditure reductions and revenue enhancement. Key strategic policy decisions will need to be made in order to determine exactly what the appropriate balance point should be.

Detailed demographic and financial information about Anchorage are available at, Municipal libraries and the Municipal web site at [www.muni.org](http://www.muni.org). Relevant documents include:

- Comprehensive Annual Financial Reports
- General Government Operating Budgets
- General Government Capital Budgets/Programs

# SIX YEAR FISCAL PROGRAM 2011 – 2016

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## **1. MAJOR SIX YEAR STRATEGIC PLAN, VISION, MISSION, VALUES AND GOALS**

The City of Anchorage has a set of overarching goals that were identified by the Mayor and his Administration. The goals presented herein are the program and service areas in which the Administration intends to focus in the next few years.

Strategies for accomplishing these goals are in the process of being completed. Departments will be responsible for establishing business plans that are aligned with the City's goals. The Performance.Value. Results program was implemented in 2010 with the goal of measuring performance relative to the strategy. Departments developed specific performance measures. The measures are included in this budget book and are also available on the web site. Aligning priorities with services helps departments manage their resources effectively and measure their progress more accurately.

Although not specifically mentioned, we will continue to provide other basic services to the public.

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The Municipality's Strategic Plan, including our Values, Mission, Vision, Elements and Goals, provides an overall direction for carrying out the activities of the Municipality in order to best meet the needs of the people who live and work here.

Such a plan aligns our priorities with financial resources and allows for a more informed and in-depth annual discussion of how best to achieve the desired results on behalf of the community. The Strategic Plan is intended to be a living document and, as such, will be modified to adapt to events in our ever-changing world.

**Values:** Describe the qualities and behaviors that are core to our organization. They are our foundation and determine the rightness of our direction. Our core values include:

- ❖ Safety- providing for the safety and well-being of our community
- ❖ Excellence- passion to do our best every day
- ❖ Stewardship- using our time and resources wisely
- ❖ Integrity- doing the right thing, not the easy thing
- ❖ Accountability- accountable to the community for our actions

**Mission:** Our mission is *"To provide and maintain effective and fiscally responsible municipal services that foster a high quality of life"*.

**Vision Elements:** Our vision elements are:

- ❖ Exemplary Municipal Operations - described as; effective and efficient service delivery and exceptional customer service.
- ❖ A Safe Place to Call Home - described as; low violent crime, timely fire and ambulance response, safe neighborhoods and parks, well prepared for emergencies, solutions for our homeless population.
- ❖ Flourishing, Broad-based, and Sustainable Economy - described as; fiscal stability, predictable diversified taxes, stable property taxes. Favorable bond ratings. Reliable long-term sources of energy. Stable and efficient regulatory environment that doesn't discourage business development. Incentives for redevelopment.
- ❖ Inviting Place to Live, Work and Play - described as; a diverse community with unity of purpose, high quality education, lifelong learning second to none and sufficient infrastructure to support health care, and cultural and recreational activities.
- ❖ A Premier Destination - described as; a vibrant downtown, major events hosted, visitor friendly and a signature feature.

**Goals:** Our strategic goals and related strategies are:

1. *Improve the Efficiency and Effectiveness of Municipal Operations*
  - a. Restructure local government to match the organization with its mission and streamline processes to improve internal and external service delivery
  - b. Establish a system to measure and communicate operational performance
  - c. Revise labor ordinances and personnel rules to maximize efficiencies
  - d. Optimize information technology to improve business performance
  - e. Develop and implement a facilities management plan that ensures efficient and full utilization of space, including use of our recreational and cultural public facilities
  - f. Improve street maintenance (snow removal, potholes, street sweeping and striping)
  - g. Pursue privatization and managed competition
2. *Strengthen Public Safety*
  - a. Improve management and deployment of all public safety resources
  - b. Reduce social and fiscal impact of chronic public inebriates
  - c. Achieve compatibility of communication systems between agencies
  - d. Develop and exercise a crisis management plan
  - e. Maintain building codes to reflect safe building standards rationalized to Alaska
  - f. Promote citizen responsibility for a safe community

3. *Achieve Fiscal Sustainability*

- a. Develop a realistic six year fiscal plan
- b. Reduce/hold the line on property tax
- c. Maintain a favorable bond rating
- d. Operate at, or below, current budgets
- e. Instill department accountability for financial management

4. *Improve the Transportation Systems*

- a. Improve traffic flow
  - i. Connect major roadways
  - ii. Improve high volume intersections
  - iii. Evaluate signalization
- b. Extend life cycle of roads
- c. Maintain a viable transit system

5. *Achieve a Stable and Reliable Source of Energy*

- a. Develop a stable and economical short-term energy plan to deal with any shortages
- b. Identify and advocate for new energy sources
- c. Advocate for a regulatory environment that doesn't discourage development in Cook Inlet
- d. Encourage the Regulatory Commission of Alaska to be responsive to supply and demand
- e. Develop and implement a long-term energy conservation plan
- f. Develop a communications vehicle to make the public aware of critical issues
- g. Explore merging of utilities in the Municipality of Anchorage
- h. Continue working with the Energy Task Force

6. *Promote Economic Development*

- a. Attract additional economic development opportunities
- b. Foster a vibrant oil and gas industry
- c. Support the University of Alaska Anchorage's and the Anchorage School District's workforce development programs
- d. Investigate opportunity for Winter Olympics
- e. Advance relationships with Anchorage Economic Development Corporation (AEDC), Anchorage Convention and Visitors Bureau, Anchorage Community Development Authority, and CivicVentures, LLC
- f. Evaluate stable business taxes and user fee structures
- g. Streamline our permitting and plan process to be more attractive to business
- h. Judicially use development tools; such as, tax deferrals and abatements, to encourage new business

7. Improve community relations and sustain a positive public opinion as to the Administration's overall performance and the delivery of core services
  - a. Maintain open, cordial and professional relationships with the public and media
  - b. Achieve an organization culture that puts a high value on community service
  - c. Promote diversity awareness in the community and encourage unity in the pursuit of common goals
  - d. Promote volunteerism and non-profit groups to provide community service
8. Enhance academic excellence and learning while maintaining cost effectiveness
9. Maximize Federal and State support for priority programs and projects
10. Work effectively with the Municipal Assembly

### **Capital Projects**

Capital project requests from Federal, State and local sources will focus on transportation, energy, and public health and safety. We can expect more limited funding availability from outside sources. In turn, we need to maintain our favorable bond ratings by limiting per capita debt. We will continue to seek favorable debt refunding opportunities to decrease interest rates and long-term debt obligations.

The capital program will be based on the premise that we must first adequately maintain our current assets before we add any significant new projects with high operation and maintenance costs. Our goal is to limit the increase in debt in the coming years. Currently the plan for the amount of annual general obligation debt issuance is approximately the same level as the amount of general obligation debt retired each year.



## **2. ECONOMIC TRENDS AND INDICATORS**

2010 continues to be an unusual period in our history in terms of national and international economic conditions and in equity and debt markets. Predicting future events is difficult under the best of circumstances. In such an unpredictable global economic environment, and with Alaska and Anchorage linked to national and global economies, forecasting local conditions continues to pose a challenge.

The trends and indicators presented herein are based collectively on secondary research and qualitative analysis performed by AEDC, The McDowell Group, Alaska Department of Labor, Institute of Social and Economic Research (ISER) and others. They are intended to provide the “big picture” rather than subtle or relatively minor changes in the economy. It is prudent to consider the forces shaping our economy and take measure of how these trends impact Alaska and Anchorage.

### **Economic Overview**

Alaska, as a state, is expected to recover from the recession and grow moderately in 2011. Health care related industries will benefit from the rapid growth in the population of older age Alaskans. An expansion of infrastructure, resumed construction growth, mining and oil exploration, and a gradual return of tourists are expected to provide positive economic growth to Alaska and Anchorage in the aftermath of the recession.

Current economic trends in Anchorage remain steady and are outperforming most other regions of the United States. The key assumptions are: 1) that the nation will emerge from the recession slowly with job growth lagging recovery in other indicators, and 2) that the state’s resource-based economy will remain generally stable, which will support continued modest growth in Anchorage.

Alaska’s unemployment rate continues to trend downward from its height of 8.6 percent in December of 2009 and has been lower than the nation’s rate for 21 consecutive months. The seasonally adjusted unemployment rate for July was 7.7 percent compared to the national rate of 9.5 percent.

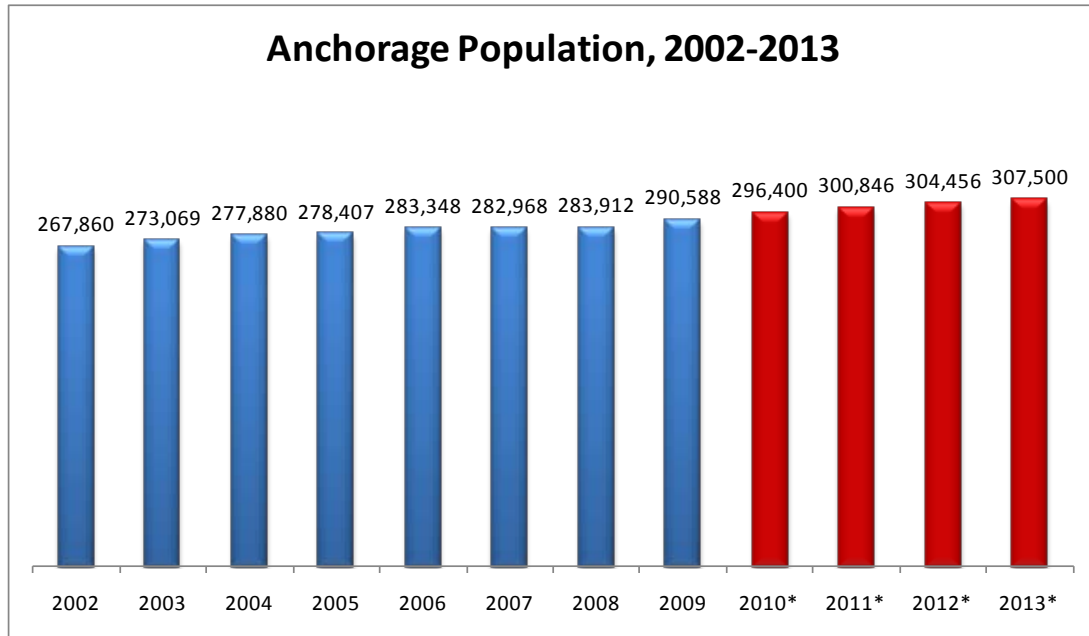
Overall, according to Alaska Department of Labor, job growth is forecasted to resume in 2011 and continue through the forecast period at a modest rate of around one percent a year. Relatively slow growth is expected in most of the larger sectors including government, retail trade, finance and education. Somewhat stronger growth is expected in small to medium size industries such as mining; utilities; and professional, scientific and technical services. Exceptional growth is forecasted for health care related industries.

### **2.1 Demographics**

Anchorage’s population reached 290,588 in 2009, an increase of 2.4 percent from 2008. The 2009 increase was about twice the average annual rate of growth for the decade. After losing about 2,000 people to migration from 2000 to 2008 (the total number of

people who left was about 2,000 more than the total number of people who arrived), Anchorage gained an estimated 3,200 residents from migration in 2009 alone.

*In 2011, Anchorage total population will likely surpass the 300,000 milestone.*



\*Estimated

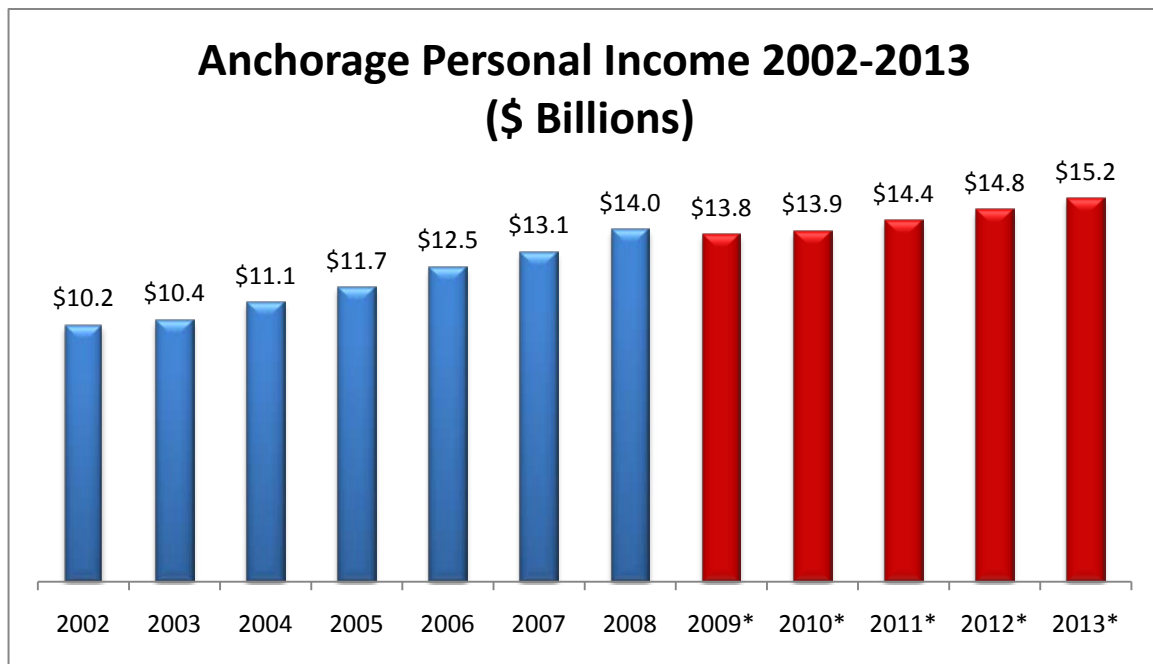
Source: Alaska Department of Labor and Workforce Development, 2002-2009; McDowell Group estimates, 2010-2013.

Then, assuming no new economic shocks, population growth is expected to return to a more typical one percent by 2013.

For the first time since 1988, Anchorage's average monthly wage and salary job count fell in 2009. The decline was small – just 0.6 percent compared to a national job loss of 4.3 percent – and in the context of the severe national and global recession, not unexpected.

Total personal income, another demographic barometer, is a measure of net earnings from employment (including bonuses, employer paid benefits, and self-employment income), other income (dividends, rental income, and interest income), and transfer receipts (Social Security, Medicaid and Medicare, unemployment benefits, the Alaska Permanent Fund Dividend, etc.).

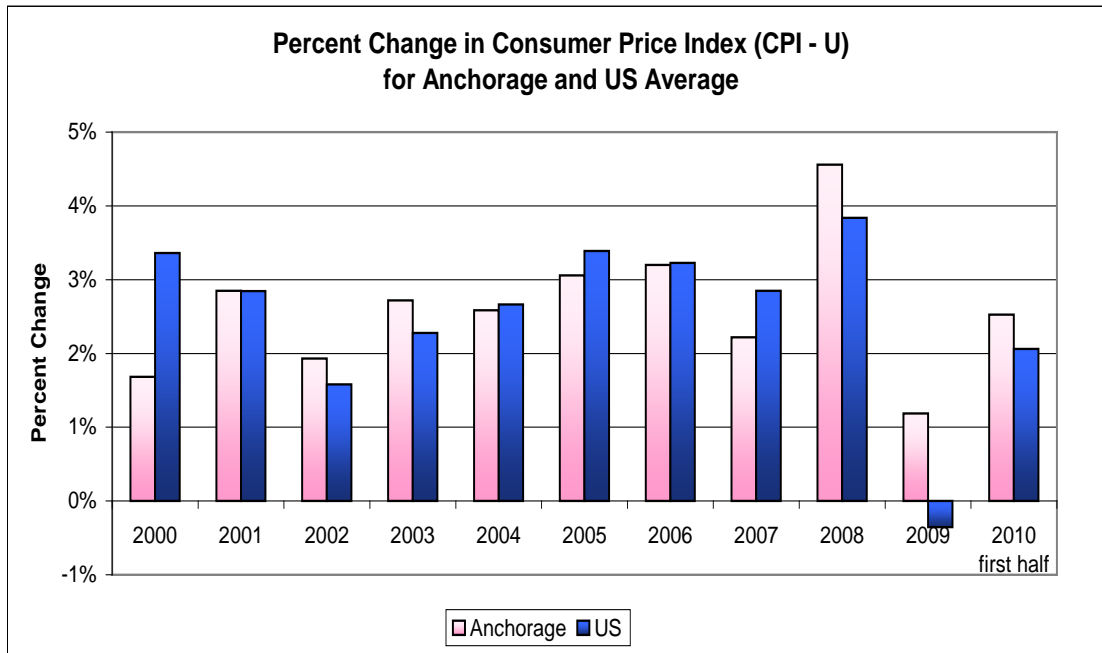
The U.S. Bureau of Economic Analysis estimates that Anchorage residents had \$14 billion in personal income in 2008, an increase of 6.9 percent over 2007. Of 2008's \$14 billion in personal income, 69 percent came from employment, 16 percent from other income, and 15 percent from transfer receipts. Although total personal income has grown by 56 percent since 2000, the percentages from each of these three sources have varied only slightly. Looking forward, personal income is expected to grow only slightly in 2010 as a result of the expected weak labor market. Stronger growth of around three percent per year is expected over the 2011-2013 period.



\* Estimated

Source: U.S. Bureau of Economic Analysis, 2002-2008; McDowell Group estimates, 2009-2013.

Anchorage inflation as measured by Consumer Price Index (CPI-U) was higher in both 2009 and through the first half of 2010 as compared to the national average; the degree of variance especially in 2009 was atypical based on historical difference, per the graph below. While near-term inflation is likely to range from 2.0-2.5% the longer term rate is expected to average 2.75% to 3% annually. Concerns loom regarding the potential for an unanticipated spike in inflation within the next several years (see Investment Outlook section below for further discussion).



Source: Alaska Department of Labor, Research and Analysis

## 2.2 Port of Anchorage

The volume of freight moving through the Port of Anchorage (Port) is a good indicator of overall economic activity in the Anchorage and Alaska economies. Tonnage was down significantly in 2009, but has bounced back in 2010.

Through May, container tonnage was up slightly over the same period in 2009, the number of vehicles shipped was up more substantially, and total petroleum tonnage was about even. Shipping companies report an increase in military-related activity and also note that shippers are becoming more efficient in their operations, with more goods per cargo van and increased average weight for containers.

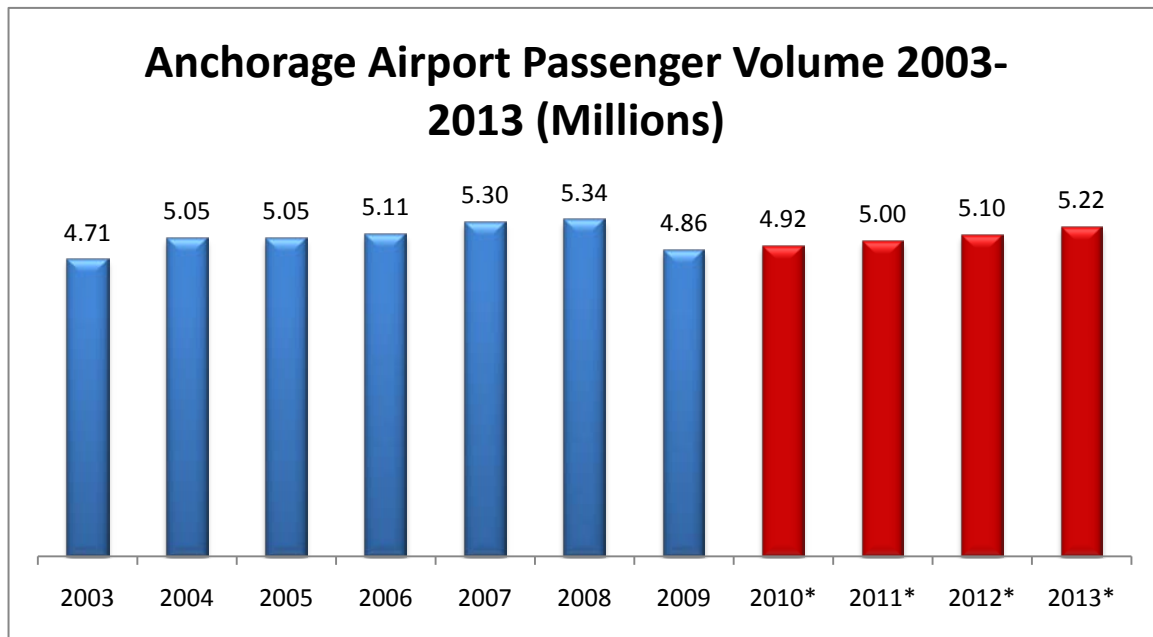
The Port is in the midst of a major expansion project that will increase its capacity, modernize the facilities, and make them more resistant to potential damage that could result from an earthquake. The Port will spend an additional \$298 million on the project between 2010 and 2014. When complete, the Port will have two new barge docks and two new deep-water marine terminals.

Although the 2009 drop in activity at the Port was worse than expected at 13 percent, the recovery in 2010 has been remarkably strong. Much of the lost ground will be recovered in 2010 with an expected increase of 11 percent. Over the period 2011-2013, growth is expected to average about four percent.

## 2.3 Ted Stevens Anchorage International Airport (ANC)

After a rough 2009, which saw a total decline of nearly 500,000 passengers (a nine percent drop), 2010 looks to be a slightly better year. Passenger travel was up two percent in April compared to April 2009 and May's numbers were about the same as in May of last year. Anchorage air traffic has reflected national and global trends over the last few years. According to the U.S. Bureau of Transportation, domestic U.S. air travel fell five percent in 2009 and international air travel fell seven percent.

Questions remain as to how robust the broader economic recovery will be. So far, most economic indicators show at least modest improvement, but concerns persist internationally, especially with European Union countries. For their part, the various U.S. indicators suggest a pattern of two steps forward, one step back, and there is mounting pressure to address budget deficits. As a result, air passenger growth over the period 2011-2013 is forecasted to be restrained, averaging about two percent a year.



\* Estimated

Source: Anchorage International Airport, 2003-2009; McDowell Group estimates, 2010-2013.

Airport freight volume saw a steep drop in 2009 yet appears to be on the rebound in 2010. From a record 3,117 thousand tons of cargo in 2007, air cargo fell nine percent in 2008 and then 22 percent in 2009 to just 2,199 thousand tons (part of 2009's drop was due to the eruption of Mt. Redoubt, which disrupted air travel in March and April).

Through May of 2010, freight volume was up more than 60 percent over the same five months in 2009, though much of that growth is attributable to the artificially low 2009 numbers caused by the Redoubt eruption. Still, a comparison of the first two months of 2010 with the same two months in 2009 – months unaffected by the volcanic eruption – showed over-the-year gains of more than 30 percent.

Overall, the 2010 numbers suggest a surprisingly quick return to levels much closer to highs of a few years ago than the lows of 2009. Over the period 2011-2013, growth is forecasted to average about four percent per year.

## **2.4 Alaska Railroad**

Alaska Railroad passenger volume has been on a steady decline since 2007 with about a 13 percent decrease in passengers from 2008 to 2009. Most of this drop can be

attributed to lower tourism numbers as people cancelled travel in light of the economic recession in 2009. From first quarter of 2009 to first quarter of 2010 passenger volume has decreased 34 percent. A similar pattern is predicted for the rest of 2010 due to the decline of cruise passengers in Alaska. Cruise ship passengers often take a train ride on some portion of their Alaska excursion either from Whittier to Anchorage or from Anchorage to Fairbanks.

Freight levels for the railroad which had been decreasing since 2005 – with much of the decrease due to smaller volumes from Flint Hills Refinery – have seen an increase of 6.2 percent from first quarter of 2009 to first quarter of 2010.

## **2.5 Military**

Troop levels in Anchorage have been increasing since the 2002 low of about 8,500 troops and are now around 12,000 troops. Levels are expected to be maintained over the coming years with the exception of Fort Richardson which will increase troop levels 169 percent from 2003 levels of 2,683 to 7,225 troops by 2013.

## **2.6 Oil and Gas**

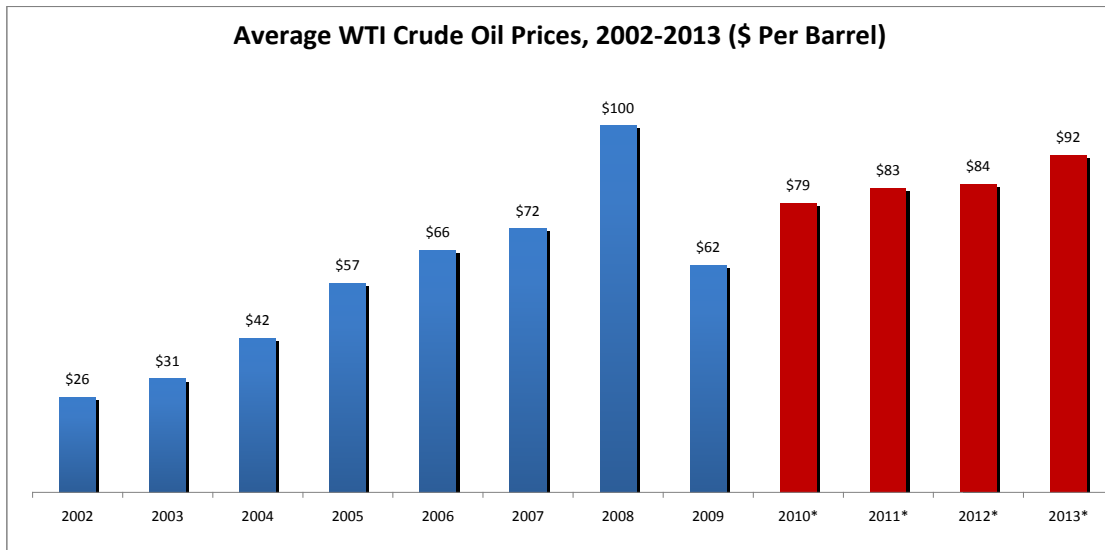
In May 2010, the Energy Information Administration (EIA) noted that a vast majority of new oil production in the short-term will come from deepwater offshore fields. That same month, the Deepwater Horizon oil rig exploded in the Gulf of Mexico and sank in 5,000 feet of water.

In response to what appears to be the largest oil spill in U.S. history, the President enacted a six month moratorium on deepwater offshore drilling. The moratorium is being litigated, but the future of deepwater drilling is substantially less certain than it was before the Deepwater Horizon disaster. A separate but related issue is the exploratory drilling that had been scheduled for this summer in the Arctic and possible development of the Outer Continental Shelf. The U.S. Department of Interior has suspended Arctic exploration until it gathers more information and looks more closely at oil-spill response capabilities. At the very least, deepwater drilling, and perhaps oil production of all types, will now face higher levels of scrutiny by regulators and legislators.

Ongoing declines in Prudhoe Bay oil production are a serious concern and although Anchorage's oil industry job numbers have held steady at around 2,700, oil employment statewide has fallen off by about 1,000 jobs since reaching a peak of 13,700 in late 2008. Because 58% of North Slope oil and gas workers reside in Anchorage, the Kenai Peninsula and Mat-Su, the loss of any oil and gas jobs on the North Slope has a profound effect on our regional economy.

For perspective, in 2009 Southcentral oil industry workers earned \$568 million and North Slope oil industry workers who live in Anchorage, the Kenai Peninsula or Mat-Su brought home an additional \$482 million. Combined, that's \$1.05 billion in direct payroll impact the oil and gas industry has on our regional economy.

In the longer-term, the fast-growing economies of China, India, and Brazil will demand larger and larger amounts of the world's oil production which will bid up the price of oil. EIA expects to see steady price increases for years to come, approaching levels last seen in 2008 by late 2014.



\* Estimated  
Source: U.S. Energy Information Administration.

## 2.7 Tourism

Following state and nationwide trends, the number of visitors to Anchorage fell significantly in 2009. Domestic air passengers exiting Alaska via the Anchorage airport were down ten percent; passengers on outbound international flights from Anchorage were down nine percent; and cruise land tour volume (passengers who travel in Southcentral and the Interior before or after their cruise) was down an estimated 13 percent in 2009. Further, in the second and third quarters combined, Anchorage bed tax revenues were down 22 percent and Anchorage vehicle rental taxes revenues were down 23 percent (reflecting lower tax rates as well as lower volumes).

The 2009 declines were mostly recession-related and although the national and international economies are significantly better in 2010, a redeployment of cruise ships will cost Anchorage about 100,000 visitors this year. Even with this bleak prognosis to start out 2010 the actual numbers for summer tourism are proving to be higher than originally anticipated. Bed tax revenues are up significantly for April, May, June, July, compared to 2009 numbers. However, when compared to 2008 numbers for the same months they are down roughly 10% percent. Anecdotally speaking, cruise ship passengers are spending more time in state after their scheduled tour, there have been more independent travelers than expected, and more business travelers than expected. Some of this increased traffic is due to the increased air capacity.

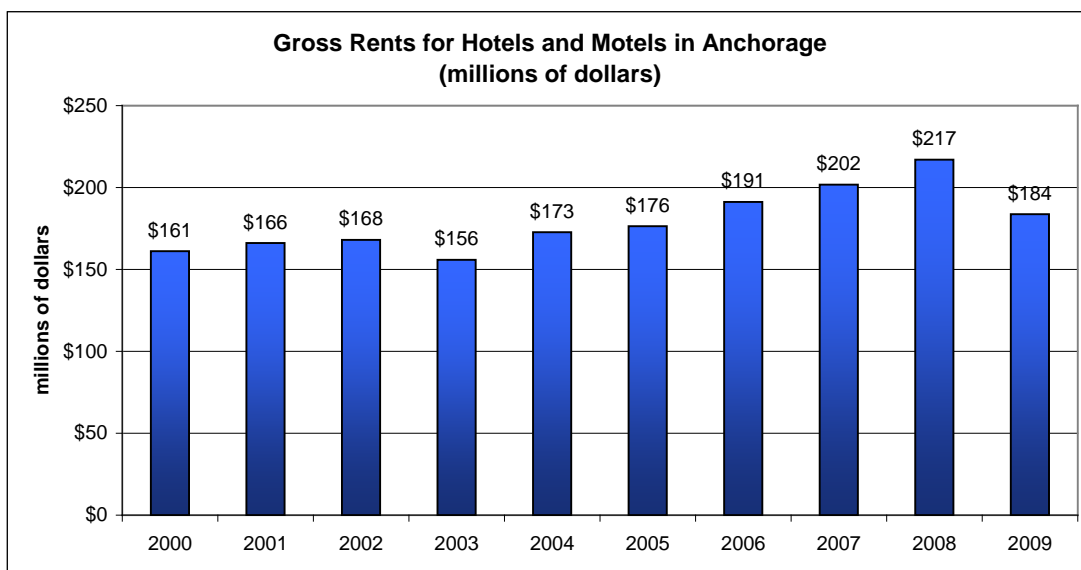
In addition, for the first time, Anchorage is seeing a substantial number of direct cruise ship calls in 2010: nearly 13,000 passengers, up from 600 in 2009. These visitors, passengers off Holland America's *Amsterdam*, will have 16 hours in port. So far in the 2010 season, approximately one-third of passengers are reportedly purchasing shore excursions; of the remaining passengers, most do get off the ship and spend some time in Anchorage independent of pre-paid tours.

Air traffic statistics through May showed similar passenger volume as 2009. Because of the cruise ship redeployments, that pattern is not expected to hold through the peak summer months of June, July, and August, but the broader economic recovery will

mitigate those losses by stimulating independent travel and higher spending by the hundreds of thousands of cruise ship passengers that do visit Anchorage in 2010.

Looking ahead to 2011, Cruise Line Agencies of Alaska predicts that overall Alaska passenger volume will be about the same as in 2010, with additional losses being balanced out by new arrivals. It appears that Holland America will continue their Anchorage port of call in 2011. The industry is expected to make announcements regarding 2012 deployments in the spring of 2011.

In terms of the convention/meeting market, the Anchorage Convention and Visitors Bureau indicate that meetings held in 2010 are down slightly. Advance bookings for conventions to be held in 2011 and 2012 suggest a full recovery in the market. Taken together, all indications are that tourism is on the mend and should begin a return to growth in the next three years.



Source: Municipality of Anchorage, Treasury Division, Hotel/Motel Tax Return Database

## 2.8 Construction

The value of building permits issued by the Municipality of Anchorage provides a partial measure of new construction activity in Anchorage. Commercial construction projects typically make up the largest share of total building permit values. In 2009, commercial building permit values were down almost 30 percent and through May 2010 they are well below the same five-month period in 2009. A contributing factor is the mark left by the mortgage-related meltdown in the form of stricter lending standards and a more conservative approach to commercial projects.

The largest commercial effort on the horizon is the \$150 million “Generations” project at Providence Alaska Medical Center, which will expand Providence Hospital’s newborn intensive care unit, expand and renovate the maternity center, and expand the cardiac surgery facilities. Building permits are likely to be issued in 2010 and 2011, with construction scheduled to begin in 2011 and last through 2014.

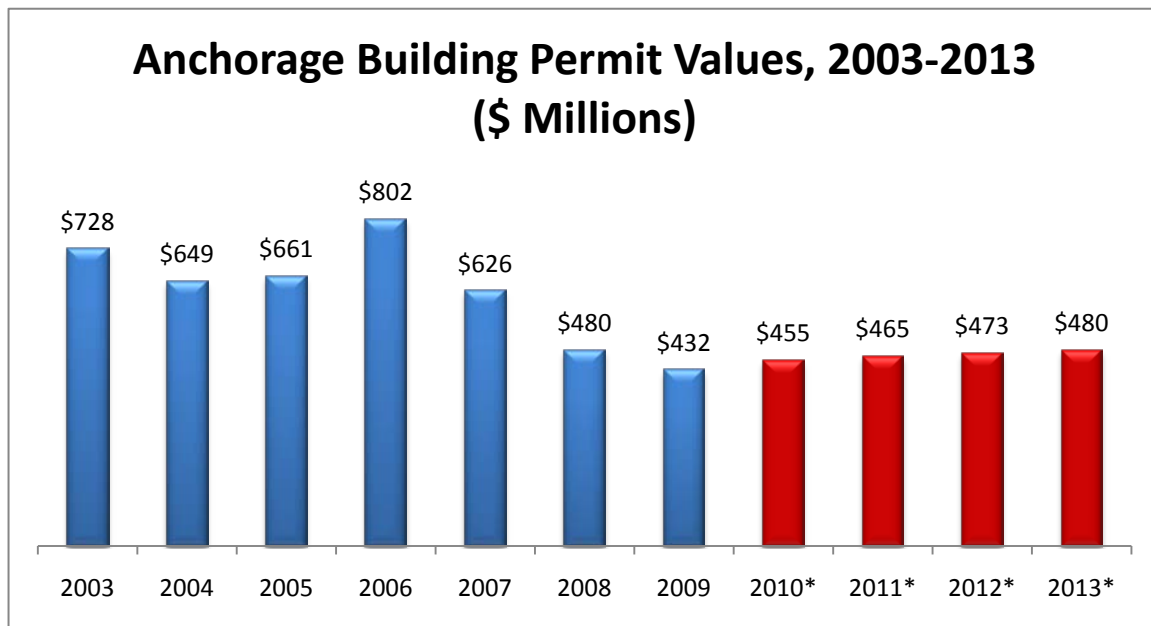


Residential permit values, not including permits for condominiums and townhouses which are considered commercial permits by the Municipality, fell consistently from 2003 to 2009, but have rebounded slightly in 2010 and are expected to hold steady over the next several years. However, the housing bubble crisis has left its mark in Alaska in the form of new stricter rules and procedures in lending. The cautious mood that pervades private sector construction is expected to restrain construction growth in the city over the next several years.

Government spending on construction varies significantly from year to year and was at relatively low levels in 2008 and 2009. A large 2010 capital budget, of nearly \$400 million in statewide capital project bonds, may boost government construction numbers over the next few years if spending is approved by Alaska voters.

Alaska is in a unique position among states in having revenue surpluses available to help stimulate the industry and build and maintain infrastructure even as the federal government makes additional stimulus money available. Altogether, government construction spending will help take up much of the slack over the next few years during a low period for private construction.

In all, building permit values are expected to bump up five percent in 2010 as a result of the Providence Hospital project and government spending. Over the period 2011-2013, growth is expected to be a modest one to two percent as caution persists in the slowly recovering financial sector.



\* Estimated

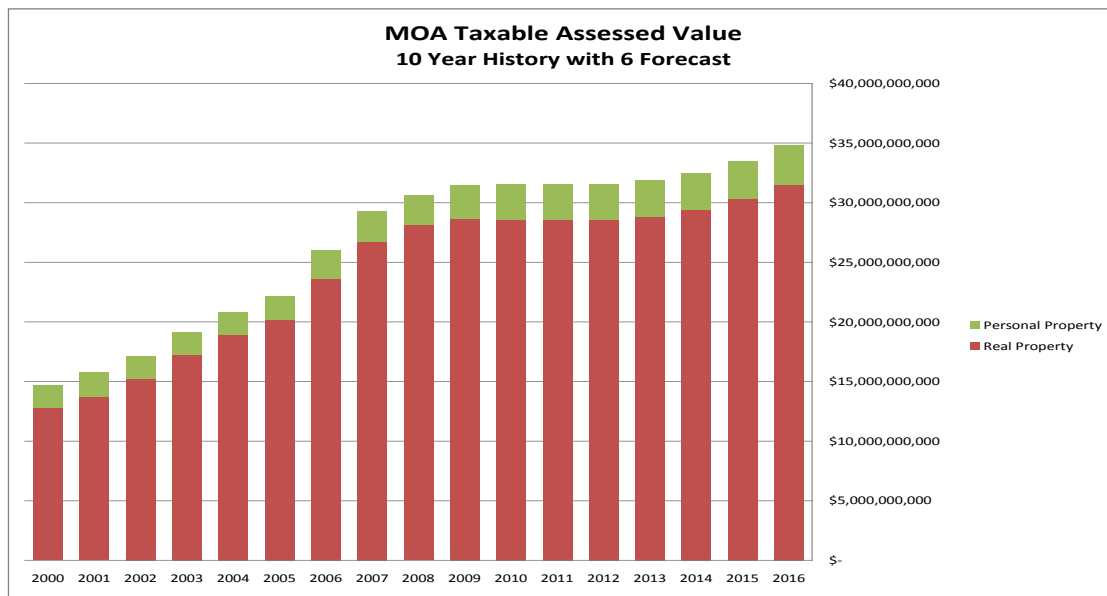
Source: Municipality of Anchorage, 2003-2009; McDowell Group estimates, 2010-2013.

## **2.9 Local Real Estate Market Conditions**

We anticipate little increase in market value for existing property over the next two years. However, overall value for assessed property is anticipated to increase in the next two years as evidenced by increasing permit activity. These findings are consistent with

information received from local real estate professionals, financiers, and building professionals. Nearly all economic sectors appear stable with full occupancy, employment and rental income.

As recently as September 26, 2010, the Anchorage Daily News notes that Multiple Listing Service (MLS) is reporting the average sales price for single family homes has risen 2.4% in the past year as well as the average time on market reducing from 72 days to 64 days. Condominiums are experiencing a flat market and upper priced homes are in a soft market considering inventory. Further indicators of stability in the real estate market are posited by the Anchorage Economic Development Corporation who noted “Anchorage is coming off a period of intense commercial expansion that saw the construction or remodel of large retail outlets. Residential permit values...fell consistently from 2003 to 2009, but have rebounded slightly in 2010 and are expected to hold steady over the next several years.” The low cost of capital is an additional driving factor for new home construction but a tightening in lending criteria has prevented a larger stimulus to new construction.

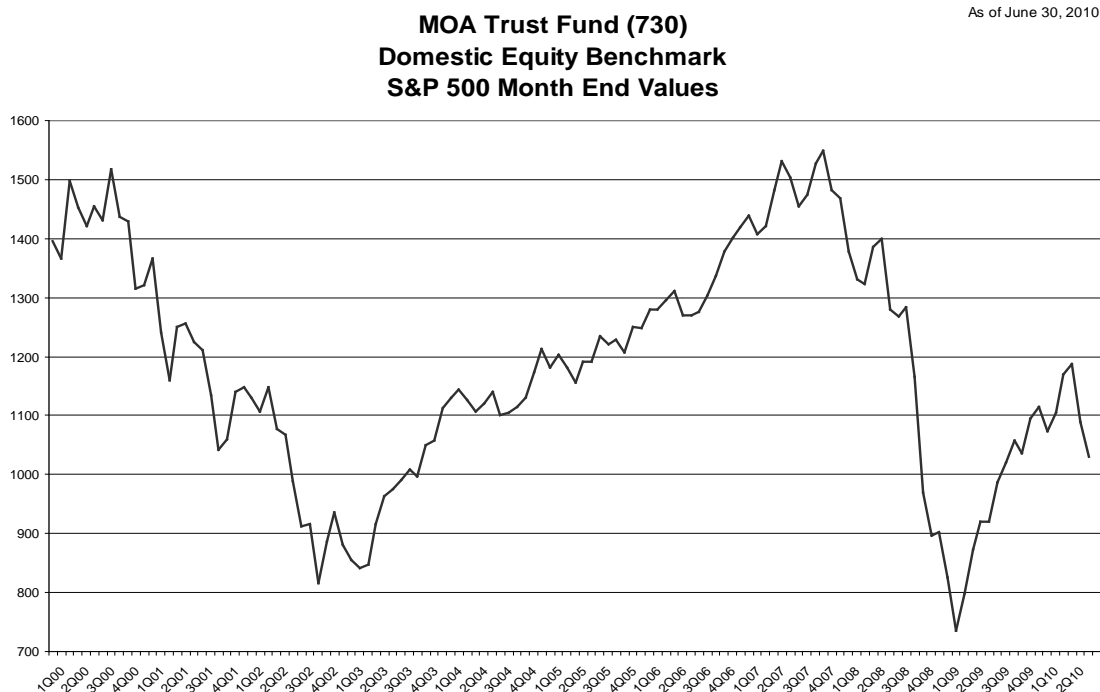


Source: Municipal Assessor

## **2.10 Investment Market Conditions**

The U.S. and global economies are expected to continue with recovery, albeit it, at a modest pace. The recovery should continue through 2011. Over this span, employment should grow gradually but the national unemployment rate will likely remain high. Nonetheless, job growth will drive increases in both personal income and expenditures. Over the next 9-12 months short-term interest rates will likely stay low. Over the next 12-18 months, stocks are expected to stay attractively valued. Interest rates, while very low, are not expected to rise significantly. Longer-term return expectations understandably are very dependent on future policy decisions. The magnitude of federal deficits is staggering and unsustainable. Policy makers are confronted with the challenging task of reducing the magnitude of the deficit while still supporting continued economic recovery.

As the economy recovers, avoiding marked increases in the rate of inflation will become more difficult. The current underutilization of both labor and capacity resources suggests that a sudden acceleration is not a major risk in the short-term. But it is a concern that must be monitored carefully. We believe that short-term rates will be in the 2.5% to 3.5% area over the next five years and expect the 10-year Treasury to exceed 4% during the same time frame. Inflation may well be running at a 2.75% to 3.00% rate over that time horizon. Stocks appear to be reasonably priced to provide competitive risk adjusted returns (7-10%) should these expectations be realized.



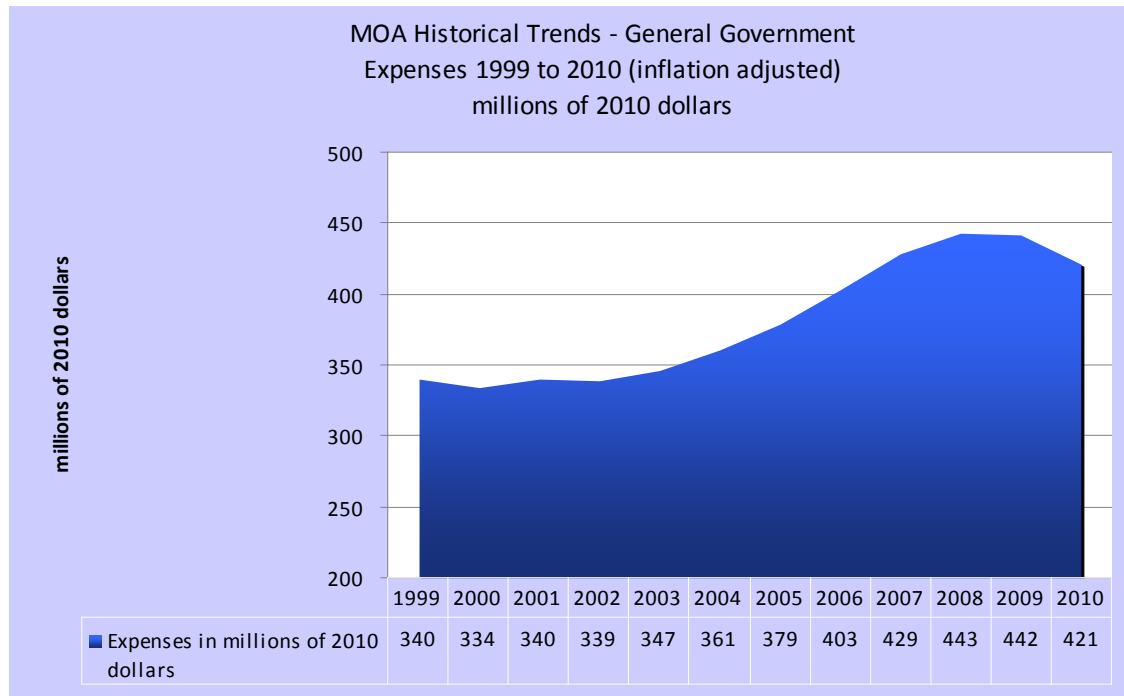
As depicted in the above graph, the Municipality's stake in two major investment funds was severely hurt by the decline in the stock market in 2008. As a result, the annual dividend from the MOA Trust Fund was reduced 20% beginning in 2010 and for a number of years into the future; the annual dividend was reduced from \$6.4 million to \$5.1 million based on a Municipal Code-defined formula and it is expected to further decline over the next couple years before hitting its projected low point of \$4.6 million. In addition, the Municipality was required by the Police / Fire Pension Fund actuary to re-start annual contributions to the fund in the amount of \$12.0 million in 2010 and \$8.5 million in 2011. Based on year-to-date market activity in 2010, halfway through September, it is not likely that the \$8.5 million actuarial contribution will decrease, and may even increase due to further volatile, slow recovery in the stock market.

The significant negative impact the stock market has had on the two above investment funds has lead to immediate budget shortfalls of \$12.0-\$13.6 million during budget years 2009 and 2010. The expected recovery in stock prices has been slow and not consistently sustainable. The Fiscal Model projections section incorporate this major negative budget adjustment which will likely stay with the Municipality for years to come.

### 3. HISTORICAL BUDGETARY TRENDS

The following provides a graphical view of the expenditure trends for General Government for the Municipality of Anchorage from 2000 to current. These trends have been adjusted for inflation. Key indicators to consider over the past ten years include a population increase of 12% and inflation of 31% over this period.

During the same time period, on an unadjusted basis, local property taxes increased 72% while voter-approved debt service increased 30%. Overall, growth in personnel costs during the past six years increased, unadjusted, by 66%, the number of employees dropped by 7% and municipal spending per resident increased by 44%.



Source: Anchorage OMB and Treasury

## 4. FISCAL PROJECTIONS AND POTENTIAL STRATEGIES

As we look to the future, the Alaskan economic trends are positive and indicate slow, moderate growth. The national economic downturn and recovery will likely continue to impact Anchorage's economy causing fiscal projections to be uncertain. The magnitude of uncertainty directly impacts the ability to forecast revenues, both in the short and long-term. Compounding the uncertainty of revenue forecasts are the continued increases in expenses facing the Municipality in 2011 and later. The resulting balancing effort is consequently more complex when attempting to match revenue with services.

Some key fiscal challenges that could potentially impact projections include:

- the potential for slower or minimal economic recovery;
- the potential of a decline in state and federal revenues, particularly in later years;
- increased labor costs and/or health care costs;
- a sudden, unanticipated increase in interest (i.e., borrowing costs) or inflation;
- unanticipated legal liabilities; and
- an upward adjustment in the actuarial required contribution to the Police and Fire Retirement System pension plan.

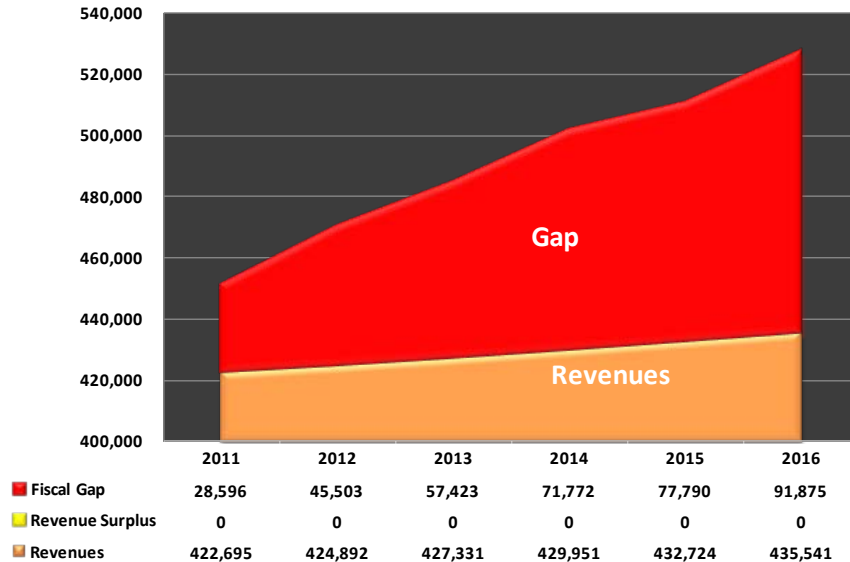
The two different fiscal projections provide different scenarios for analysis. Each scenario details the assumptions and impacts for review:

- 1) "Do Nothing- Flat Property Taxes" – This scenario assumes a continued level of spending from the 2010 budget and no increase to property taxes
- 2) "Mayors' Take Action Now Plan" – This scenario reduces the size of government and minimizes property tax increases to 1.5% over the forecast period.

### 1. "Do Nothing - Flat Property Tax" Scenario Projection - Continuation budget

In the "Flat Tax" scenario it is assumed that the Municipality will continue to operate the city as it is today incorporating known impacts including labor union contract increases and continued, but reduced, liabilities associated with the Police and Fire Retirement System. Property taxes will remain flat with 2010 levels and program fees for current programs are adjusted based on modest economic growth. The six-year fiscal trend for this scenario is illustrated below:

## "Do Nothing" Scenario - Continuation Budget



As demonstrated above, without action, the “Do Nothing - Flat Property Tax” scenario will result in large deficits to the Municipality into the future.

“Do Nothing” scenario assumptions include:

### **Expenditure Forecasts**

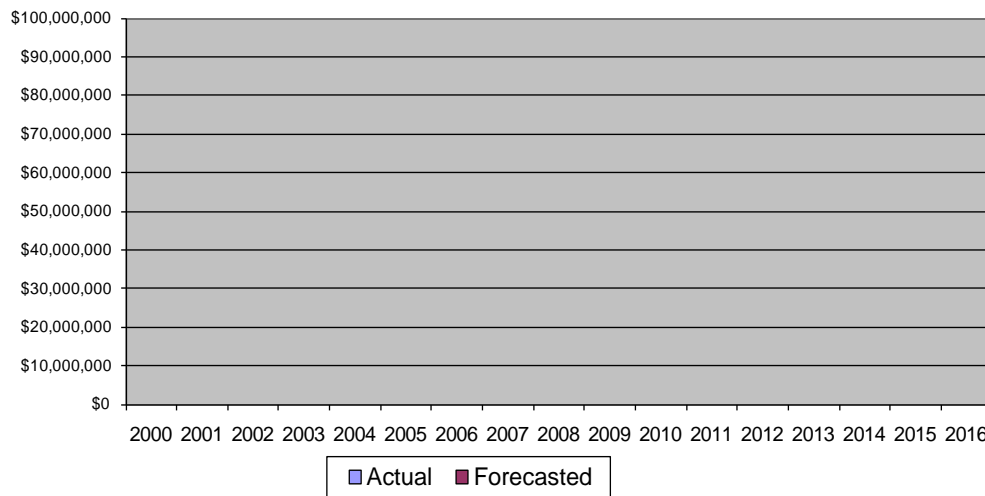
In the “Do Nothing” case scenario, there will be no downward adjustments to the 2010 cost of government. Known cost increases are included and discussed below.

Personnel costs continue to be the single largest category of expense and represent an increase in the 2011 cost structure. Labor contracts approved over the past two years are incorporated reflecting cost increases of 3% to 6% per year over a six year period. The labor increase element assumes an average amount of increase will be earned by each collective bargaining agreement. The assumption includes the impact of the Performance Improvement Program (PIP) included in several of the labor contracts.

Additionally, this scenario assumes that the cost to provide health care to employees will continue to increase over the forecast period. As of July 2010, the average paid claim per month per employee is 12.3% higher in 2010 than in 2009 and expenses will exceed premiums. This will negatively impact the self insurance fund and cause a negative fund balance. National health care reform is forecast to increase the Municipality’s cost to provide health insurance to our employees.

Debt service costs vary year to year due to mature debt retirement or refunded and new debt that is approved by voters. In 2010, \$12 million of debt that was due and payable was restructured into future years, but not longer than the term of the original bonds. While debt restructuring is a tool that can assist with providing short term budget relief, no additional restructuring has been included in this six year plan. The Mayor's goal is to limit the increase in debt in the coming years. Currently the plan for the amount of annual general obligation debt issuance is approximately the same level as the amount of general obligation debt retired each year.

### **MUNICIPALITY OF ANCHORAGE** **General Purpose - New Money Debt Issued**



Source: Municipal Public Finance and Investments Division

Additional debt is planned to fund the replacement of an 11 year old Enterprise Resource Planning (ERP) system and the Computer Assisted Management Assessment (CAMA) system. Both of these systems currently reside on a legacy mainframe system and are preventing the Municipality from implementing more efficient processes. Once these two systems are in place, the Municipality expects to gain efficiencies that will bring the Municipality's operations in line with demonstrated best practices.

The downturn in the stock market in 2008 resulted in an actuarial report for the Police and Fire Retirement System showing an unfunded liability of \$101 million. In 2009 the fund recovered somewhat and the present value shortfall was reduced to \$85.5 million. The shortfall translates to a reduced contribution requirement from the Municipality in the amount of \$8.5 million per year over the next 15 years.

Inflation is expected to increase moderately over the forecast period. All non-labor expenditures were adjusted upward by 2.5% to 3% per year to adjust for annual inflation.

## Revenue Forecasts

Local revenue sources are projected to increase modestly as a result of recovering from the recession. Economic forecasts provided from independent organizations such as AEDC, McDowell Group, and others were used as the foundation for the forecasts. Starting in 2012 these local revenue sources are expected to grow at an assumed level of approximately 1% to 3% per year.

State Revenue Sharing, which is largely dependent on surpluses existing at the State level, has historically been unstable and difficult to predict due to volatility in oil prices year to year. The projection model assumes that State Revenue Sharing remains stable and flat throughout the projection period.

Revenues from Permanent Fund Dividend garnishments, which feed the Police Department budget, may experience further decline over the next couple years, due to severe market value decline in the State Permanent Fund earnings in 2008 and its affect on the five year average income that determines distributions. Similarly, distributable earnings from the Municipality's mini permanent fund (i.e., MOA Trust) will be nearly 20% less beginning in 2010 and projected to decline an additional 10% before flattening and returning to slow growth.

Remaining Municipal revenue sources are projected to follow a pattern of slow, steady annual growth of 1-3% per year.

The overall fiscal shortages are forecasted as follows:

SIX YEAR FISCAL PROGRAM -  
PROJECTIONS OF REVENUES & EXPENDITURES (in \$ Millions)  
2010 to 2016  
Do Nothing - Continuation and Flat Property taxes

Six Year Budget Projection	PROJECTIONS						
	2010 1Q Bud	2011	2012	2013	2014	2015	2016
<b>REVENUES</b>							
Federal Revenues	938	938 0%	958 2%	966 1%	974 1%	982 1%	990 1%
State Revenues	16,797	16,587 -1%	16,619 0%	16,635 0%	16,652 0%	16,668 0%	16,685 0%
Local Revenues	137,917	141,501 3%	144,416 2%	146,330 1%	148,425 1%	150,674 2%	152,966 2%
Property Taxes	237,300	237,300 0%	237,300 0%	237,300 0%	237,300 0%	237,300 0%	237,300 0%
Fund Balance Applied	2,561	- 0%	- 0%	- 0%	- 0%	- 0%	- 0%
IGC's Outside General Government	25,912	25,100 -3%	25,600 2%	26,100 2%	26,600 2%	27,100 2%	27,600 2%
<b>TOTAL REVENUES</b>	<b>421,425</b>	<b>421,426 0%</b>	<b>424,892 1%</b>	<b>427,331 1%</b>	<b>429,951 1%</b>	<b>432,724 1%</b>	<b>435,541 1%</b>
Change from prior year		0%	1%	1%	1%	0	1%
<b>EXPENDITURES</b>							
Personal Services	232,648	247,799 7%	257,710 4%	268,019 4%	277,400 3%	285,722 3%	294,293 3%
Debt Service	37,080	52,130 41%	58,580 12%	59,840 2%	63,820 7%	59,810 -6%	63,530 6%
Other	151,697	150,093 -1%	154,105 3%	156,895 2%	160,503 2%	164,982 3%	169,593 3%
Savings	-	-	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>421,425</b>	<b>450,022 7%</b>	<b>470,395 5%</b>	<b>484,754 3%</b>	<b>501,723 4%</b>	<b>510,514 2%</b>	<b>527,416 3%</b>
Change from prior year		7%	5%	3%	4%	2%	3%
<b>FISCAL SURPLUS/SHORTFALL--</b>							
REVENUES OVER/(UNDER)	(0)	(28,596)	(45,503)	(57,423)	(71,772)	(77,790)	(91,875)
EXPENDITURES							
cumulative			(74,099)	(131,522)	(203,294)	(281,083)	(372,958)



## **2. Mayor's "Take Action Now" Plan: Adjust Cost Structure Down and Minimize Taxes**

Below is an illustration of the six-year fiscal plan endorsed by the Mayor. As identified in the previous "Do Nothing" scenario, if the Municipality does not take any corrective action to offset the increased cost of labor contracts, pension liabilities and increased health care costs, the Municipality could face budget deficits as large as \$59 million by 2014. This deficit will continue to grow into the future if no action is taken.

To provide sound fiscal planning realizing known future expenses, costs must be adjusted downward to achieve goals of the community in a balanced manner. Based on data received from "Community Dialogues" it is clear that citizens are demanding that government become more efficient. As a result, the Mayor has initiated projects to enable a more efficient government. These projects will involve changes that will include: organization structure, streamlined business processes and increased use of technology. A recent reorganization of the Economic and Community Development and Maintenance and Operations departments will result in savings of just under \$700,000 per year beginning in 2011.

Additionally, the Finance, Information Technology and Employee Relations departments are currently evaluating the consolidation of staff, streamlined processes and new technology to reduce the cost to deliver services. As previously mentioned, the Mayor is evaluating replacement of the core financial/human resource system and the tax valuation system so that best practices can be implemented to improve services at a reduced cost.

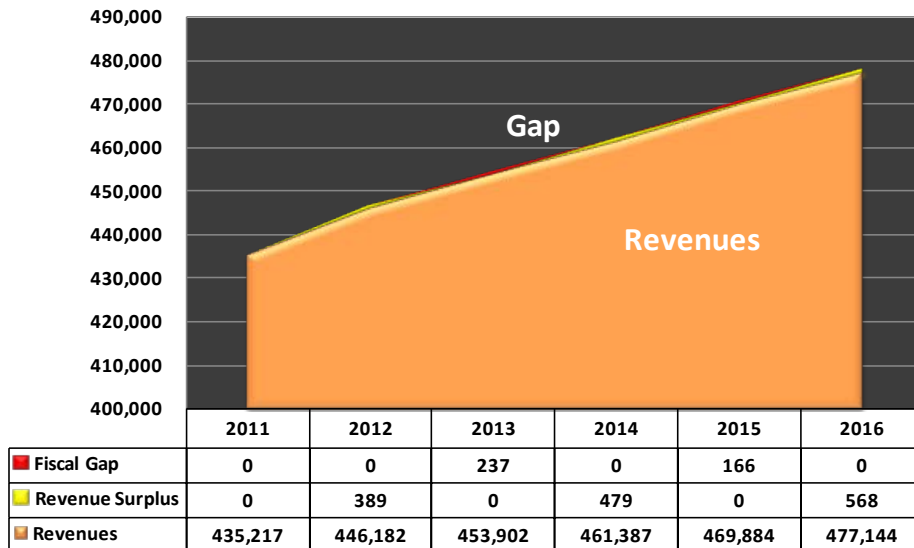
Efficiency initiatives will be undertaken throughout many functions of government to reduce the cost and improve the delivery of services to the public.

The "Take Action Now" scenario assumes a reduction of the cost structure of the city itself while incorporating known expenses including increased labor contracts, and increased health care increase. Reductions and efficiencies will be achieved every year in this plan. The reductions/efficiencies range from \$10 million in 2012 to \$35 million in 2016.

This scenario also assumes increased revenue fees due to modest economic recovery, fee increases to selected Municipal programs and new revenues. Property taxes will be increased by 1.5% each year.

The six-year fiscal trend of the Mayor's recommended plan is detailed below:

## Mayor's Case: Take Action Now



In the Mayor's recommended plan, revenues and expenses are primarily held in balance. As a result of this scenario, a surplus environment is created in 2012 and 2014 that is intended to be held to offset any deficits in the future. As needed, adjustments to the plan will be made as specific business actions are implemented by departments.

The assumptions for the Mayor's recommended plan include:

### Expenditure Forecasts

As the Mayor's recommended plan illustrates, cost reductions including a reduced work force and related wages, are key elements in addressing the fiscal deficits projected. Reductions in the amount of \$14 million are planned for 2011 and an additional \$10 million in reductions is planned for 2012. The reductions will continue to increase each year to \$35 million in 2016.

Personnel costs are the single largest category of expense in the projection model. As in the "Do Nothing" scenario, union labor contracts are assumed to increase to the mid point of the previously negotiated contracts plus an adjustment for anticipated health care increases.

As in the "Do Nothing" scenario, debt service costs continue to vary year to year due to mature debt being retired or refunded and new debt cost approved by voters. The projection model assumes that new debt will approximate the amount of debt that is paid off.

The Police and Fire Retirement System continues to collect \$8.5 million per year from Municipal government to fund the pension obligation.

## Revenue Forecasts

The Municipality is heavily dependent on local property tax revenues to fund services. Property taxes are predicted to grow by 1.5% per year for the projection period. As with the “Do Nothing” scenario, fees and other local revenue sources linked to variable tourism and construction permit activities are projected to increase moderately over the projection period.

This plan assumes additional new revenues of six million dollars beginning in 2012. This new revenue source may be in the form of additional/new fees or a new source of revenue.

The following is the supporting financial statement for the Fiscal Plan recommended by the Mayor:

SIX YEAR FISCAL PROGRAM -  
PROJECTIONS OF REVENUES & EXPENDITURES (in \$ Millions)  
2010 to 2016  
Mayor's Take Action Now Plan

Six Year Budget Projection	PROJECTIONS							
	2010 1Q Bud	2011	2012	2013	2014	2015	2016	
<b>REVENUES</b>								
Federal Revenues	938	2,143 128%	2,152 0.4%	2,162 0%	2,300 6%	2,311 0%	2,323 0%	
State Revenues	16,797	16,587 -1%	16,603 0.1%	16,619 0%	16,656 0%	16,673 0%	16,690 0%	
Local Revenues	137,917	145,597 6%	147,506 1.3%	150,461 2%	153,843 2%	157,263 2%	160,426 2%	
New Taxes/Revenues		-	6,000	6,180 3%	6,365 3%	6,556 3%	6,753 3%	
Property Taxes	237,300	241,090 1.6%	244,710 1.5%	248,380 1.5%	252,100 1.5%	255,880 1.5%	259,720 1.5%	
Fund Balance Applied	2,561	3,696 1%	3,000 1%	3,000 1%	3,000 1%	3,000 1%	3,000 1%	
IGC's Outside General	25,912	26,104 1%	26,600 2%	27,100 2%	27,600 2%	28,200 2%	28,800 2%	
<b>TOTAL REVENUES</b>	<b>421,425</b>	<b>435,217 3%</b>	<b>446,572 3%</b>	<b>453,902 2%</b>	<b>461,866 2%</b>	<b>469,884 2%</b>	<b>477,711 2%</b>	
Change from prior year		3%	3%	2%	2%	2%	2%	
<b>EXPENDITURES</b>								
Personal Services	232,648	237,078 2%	247,342 4%	257,711 4%	265,926 3%	274,532 3%	283,551 3%	
Debt Service	37,080	51,633 39%	59,610 15%	60,660 2%	64,070 6%	59,700 -7%	63,220 6%	
Other	151,697	146,507 -3%	149,231 2%	152,768 2%	156,391 2%	160,818 3%	165,373 3%	
Reductions/Efficiencies	-	-	(10,000)	(17,000)	(25,000)	(25,000)	(35,000)	
<b>TOTAL EXPENDITURES</b>	<b>421,425</b>	<b>435,217 3%</b>	<b>446,182 3%</b>	<b>454,139 2%</b>	<b>461,387 2%</b>	<b>470,050 2%</b>	<b>477,144 2%</b>	
Change from prior year		3%	3%	2%	2%	2%	2%	
<b>FISCAL SURPLUS/SHORTFALL - -REVENUES OVER/(UNDER) EXPENDITURES</b>	<b>(0)</b>	<b>(0)</b>	<b>389</b>	<b>(237)</b>	<b>479</b>	<b>(166)</b>	<b>568</b>	
cumulative			389	152	631	465	1,033	