

SIX-YEAR FISCAL PROGRAM

2015 – 2020



Municipality of Anchorage

Dan Sullivan

Mayor

October 1, 2014

MUNICIPALITY OF ANCHORAGE
Six-Year Fiscal Program
2015 – 2020

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Revisions since original publication date of September 26, 2014

- Page 40 Fund designation policy corrected to be a percent of current year expenditures, rather than revenues.
- Page 43 Sentence added describing August 2014 change in fund balance calculation methodology.

Preface

In accordance with the Municipal Charter 13.02, 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, operation, 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 the Six-Year Fiscal Program is to provide a financial plan for review and consideration in response to services required by the public.

The Six Year Fiscal Program encourages 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 enhancements. Key strategic policy decisions will need to be made over the next six years 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 website at www.muni.org. Relevant documents include:

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

Six-Year Fiscal Program 2015 – 2020

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1. Major Six-Year Strategic Plan Value, Mission, Vision, and Goals

The Municipality of Anchorage has a set of overarching goals identified by the Mayor and his Administration. The goals presented are the program and service areas where the Administration focuses its effort. Strategies for accomplishing these goals have been developed and implemented.

The “Performance, Value, Results” program, implemented in 2010 is used to measure department performance relative to strategy. Departments developed specific performance measures which are included in the budget book and are also available on the City’s budget website. Aligning priorities with services helps departments manage their resources effectively and measure their progress more accurately.

The Municipality’s Strategic Plan, including 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. The plan aligns priorities with financial resources and allows for a more informed and in-depth discussion of how best to achieve the desired results on behalf of the community. The Strategic Plan is a living document and modified to adapt to events in our ever changing Municipality.

Values:

- ❖ 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 – effective and efficient service and delivery and exceptional customer service.

- ❖ *A Safe Place to Call Home* – low violent crime, timely fire and ambulance response, safe neighborhoods and parks, well prepared for emergencies and solutions for our homeless population.
- ❖ *Flourishing, Broad-based, and Sustainable Economy* – fiscal stability, predictable diversified taxes, stable property taxes. Favorable bond ratings. Reliable long-term sources of energy. Regulatory environment that encourages business development. Incentives for redevelopment.
- ❖ *Inviting Place to Live, Work and Play* – a diverse community with a unity in purpose, high quality education, life-long learning, infrastructure to support health care, and cultural and recreational activities.
- ❖ *A Premier Destination* – a vibrant downtown with 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 improve internal and external service delivery.
 - b. Establish a system to measure and communicate 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 recreational and cultural public facilities.
 - f. Improve Anchorage's streets by effective snow removal, repair potholes, timely street sweeping and striping.
 - g. Pursue opportunities for privatization and managed competition.
2. *Strengthen Public Safety*
 - a. Improve management and deployment of 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 fiscal 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 robust transit system that serves as an affordable and convenient mode of transportation to employment centers.
- d. Coordinate transportation improvements and extensions with Anchorage Water and Wastewater Utility water and sewer extensions.

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

- a. Identify and advocate for new energy sources.
- b. Advocate for a regulatory environment that encourages development in Cook Inlet.
- c. Encourage the Regulatory Commission of Alaska to be responsive to supply and demand.
- d. Develop and implement a long-term energy conservation plan.
- e. Develop a communications vehicle to make the public aware of critical issues.
- f. Explore merging of utilities in the Municipality of Anchorage.
- g. Utilize the Energy Task Force to help develop energy policy.

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), Visit Anchorage, Anchorage Community Development Authority, and CIVICVentures.
 - f. Establish stable business taxes and user fee structures.
 - g. Streamline the permitting and planning process and establish time limits for plans and warranty approvals.
 - h. Judiciously use economic development tools such as tax deferrals and abatements, to encourage new business growth.
 - i. Set priorities for publicly-funded infrastructure in order to support infill and redevelopment of major employment centers and community centers.
7. *Improve community relations and earn 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 and accountability.
 - 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 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 Projects requests from federal, state, and local sources will focus on roads, parks, upgrading our municipal facilities, public transportation, and public safety. The State funding secured during the 2014 Legislative session to upgrade the Sullivan Arena and other ice rinks throughout the Municipality of Anchorage is a key example of the Administration's commitment to applying priority capital funding sources focused on rehabilitating and improving existing public infrastructure for the broad benefit of Anchorage residents and visitors.

The Municipality of Anchorage can expect decreasing availability of funding support 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 future debt service obligations.

Our capital program will be based on the premise that we first adequately maintain our current assets before adding any significant new projects with high operating and maintenance costs. The Sullivan Administration's goal is to avoid increasing Municipal debt.

2. Economic Trends and Indicators

Introduction

Anchorage's economy continues on a trajectory of slow to moderate economic growth. Although total employment increased by just a few hundred jobs in 2013, the private sector added 1,100 jobs, and mid-year indicators for 2014 point toward an additional 1,100 new private sector jobs by the end of the year. With private sector job growth, continuing local population growth, rising total personal income, and an improving national economy, perhaps it should be no surprise that Anchorage Economic Development Corporation's (AEDC) 2014 Business Confidence Index (BCI) showed a strong positive local business community for most measures of business confidence.

Declining government employment acted as a drag on the Anchorage employment picture in 2013, when public sector employment was down 800 jobs. That decline has continued into 2014, according to preliminary employment data. As a result, total job growth through the first six months of the year has been slower than expected, 0.4 percent, according to the Alaska Department of Labor and Workforce Development (ADOLWD), rather than the 0.8 percent estimated by AEDC last January. Nevertheless, strong economic activity over the summer could still push Anchorage job growth back to a higher growth rate.

The AEDC *Three-Year Economic Outlook (2015-2017)*, incorporated herein, examines economic trends based on historical data, interviews with representatives of businesses and organizations in various sectors, and current events. It discusses trends in terms of eight key indicators: populations, employment, personal income, air passenger and freight volumes, building permits, Port of Anchorage tonnage, visitor industry activity, and oil prices.

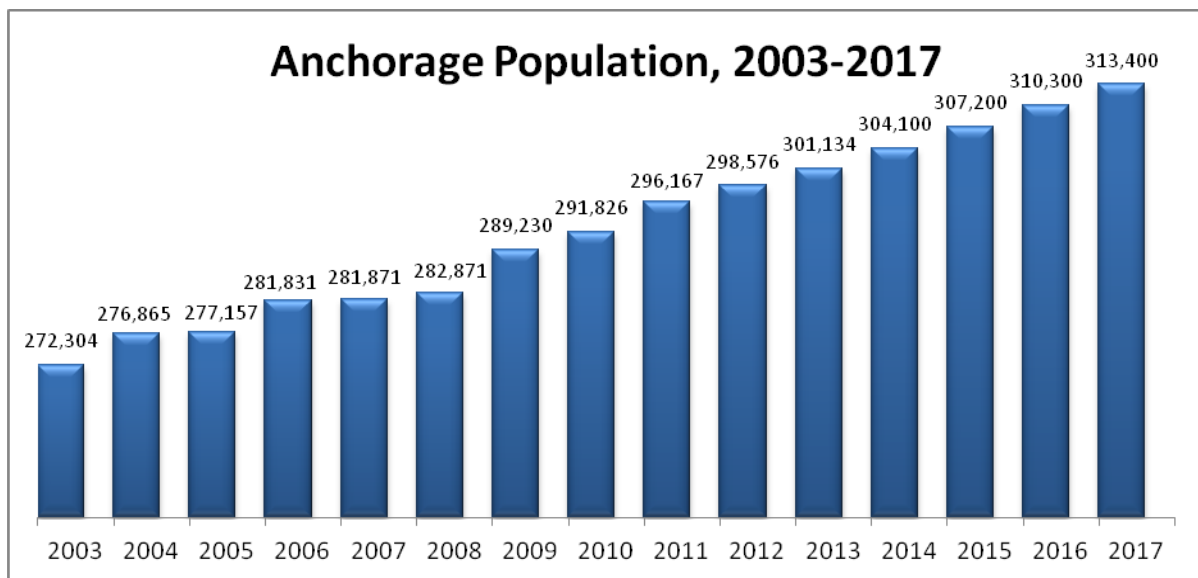
Population

With nearly 2,600 new residents in 2013, Anchorage has passed the 300,000 mark in population. The ADOLWD estimated Anchorage's population at 301,134 residents in 2013, 0.9 percent above 2012.

"Natural increase" (births minus deaths) was the primary source of population growth in Anchorage. Last year (2013) was the third consecutive year in which fewer people moved to Anchorage than moved away (i.e., there was negative net migration). In contrast, the Mat-Su Borough remains the fastest growing region in Alaska with its highest level of net in-migration in four years. One component of Mat-Su's ongoing growth is likely Anchorage residents seeking more affordable housing than available within the municipality (a trend identified in a 2011 housing study for the Municipality of Anchorage by McDowell Group).

Another important population trend is that Anchorage, like the rest of Alaska, continues to age. The Anchorage population over 65 has grown at 7.4 percent annually since 2010. Last year, this age group increased by about 1,500 people, nearly double the increase in those aged 20 to 64. A decade ago, seniors accounted for 5.5 percent of Anchorage's population. Today it comprises 8.7 percent. By 2022, nearly one in seven people (14.4 percent) are expected to be over 65. In addition to the unique role of seniors and senior income in the economy, demographic shifts in the workforce may challenge employers to find suitable replacements for retiring workers.

It is projected that Anchorage's population will continue to grow at a slow but steady pace of about 1 percent a year (roughly 3,000 new residents annually), again driven mainly by natural increase rather than in-migration, but also supported by growth in the job base.



Source: U.S. Census, Alaska Department of Labor and Workforce Development, 2003-2013. McDowell Group estimated (2014) and forecast (2015-2018).

Employment

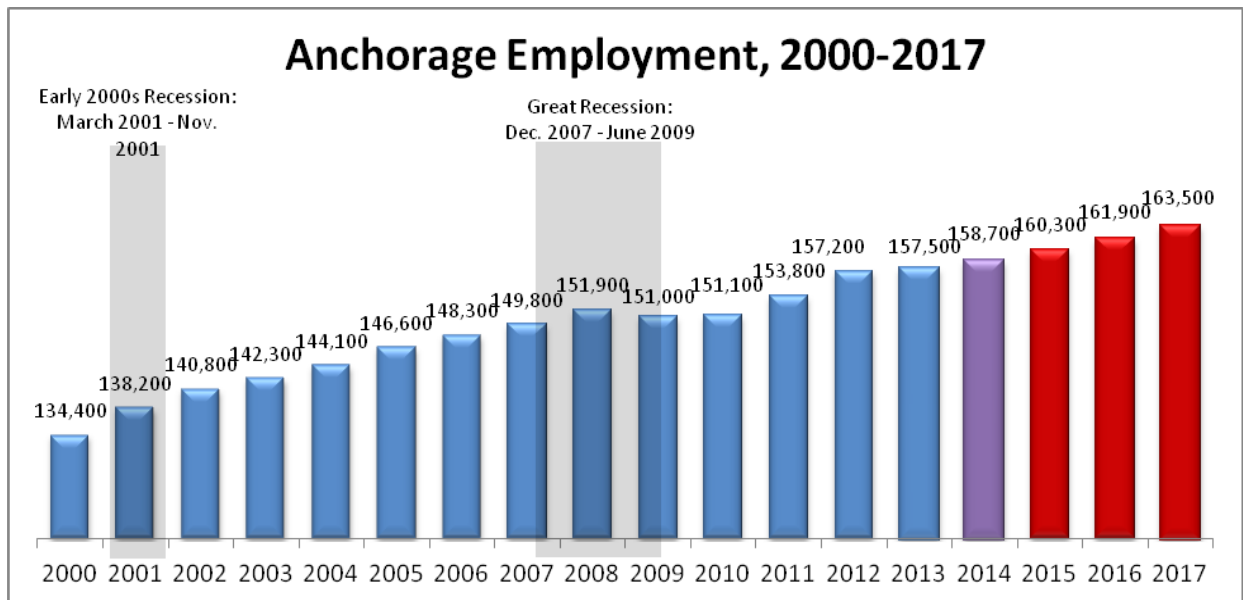
The Anchorage economy showed a net increase of just 300 jobs in 2013, well below forecasts. The private sector added 1,100 jobs in 2013. However, government employment as a whole declined by 800 jobs. An increase in State employment of 100 jobs was not enough to offset 400 fewer Federal jobs and 500 fewer local government jobs. There are now 1,100 fewer Federal employees in Anchorage than there were in 2010, an 11 percent overall decline.

Private sector job growth is encouraging, especially an 800-job (4 percent) increase in professional and business-services employment. Other growth areas in 2013 included the oil and gas sector and health care. Financial services and construction employment were down in 2013.

The latest data suggests slow net job-growth continuing into 2014, again the result of private business activity offsetting government-sector declines. Through the first six months of the year, Anchorage employment is approximately 600 jobs ahead of the same period in 2013. This reflects government employment of 600 jobs and private sector growth of 1,200 jobs.

In its January job forecast, AEDC predicted 2014 would see relatively slow employment growth of about 0.8 percent (1,200 new jobs). The first six months of the year saw just 0.4 percent growth, suggesting that year-end employment may come in somewhat below expectations. However, summer employment activity could push the growth rate back to the forecast level. Anchorage’s private sector typically adds 10,000 summer workers to its payroll, with peak employment in July and August.

AEDC’s previous three-year forecast was for employment growth of approximately 1.2 percent annually in 2015 and 2016. Recent trends suggest a slightly slower rate of growth can be expected, in areas of 1.0 percent annually for the period 2015 through 2017. The good news is that employment should continue to expand, with the private sector more than counterweighing any further government sector declines, at least in the near term.



Source: U.S. Census, Alaska Department of Labor and Workforce Development, 2000-2013. McDowell Group estimated (2014) and forecast (2015-2017). The dates and durations of recessions are from the National Bureau of Economic Research.

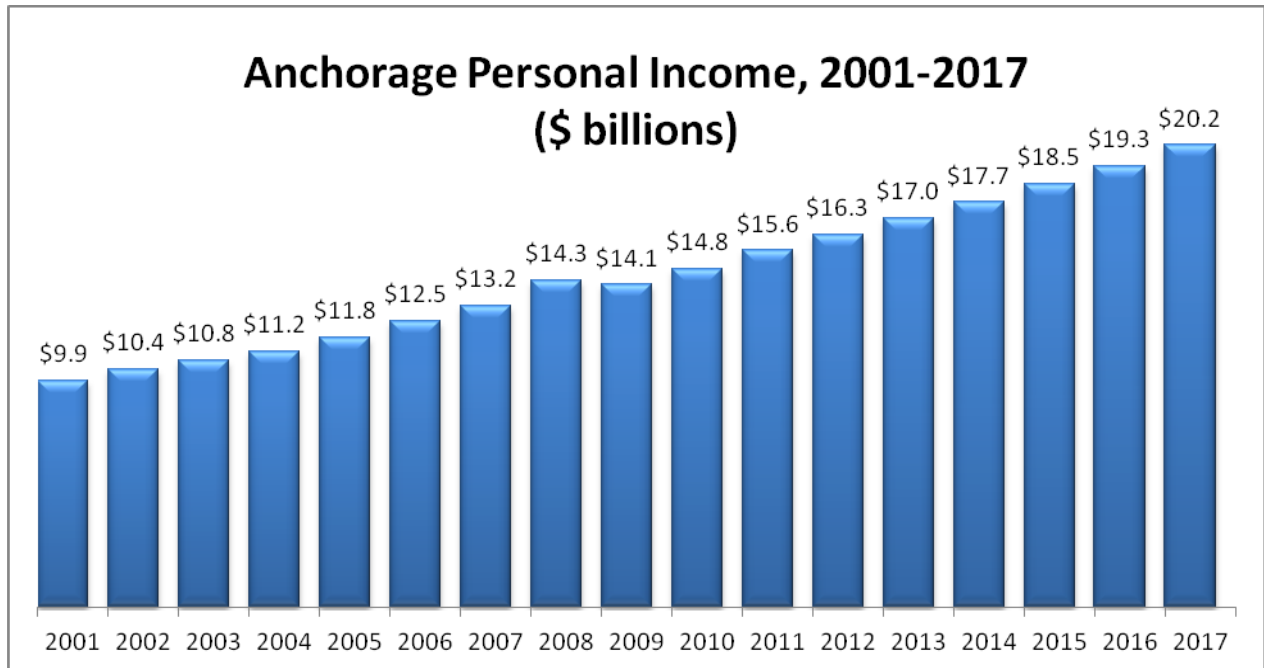
Personal Income

Personal income is defined as total gross income (before taxes) from all sources earned or received by Anchorage residents. According to the most recent data available from the U.S. Bureau of Economic Analysis, personal income in Anchorage totaled \$16.3 billion in 2012, 4.5 percent more than in 2011.

Income from employment (totaling \$11.1 billion in 2012) accounts for about two thirds of all personal income and grew 5.2 percent over 2011. Investment income, which includes dividends, rental income, and interest, was the fastest growing source of personal income, increasing by 6.7 percent in 2012. Since 2009, the average annual growth rate of investment income has been 7.6 percent. This is a function of both a recovering stock market (now at or near record highs) and a growing retiree population drawing income from savings and retirement plans.

In contrast to employment and investment income, government transfers decreased by \$29 million, or 1.3 percent. Government transfers include the Permanent Fund Dividend (PFD), Medicaid, Medicare and Social Security, among other payments from government to individuals. This is a volatile component of personal income, with year-over-year changes ranging from -2 percent to +6 percent since 2001, even without considering the recession years.

While local-level 2013 data is not yet available, statewide data indicated that Anchorage personal income likely surpassed \$17.0 billion last year. Growth over the next three years is expected to average 4.7 percent annually. Beyond 2017, low employment rates and expected population growth should continue to drive personal income higher in Anchorage, though perhaps not at the same rate as in previous years. Investment income from dividends is expected to maintain its current trajectory. Government transfers should increase this year. The PFD is based on a five-year rolling average return on the Permanent Fund's investments. The dismal returns of FY2009 finally drop out of the five-year rolling average this year. This October's PFD distribution will mean over \$180 million more than last year in total personal income for Anchorage residents. Barring a sharp drop in the stock market, PFDs should remain relatively high over the next few years.



Source: U.S. Bureau of Economic Analysis, 2001-2012. McDowell Group estimate (2013-2014) and forecast (2015-2017)

Anchorage International Airport Passenger and Freight Volume

2013 was a mixed year for the airport. Cargo volume declined for the third year in a row, but the number of passengers increased. Passenger volume reflects tourism travel, local and state business activity, and residential travel; it includes counts of enplaning, deplaning, and in-transit passengers. Air cargo, which is dominated by cargo that transits through Anchorage en route to other destinations, responds directly to global economic conditions. Both air passenger and air freight indicators are important measures of economic activity in Anchorage.

Passenger Volume

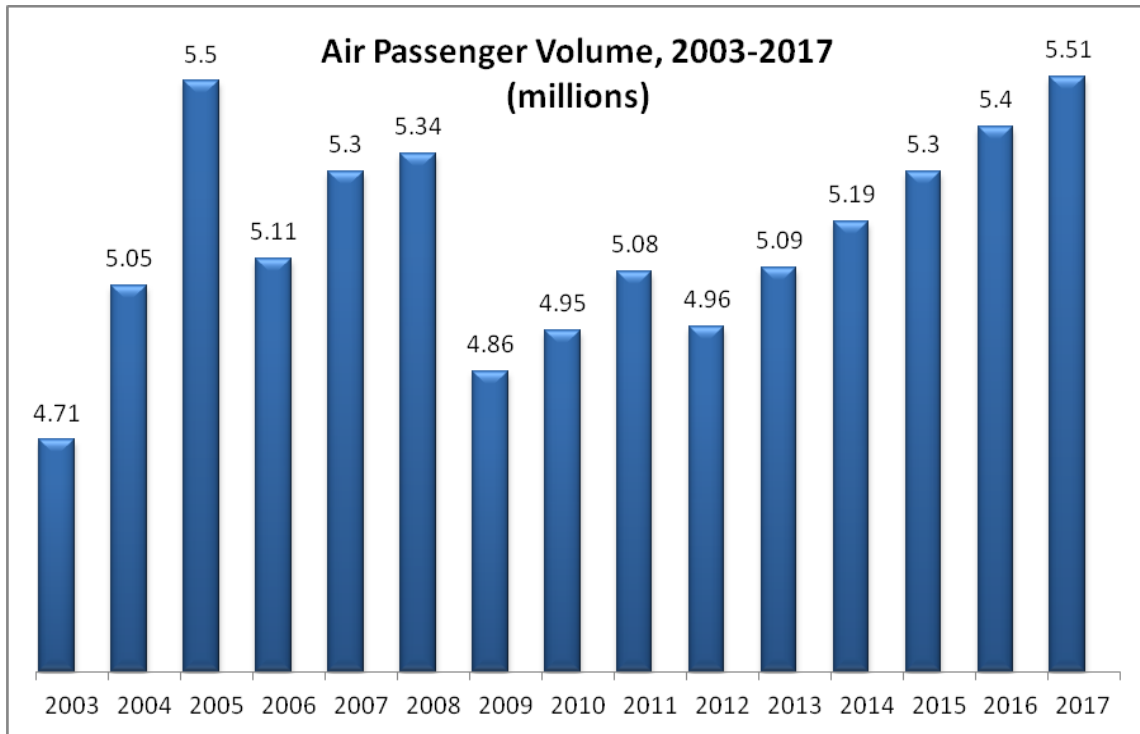
Ted Stevens Anchorage International Airport (ANC) passenger volumes totaled slightly less than 5.1 million passengers in 2013, 2.7 percent above 2012. The growth in 2013 marked a turn-around from the -2.6 percent decline in passenger traffic experienced in 2012.

Like many sectors of Alaska's economy, demand for air travel is seasonal. The summer months (June through August) see nearly twice as many people passing through Anchorage's airport as in the winter season (December through February). Air travel for the 2013 summer season was up 5.9 percent compared to summer 2012, to 1.9 million passengers, the most since summer 2008.

The growth trend that began last year has continued into 2014. First quarter 2014 passenger traffic was 4 percent above first quarter 2013. However, while an increase in traffic is expected for 2014, growth

may be muted slightly due to an expected decline in cruise passenger traffic to Alaska (many passengers cruise one way and arrive or depart Alaska by airline).

AEDC expects 2014 air passenger traffic in 2014 to be about 2 percent above 2013, and anticipates that same rate of growth for the 2015 to 2014 period, reaching an annual 5.51 million passengers in 2017, which would surpass the pre-recession peak of 5.34 million passengers in 2008.



Source: Ted Stevens Anchorage International Airport, 2003-2013. McDowell Group estimated (2014) and forecast (2015-2017)

Air Freight

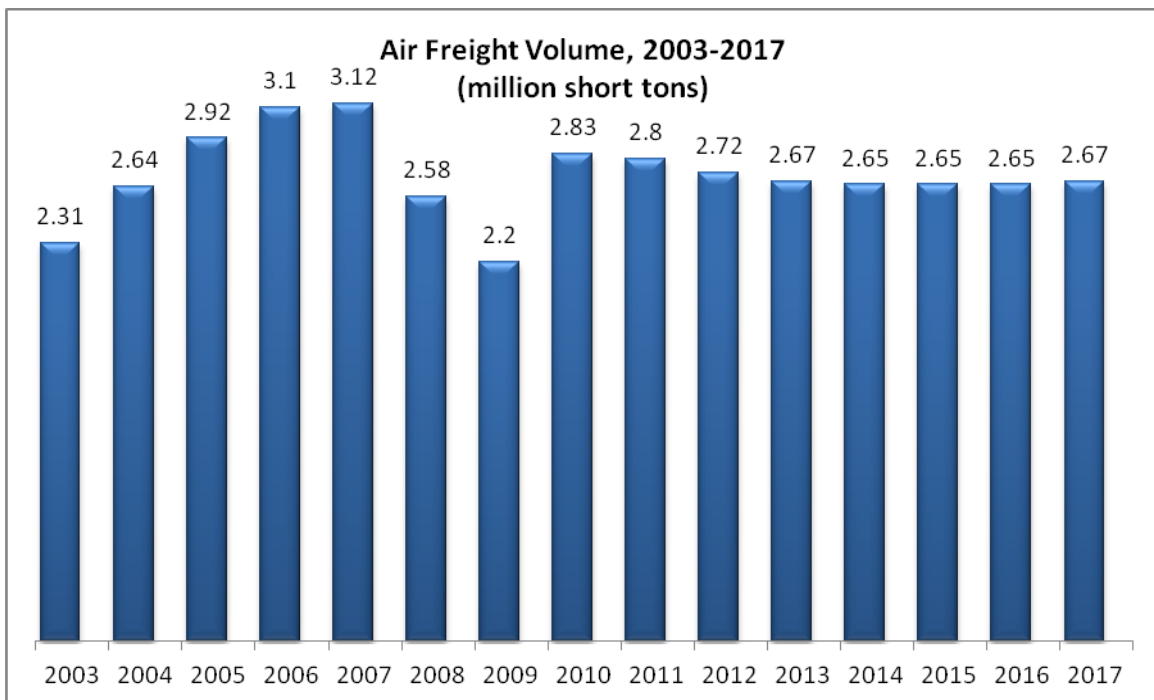
ANC remains the second busiest cargo airport in the U.S. in terms of weight landed. In 2013, it slipped to sixth place internationally behind the fast-growing Dubai International Airport and slightly ahead of Louisville International Airport. In 2013, 2.67 million short tons of cargo moved through the airport, a decline of 1.7 percent from 2012 and a 5.8 percent decline since the post-recession peak of 2.83 million tons in 2010. The number of cargo landings was down 3.5 percent to 35,545 in 2013 compared to 36,772 in 2012.

Since the end of the 2008-2009 Recession, the weight of cargo carried per flight has increased steadily, from 133,000 pounds per landing in 2010 to 154,000 pounds in the first quarter of 2014. As larger and more efficient planes enter the market, the freight-weight per landing is expected to continue increasing.

Air freight statistics for ANC include deplaned, enplaned, in-transit passengers, and transit cargo. Transit cargo accounts for about three-quarters of all air freight. During the first quarter of 2014, transit cargo

moving through ANC was 6.2 percent above first quarter of 2013. Meanwhile, deplaned and enplaned cargo combined was down 17 percent. Overall, the total cargo volume was down 0.5 percent for the quarter. Based on first quarter trends, 2014 cargo volume will end slightly below 2013.

AEDC anticipated that air freight volume in 2015 and 2016 will be at about the 2014 level of about 2.65 million tons. General improvement in domestic and international economic conditions should stem the slow decline in air freight volume experienced over the past several years, and by 2017 move into a trend of slow growth. The 2017 forecast is for a total of 2.67 million short tons of air freight moving through ANC.



Source: Ted Stevens Anchorage International Airport, 2003-2013. McDowell Group estimated (2014) and forecast (2015-2017)

Building Permit Values

The value of building permits issued by the Municipality of Anchorage provided a partial measure of construction activity in Anchorage. Building permits are categorized into residential, commercial, and government facility construction; the data does not include military construction and road construction projects. Building permit values are a measure of the anticipated cost of the construction project. Actual construction spending may be higher or lower than anticipated.

Residential, commercial, and government building permits combined totaled \$631 million in 2013, jumping 41 percent from 2012. The year 2013 marked the fourth consecutive annual increase in total building permit values. Permit values bottomed in 2009 at \$395 million.

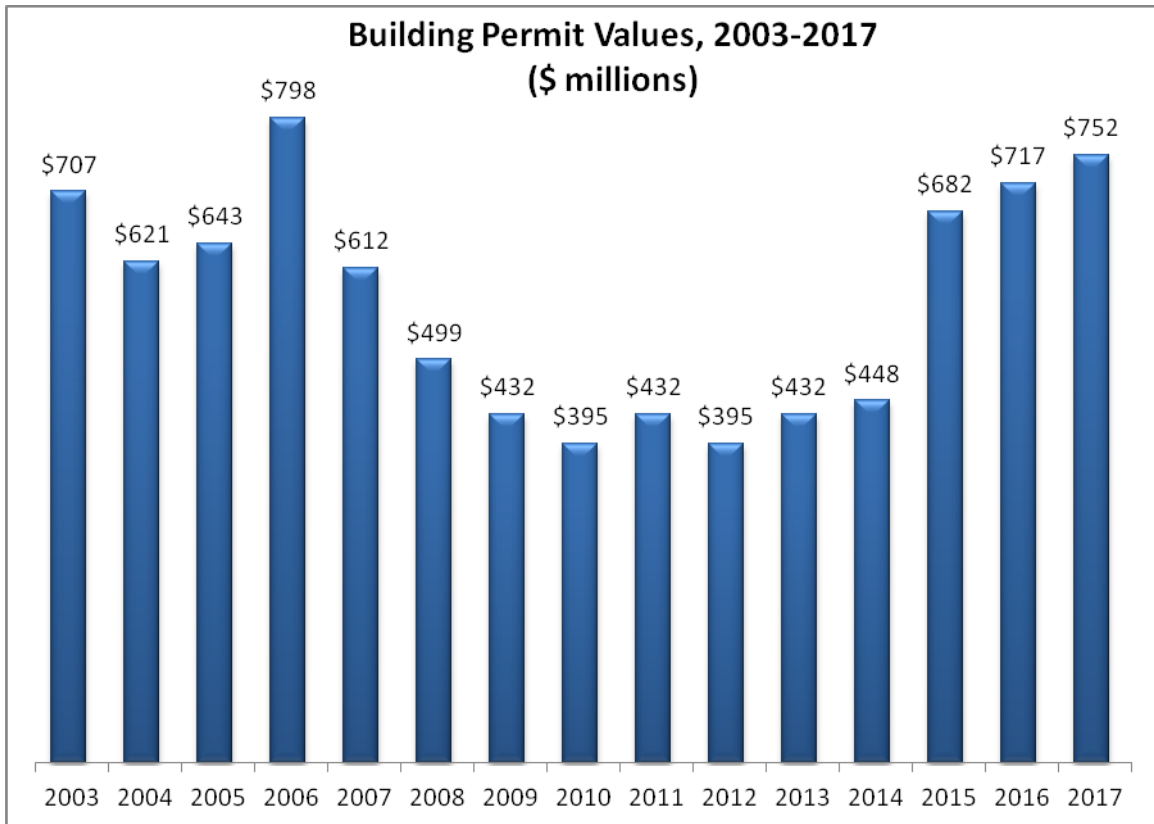
Residential building permit values (not including townhouses, condominiums, and apartment buildings, which are counted as commercial) increased 13 percent in 2013 (\$169 million) compared to 2012 (\$150 million). Commercial building permit values were up 50 percent between 2012 (\$250 million) and 2013 (\$376 million). Government construction permit values showed an increase of 80 percent from 2012's \$48 million, rising to \$87 million in 2013.

Approximately \$369 million in construction was permitted during the first six months of 2014, down 4 percent from \$385 million during the same period in 2013, though the data is mixed across the three construction sectors. Residential building permit values rose 16 percent (from \$92 million in 2013 to \$107 million in 2014), commercial permit values fell 23 percent (from \$247 million to \$190 million), and government permits increased 56 percent (from \$46 million to \$72 million). It is important to note that government permit figures provide only a partial measure of government construction spending, as transportation and military projects are not included.

According to Alaska Housing Finance Corporation (AHFC) data, Anchorage's 2014 year to date rental housing vacancy rate is 3.2 percent, just slightly lower than the 3.3 percent recorded in 2013. Of the 10 areas surveyed by AFHC, Anchorage had the lowest vacancy rate in Alaska. Median Anchorage monthly rental rates are up 2 percent in 2014, reaching \$1,178 – the highest rate of the surveyed areas in Alaska.

A few of the larger commercial and government building permit application values during the first six months of 2014 include: ML&P Plant (\$18 million), Girdwood School (\$12 million), Home2Suites (\$12 million), the Residences at Northwood (\$5 million), Dimond Center (\$4 million), and Eklutna Water Treatment Plant (\$3.5 million).

AEDC estimates that Anchorage will end 2014 with combined building permit valuations about 3 percent above the 2013 level. From 2015 to 2017 total building permit values are expected to increase at annual rate of about 5 percent annually. This rate of growth is premised on continuing private sector investment in Alaska's oil and gas industry.



Source: Municipality of Anchorage, 2003-2013. McDowell Group estimated (2014) and forecast (2015-2017).

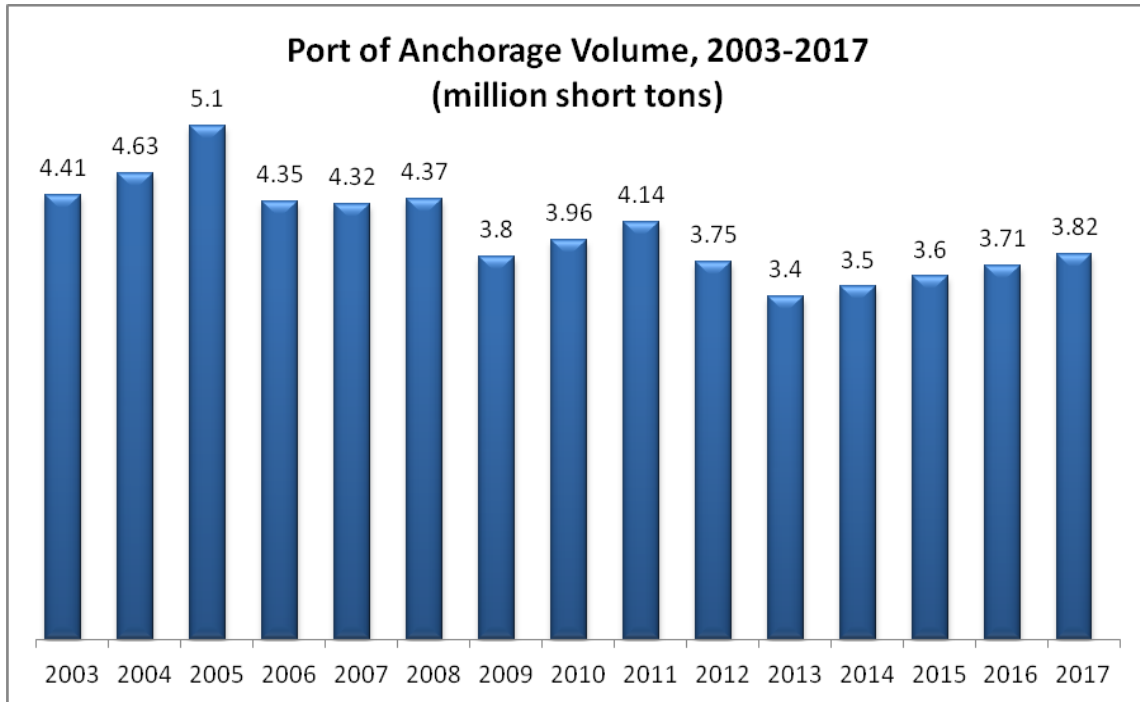
Port of Anchorage Freight Volume

Total freight moving through the Port of Anchorage (POA) in 2013, including container freight and petroleum products, was 3.4 million tons, down 9.3 percent from 2012. The decline in POA freight weight was due to reduced volume of petroleum products. However, closure of the Flint Hills refinery this summer will result in more petroleum products flowing through the Port from sources outside of Alaska. Petroleum product tonnages have declined steadily since a 2005 peak of 2.88 million tons, which was 56 percent of total freight. Containers made up 51 percent of total freight in 2013. The remaining freight including bulk cement, iron, steel and other goods account for about 4 percent.

Generally, container freight, alone, provides a good barometer of overall local economic activity. It captures residential, commercial, and industrial products used in all sectors of the economy but is not skewed by variable petroleum production and supply. Over the last five years, container freight has oscillated around an average of 1.7 million tons. Last year was the second consecutive year of growth, with volumes exceeding the five year average. AEDC expects container weight to increase slowly over the next three years, along with the local economy, growing to 1.75 million tons in 2017.

While the POA remains the dominant transshipment point of goods entering and leaving Alaska and Anchorage, it is important to note that Anchorage goods are also shipped through Whittier and Seward,

via ground transport on the Alcan Highway, and by air through Ted Stevens Anchorage International Airport. While competitive forces may have a bearing on the volume of freight through the port, AEDC nevertheless forecasts a 3 percent annual increase in total freight through the POA over the next three years from 3.5 million tons (2014) to just over 3.8 million tons (2017).



Source: Port of Anchorage, 2003-2013. McDowell Group estimated (2014) and forecast (2015-2017).

Visitor Industry

Alaska's visitor industry has recovered strongly from the recession-era slump. In fact, Alaska saw more visitors during the 12-month period from May 2012 through April 2013 (1.97 million) than at any other time in history, beating the previous record from 2007-2008 by more than 5,000 visitors, according to the *Alaska Visitor Statistics Program (AVSP)*. The summer of 2013 saw growth in all three transportation markets: cruise and air volume were both up by 7 percent, while highway/ferry volume was up 8 percent. Overall, summer 2013 volume was up by 7 percent, while fall/winter 2013-2014 volume increased 4 percent. Full-year volume was 6 percent higher than the year before.

Anchorage saw particularly strong visitor-industry indicators for the summer of 2013, with outbound domestic enplanements (airplane passengers exiting Alaska from Anchorage on domestic flights) up by 9 percent. The addition of a new airline to Anchorage (Virgin America), as well as increase capacity by several airlines (JetBlue, United, and Delta), contributed to the strong increase in Anchorage enplanements and reportedly led to "fare wars." International enplanements at the Anchorage airport were also up by 10 percent. Declines in Japan Airlines, Condor, and Korean Air volume were often more than offset by the addition of new flights from Iceland Air.

The fall/winter period refers to October through April. Although only 14 percent of Alaska's out-of-state visitors arrive during the fall/winter season, 73 percent of these visitors travel to Anchorage (compared to 56 percent in summer). Anchorage specific indicators for fall/winter of 2013-2014 include a 4 percent increase in outbound domestic enplanements. While international enplanements were down 32 percent, this only represents a loss of about 100 passengers. Anchorage's sole international carrier in the fall/winter is Condor, which wraps up its summer season in early October. Fairbanks now receives nearly all Alaska's fall/winter international airline traffic. These figures do not reflect Anchorage's overall international visitor market. Most of Alaska's international visitors travel by domestic, rather than international air.

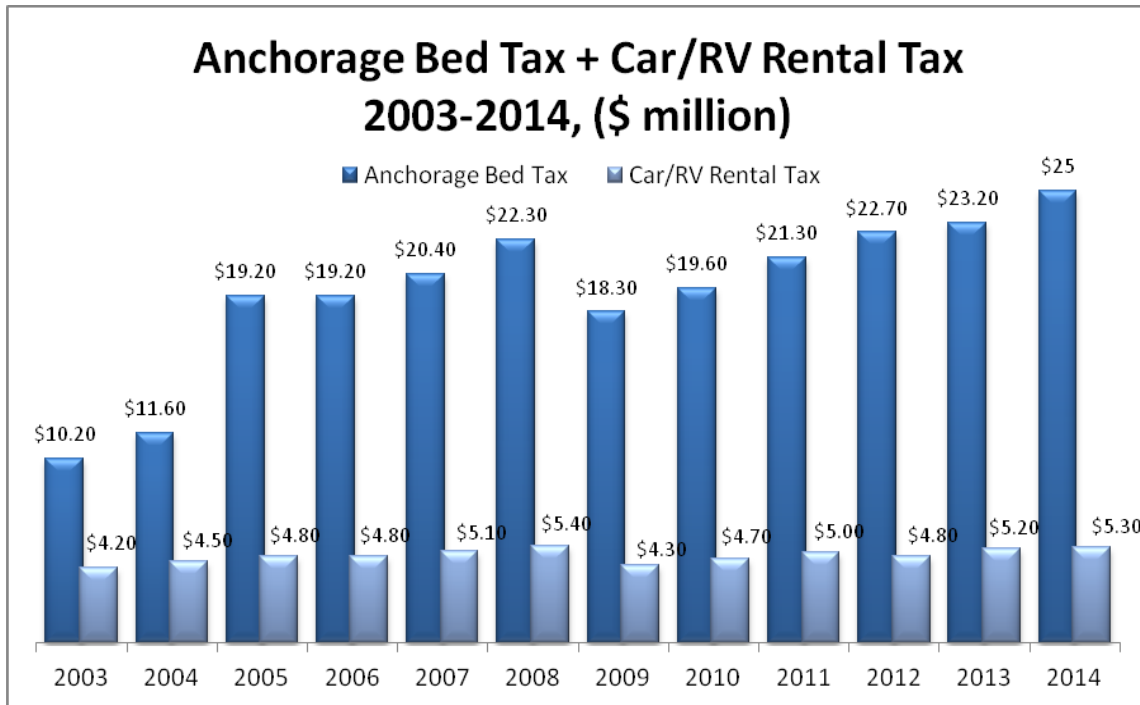
Visitor-related tax revenues were higher across the board for Anchorage in summer 2013: bed tax revenues increased by 4 percent, vehicle tax revenues by 8 percent, and RV tax revenues by 17 percent. Visitor-related tax revenues for fall/winter 2013-2014 changed little from 2012-2013. The only market showing a significant drop in 2013-2014 was convention attendees. *Visit Anchorage* reported an 11 percent decrease for fall/winter 2013-2014.

New entries expected into the hotel market include the 121-room TownePlace Suites and 135-room Home2Suites in mid-town, as well as 170-room hotel planned for the Alaska Native Medical Center Campus.

It may be difficult to sustain another year of growth in Alaska's visitor industry. Even with four dockings of Holland America's *Amsterdam* in Anchorage, overall cruise passenger volume is projected to decrease 3 percent in summer 2014. The air and highway/ferry markets will have to perform well in order to make up for the loss of cruise passengers, who represent 51 percent of Alaska's year round visitors. However, *Visit Anchorage* reports positive early indicators for the 2014 season, with hotel stays and revenue up in May, and looks to continue to grow throughout the summer. *Visit Anchorage* is also expecting a strong fall convention season. For example, the International Epidemiological Association, International Shotokan Federation, and Council of State Governments will be meeting in Anchorage in 2014.

Nationwide projections for the 2014 domestic-travel industry are generally positive. Compared to May 2013, consumer confidence and employment are both higher. The Traveler Sentiment Index has increased steadily since early 2012. As of May 2014, domestic travel is projected to increase at a faster rate, by 3.5 percent in 2014 and 4.1 percent in 2015.

Given current visitor activity, new room inventory, and room rates, AEDC predicts a 7.6 percent increase in bed tax revenues and 3.0 percent increase in car/RV rental tax revenues in 2014.



Source: Municipality of Anchorage, 2003-2013. McDowell Group Estimate (2014)

Oil Prices

Volatility in Alaska North Slope (ANS) oil prices during 2013 was relatively low compared to 2012. Monthly prices in 2013 had a spread of \$11, ranging from \$101 to \$113 per barrel. In 2012, the spread was \$25 (\$98 to \$123 per barrel).

Prior to 2011, ANS prices tracked closely with West Texas Intermediate (WTI) and Brent crude oil prices. Brent crude, extracted from the North Sea, is considered the international benchmark price while WTI is the US benchmark price. As these prices were historically very close and strongly correlated, a forecast for one was effectively as forecast for all. However, in recent years there have been periods of divergence between ANS, WTI and Brent prices. A key factor in this disconnect was the surge in production in the Lower 48. Overall in 2013, WTI averaged \$98 per barrel, Brent was \$109, and ANS was \$108.

Potential policy changes may also impact pricing. Recent policy changes in the U.S. and Canada may make it more likely that construction of the Keystone, Northern Gateway, and Line 9 pipelines will occur, possibly as early as 2015. In addition, efforts to relax the 40-year export ban and allow crude producers to sell at international prices, if implemented, will further shrink the gap between WTI and Brent.

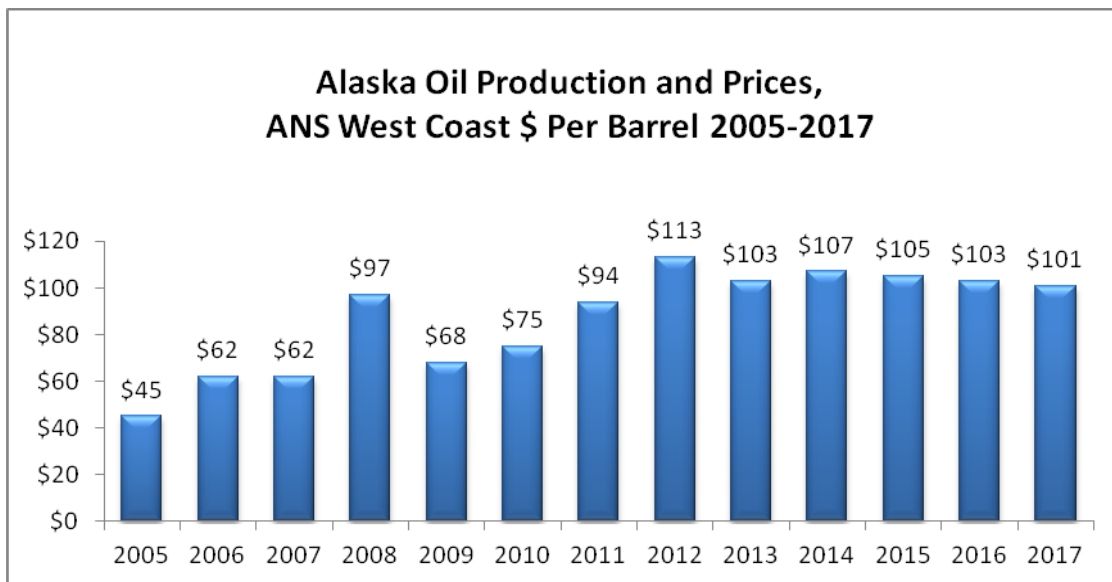
The Energy Information Agency forecasts WTI and Brent benchmark prices out to 2015. WTI is forecast to average \$99 per barrel in 2014 and \$91 in 2015. Brent is forecast to average \$108 per barrel in 2014 and \$102 in 2015. Relative to 2013, this is a 7.2 percent total decrease in WTI prices and a 6.1 percent

decrease in Brent prices. Alaska’s Department of Revenue forecasts ANS prices to be \$107 per barrel in 2014, \$105 in 2015, \$108 in 2016 and \$110 by 2017.

Price forecasts for 2014 were relatively stable until June when ISIL seized Mosul, Iraq’s second biggest city. This triggered a sustained \$2 jump in oil prices. As of July, Iraq’s oil production is reportedly back to normal, but instability remains as violence in the region continues.

Taking all these factors into consideration, the forecast for ANS in 2014 is \$107 followed by \$105 in 2015, \$103 in 2016 and \$101 in 2017. As usual, however, global prices will be subject to political unrest and economic uncertainty in regions that produce oil, so potential for upside swings in prices is ever-present.

Of course oil prices are only part of the story. Since peaking in 1988 at just over 2 million barrels per day, Alaska oil production has declined to about one-quarter of that level today. However, the rate of decline has flattened somewhat recently. Total production through the first five months of 2014 was down only 0.1 percent from the same period in 2013 and in fact both April and May 2014 production were above production in the same months of 2013.



Source: Alaska Department of Revenue, 2005-2017

Challenges Ahead

As a result of more oil and gas industry spending, and other positive forces in the local private sector economy, Anchorage remains on a track of slow economic expansion. In addition to an expanding population, employment, and personal income base, another indicator of a healthy economy is Anchorage's June 2014 unemployment rate of 5.6 percent, well below the national and Alaska rates of 6.3 percent and 6.8 percent, respectively. For the first six months of the year, unemployment in Anchorage averages about 5.3 percent. Local unemployment so far in 2014 characterizes a nearly "full employment: economic environment. Unemployment has not been consistently below 5 percent in Anchorage since 2007, when it averaged 4.9 percent, and before that in the 1998 through 2001 period, when it ranged between 4.3 percent and 4.9 percent.

As always, uncertainty is an ingredient in the recipe for Anchorage's economic outlook. Sources of uncertainty include government spending and employment. Declining government employment has acted as a drag on Anchorage job growth over the past several years. It remains to be seen if the decline in government (especially Federal employment) continues into next year and beyond.

Other key aspects of the Anchorage economy to watch closely include airport cargo volumes. Capacity and efficiency improvements are placing more freight on each plane but reducing the number of landings. Still, projected global economic growth over the next several years should gradually put ANC back on a growth track. Airport activity accounts for one in ten jobs in Anchorage.

Retail sector employment in Anchorage has spiked to all-time highs in 2014, with the addition of several new large national retail establishments. It will be interesting to see if those gains persist or if the new competition takes a toll on employment in other stores.

Cost of living is an ever-present concern in the Anchorage economy, particularly the cost (and availability) of housing. It's unclear how much of a constraint Anchorage's tight housing market is on population growth and business investment, but evidence suggests the local economy is not realizing its full potential because of the housing situation.

All things considered 2014 may be viewed as a turning point for the Anchorage economy. Clearly, the military, tourism, transshipment, and Anchorage's role as the State's service and supply center will continue to be important economic drivers in the city's economy. But the trajectory of Alaska's oil and gas industry, and the jobs and revenue it creates for Alaska, may be the single most important force in the Anchorage economy over the next three years and beyond.

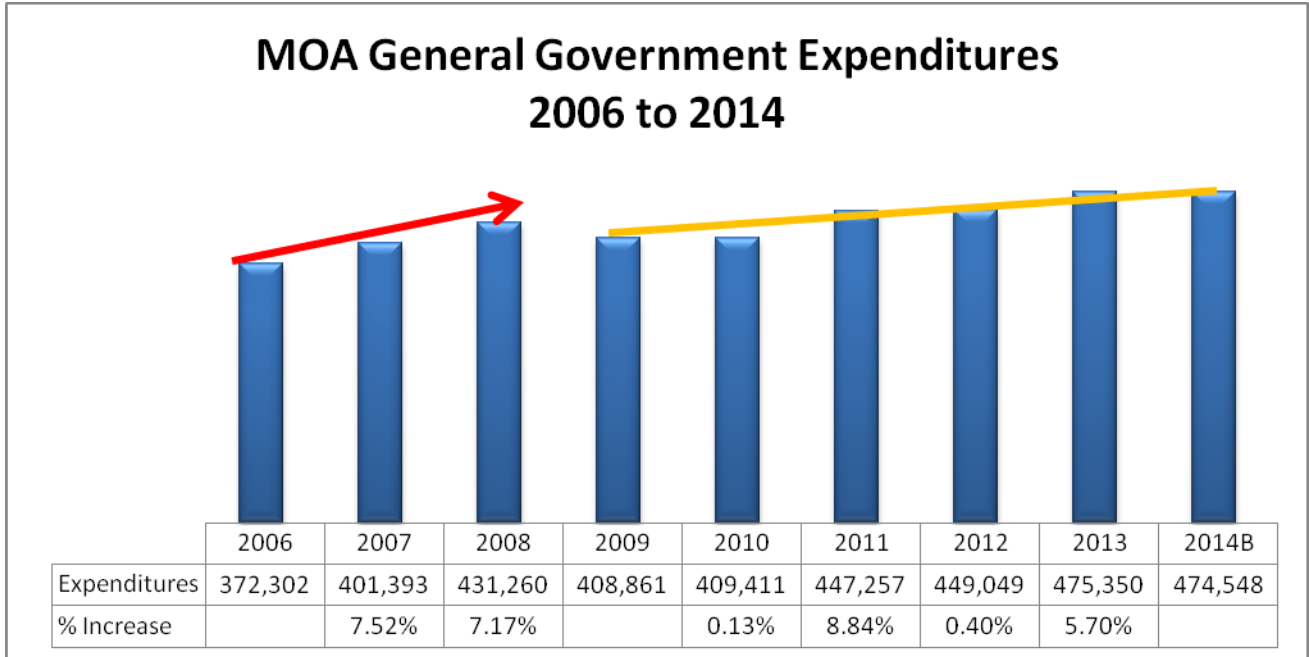
3. Historical Financial Trends

When the Sullivan Administration took office in 2009, the national economy was in the midst of what was later referred to as the Great Recession with nearly 10 percent national unemployment and millions of homes in foreclosure. Anchorage was impacted by the effects of the national recession, particularly in the areas of construction, tourism, and investment income. Fortunately, the impact to Anchorage and Alaska was not as severe as other parts of the country. The sudden major decline in 2008 investment income and revenues required the Sullivan Administration to take immediate corrective action to better align with revised expectations. While nearly \$10 million of revenue shortfall was identified, tens of millions of dollars of additional future costs tied to labor contracts approved in 2008 greatly challenged the long-term fiscal problems faced by the MOA.

Expenditures

The graph below depicts the actual expenditure trends from 2006 to 2013 for Anchorage's general government. Clearly, the trajectory of expenses established as far back as 2006 did not offer a long-term sustainable course for the MOA, particularly in the midst of marked declines and a national recession. As a result of budget cutting measures implemented in years 2009-2014, the Sullivan Administration has successfully restructured government expenditures to a more sustainable level, with healthier fund balance and improved bond ratings and more efficient delivery of city services. This proactive and serious approach to addressing budget shortfalls served the MOA well and kept Anchorage from following governments around the country into major financial distress.

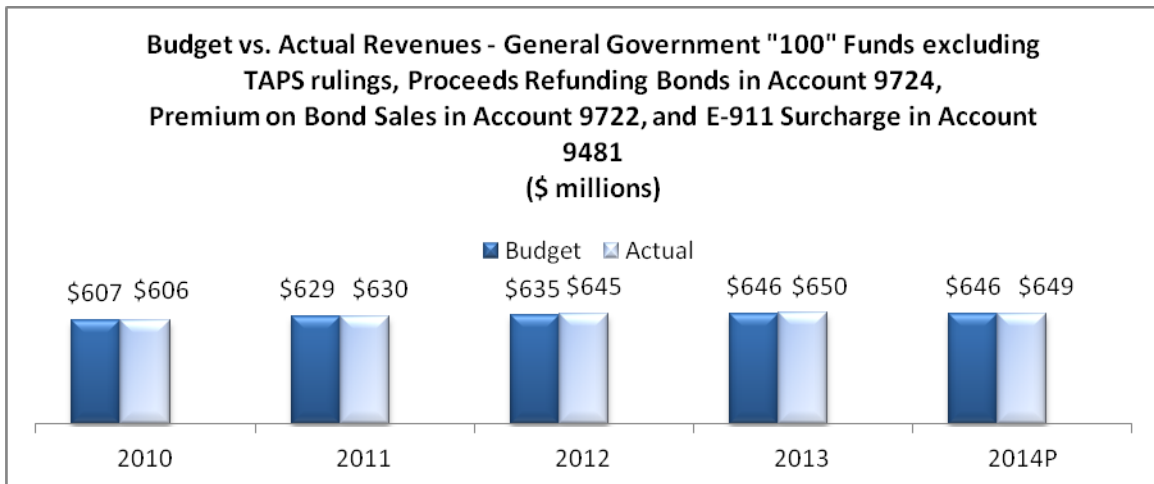
In 2011 the rate of spending, in comparison to 2009 and 2010, increased due to the receipt of additional revenue sharing funds from the State of Alaska. These funds were spent on one-time projects that included environmental remediation, a pay down of an inter-fund loan and investments in efficiency initiatives.



Source: MOA Controller (2006-2013 Actuals), MOA Office of Management and Budget (2014 Budget)

Revenues

Revenues have modestly increased over the past six years. The Municipal Treasury Division regularly monitors and forecasts revenues so that the Administration can maintain a balanced budget. As illustrated in the graph below, General Government revenues have met or slightly exceeded budget estimated during the last four years. This trend is evidence of the Municipal Treasurer’s commitment to conservatively estimate, track and benchmark important revenue sources.



Source: MOA Treasury Division

Long-term Trends in Major Categories of General Government Revenues

A review of long-term revenue trends and the drivers will assist policy makers and citizens when considering potential changes in the revenue structure of Anchorage. In reviewing long-term trends of general government (series 100 funds) revenues over the past fifteen years, from 1998 through 2014, the following narrative and graphs shown below identify six major determinant categories that affect changes in revenues over time, as follows:

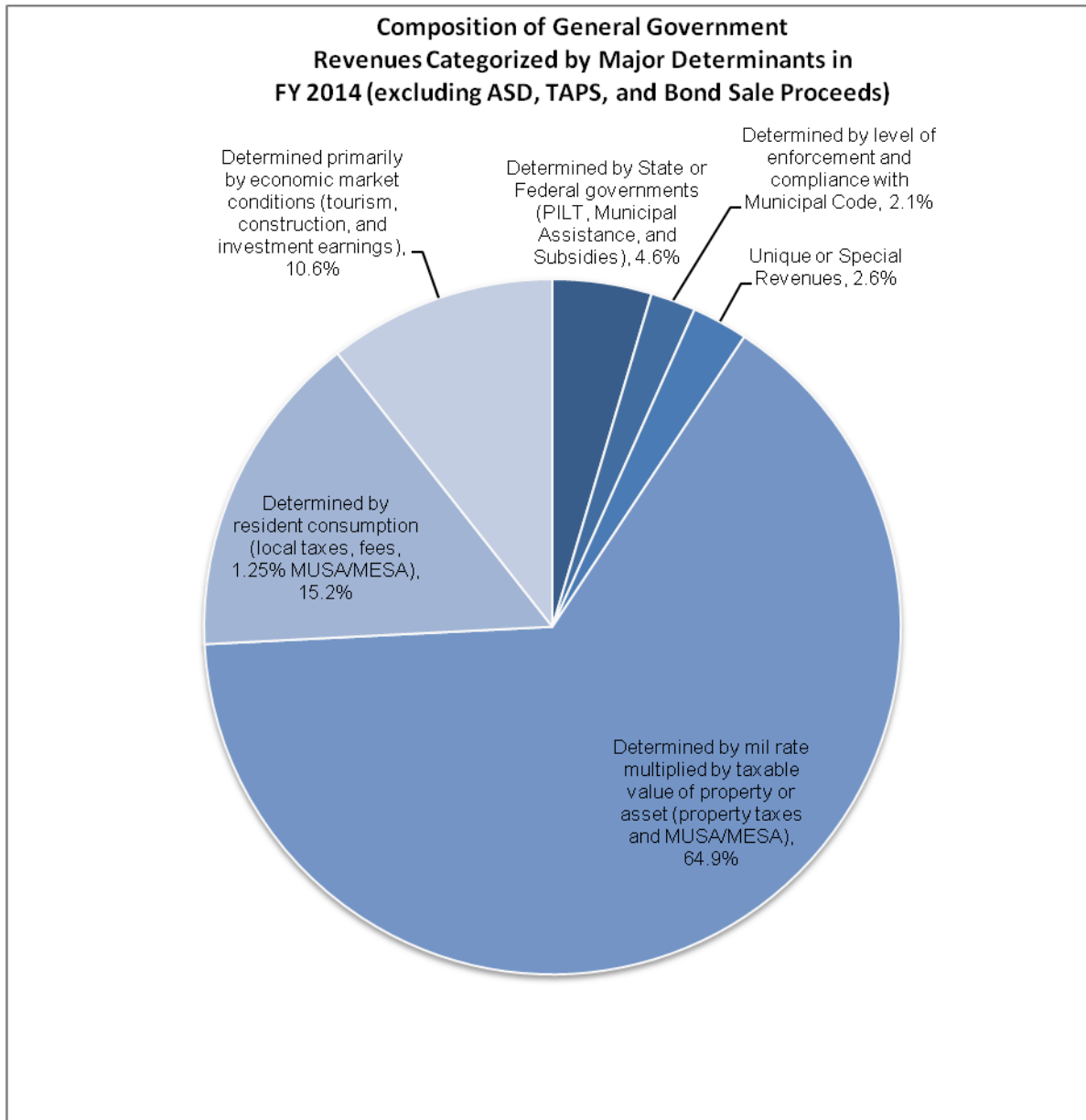
1. **Determined by Mill Rate and Taxable Value:** Property Taxes and Municipal Enterprise Service Assessment (MUSA) and Municipal Utility Service Assessment (MESA) payments are determined by the mil rate multiplied by taxable value of real and personal property or utilities enterprise net plant value. The taxable value of property is determined by the Municipal Assessor, and net plant value is derived based on the net book value of utility enterprise balance sheets. The mil rate is set by the Assembly each year.
2. **Determined by Resident Consumption:** Revenue from taxes on tobacco, vehicles, aircraft and Municipal service fees are determined by the choices city residents make about their use of these products and services. Also included in this category are the Utility Revenue Distribution and 1.25percent MUSA revenue. These payments are specific percentages of gross revenues of the utilities, which are derived from local residents' choices about utility service consumption.
3. **Determined by Economic Market Conditions:** Tourism taxes, construction permit revenues, and investment earnings are determined primarily by economic conditions in the tourism, construction, and investment markets.
4. **Determined by State or Federal Government:** Municipal Assistance, Federal Build America Bond monies, and Payments in Lieu of Taxes (PILT) are determined by decisions and actions of the State of Federal governments.
5. **Determined by Level of Compliance and Enforcement of Municipal Code (Code):** Revenues from collections of delinquent taxes as well all types of fines, penalties and interest paid on delinquent taxes are determined by the level of compliance with the Code, enforcement, and collection efforts.
6. **Unique or Special Revenues:** Contributions from the MOA Trust Fund, lease revenue, property sales, private PILT payments, claims and judgments, miscellaneous revenues, and other special types of revenue are specified in contracts, by court rulings, or special provisions in the Code.

Summary of All Categories of Revenues

The largest share of general government revenues is determined each year by multiplying the mill rate by taxable value of property or assets. Consumption revenues contribute to the next largest share (15 percent). About 11 percent of revenues are determined by economic market conditions. Another 5 percent is determined by the actions of State or Federal governments. About 2 percent of revenues are

driven by compliance and enforcement of Municipal Code. The remaining 3 percent is determined by a variety of unique or special factors.

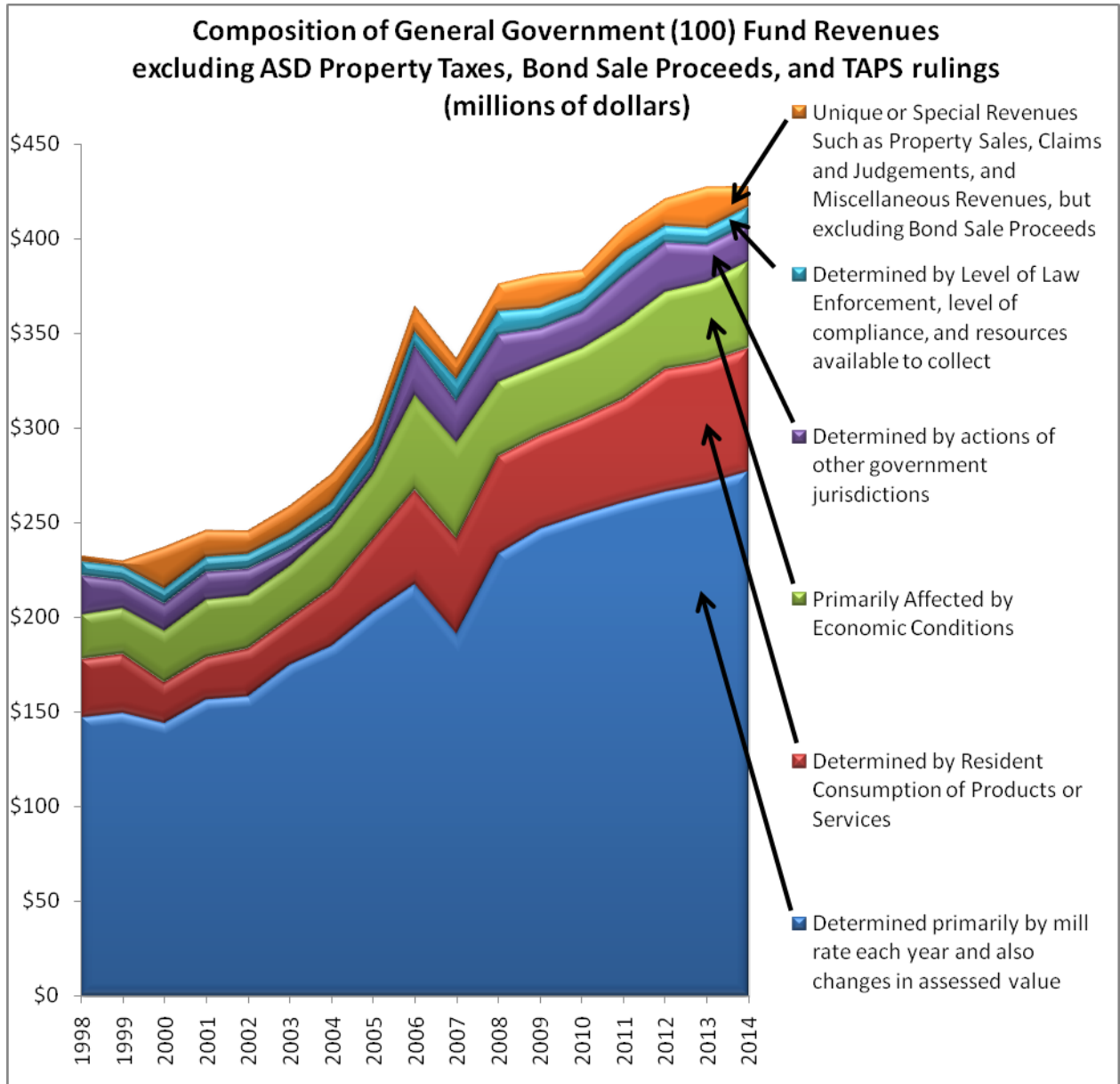
The summary pie chart below from the MOA Treasury Division shows the composition of general government revenues. It excludes the property tax revenues transferred to the Anchorage School District (ASD) and proceeds from bond sales.



Source: MOA Treasury Division

The summary chart below from the MOA Treasury Division shows the changing composition of revenues for each of the major categories over the last sixteen years. Revenues determined by the mill rate and taxable value of property or value of utility assets have contributed between 60 percent to 65 percent of general government revenues each year over the last sixteen years (these percentages exclude ASD

property taxes and revenues from Trans-Alaska Pipeline System (TAPS) rulings). Revenues determined by resident consumption have contributed a growing share of revenues mostly because of increases in the tax rate on tobacco and vehicles. Revenues driven by economic conditions in tourism, investment, and construction markets have contributed a relatively stable share since about 2006. The usual increase in revenues in 2006 followed by a decrease in 2007 was because some State of Alaska Municipal Assistance revenues were received and posted in 2006 but were applied as a tax credit in 2007.

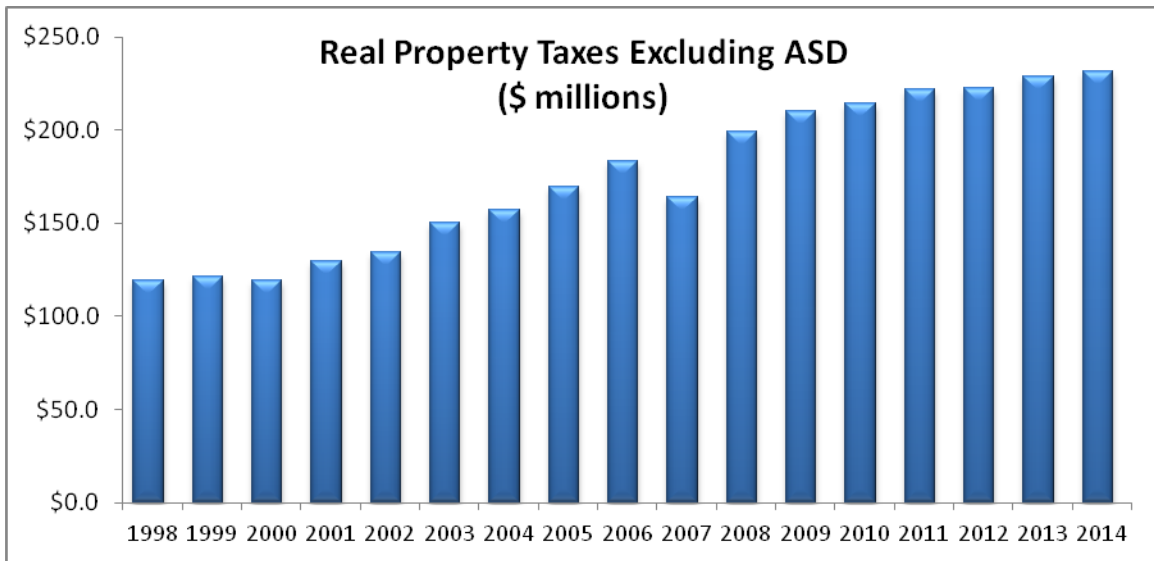


Source: MOA Treasury Division

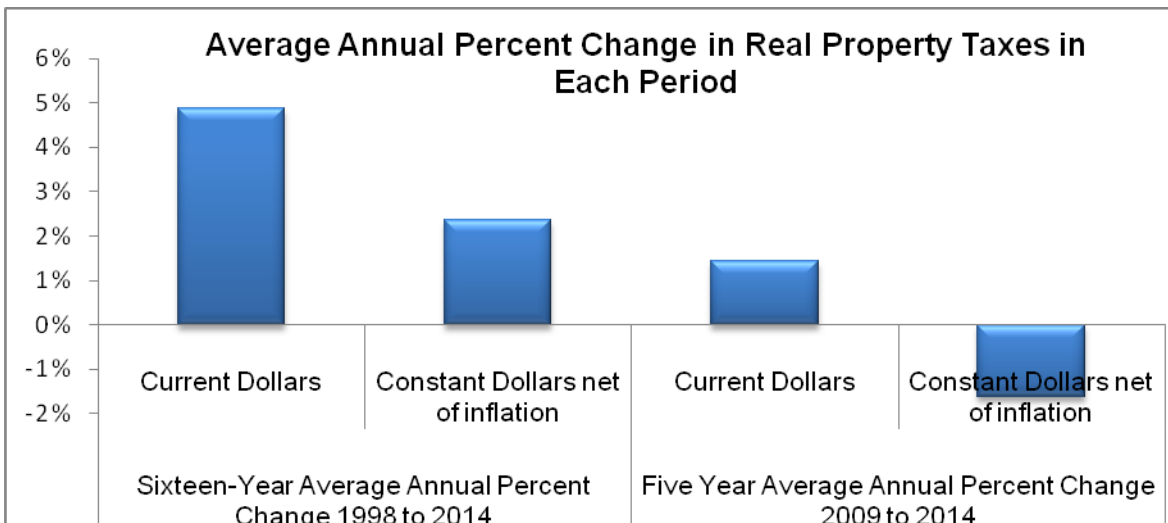
Key Revenue Determinant Categories

Revenues Determined Primarily by the Mill Rate and Taxable Value

Real property tax revenues are the largest component of this category. The amount of these revenues collected each year is determined by policy decisions by the Administration and the Assembly when they set the mill rates each year. Over the last five years, real property tax revenues have increased at a slower average annual rate than the long-term historical trend from 1998 to 2009. After removing the effects of inflation, real property tax revenues have declined on average more than one percent annually over the last five years.

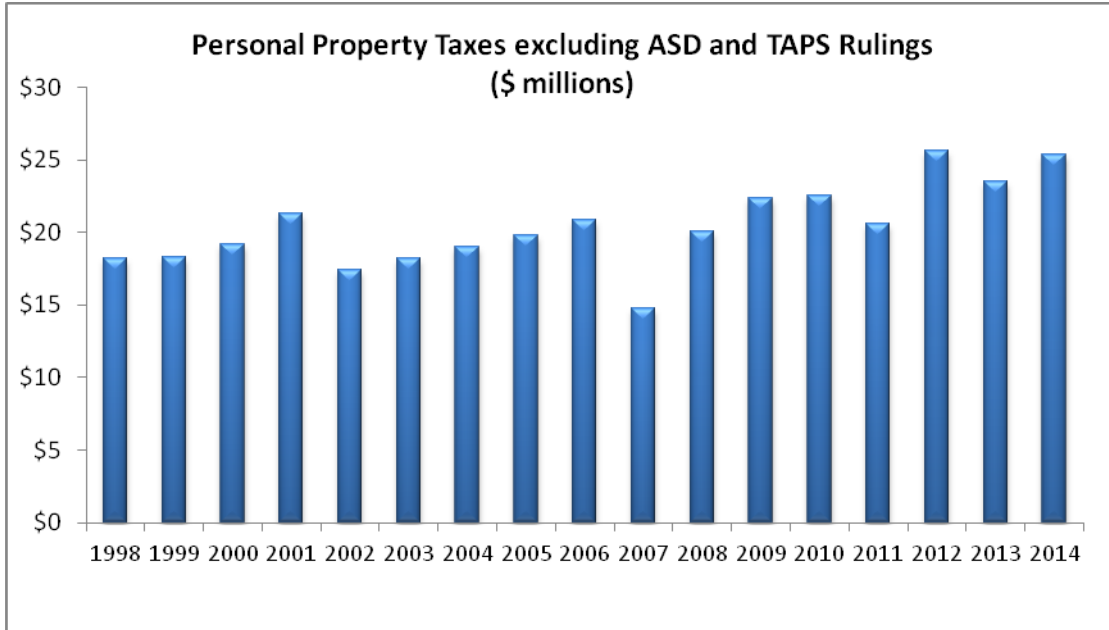


Source: MOA Treasury Division

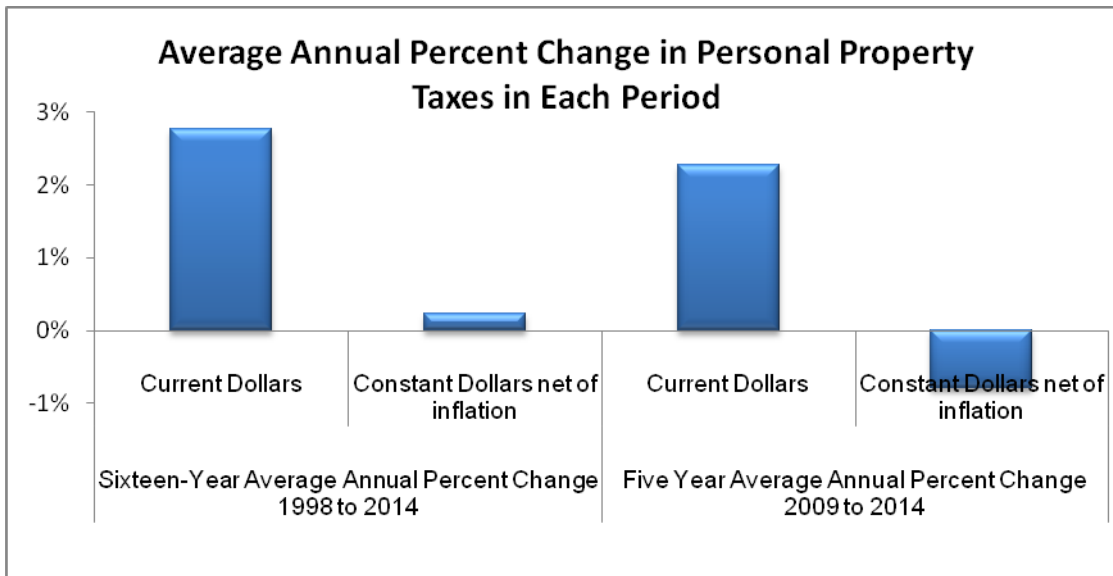


Source: MOA Treasury Division

Personal property tax revenues are variable year to year due to changes in the mill rate and changes in the assessed values of business personal property, state and oil and gas property, and mobile homes. Over the last four years, personal property tax revenues have grown slightly slower than the long-term trend. The charts below exclude ASD property taxes, the one-time special revenues from the lower court rulings regarding the value of the Trans-Alaska Pipeline in 2010, 2012, and 2013, and the State Assessor's change to the taxable value of State oil and gas properties in 2014. The court rulings required payments of personal property taxes on State oil and gas properties owned by Alyeska Pipeline.

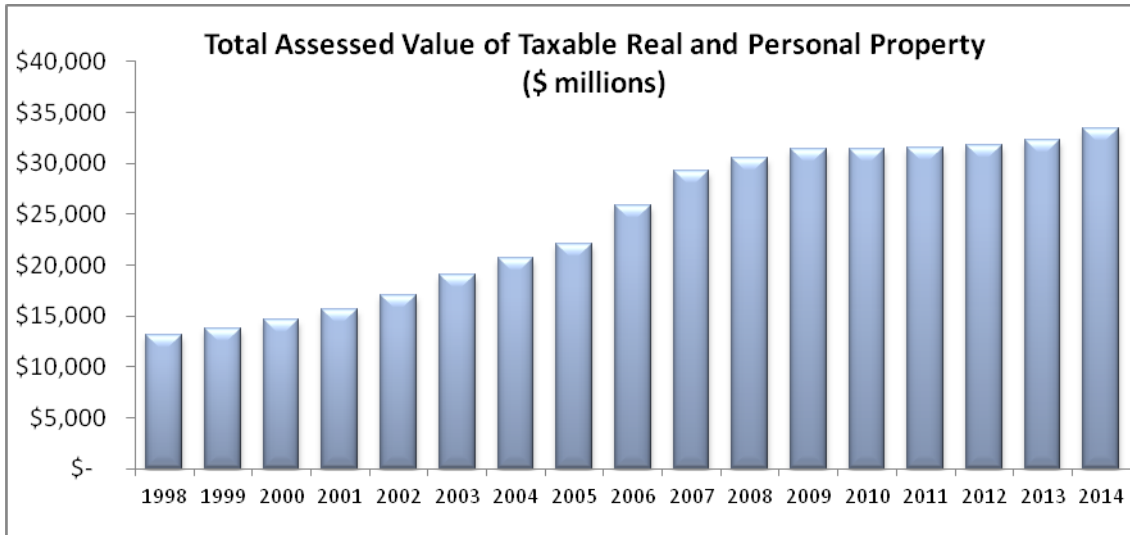


Source: MOA Treasury Division

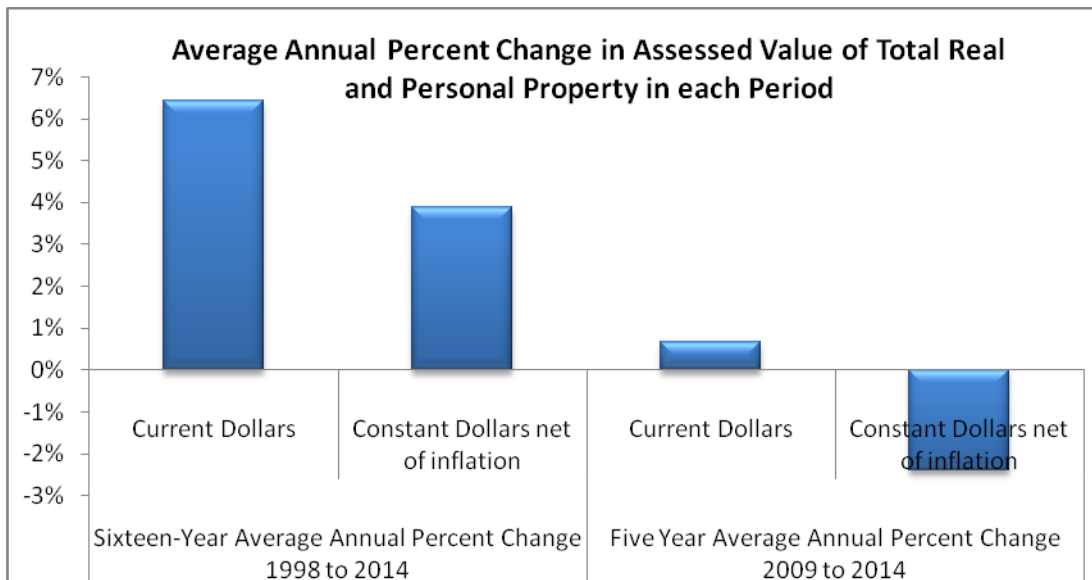


Source: MOA Treasury Division

Assessed Value: The calculation of real property tax revenues, personal property tax revenues, and MUSA/MESA payments are all dependent on the mill rate. One of the factors affecting the mill rate is the assessed value of taxable property. For a given level of property tax revenues, an increase in assessed taxable property value will result in a lower mill rate. For the same level of revenues, a decrease in assessed taxable property value results in a higher mill rate. Because of its effect on the mill rate, it is important to track changes in the total taxable property value over time. From 2009 to 2013, the total assessed value of taxable real and personal property remained relatively stable compared to previous years. Property Appraisal currently projects an increase in total taxable property value in FY 2014.



Source: MOA Treasury Division

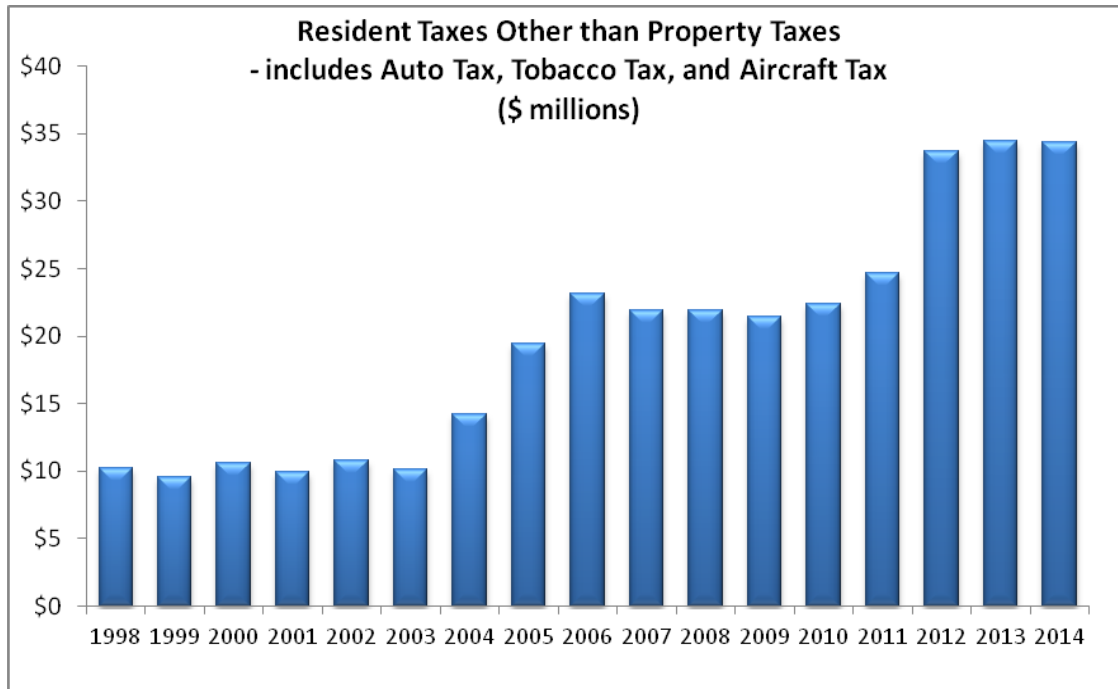


Source: MOA Treasury Division

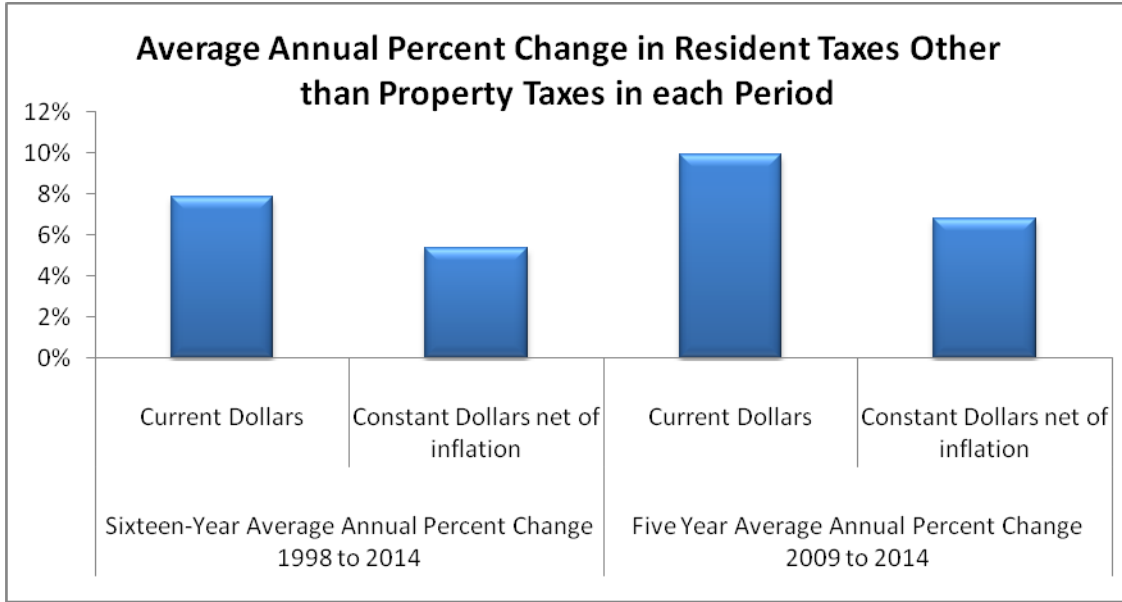
Revenues Determined Primarily by Resident Consumption

These revenues include fees paid by residents for municipal/utility services and facility rentals. It also includes residents' payments of tobacco taxes, vehicle registration taxes, and aircraft taxes. This category of revenues contributes about 15 percent of the total general government (100 Fund) revenues, excluding ASD property taxes.

Resident taxes, including automobile registration tax, tobacco tax, and aircraft tax are paid primarily by residents of the Municipality. These taxes from vehicles, cigarettes, and aircraft revenues are affected by changes in the tax rate and consumer choices. Auto tax revenues are also affected by the age distribution of vehicles and the percent of population over 65, because seniors are eligible to receive an exemption from the registration tax for one vehicle. Tobacco tax revenues are affected by the long-term decline in per capita use of tobacco and annual CPI adjustments to the tax rate. Increases in the vehicle registration tax rates in 2012 and tobacco tax rate in late 2004 and 2011 led to substantial increases in these revenues beginning in those years.

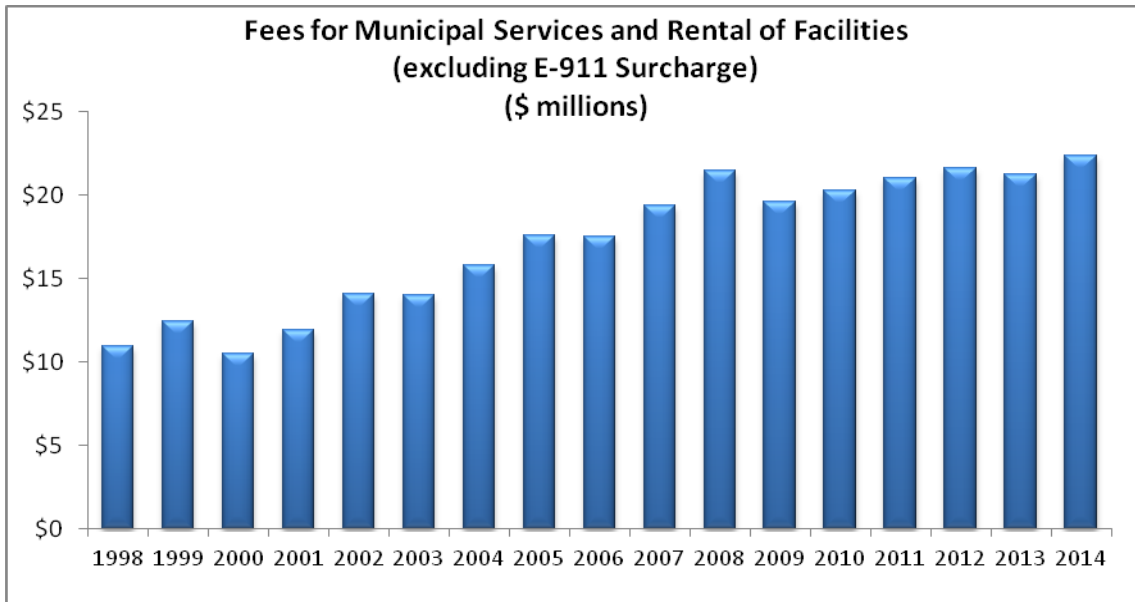


Source: MOA Treasury Division

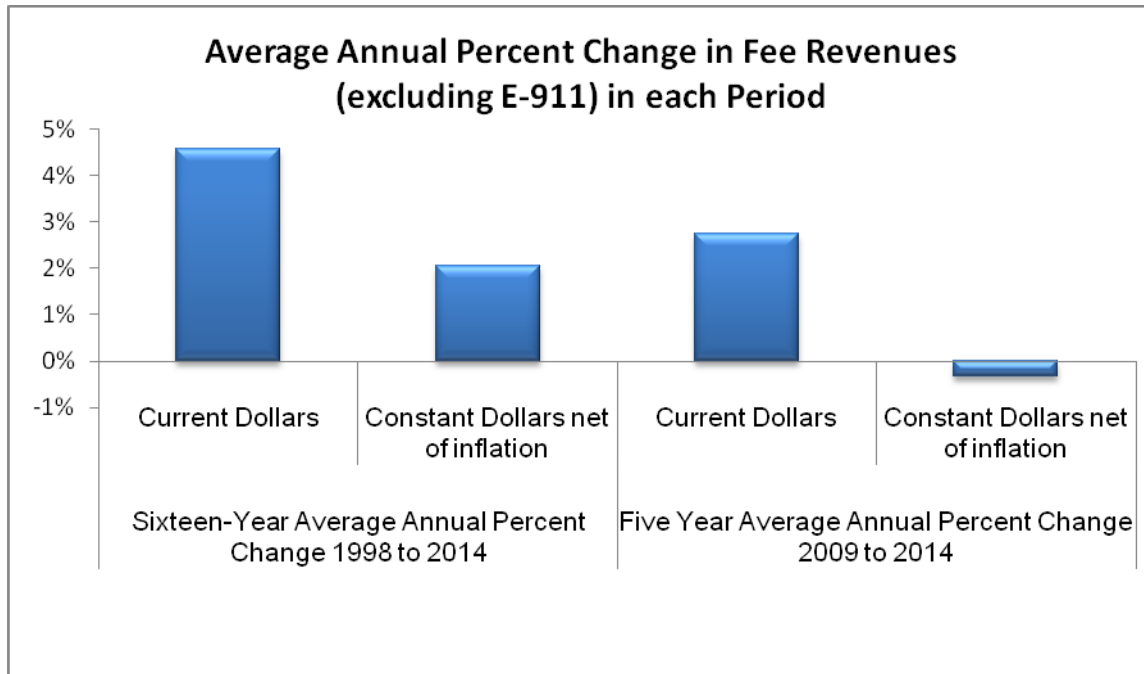


Source: MOA Treasury Division

Fees paid by residents for Municipal services and facility rental are affected by the amount and types of public services provided by the Municipality, the amount of fees charged for those services, the amount of Municipal resources and personnel allocated to provide the services, and the amount of these services and rentals that residents to use. Since 2009, fee revenues have increased at a slower annual rate than previous years.



Source: MOA Treasury Division

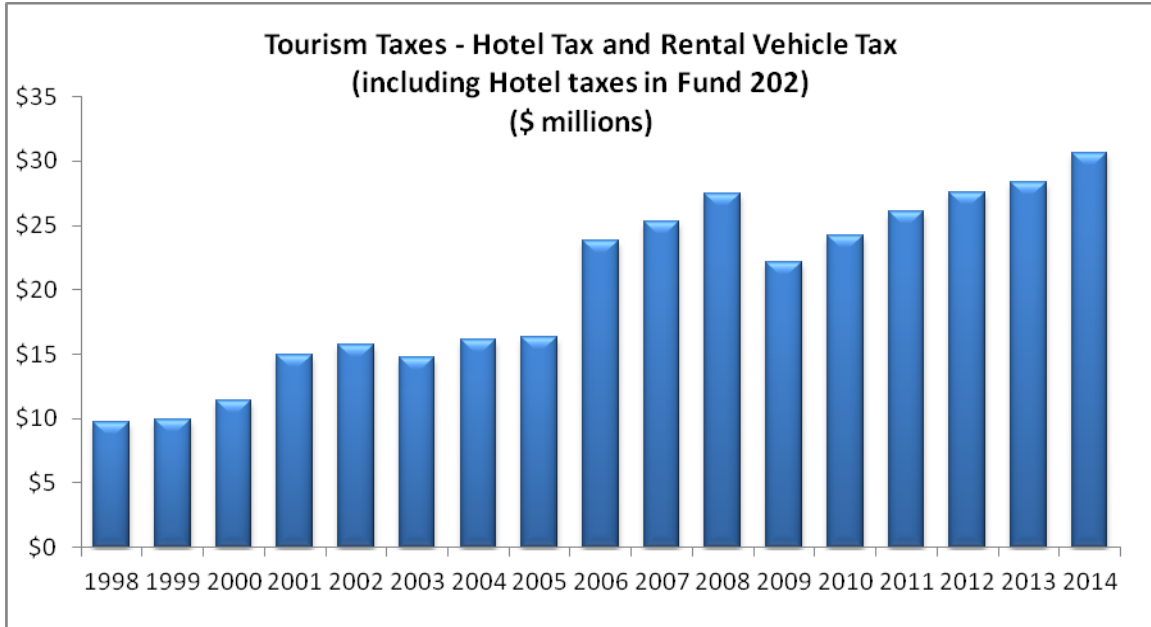


Source: MOA Treasury Division

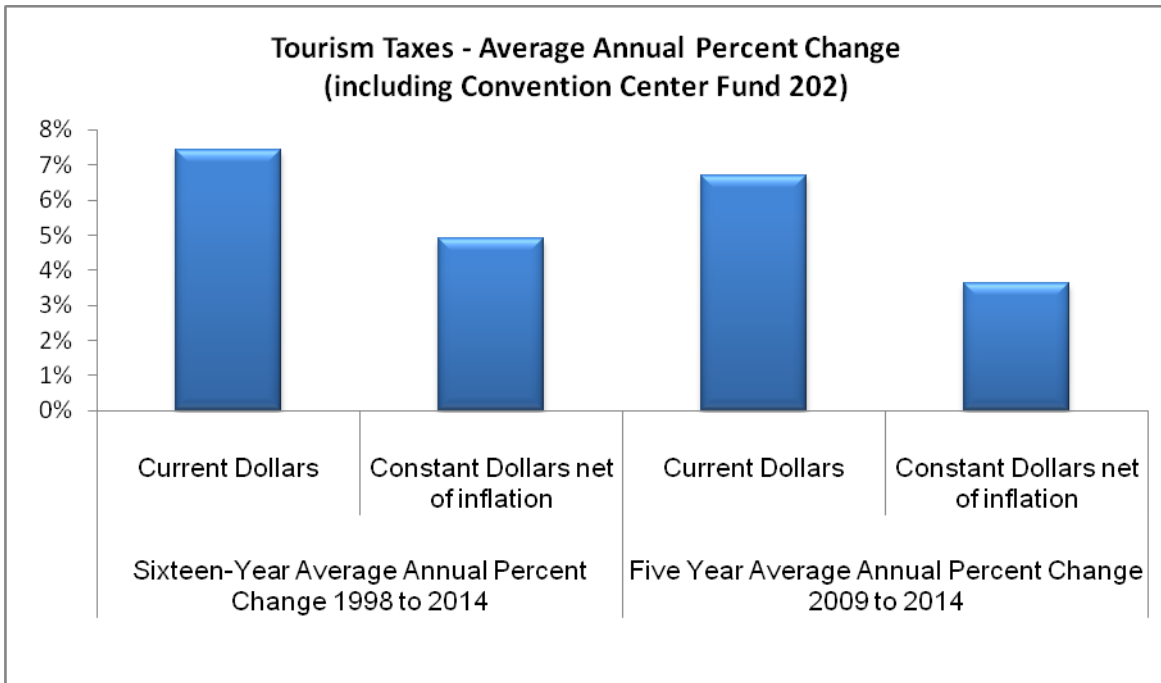
Revenues Determined Primarily by Economic Market Conditions

These revenues include all tourism taxes, construction-related permits, and investment earnings. They are primarily affected by changing economic conditions in the tourism market, construction industry, and investment industry, respectively. In the long-term, these revenues are also affected by tax rates specified in code or regulations. These revenues contribute about 11 percent of total general government (series 100 Funds) revenues, excluding ASD property taxes.

Tourism-related revenues from hotel/motel tax and rental vehicle taxes are affected by the tax rate, the number of visitors coming to Anchorage, and the price charged for a hotel room or rental vehicle. Tourism taxes increased substantially in 2006 due to a tax rate increases, then decreased in 2009 due to the national recession. Tourism taxes gradually recovered the last five years due to price increases for room rentals at Anchorage hotels and continued increases in the number of visitors coming to Anchorage.

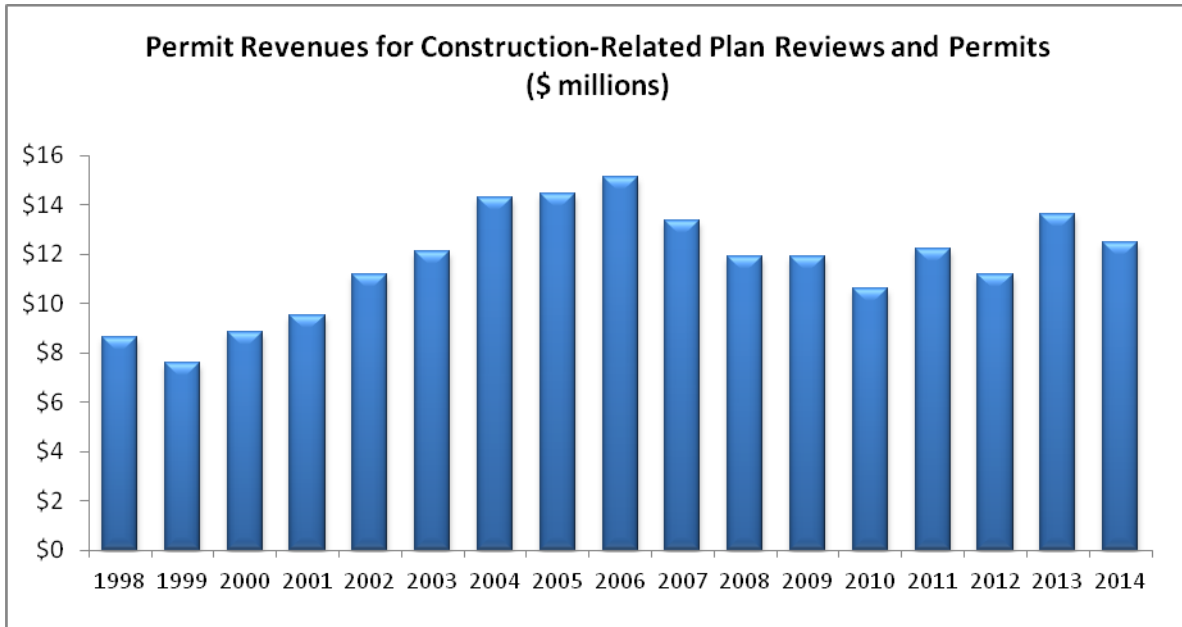


Source: MOA Treasury Division

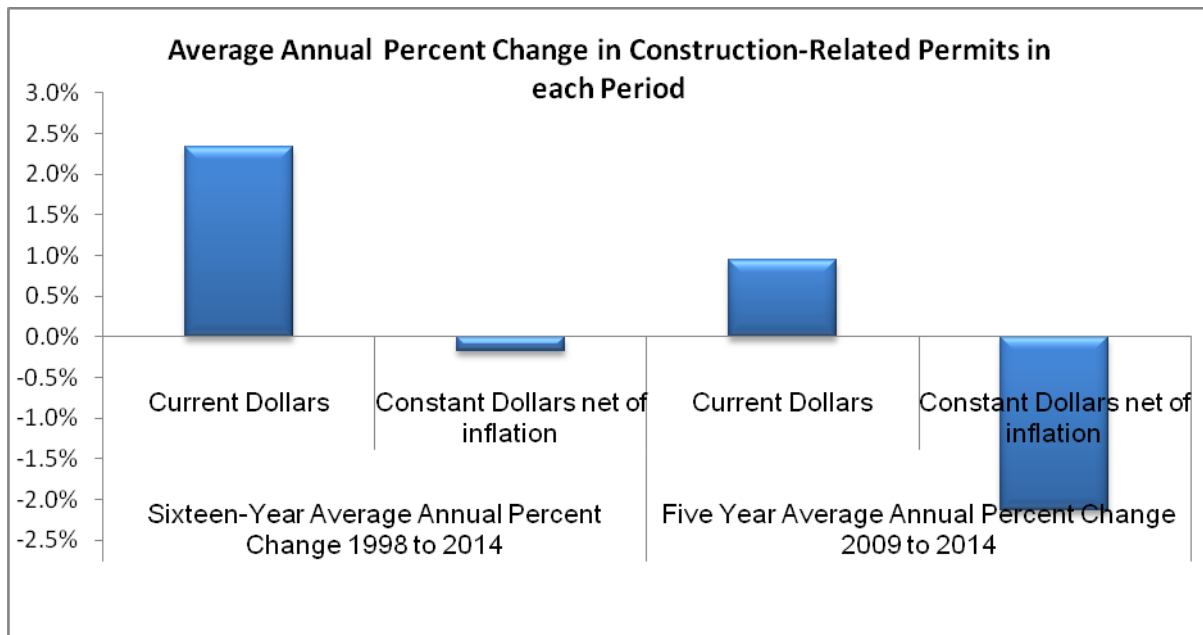


Source: MOA Treasury Division

Construction-related permit revenues are paid by builders for inspections, reviews, and permits to build construction projects. These revenues are affected by the value of permitted building activity, the level of Municipal resources and personnel available to process permits, changes in Code requirements for various permits, and the amount of the fee paid for each type of permit. Revenues have alternately increased and decreased over the last four years but have been consistently higher than the level in 2010.

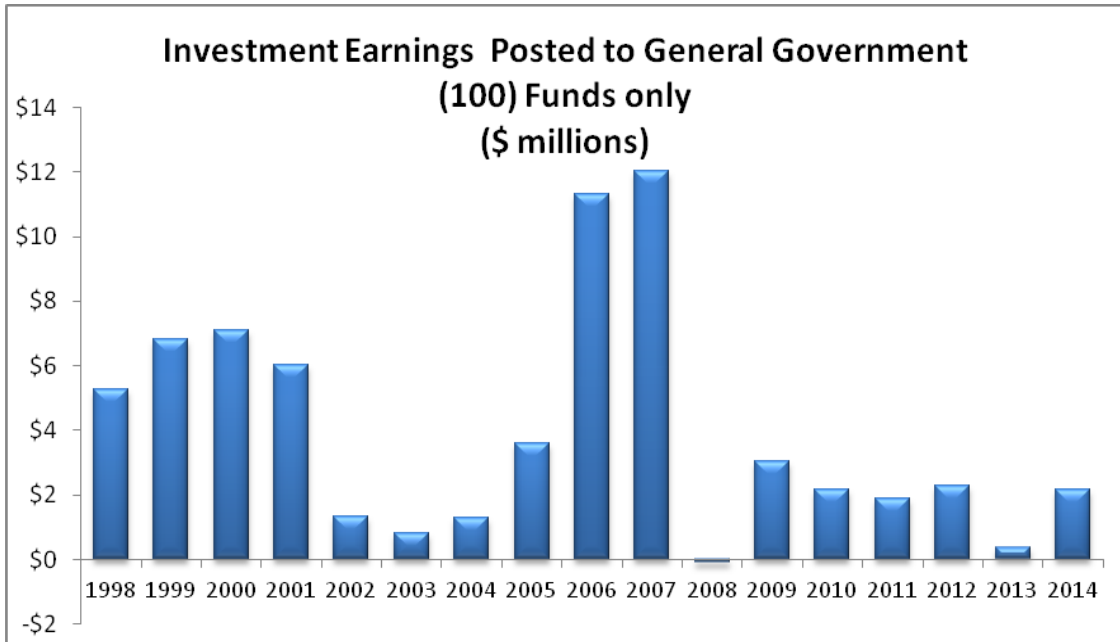


Source: MOA Treasury Division

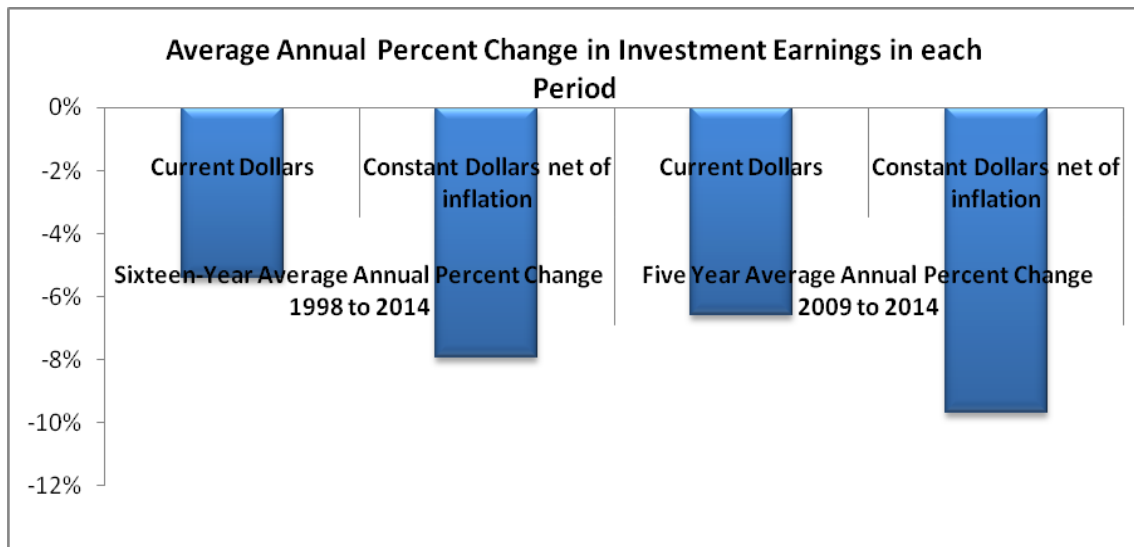


Source: MOA Treasury Division

Investment earnings from the Municipal Cash Pool, investment proceeds of Tax Anticipation Notes (TANs), and Construction Pool Investments are affected by the level of Municipal holdings in each type of investment and the market rate of return on those investments. In the long-term, these revenues are also affected by Municipal Code and policies that guide how Municipal Funds are invested. Due to changes in investment policies implemented in June 2007, investment earnings as of June 2014 have been enhanced by an estimated \$63.6 million when comparing “before” and “after” investment strategies.



Source: MOA Treasury Division

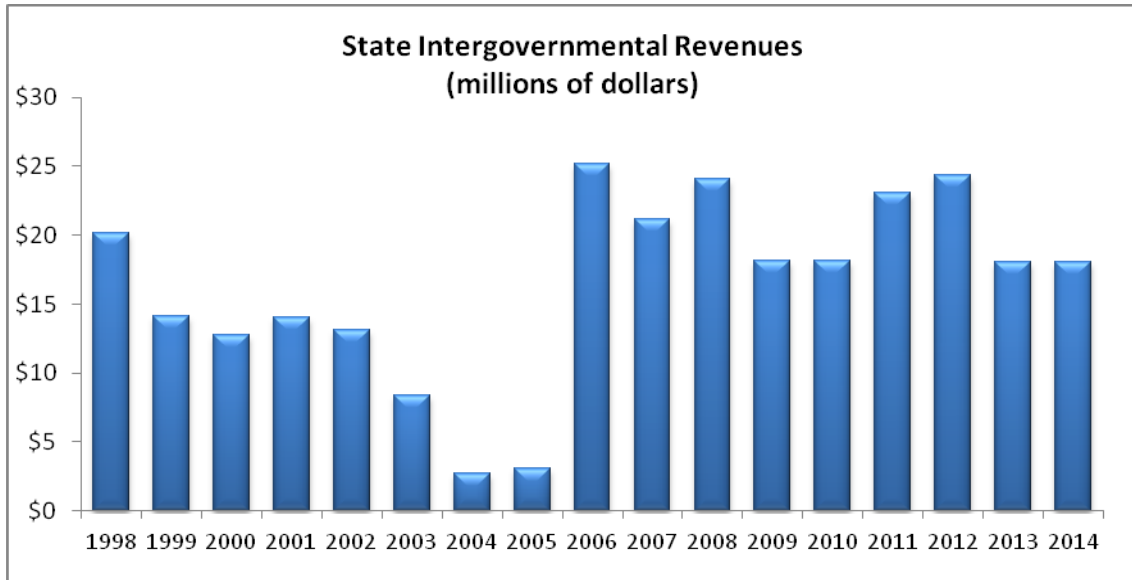


Source: MOA Treasury Division

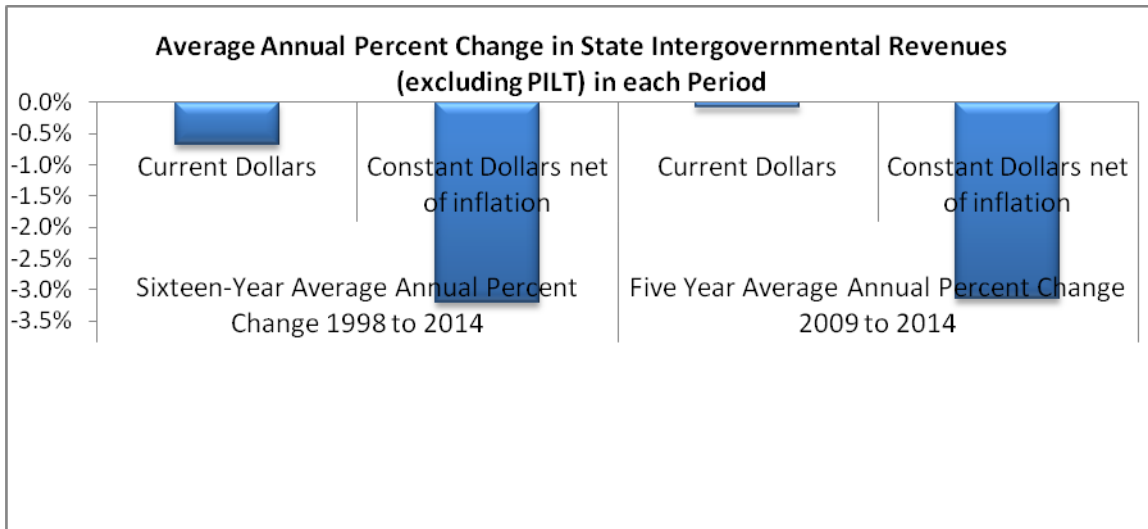
Revenues Determined by Actions of Other Governments

This category includes all State and Federal intergovernmental revenues and State and Federal PILT payments. These revenues contribute about 5 percent of total revenues.

State Intergovernmental Revenues: Most of the revenues in this category are from the State of Alaska’s Municipal Revenue Sharing. Total State Intergovernmental revenues increased substantially in 2006 with higher Municipal Revenue Sharing. Since then, total State revenues have varied between \$18M and \$24M annually.



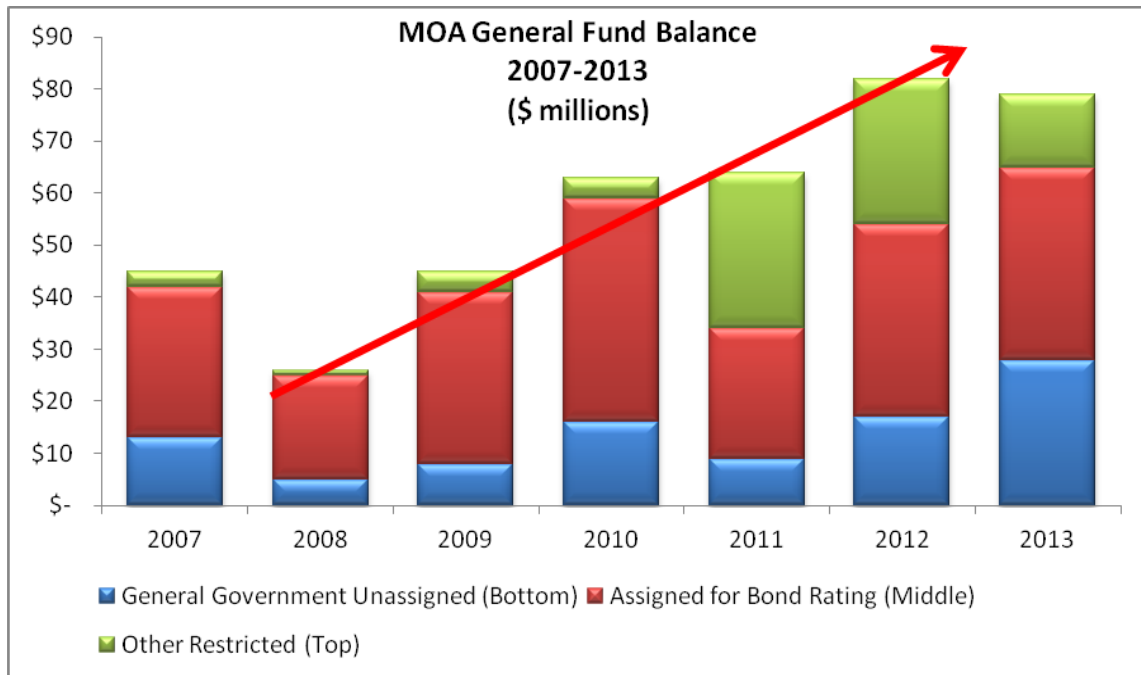
Source: MOA Treasury Division



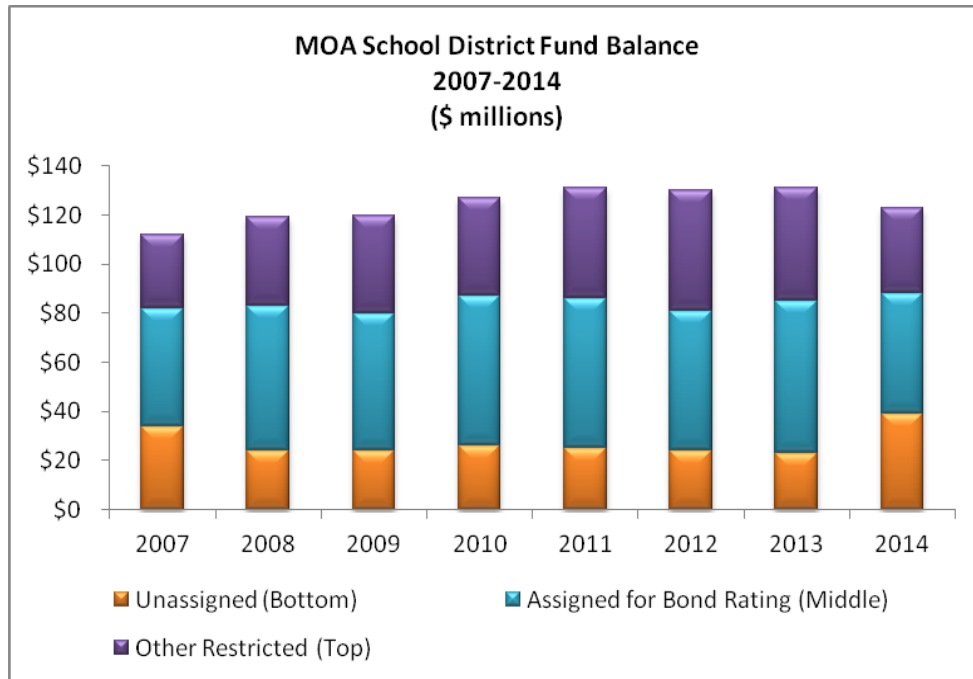
Source: MOA Treasury Division

Fund Balance

The Municipality has established a formal fund balance designation policy requiring a percentage of general fund current year expenditures to be designated for bond ratings. In 2011, this percentage increased from 8.25 percent to 10 percent. Additionally, a “Working Capital Reserve” is established at 2-3 percent. Calculation adjustments were approved by the Assembly that resulted in an additional \$4 million in reserves. In 2014, the Municipality transferred \$1.9 million of Fund Balance to a separate reserve account in Municipality’s Trust Fund. Anchorage School District also maintains robust fund balances; with 10 percent of property tax revenues reserved for bonds. Together, Municipal and ASD Fund Balance policies support a strong financial position and high bond ratings.



Source: MOA Public Finance and Investments Division



Source: MOA Public Finance and Investments Division

MOA Bond Rating

The Municipality currently enjoys the benefits of being a highly rated governmental entity by two rating agencies. The Municipality is rated AAA by Standard & Poor’s (S&P) and AA+ by Fitch Ratings, both with a Stable Outlook. These ratings result in a lower cost of borrowing in the capital marketplace.

Rating agencies have long held that a credit rating is a composite of quantitative factors (e.g. financial ratios) and qualitative characteristics, such as strength of management. Local government ratings are based primarily on the following four credit factors:

- Economic Strength,
- Financial Strength,
- Management and Governance, and
- Debt Profile

In determining a rating, the rating agencies compare the Municipality to other issuers with similar characteristics. The importance of these so-called “peer comparisons” in the credit rating process has risen as the rating agencies face increased scrutiny over the appropriateness and accuracy of their ratings.

Standard & Poor's

Under the Sullivan Administration Standard & Poor's (S&P) increased the Municipality's general obligation rating to AAA, highest rating possible by S&P.

In August 2012, Mayor Sullivan and the Municipality's CFO, along with representatives of the Municipality's financial advisor, First Southwest Company, met in San Francisco with S&P rating analysts. Based upon that comprehensive review of the Municipality's finances, management and the state of Anchorage's economy including Anchorage's relationship to the entire State of Alaska, S&P raised the general obligation rating of the Municipality from AA to AA+.

In S&P's most recent review dated October 30, 2013, the rating analysts noted the continued improvement in the fund balance policy and further diversification of the Municipality as the economic center of the State of Alaska. Specifically the report cited:

- Very strong management conditions with strong policies,
- Very strong budgetary flexibility,
- Adequate budgetary performance with stable revenue base,
- Very strong, broad and diverse economy,
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures, and
- Adequate debt and contingent liabilities position.

Fitch Ratings

Fitch Ratings' most recent report in October 2013 affirmed the Municipality's AA+ Rating and Stable Outlook, citing various inherent credit strengths that figured prominently in the rating review process. The six rating drivers identified by Fitch included:

- Strong financial performance – the municipality's financial profile has improved after significant efforts to slow expenditure growth and restore structural balance. Reserves have returned to a healthy level.
- Strong economic base – the Anchorage economy serves as a hub for government, trade, business, education and tourism in the State of Alaska and solidly outperformed the nation during the recent economic downturn.
- Energy sector exposure – the economy is somewhat concentrated due to dependence on the cyclical oil and gas sectors and is likely to continue to see periods of volatility.
- Diverse, stable tax base – the tax base is large and diverse. Assessed value (AV) exhibited considerable stability during the national real-estate downturn.
- Manageable long-term liabilities – the municipality's debt profile is healthy with a moderate debt burden and rapid principal amortization. Pension and other post-employment benefit (OPEB)

liabilities are moderate, and the municipality benefits from significant State support for local pension obligations.

- Conservative, professional financial management – the Municipality benefits from strong financial oversight, good long-term planning and conservative budgeting.

Fund Balance Discussion

The Municipality's General Obligation rating is AA+ by Fitch Ratings. However, they have commented on our somewhat low reserve policy in their reviews. In 2011, our financial advisors from First Southwest Company advocated "a change in the Municipality's fund balance reserve policy such that its ratios would be more in line with those of its peers." As a result of these two circumstances, the Administration sought and received approval from the Municipal Assembly to increase the fund balance policy, also known as the 'Bond Reserve Designation,' from 8.25 percent of prior year revenues to 10 percent of current year revenues. The Assembly approved elimination of the Operating Emergency Reserve of 2.55 percent and replacing it with a Working Capital Reserve in a range of 2.00-3.00 percent of current year's revenues in the five major funds. In August 2014, the Municipality changed the Fund Balance calculation methodology from a "percent of current year revenues" to a "percent of current year expenditures." This methodology matches the fund balance calculation methodology used by Fitch and S&P.

4. Fiscal Projections and Strategies

As we look to the future, Alaskan economic trends remain positive, with projections of steady growth. The national economic downturn is picking up and there is less concern about the prolonged level unemployment. The impact of the national economy and future budgetary decisions by Congress could put additional pressure on Anchorage's economy, although the magnitude and timing of these factors cannot be accurately predicted.

The State of Alaska's forecast of significant projected deficits will likely create pressures that may impact funding levels for Anchorage; specifically revenue sharing, state grants, and Alaska Public Employees' Retirement System (PERS).

Adding to the uncertainty of revenue forecasts are the continued increases in expenses facing the Municipality in 2015 and later. The resulting balancing effort is consequently more complex when attempting to match revenue with the cost of services.

Near-to mid-term, some key potential fiscal threats that could negatively impact projections are:

- An unanticipated slowdown in the international cargo industry caused by less demand due to weakened or slower growth economies;
- Decreased oil production along with volatility of oil prices, and potential effects on State Revenue Sharing;
- Voter referendums associated with the Responsible Labor Act passed by the Municipal Assembly in 2013;
- Potential cuts to Federal grant and program revenues, including cuts to transportation funding and reduction in Alaska's per capita Federal spending leveled which have historically been among the highest in the nation and several times greater than the national average per capita allocations;
- Future Federal fiscal austerity measures affecting the amount of discretionary personal income and the number of federally-supported jobs in Anchorage, including military;
- Further increases in labor and health care costs in excess of actual inflation as measured by the Consumer Price Index;
- Prolonged low interest return environment for Municipal Cash Pool investments;
- Unanticipated legal liabilities.

Near- to mid-term, some key potential fiscal opportunities that could positively impact projections include:

- An acceleration in the nation's economic recovery;
- Stable State and Federal revenues;

- Re-negotiated labor contracts with lowered baseline and future costs to conform with actual historical inflation;
- A positive final court ruling in favor of the Municipality regarding all outstanding property tax years associated with the TAPS litigation for all tax years litigated; and
- Additional recovery and stability in the investment market.

The single largest expense in the general government operating budget are the salaries and benefits associated with personnel. Prior to the most recently negotiated labor contracts, personnel costs were on track to increase at an unsustainable rate. The primary goal of the Sullivan Administration is to negotiate labor contracts to reduce the escalated growth of total compensation including a benefit structure that is shared more equitable between employee and employer.

Long-Term Fiscal Challenge

While the Mayor has made significant progress over the past five years to reduce the growth of government, external factors, such as Federal and State revenues and investment returns are projected to have a negative impact on Municipal finances. A long-term fiscal plan of flat Federal and declining State revenues, moderately increasing taxes coupled with increasing expenses based on the union agreements and inflation would result in continued, unsustainable deficits.

Mayor's Plan for Fiscal Sustainability

The Mayor' fiscal policies over the past five years have taken advantage of every opportunity to save taxpayers money while maintaining a high level of service delivery.

The Mayor's goal has been to find new ways to deliver services, identify efficiencies and negotiate collective bargaining agreements that will bring labor costs to a sustainable level more closely aligned with the Municipality's revenue future. The Administration has refinanced outstanding debt to take advantage of lower interest rates and received bond ratings that make Anchorage's new debt issuances attractive to the marketplace and favorably priced.

The future will require that the Municipality lower its reliance on Federal and State funding, which is predicted to decline. Also, while Anchorage is trending toward economic recovery, it is still impacted by the national economy, which has kept investment returns well below pre-2008 levels. Fortunately, economic recovery has fostered increased construction activities and brought tourism back to Anchorage, allowing local revenues, such as permitting fees, hotel/motel tax and other tourism related revenues to slightly outperform the 2014 budget.

Even with local revenue growth over the projection period, the Municipality must conservatively manage its financial resources, encourage economic development and identify efficiencies that will constrain government cost growth. New strategies will need to be evaluated to continue to meet the need for

public services within a balanced budget. Opportunities like managed competition, used by Seattle, San Diego and Indianapolis or outsourcing information technology services, may allow Anchorage's limited resources to be focused in important areas like public safety, public facilities and roads.

The 2015 Proposed General Government Operating Budget assumes no new revenue sources will be available. The Mayor's Fiscal Plan (Plan) continues a focus on efficiency and cost containment to deliver a balanced budget.

This balanced budget is achieved by reducing the size of government and holding property tax annual increases to 3 percent over the forecast period. The Plan assumes that Federal funding sources will be flat, while State revenues will decline. Tourism and other local revenue sources will increase as the economy continues its recovery, but that growth in revenue will not be sufficient to offset increasing costs.

The Plan continues to create long-term fiscal stability and sustainability, maintaining service levels and ensuring those services are delivered efficiently. As shown in the long-term Fiscal Projection Model, revenues and expenses are prudently held in balance over the projection period.

Revenue Forecasts

As discussed above, State Revenue Sharing, which is largely dependent on surpluses existing at the State level, has been unstable due to volatility in oil prices. The projection model conservatively assumes that State Revenue Sharing will decrease throughout the projection period from \$17 million in 2015 to \$8 million in 2020, reduction of over 50 percent.

Increased reliance on local revenues, sourced mainly from tourism, construction activities and user fines and fees, serves to balance the loss in State revenues with continued economic growth and recovery. AEDC predicts that growth in air passenger traffic by 2017 will return Anchorage to its pre-2008 peak of 5.34 million passengers. Residential, commercial and government building permits increased by 41 percent in 2013, which marked the fourth consecutive annual increase in building permit values. Both tourism and building permit revenues have surpassed the 2014 budget predictions. Revenues from Permanent Fund Dividend garnishments, which support Anchorage Police Department operations, are expected to notably increase as the poor performance of 2008 will no longer have a negative impact on the five-year average income that determines distributions. Collectively, local revenues grow by 1 percent in 2015 to 4 percent over the forecast period or from \$153 million in 2015 to \$185 million by 2020.

Consistent with the Mayor's policy of providing tax relief wherever possible, this Plan assumes property taxes will increase by only 3 percent per year and by an amount that is less than the tax cap.

During the forecast period, while the economy is recovering and Anchorage works to contain costs and implement efficiencies, small increments of fund balance may be used. However, the Plan continues to sustain the fund balance reserves that will maintain Anchorage's AAA bond rating.

Expenditure Forecasts

Per the Six-Year Fiscal Projection Model, expenditure growth is held to align with revenues. Professional services and discretionary spending will continue to be managed in an efficient and frugal manner.

Personnel and benefit costs continue to be the single largest category of expense. Much of Anchorage's labor costs are tied to union contracts, some of which reflect to an inflationary adjustments of 3 to 3.8 percent per year. Employee health care costs are incorporated in the total compensation cost and will be closely managed in order to achieve fiscal sustainability.

Debt service costs vary year to year based on a contribution of debt retirement, debt refunding and newly issued debt approved by voters. The Mayor's objective is to limit the increase in debt in future years such that more principal is paid off than is added. In aggregate, the six-year projection cites a net overall pay down of debt during the forecast period.

The Plan incorporates a reduction in Other Expenditures for 2015 resulting from the removal of 2014 one-time expenditures and a reduction of approximately \$3 million in the annual contribution to the Police and Fire Retirement System. Thereafter, Other Expenditures are expected to increase by 3 percent per year through the forecast period.

Efficiencies gained from investment in technology are reflected 2017 through 2020. Continued investment in technology is expected to result in savings that will help mediate the escalation of other operating costs and improve service delivery for the Municipality.

Six-Year Projection Model

The Mayor's Six-Year Fiscal Projection Model is as follows:

Six-Year Fiscal Program Projections of Revenues & Expenditures (\$ 000's)

Six Year Budget Projection	Projections						
	2014 Revised	2015	2016	2017	2018	2019	2020
Revenues							
Federal Revenues	858	843 -2%	843 0%	843 0%	843 0%	843 0%	843 0%
State Revenues	17,826	17,049 -4%	16,049 -6%	14,049 -12%	12,849 -9%	10,849 -16%	8,849 -18%
Local Revenues	150,699	152,525 1%	157,378 3%	163,500 4%	170,201 4%	177,197 4%	184,758 4%
Property Taxes	255,620	263,251 3.0%	271,190 3.0%	279,320 3.0%	287,700 3.0%	296,331 3.0%	305,221 3.0%
Fund Balance Applied	15,691	1,666 -89%	1,948 17%	2,185 12%	3,026 38%	1,723 -43%	345 -80%
IGCs Outside General Gvt.	35,971	36,092 0%	37,200 3%	38,300 3%	39,400 3%	40,600 3%	41,800 3%
Total Revenues	476,665	471,426	484,608	498,197	514,019	527,543	541,816
Change from prior year		-1%	3%	3%	3%	3%	3%
Expenditures							
Personnel Services	260,440	264,666 1.6%	273,587 3.4%	283,148 3.5%	293,050 3.5%	303,306 3.5%	313,928 3.5%
Debt Service	55,432	56,376 2%	56,720 1%	58,164 3%	59,738 3%	58,381 -2%	57,269 -2%
Other	160,793	150,384 -6%	154,301 3%	158,385 3%	162,731 3%	167,356 3%	172,120 3%
Reductions/Efficiencies	-	-	-	(1,500)	(1,500)	(1,500)	(1,500)
Total Expenditures	476,665	471,426	484,608	498,196	514,019	527,543	541,816
Change from prior year		-1%	3%	3%	3%	3%	3%
Revenues Over/(Under) Expenditures	0	(0)	(0)	0	(0)	(0)	(0)
cumulative	0	0	(0)	0	0	0	(0)

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