SIX-YEAR FISCAL PROGRAM

2022 – 2027

Municipality of Anchorage

Dave Bronson

Mayor

October 2, 2021

MUNICIPALITY OF ANCHORAGE

Six-Year Fiscal Program
2022 – 2027

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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 the Anchorage Economic and Community Development website at www.aedcweb.com; Municipal libraries, and the Municipal website at www.muni.org; relevant documents include:

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

Six-Year Fiscal Program

2022 – 2027

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1. 6-Year Outlook

A sustainable fiscal policy that promotes a safe, secure, and strong Anchorage is a mission of the Administration. As we address the present budget, we must also prepare for Anchorage's future.

The state's fiscal situation has led to a reduced state role, which has consequences for the Municipality. As we manage this transition, our focus is on building self-sufficiency and resilience. That means finding efficiencies and making strategic investments. It also means demonstrating the fiscal discipline that accompanies a results-based budget, which addresses performance and success of services, directing resources to accountable programs that result in the highest level of public service.

2. Economic Trends and Indicators

The content of the Economic Trends and Indicators is graciously provided by the Anchorage Economic Development Corporation (AEDC). The Municipality of Anchorage (MOA) appreciates their contributions to the formulations of this section and the service they provide to the citizens and businesses of the MOA.

Introduction

Halfway through 2021, Anchorage is on a gradual climb out of the economic crater caused by COVID-19. However, employment remains thousands of jobs below pre-pandemic levels. At its worst, in April 2020, Anchorage had lost 23,000 jobs, a wrenching 15% drop. Pain was spread across the private sector but most intense in restaurants, bars, hotels, the transportation sector, other visitor-affected sectors, and personal services. The most recent data indicates employment is still about 10,000 jobs below pre-pandemic levels (down about 6%).

While it's little consolation for the thousands of workers who lost jobs last year, it is a small blessing that total wages earned in Anchorage dropped only 1.3% in 2020. At this time last year, we expected COVID-19 to result in a significant decline in total personal income in Anchorage. In fact, personal income actually increased by about 3% in 2020. A billion dollar jump in transfer payments (in the form of federal COVID-19 relief payments) more than offset declining workplace earnings. In total, it was about $2 billion in federal relief funding flowing into the Anchorage economy that prevented much greater economic disaster.

Further population decline was anticipated in 2020 but the drop of 1.2% (3,517 residents) was more than double the loss expected. Anchorage's 2020 population was estimated at 288,970, 12,000 below the 2013 peak of just over 301,000. Anchorage has seen population decline in six of the past seven years, with the sharpest annual drop in 2020.

Another troubling trend is the shrinking labor supply in Anchorage. Labor supply (or lack thereof) could very well be what determines employment growth in Anchorage over the next few years. Anchorage has jobs to offer, but not the people to fill those jobs. Some of that is pandemic-related (including a big reduction in labor force participation among women) and some of it is related to long-term demographic shifts.

While there is plenty to worry about, there are bright spots in the economy. Independent visitor traffic has come roaring back this summer reflecting substantial pent-up demand. Record volumes of airfreight are moving through Ted Stevens International Airport (ANC), and hundreds of millions of dollars are teed up to expand ANC's role as a top global airfreight hub.

This three-year forecast articulates in some detail the economic damage done by the pandemic, the pace of recovery, the substantial degree of uncertainty that persists, and where long-term opportunities offer reason for optimism.

Population

Anchorage's population further declined by 3,517 between 2019 and 2020, the highest single-year loss since Anchorage started losing population in 2014 (and in fact the largest loss since the 1987-88 recession). High net outmigration (-5,601 people) drove this decline. Anchorage has lost over 12,000 residents since its peak in 2013. This recession-era trend was related to declining employment opportunities and historically low unemployment in the Lower 48 prior to the COVID-19 pandemic. The ability of Anchorage's economy to finally move out of the recession pre-dating the pandemic will be key to stemming the flow of outmigration. The pace of national economic recovery compared to Anchorage will also figure in the municipality's near-term prospects.

AEDC anticipates moderate additional population losses at least through 2022, driven by the same demographic and economic forces that have pushed population lower over the past seven years. Where the decline in population might bottom out is unclear, but within this three-year forecast period it is expected that the outflow will ease and stabilize at around 285,000 residents.

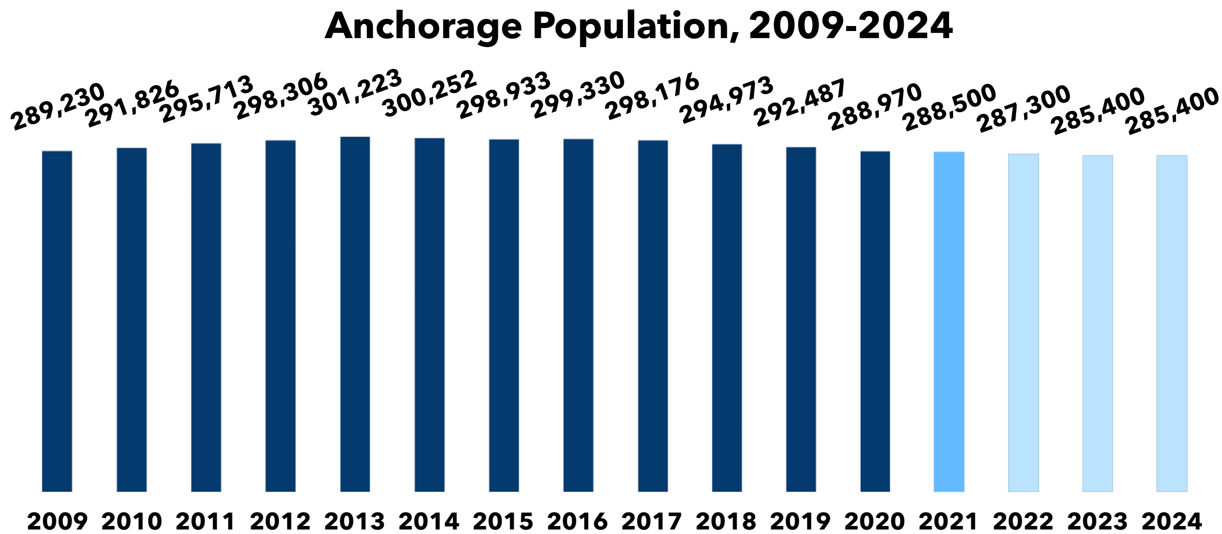
Several key factors have shaped population change in Anchorage and are anticipated to play a continuing role in the near-term:

- Movement between Anchorage and the Lower 48 accounts for the highest share of the municipality's population change. Between 2015 and 2020, an annual average of about 19,900 people left Anchorage for the Lower 48, while 16,300 non-Alaskans moved to Anchorage: net outmigration to the Lower 48 totaled about 18,000 residents. On average, net outmigration between Anchorage and the Lower 48 accelerated during Alaska's 2015 to 2018 economic recession. Lower annual in-migration in recent years accounts for the highest proportion of the change.

- Relocation between Anchorage and the Mat-Su Valley has played a significant role in intra-state migration, though movement has softened somewhat in recent years. Outmigration to Mat-Su between 2019 and 2020 was at its lowest level in more than a decade.

- Anchorage's working age population has declined annually since the beginning of the 2015 to 2018 statewide recession, with net outmigration of this population accelerating from 2015 to 2020 compared to the preceding five years. Lower in-migration of working aged people has contributed to this decline; annually, about 17,000 working age people moved to Anchorage between 2010 and 2015 compared to 14,000 between 2015 and 2020. Against this backdrop, Anchorage's labor force has also shrunk, declining annually by more than 1% on average between 2015 and 2019.

- Net outmigration of the age 55+ population has accelerated in recent years. Between 2010 and 2015, Anchorage had an annual net outmigration of 1,107 among the 55+ population, or about 2% annual decline. That average annual rate of net outmigration climbed to 5% between 2015 and 2020. This trend is anticipated to continue. In 2021, AEDC commissioned a survey of older Anchorage residents which found 38% of the population age 55+ planned to move out of Anchorage in the future.



Source: Alaska Department of Labor and Workforce Development (2009-2020); McKinley Research Group estimates (2021-2024).

Employment

In January, AEDC predicted 2021 employment in Anchorage would average about 141,600 jobs. Through June, preliminary data suggests employment is on track to reach that mark. At that level, employment would still be about 8,000 jobs below pre-pandemic levels, but about 4,000 jobs above 2020.

Here are a few numbers that describe job losses in 2020, along with the latest available employment estimates:

- Anchorage lost 8.2% of its employment base in 2020, on an average monthly basis, or 12,292 jobs
  - 2020 employment averaged 137,774, with wages totaling $8.887 billion. In 2019, employment averaged 150,066 jobs with $9.008 billion in total annual wages
- At the worst of the job losses in 2020, employment was down 15.3% (in April), a loss of 22,968 jobs
- The latest available monthly employment estimates, for June 2021, show employment up 7,700 jobs from June 2020 but still 10,000 jobs below June 2019.

Labor supply is weighing down Anchorage's employment counts, i.e., many employers are currently unable to fill vacant positions. It is difficult to know how much higher Anchorage's employment numbers would be if not for a labor shortage, but certainly by hundreds of jobs.

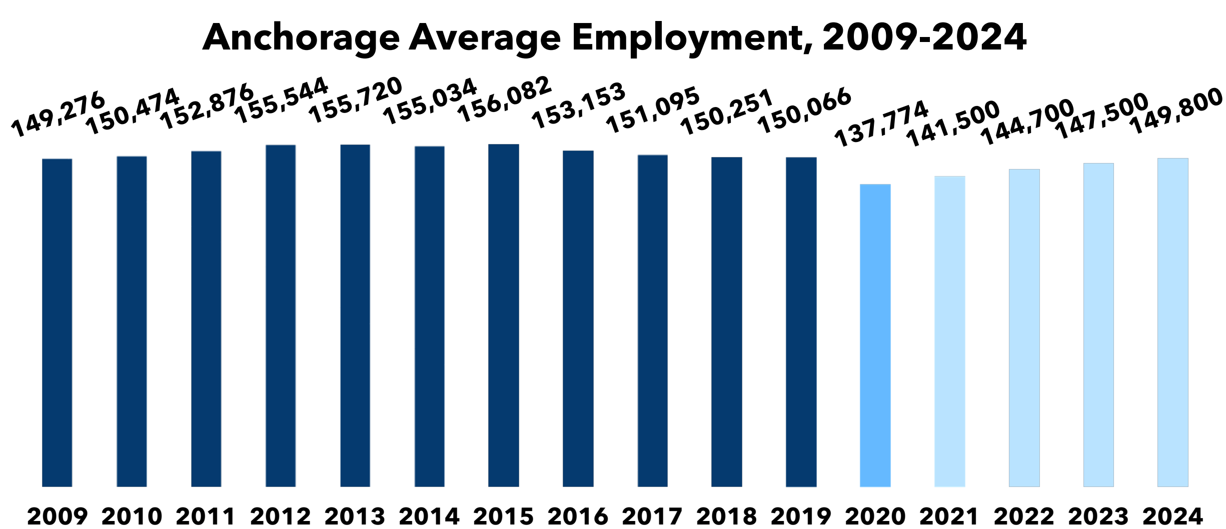
The following table details AEDC's sector-by-sector forecast for 2022, 2023, and 2024. Employment data for 2019 and 2020 are also provided to illustrate damage done by the pandemic.

Table 1. AEDC Employment Forecast by Sector, 2022-2024

Sector	2019 Actual	2020 Actual	'19-'20 Change	2021 Est	2022	2023	2024
Retail	16,500	15,078	-1,422	15,300	15,500	15,500	15,500
Professional & Business Services	17,367	16,177	-1,190	16,400	16,600	16,800	17,000
Health Care	20,893	20,274	-619	20,500	20,800	21,000	21,200
Construction	7,670	7,039	-631	7,300	7,600	7,800	7,800
Leisure & Hospitality	17,661	13,374	-4,287	14,500	15,500	16,500	17,500
Transportation	10,490	9,569	-921	10,200	10,700	11,000	11,300
Oil and Gas	2,512	2,073	-439	2,000	2,200	2,400	2,400
Government	27,195	26,553	-642	27,000	27,300	27,500	27,600
Other	29,778	27,637	-2,141	28,300	28,500	29,000	29,500
Total	**150,066**	**137,774**	**-12,292**	**141,500**	**144,700**	**147,500**	**149,800**

Source: 2019 and 2020 from Alaska Department of Labor and Workforce Development. All other are McKinley Research Group estimates or forecasts.

In summary, AEDC expects the Anchorage economy to add 3,200 jobs in 2022, another 2,800 jobs in 2023, then another 2,300 jobs in 2024. The 2024 forecast of 149,800 jobs leaves total employment about 300 jobs below the 2019 pre-pandemic job count. Strongest growth is expected in the transportation sector, related mainly to new employment at ANC. The leisure and hospitality sector will also see strong growth as visitor traffic gradually returns to pre-pandemic levels. As noted previously, growth in this sector may be constrained by a shortage of workers.



Source: Alaska Department of Labor and Workforce Development (2009-2020); McKinley Research Group estimates (2021-2024).

Personal Income

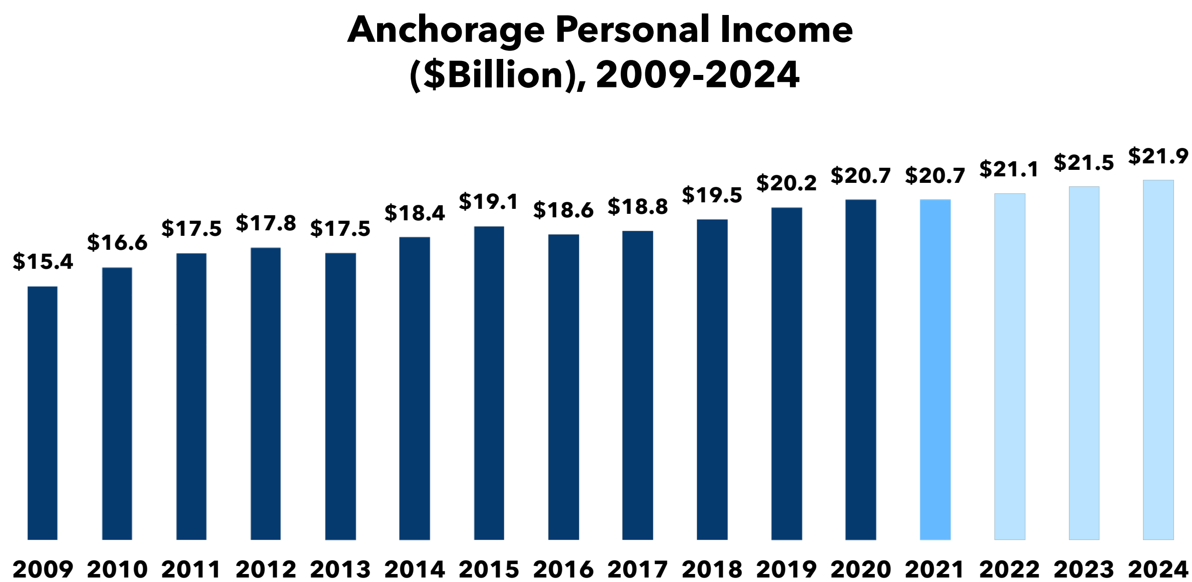
Total personal income is one measure of how much money Anchorage residents receive, either from salaries and wages, investments, business ownership, or government transfers like unemployment insurance benefits. Personal income can be viewed as an index of changes in potential spending by residents in the local economy.

Personal income has three components: salaries, wages, and proprietors' income; investment earnings; and government transfers. The first component is the largest and includes the cost of employer-provided benefits. The second category includes earnings from financial investments, dividends, and returns from real estate ownership. The smallest of the three categories is government transfer payments which include the Permanent Fund Dividend, unemployment benefits, and Social Security payments, among others.

Contrary to expectations early in the pandemic, total personal income in Alaska increased by 3% between 2019 and 2020. A 24% increase in personal transfer receipts out-weighed total losses in salaries and benefits, and investment income.

AEDC anticipates total personal income in Anchorage will hold steady at about $20.7 billion in 2021. The pace of economic recovery will impact the trajectory of income from salaries, wages, and proprietors' income. Longer-term, continued population decline in Anchorage will put downward pressure on total personal income, especially given declines in the working-age population. Over the next several years, modest wage inflation is likely to offset this downward pressure. In 2022, personal income from salaries and wages should return to a slow growth trend (relative to 2019), continuing through 2024, as inflation impacts personal income and transfers return to historic levels.

- In 2019 (the most recent data available), Anchorage residents had $20.2 billion in personal income, including
    - Salaries, wages, and proprietors' income (including benefits): $12.8 billion
    - Investment income: $4.2 billion
    - Government transfer payments (including the PFD): $3.2 billion
- The number of unemployed individuals in Anchorage peaked at 21,231 in May 2020. n 2020, unemployment insurance (UI) benefits paid to Anchorage claimants (including regular and federally funded extended benefits), totaled $307 million, a massive increase from $22 million in 2019. At the peak of UI claims, in May 2020, unemployment benefits replaced about 68% of earnings for recipients. By April 2021, claims had declined to about one-third of May 2020 levels.
- In June 2021, Alaska ended its participation in the Federal Pandemic Unemployment Compensation program which paid a weekly $300 supplemental benefit to unemployment claimants. Winding down supplemental benefit programs will contribute to normalization of government transfer payments in 2022 and beyond.
- In April 2020, $126 million in state and federal unemployment benefits were paid to more than 48,200 Alaskans, including $52 million paid to 19,500 Anchorage residents. The federal government's temporary weekly benefit of $600 was in addition to the average weekly state payment of $247.
- In 2020 and 2021, nearly 6,000 Anchorage businesses received a combined $1 billion in federal Paycheck Protection Program funding. A variety of other federal, state, and local programs have offered unprecedented support of Anchorage businesses.



Source: Bureau of Economic Analysis (2009-2019); McKinley Research Group estimates (2020-2024).

Anchorage International Airport Passenger and Freight Volume

Ted Stevens Anchorage International Airport's (ANC) strategic location less than 10 hours by air from most of the industrialized world is an important asset for the Anchorage economy. Throughout the pandemic, ANC weathered sharp declines in passenger volume while providing stability to air cargo carriers experiencing increased demand.

As the world emerges from the pandemic, AEDC is confident ANC will capture new opportunities and expand its value to the local economy.

Air Passengers

Prior to the COVID-19 pandemic, ANC's 2020 passenger volume was expected to exceed records set in 2019 given the growth trajectory of Alaska's visitor industry. As the pandemic's impact on travel unfolded, it was clear ANC would see steep passenger reductions. Since easing of travel restrictions and increased vaccine availability, passenger volume at ANC has made a strong recovery in 2021, even considering a visitor season with no cross-Gulf cruise traffic.

AEDC expects 2021 passenger volume to end well above lows in 2020 but fall short of pre-pandemic levels. With resumed cruise traffic, AEDC expects further improvement in 2022 and beyond.

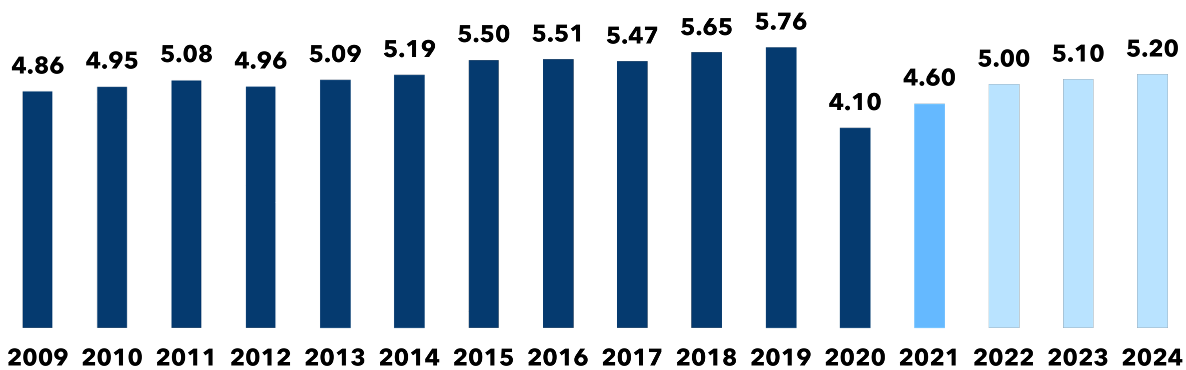
- A total of 4.1 million passengers used the airport in 2020, a 29% decrease from 2019.

- While traffic has rebounded from the steep drop off due to the pandemic, passenger volume through May 2021 remained 36% below the same period in 2019.

- By June of 2021, seat capacity on flights to and from Anchorage returned to near 2019 levels. In 2022, a resumption of flights from carriers like Air Canada is expected to further increase seat capacity.

- In June 2021, Ravn Alaska announced plans to explore service from Anchorage to the Lower 48 and Asia, a move which would open new direct destinations like Tokyo, Seoul, Orlando, Las Vegas, Newark, Oakland, and Ontario, California. No expected launch date is available at this time.

ANC Air Passenger Volume (Million Passengers), 2009-2024



Source: State of Alaska Department of Transportation & Public Facilities (2009-2020); McKinley Research Group estimates (2021-2024).

Air Cargo

Unlike passenger volume, the pandemic boosted ANC air cargo volume. Roughly half of air cargo transported directly between the U.S. and Asia transits through Anchorage.

In addition to replacing lost passenger plane freight capacity, air cargo has picked up volume from the ocean-going freight market as waterborne freight rates have soared amid significant disruptions due to port congestion at major gateways in North America. By July 2021, worldwide container shipping costs had tripled compared to July 2020. Elevated air cargo demand is anticipated to hold through the near-term due to port congestion, restocking inventories across the U.S., and continuing growth of e-commerce related air freight.

Longer-term, new developments and expansion of existing air freight logistics infrastructure at ANC could capitalize on the airport's strategic location. Five major projects representing a combined $700 million in investments are at various planning stages. Two developers, Alaska Cargo and Cold Storage (ACCS) and 6A Aviation Alaska Consortium, have entered lease agreements with the airport related to these developments. Construction activities related to ACCS are expected to begin in late 2021 or 2022; 6A Aviation's construction is slated for summer 2022. These projects together are expected to support several hundred construction jobs over a several-year period and create several hundred ongoing operations jobs.

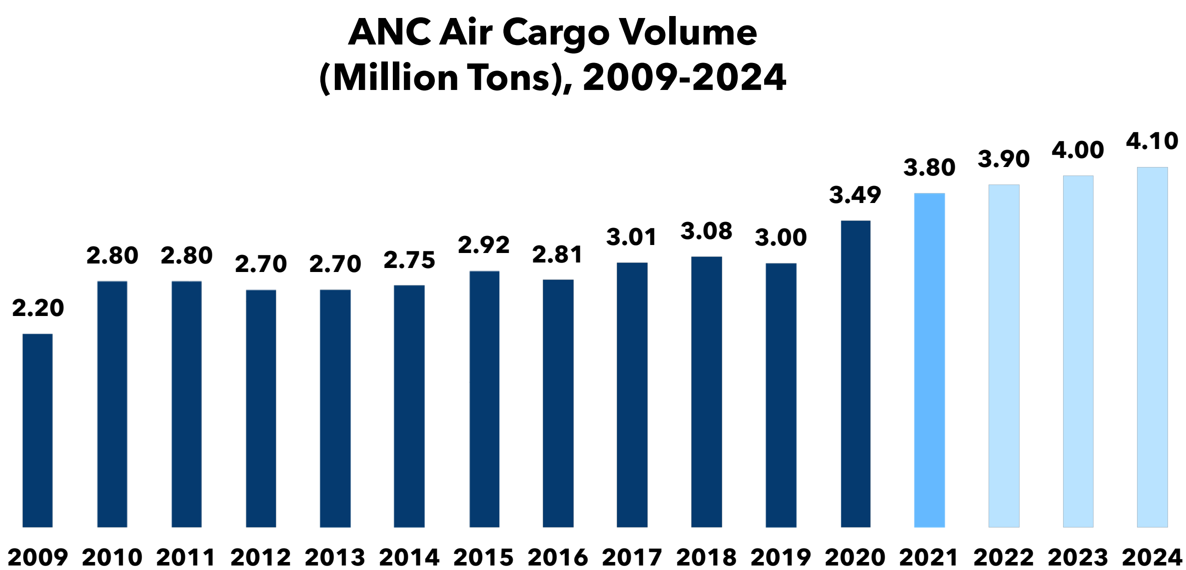
AEDC anticipates air cargo traffic will remain at elevated levels through 2021, then generally match global rates of economic growth through 2024. Due to uncertainty on the timing of proposed cargo infrastructure projects, this outlook does not include the potential impact of any specific projects, which have potential to push growth in air cargo substantially higher, towards the end of this forecast period.

- Cargo volume totaled 3.5 million tons in 2020, a 16% increase from 2019.

- Through the first five months of 2021, cargo volume was up 27% compared to the same period in 2020.

- According to Bollore Logistics, air cargo capacity on the Asia to North America route was up 5% as of June 2021 compared to the same period in 2019, even as worldwide capacity remained 11% below 2019 levels.

- The Asia to North America air corridor is the world's busiest with about four-in-five planes stopping at ANC. The Boeing World Air Cargo Forecast has volume along this air cargo route increasing through 2039, with freight moving from East Asia to North America growing at 4.2% annually.



Source: State of Alaska Department of Transportation & Public Facilities (2009-2020); McKinley Research Group estimates (2021-2024).

Port of Alaska Freight Volume

Anchorage's Port of Alaska (POA) is a critically important marine freight infrastructure asset for Alaska. Refined petroleum products, cement, consumer goods, construction materials and other supplies handled at the port are distributed throughout Alaska.

Two key drivers have long been associated with volume at POA: airport activity and population trends. POA handles around one half to two-thirds of all jet fuel used at ANC. As airport activity rises or falls, the petroleum component of port tonnage responds accordingly. Strong air cargo activity in 2020 drove higher POA volumes, a trend expected to persist through at least 2022.

Anchorage and the Railbelt require a steady flow of consumer goods, construction materials, and other supplies. Population growth spurs POA volume and, conversely, population decline will reduce demand for goods and materials. Over the last several years, total Railbelt population has remained relatively flat as has container volume at POA.

Other factors such as the severity of recession, competition with other Southcentral ports, and capital spending by private enterprise and government will also impact port volumes. Proposed federal infrastructure spending packages could spur capital spending in Alaska, boosting volume at the Port in the near-term.

AEDC anticipates port volume will remain elevated through 2021 with modest growth in through the 2022-2024 period as strong fuel demand persists.

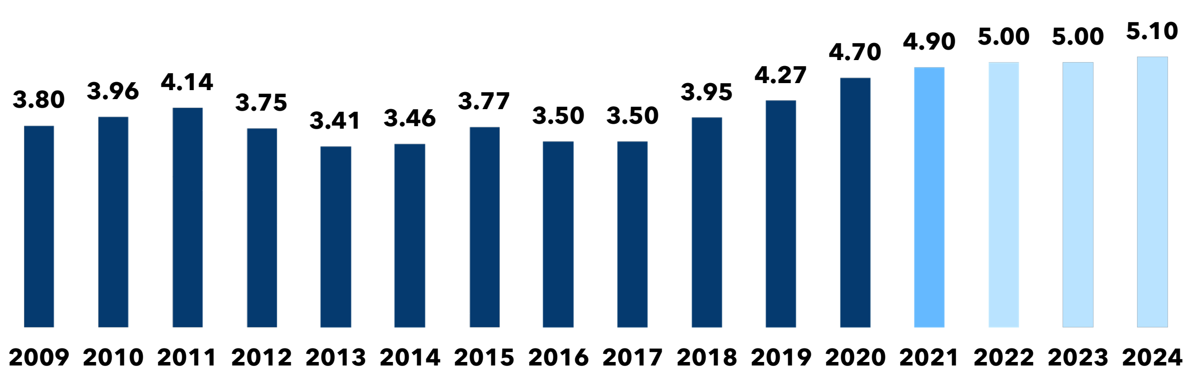
- POA volume in 2020 totaled 4.70 million tons, a 10.3% increase from 2019 and the highest volume since 2008. Volume included 3.0 million tons of refined petroleum, totaling 63% of all tonnage at POA in 2020. Vans, flats, and containers accounted for 1.6 million tons (35% of the total). Other volume (mainly cement) accounted for the remaining 2%.

- All growth in Port volume came from the petroleum category, which jumped 18% between 2019 and 2020. Volume from vans, flats, and containers and all other freight declined by 1% and 8%, respectively.

- Through May 2021, volume at the port totaled 1.9 million tons, 13% higher than the same period in 2020. Petroleum volume is nearly 19% higher year-to-date, while vans, flats, and container volume is up 4%.

- Modernization efforts at the Port continue with work on the new Petroleum and Cement Terminal, which is expected to be operational by late 2021. POA is beginning the formal design process for the next phase of modernization, which will focus on cargo dock replacement.

Port of Alaska Volume (Million Tons), 2009-2024



Source: Municipality of Anchorage, Port of Alaska (2009-2020); McKinley Research Group estimates (2021-2024).

Building Permit Values

The pandemic has continued to impact Anchorage construction activity through 2021. High building material prices have proved especially challenging for developers and contractors: through summer of 2020 and into 2021 lumber prices soared to four to five-times pre-pandemic levels. Price increases have been primarily driven by supply-side challenges with national labor shortages slowing production and transportation bottlenecks disrupting the supply chain. Global logistics challenges have further impacted statewide construction activity in Alaska. While these heightened costs exerted upward pressure on construction budgets and therefore permit values, increased cost of lumber and steel also led to project postponements. While building material prices are easing somewhat, supply chain challenges will likely continue to impact construction activity through at least the latter half of 2021.

Local labor shortages too have constrained construction activity in Anchorage. The construction industry in Alaska faced labor shortages for several years prior to the pandemic and workforce challenges intensified through 2020 and 2021. The industry's ability to attract skilled labor will likely impact construction activity in Anchorage and statewide in the long-term.

AEDC expects 2021 total building permit values to be below 2020. Over the next several years, building permit values are expected to remain around $415 million as inflation absorbs some impacts of lower levels of construction activity. Airport-related construction and other projects that may soon be in the pipeline will offset what otherwise would be a decline in commercial construction activity. Little new office space will be constructed over the next few years as work-from-home practices persist. Further, hotel construction, which has been a prominent part of the construction scene in recent years, will likely be slow. This trajectory does not account for new federal infrastructure spending. If passed, these spending packages could be a key driver of activity throughout Alaska in coming years.

Looking back to 2020, permit values totaled $470 million, a 6% increase over 2019.

- Government construction permits drove the increase in total values, including larger projects like repairs at Gruening Middle School and the Municipal Solid Waste Transfer Station.

- Residential permitting (including new construction and remodels) was also up, reaching $165 million, the highest level of residential permitting since 2015 but still well below the decade high of $194 million in 2014. The number and value of permits for new residential construction was up compared to 2019.

- While the number of permitted residential alterations/additions in 2020 increased year-over-year, the total value of these permits was slightly below 2019 levels.

- Throughout 2020, investors faced significant uncertainty which was reflected in the sharp decline in commercial permit values, down about 23% from 2019.

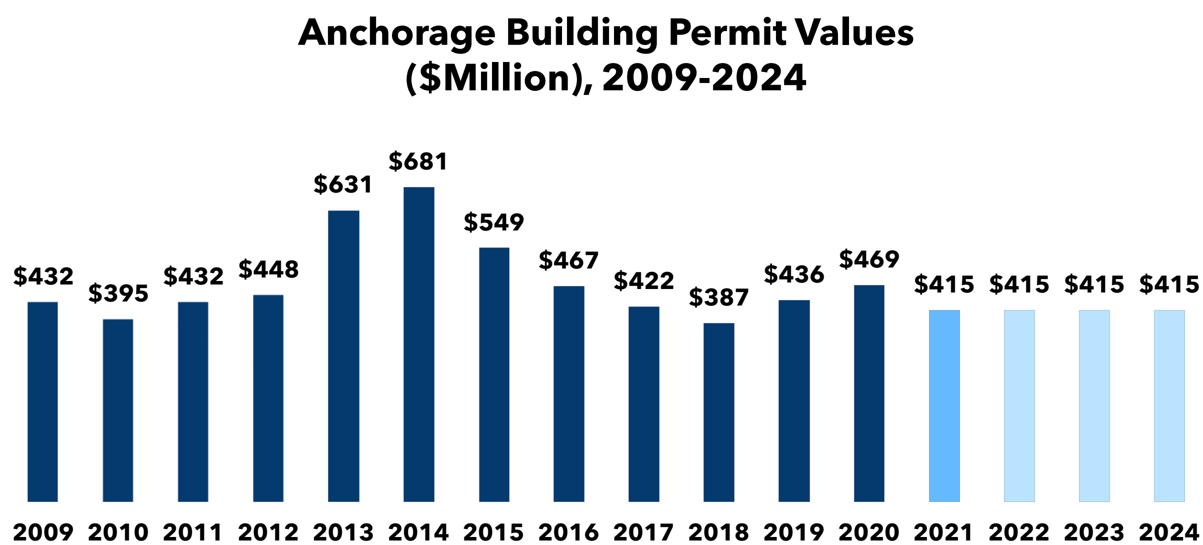
Through May 2021, total permit values were 10% below the same period in 2020 but remained higher than 2019 values:

- In the first five months of 2021, commercial permit values nearly rebounded (but not quite) to levels seen in the same period of 2019.

- Also in the first five months of 2021, government permitting decreased by 50% from the same period in 2020 but remained above the same period in 2019.

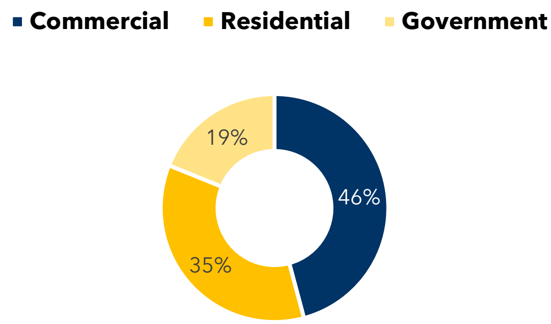
- Residential permitting through May is up 19% over 2020. The number of new construction permits rebounded back to year-to-date 2019 levels after falling amid significant uncertainty in the first half of 2020. Alteration/additions residential permits through this period rose above 2019 levels.

- A sample of large projects permitted by mid-year 2021 includes:
  - The dual-branded Holiday Inn Express/Candlewood Suites valued at $22 million was permitted but high building material costs have delayed construction.
  - Additional water storage by Anchorage Water and Wastewater Utility, valued at $10.7 million.
  - Several school repair projects including Taku Elementary, West High/Romig Middle School, and Lake Otis Elementary.
  - Construction of Cook Inlet Housing Authority's Spenard East housing project with permits totaling over $6 million in 2021.



Source: Municipality of Anchorage (2009-2020); McKinley Research Group estimates (2021-2024).

Anchorage Building Permit Values by Type, 2020



Source: Municipality of Anchorage.

Average Single-Family Home Sales

Contrary to expectations at the beginning of the pandemic, Anchorage's housing market remained strong in 2020. Against the backdrop of historically low mortgage rates, both the average single-family home sales price and volume of sales increased compared to 2019. As the average price reached new highs, the number of homes sold rose above those last seen before Alaska's most recent recession.

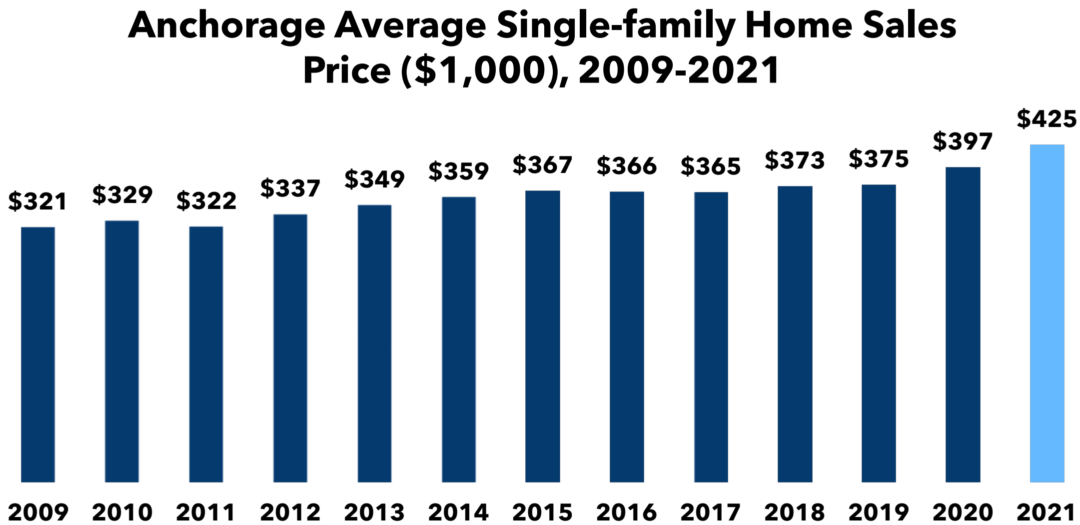
AEDC anticipates 2021 prices will end above 2020. Due to constrained housing supply and high building costs, single-family home values have remained steady throughout Alaska's recession. Longer-term, continued population loss may slow sales activity in Anchorage. Rising housing prices too may signal higher cost of living to prospective newcomers and continued increases in home prices may constrain population growth.

- Through May 2021, average single-family home prices rose 8% while the number of sales was up 29% compared to the same period in 2020.

- The ratio of average sales price compared to the price at which a home is listed on the market illustrates the strength of Anchorage's housing market. In the first half of 2020, homebuyers on average paid 99% of the list price, the ratio rose above 100% over the same period in 2021.

- Mortgage rates declined to historic lows during the pandemic and remained low in the first quarter of 2021 (2.78%). For Anchorage homebuyers whose income was not negatively impacted by the pandemic, lower interest rates translated into lower monthly payments or increased affordability of higher-priced homes.

- State and federal foreclosure moratoriums in effect during the pandemic meant Anchorage foreclosure levels remained at historically low levels. Expanded unemployment benefits in 2020 and 2021 helped newly unemployed individuals make mortgage and rent payments. As moratoriums on evictions and foreclosures are lifted and the expanded unemployment benefits are phased out in Alaska, Anchorage can expect an increase in foreclosures and evictions.

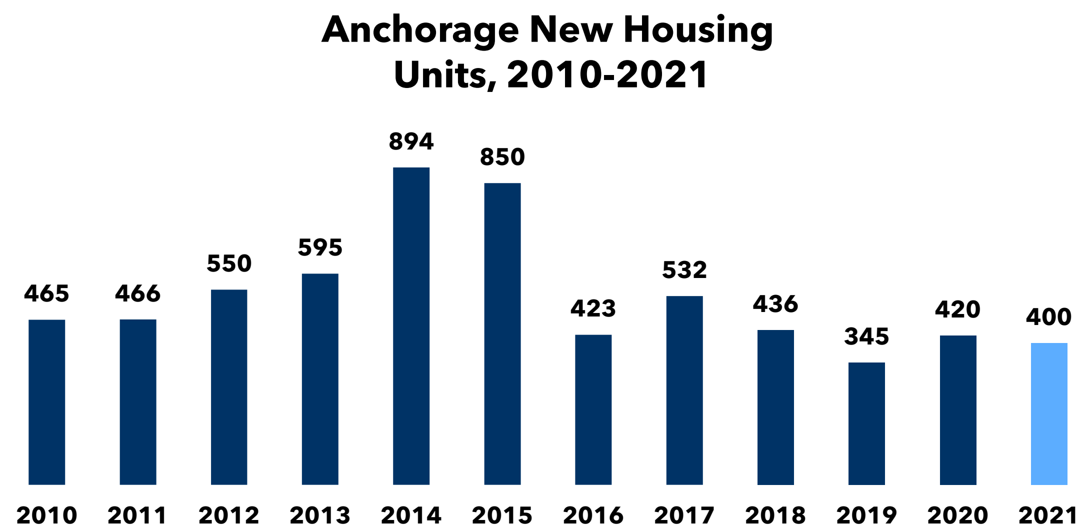


Note: This representation is based in whole or in part on data supplied by, and to the Subscribers of Alaska Multiple Listing Service, Inc. (AK MLS). Information contained herein is deemed reliable but not guaranteed. Data maintained by AK MLS is for its own use and may not reflect all real estate activity in the market. Source: Alaska Multiple Listing Service, Inc. (2009-2020); McKinley Research Group estimates (2021).

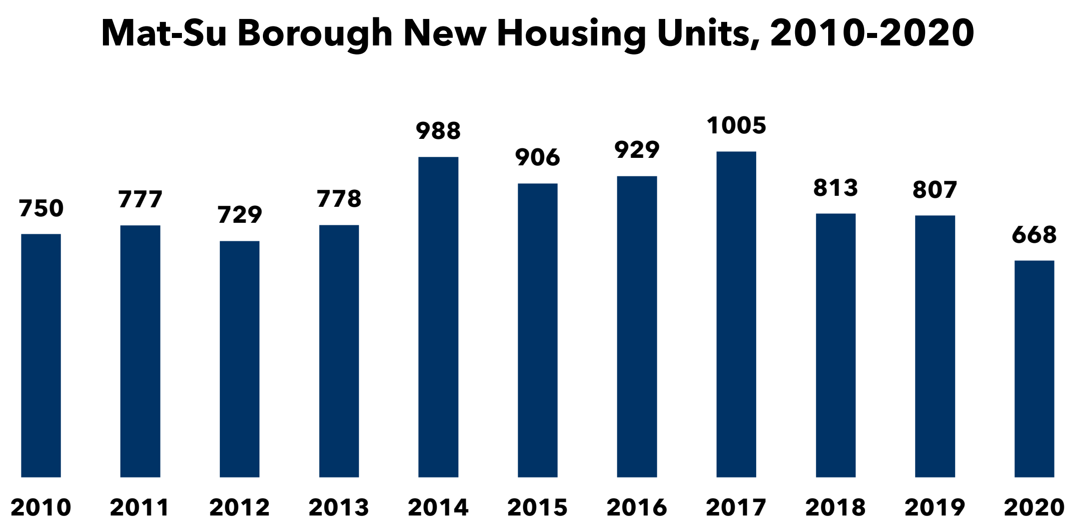
New Housing Units

Based on the current level of residential permitting and Alaska Housing Units Survey data through the first quarter of 2021, AEDC anticipates Anchorage will add about 400 housing units in 2021.With about 117,000 housing units in the current inventory, the annual rate of housing construction has hovered around 0.3% for the last several years and multi-family units have accounted for about half of all new units.

- In 2020, Anchorage added 420 housing units, about 75 units more than in 2019. The rate of new units added is still well below the pre-recession high of 894 in 2014.
- Multi-family projects accounted for 197 new units, while 210 single-family homes were added in 2021.
- The number of housing units added in Mat-Su fell for a third consecutive year from a high of 1,005 in 2017 to 668 units in 2020 but remained above those added in Anchorage. Single-family homes continue to represent a higher share of construction in Mat-Su (89%) compared to Anchorage (50%).



Source: Alaska Department of Labor and Workforce Development (2010-2020); McKinley Research Group estimate (2021).



Source: Alaska Department of Labor and Workforce Development (2010-2020).

Visitor Industry

Anchorage's visitor industry has started its recovery from the devastation of the pandemic. Early indicators for 2021 show positive signs in terms of air passenger traffic, hotel occupancy and revenue, car rental tax revenues, and convention scheduling. Many businesses are reporting a strong start to the summer (certainly a boost from the nearly nonexistent 2020 season) and some are seeing more independent travelers than in 2019. However, most indicators have not reached pre-pandemic levels and recovery has been uneven across industry subsectors. While several major cruise lines resumed sailing to Alaska in July, all itineraries are round-trip between Seattle and Southeast Alaska; none will cross the Gulf. Anchorage businesses catering to cruise passengers are, therefore, facing a second challenging summer. Businesses catering to international visitors have also been hard hit due to travel restrictions. Some businesses have been able to pivot to the influx of independent visitors.

Another issue for many tourism businesses is a staffing shortage, with some businesses forced to cut back hours or, in the case of hotels, block off rooms.

Despite these challenges, the 2021 visitor season is bound to represent a significant recovery from 2020, and all signs point to a full recovery in 2022, particularly considering the resumption of cross-gulf cruises. Following are selected indicators for Anchorage's tourism sector.

- Visit Anchorage reports that hotel demand was down 33% between 2019 and 2020, while the average daily hotel rate (ADR) was down 28% and revenue per available room (RevPAR) was down 52%.
  - As of June 2021, year-to-date hotel occupancy in Anchorage is up 35% over the same period for 2020. However, it is still down 9% compared to 2019. ADR is up 25% from 2020 and down 5.4% compared with 2019; RevPAR is up 70% from 2020, and down 14% compared with 2019.

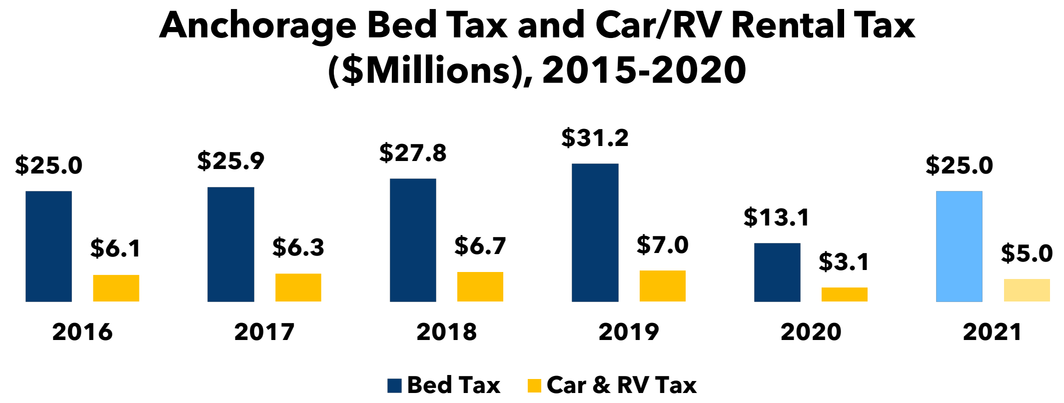
- 2020 showed a 56% decrease in bed tax compared to 2019. This followed a 12% increase in 2019.
  - The first quarter of 2021 showed a 1.3% decrease from the same period in 2020.

- Anchorage car rental and rental RV tax revenues were down 54% in 2020 compared to 2019.
  - Car and RV rental tax revenues were down 14% in the first quarter of 2021 compared to the same period in 2020.

- Passenger enplanements at ANC were down 59% in 2020.
  - For January to May 2021, enplanements were up by 16% over 2020, though still down by 35% from the same period in 2019.

- Alaska received no cruise ships in 2020, following a record-breaking 1.3 million passengers in 2019, including 432,000 that sailed cross-gulf to or from Seward or Whittier.
  - While a limited number of cruise ships will be sailing to Alaska between July and October 2021, they will be on round-trip itineraries from Seattle; none will be sailing across the Gulf.
  - Current cruise schedules show the potential for 460,000 passengers to sail across the Gulf to or from Seward or Whittier in 2022.

- The convention market was among the hardest hit sectors of the visitor industry. Virtually all in-person meetings scheduled in Anchorage for 2020 were cancelled after mid-March, leading to an 82% decline in convention attendee spending between 2019 and 2020.
  - Conventions have started to rebound in 2021, with attendee spending projected to reach $30 to $35 million; this compares with $17.9 million in 2020 and a usual range of $90 to $100 million annually.
  - Bookings for 2022 are "off to a good start," according to Visit Anchorage, with projected spending of $10.7 million so far.



Source: Municipality of Anchorage (2016-2020); McKinley Research Group estimate (2021).

Oil & Gas Prices

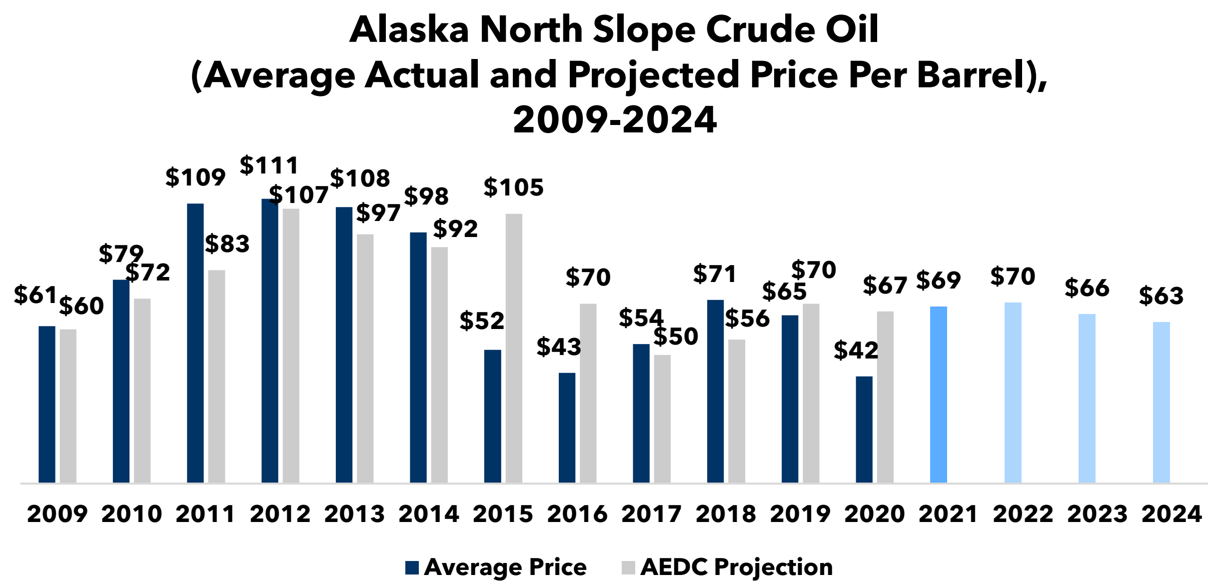
Alaska North Slope (ANS) crude oil prices have recovered from historic lows seen in 2020. Through the first half of 2021, ANS market prices averaged $65 per barrel with further recovery expected, bringing the expected average price to $69 per barrel by December. Over the next several years, increased oil production is expected to outpace global demand, exerting downward pressure on prices. Given this trajectory, ANS crude is projected to sell for $70, $66, and $63 per barrel in 2022, 2023, and 2024, respectively.

- After weeks of consideration, the Organization of Petroleum Exporting Countries (OPEC) reached a decision regarding oil output policy, agreeing to increase production by 400,000 barrels per day (bpd) starting in August. Production increases will continue on a monthly basis until OPEC members are producing at pre-pandemic levels.

- U.S. rig counts have begun to recover from their unprecedented drop in 2020, with about 500 rigs currently active. Although rig counts have nearly doubled in the last year, they are still down from 2019’s high of over 1,000. Any increased production related to re-mobilizing rigs could put downward pressure on prices.

- While global oil consumption has rebounded somewhat in 2021 as economic activity and consumer travel increased, global demand in 2021 is still expected to fall short of pre-pandemic levels.

- Longer-term, changing demand for oil resulting from increased renewable energy production could exert downward pressure on prices. Expectations of when global peak oil demand will occur are varied. In BP’s *2020 Energy Outlook*, oil demand is presumed to have already peaked in 2019.



Source: Alaska Department of Revenue (2009-2021); Energy Information Administration, CME Group (2021-2024).

Production

After experiencing oil price driven production cuts during the pandemic, ANS production has increased in 2021 for the first time in four years. Average ANS production is forecasted at 482,000 bpd for 2021, an increase of 2.2% from 2020. In 2022, oil production is expected to drop to 459,700 bpd and then rise to 476,600 and 502,400 in 2023 and 2024, respectively. These projections assume companies will continue to invest in developments on the North Slope, and that production in key units, including National Petroleum Reserve-Alaska (NPR-A) and Point Thompson, will increase.

Persistent uncertainty in the State of Alaska budget will continue to impact oil and gas development throughout Alaska. The State has not made payments on its $700 million+ oil and gas tax credit obligation since 2019, and the Legislature failed to approve a $114 million minimum payment owed to companies during the most recent session. Continued delay in payment of this minimum obligation could impact future investment.

Despite this uncertainty, activity on the North Slope continues to be encouraging:

- Oil Search’s Pikka project has entered the front-end engineering and design phase. The company expects the field to have the capacity to produce 80,000 bpd, with first oil in 2025 if the project is ultimately approved for development.

- The Biden Administration has issued its support for the Willow prospect in NPR-A. In late May, a federal court stated the Bureau of Land Management and U.S. Fish and Wildlife service properly followed environmental laws in the approval phase.

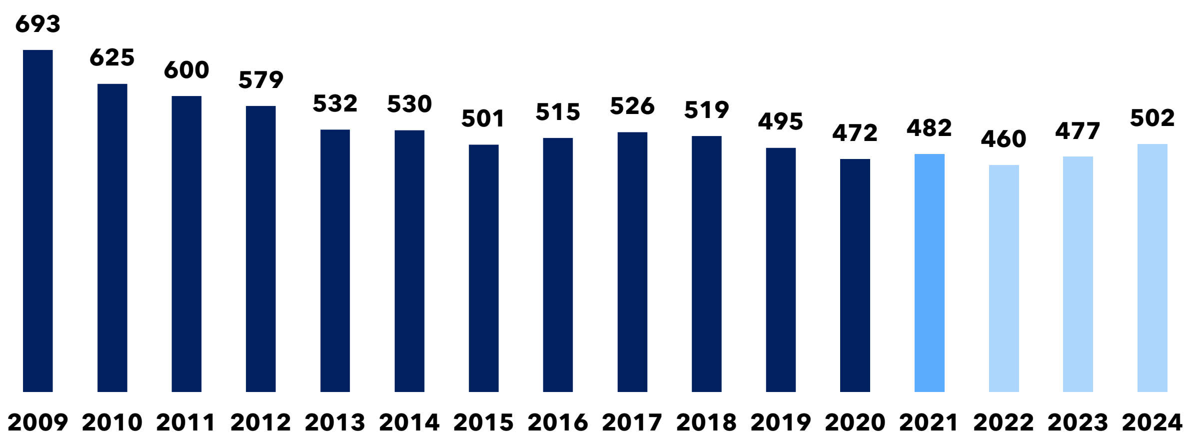
- Hilcorp will resume drilling in the western satellite area of Prudhoe Bay. The company expects six wells to be completed in the coming months, including four producing wells and two injector wells. The decision to resume drilling was motivated by improving market conditions, as well as approval from working interest owners.

Oil markets are driven by near-term expectations of global supply and demand.

- ANS oil production has been declining in recent years with annual decreases of 4.5% and 4.7% in 2019 and 2020, respectively. Production in 2021 is expected to see a slight rebound of 2.2%, as producers recover from the shortened drilling season and the low oil price environment resulting from the pandemic.

- Currently, there are four rotary rigs operating in Alaska. Rig counts have seen a slight increase since their historical lows in 2020 but have not recovered to pre-pandemic levels. Prior to the COVID pandemic and corresponding oil price crash, there were 10-12 drill rigs operating in Alaska. The historically long period of low active drill rig counts seen over the last year and a half may be reflected in oil production in the coming years.

Alaska North Slope Crude Oil Production (Thousands of Barrels per Day), FY 2009-2024



Source: Alaska Department of Revenue (2009-2024).

Looking Ahead

As we look ahead, recovery from the pandemic's devastating economic impacts remains our principal concern. Anchorage has recovered 40% of the jobs lost last year, important progress but still leaving the economy more than 10,000 jobs behind pre-pandemic levels.

As this forecast is being written COVID cases in Alaska and across the country are again on the rise. Concerns about a fall surge of infections are growing. The economy will not return to any degree of normalcy until the virus no longer significantly constrains how we do business. That can only happen when a substantial majority of residents are vaccinated. Each of us can do our part by getting vaccinated and encouraging others to do the same.

We have to remind ourselves that federal stimulus and other extraordinary government supports that have helped households, businesses, non-profits, and governments through the pandemic will not go on forever. Supplemental unemployment insurance payments have ended, no further Economic Impact Payments to individuals are expected, nor PPP opportunities. Also, the moratorium on evictions has ended and the suspension of loan payments on federal student loans ends in September.

Economic forces within our control also cloud the future. Yet another year without a sustainable state fiscal plan will continue to weigh on investor confidence in Alaska and our own confidence that we can maintain essential public services.

As noted previously in this forecast, the mismatch between labor supply and demand is a key challenge. This has been an underlying issue in Anchorage for many years, though the challenge was mainly in professional services and highly skilled trade occupations. Today the challenge is spread across most sectors of the economy. We expect to see more people returning to work as the need for wage income returns. But it may take years for labor supply and demand to return to a pre-pandemic balance. Importantly, we need to turn the ebbing tide of population. The more attractive we can make Anchorage as a place to live, work, and eventually retire, the better off we will be.

As we work to recover from COVID and wrestle with other challenges facing the economy, it is easy to lose sight of the bright spots in the economy and the significant untapped opportunities that may lie ahead.

As growth in international travel and trade has made the world a smaller place, Anchorage's advantages become more evident with each passing year. With ANC within 9.5 hours of 90% of the world's industrial economies, the airport is certain to continue expanding its role as one of the world's top air cargo hubs. Anchorage is Alaska's marine freight gateway, accounting for 80% of all containerized freight traffic into Southcentral and serving 90% of Alaska's population. More than half of the jet fuel used at ANC moves through Anchorage's Port of Alaska.

Geography also gives Alaska its strategic national defense value. The military plays a key role in Anchorage's economy and the economy of Alaska overall. Persistent (if not rising) political tensions with China and Russia are only increasing Alaska's national defense value. Here too climate change is enhancing Alaska's geopolitical value. Alaska's essential role in protecting the nation's interests in Arctic waters is clear and growing.

The visitor industry, hit hard by the pandemic, will have a strong rebound over the next couple years. In fact, independent visitor travel in 2021 is exceeding expectations, reflecting pent-up demand from last year's nearly non-existent season. The 2022 cruise season, if it unfolds as expected, will bring record numbers of cruisers to Alaska.

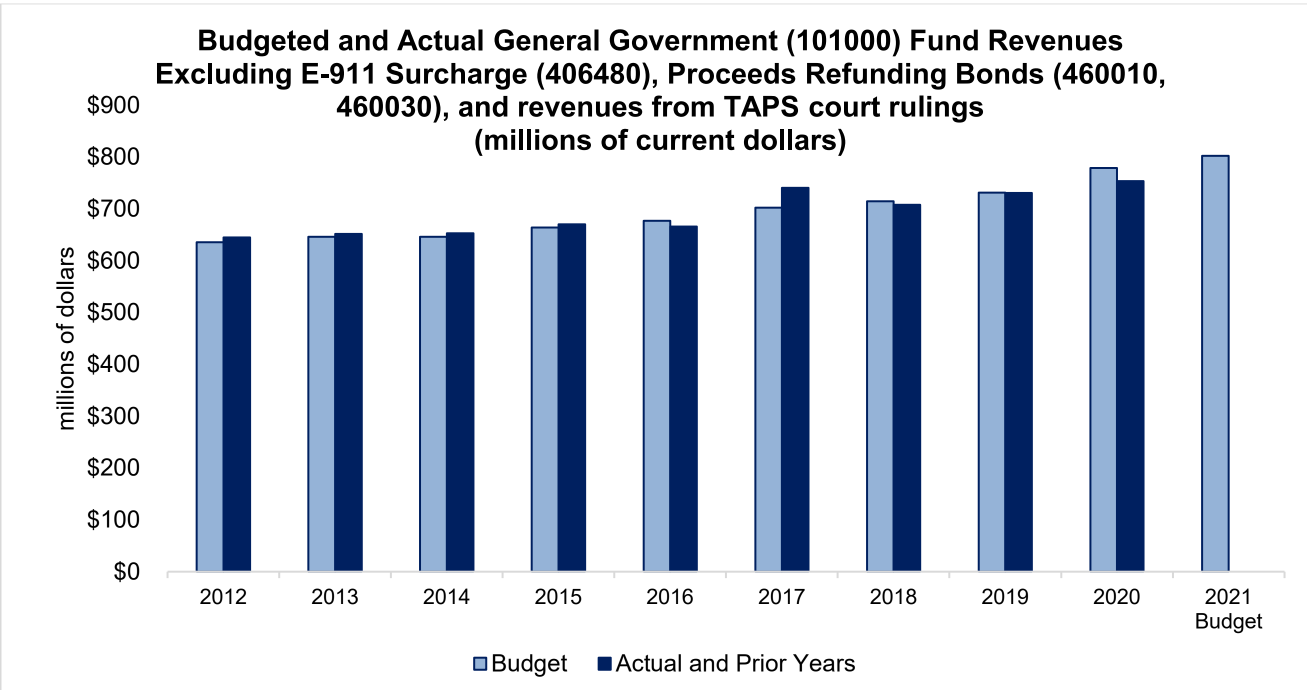
Projected increases in North Slope oil production over the next few years promise a measure of stability if not growth in Alaska's oil industry. Climate change and efforts to reduce carbon emissions present challenges and opportunities for Alaska. Oil production is a pillar of Alaska's economy. It will remain so for the foreseeable future, but meanwhile Alaska must aggressively explore new opportunities to diversify its economy in existing and new lines of business that offer opportunities for significant growth in the coming decade and beyond. Globally, greater reliance on natural gas will play a role in reducing carbon emissions. In that regard, Alaska's vast natural gas resources remain a tantalizing yet illusive opportunity.

With all the uncertainty, challenges, and opportunity in front of us, AEDC remains committed to providing the research, investor support, and leadership needed to keep our city on a path to economic prosperity.

3. Historical Financial Trends

Revenues

Revenues increased modestly over the past five years, averaging 2% per year. 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 been close to budget with pronounced variance occurring. The Municipal Treasury Division works to estimate, track, and benchmark important revenue sources.



Source: MOA Treasury Division *Alcohol Tax Fund 206000 not included

Long-term Trends in Major Categories of General Government Revenues

A review of long-term revenue trends and drivers assists policy makers and citizens when considering potential changes in the revenue structure of Anchorage. The narrative and graphs in this section review the long-term trends of general government revenues over the past twenty-two years from 1999 through 2021. The review is based on the six major categories of revenues listed below. Each category is affected by a different policy decisions, economic conditions, legal requirements, staffing, consumer decisions, and other factors.

1. **Determined by Mill Rate and Taxable Value**: Property Taxes, Municipal Enterprise Service Assessment (MESA) payments, and Municipal Utility Service Assessment (MUSA) payments are determined by the mill rate multiplied by taxable value of property or utility/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 Assembly sets the mill rate each year as part of the budget approval process.

2. **Determined by Resident Consumption:** Revenue from taxes on tobacco, motor vehicles, marijuana, motor fuel, aircraft, and Municipal service fees are determined primarily by city residents' choices about their ownership and use of these products and services. Also included in this category are revenues from the Utility Revenue Distribution. These payments are specific percentages of gross revenues of the utilities, which are determined mostly by local residents' choices about consuming utility services. Alcohol sales tax revenue is not included, as it is in a separate non-operating fund.

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 and Private PILT Payers:** State Municipal Assistance, State fisheries taxes, State liquor license fees, State Traffic Signal Reimbursements. Private, State and Federal Payments in Lieu of Taxes (PILT), and other intergovernmental revenues are determined by decisions and actions of the State or Federal governments.

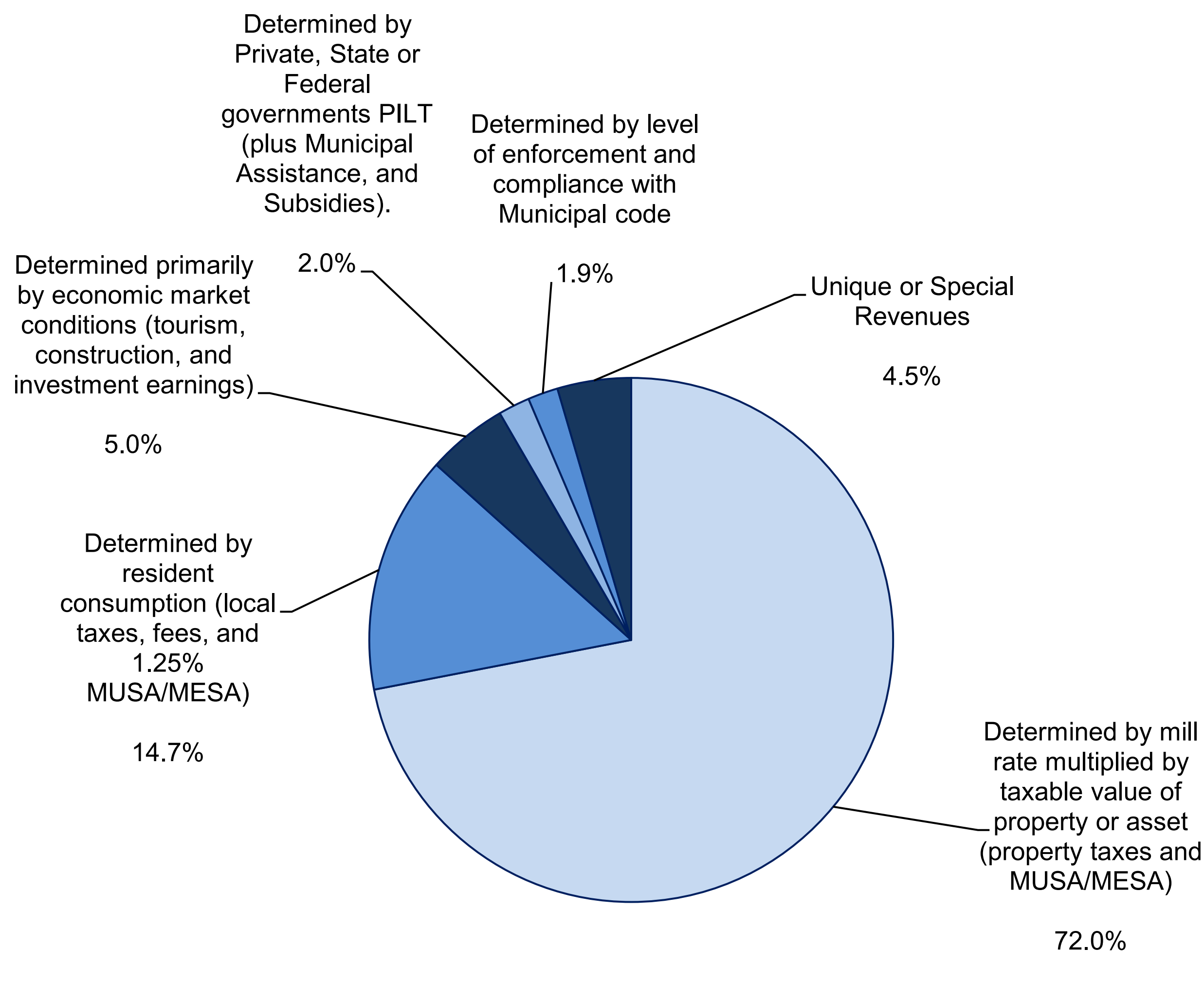
5. **Determined by Level of Compliance and Enforcement of Municipal Code (Code):** Revenues from collections of delinquent taxes, as well all types of fines, penalties and interest paid on delinquent taxes, are determined by the level of Code compliance and enforcement and collection efforts.

6. **Unique or Special Revenues:** Contributions from the MOA Trust Fund, lease revenue, land and 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

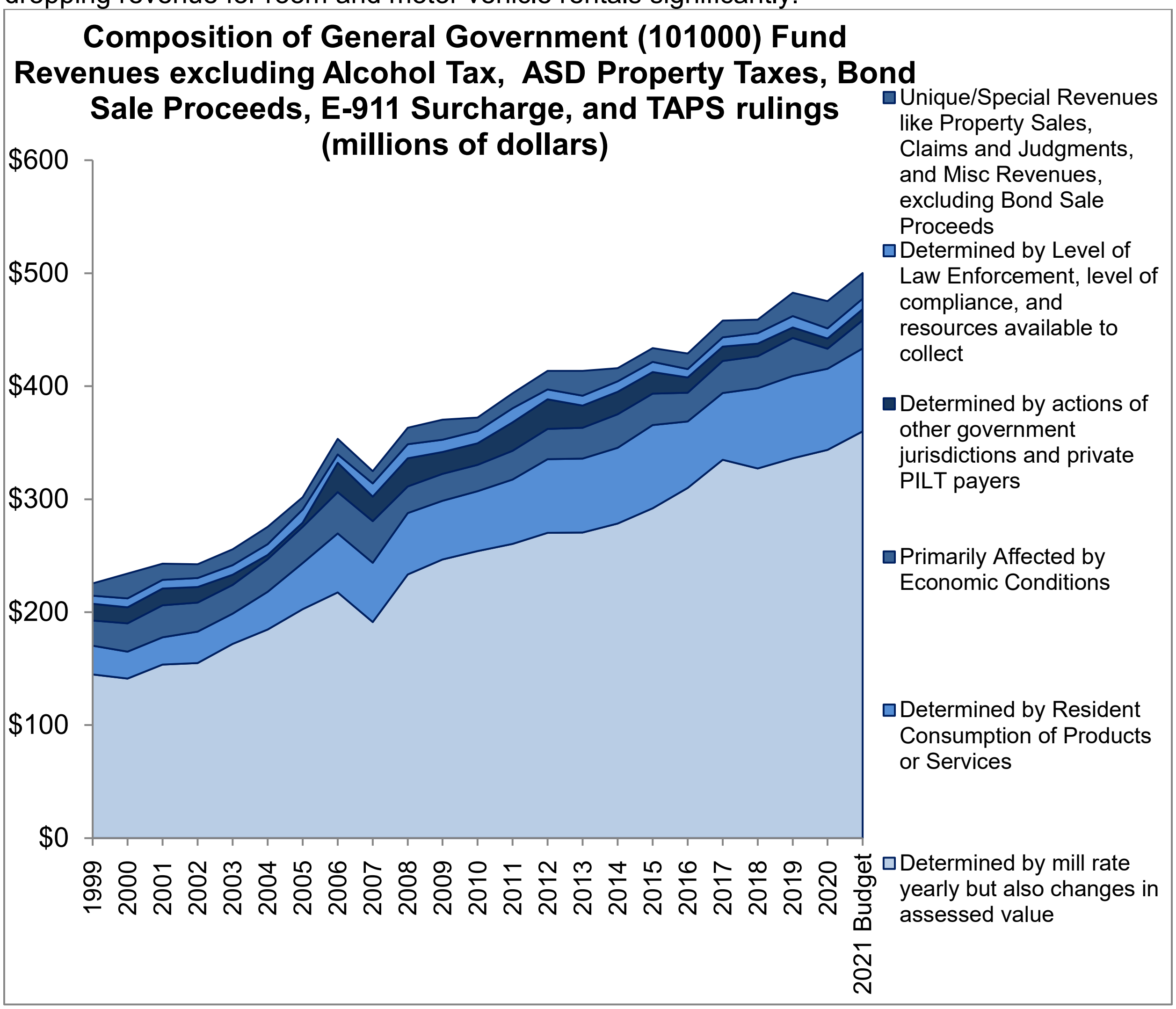
About 72 percent of general government revenues are determined each year by multiplying the mill rate by the taxable value of property or municipal assets. Revenues based on resident consumption contribute the next largest share (about 15 percent). About 5 percent of revenues are determined by economic market conditions. Another 2 percent are 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 4.5 percent are 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.

Composition of General Government (100) Revenues Categorized by Major Determinants in FY 2021 (excluding ASD and Premium on Bond Sale Proceeds)



Source: MOA Treasury Division * Excludes Alcohol Tax Special Revenue Fund 206000

The summary chart below from the MOA Treasury Division shows the changing composition of revenues for each of the major categories over the last twenty-two years. Revenues determined by the mill rate and taxable value of property or utility assets have most commonly ranged between 60 percent to 70 percent of general government revenues during this extended time horizon (these percentages exclude ASD property taxes, revenues from Trans-Alaska Pipeline System (TAPS) rulings, and E-911 Surcharge revenues). Revenues determined by resident consumption have contributed a growing share of revenues mostly because of increases in the tax rate on tobacco, motor vehicles, marijuana retail sales tax and the motor fuel excise tax. It does not include the new alcoholic beverage retail sales tax, which is accounted for outside the general government fund 101000. Prior to the start of COVID-19 in 2020 revenues driven by economic conditions in tourism, investment, and construction markets contributed a relatively stable share since about 2006. The unusual increase in total revenues in 2006 followed by a decrease in 2007 was because some State Municipal Assistance revenues were received and posted in 2006 but were applied as a tax credit in 2007. Total general government (100) fund revenues in 2016 were slightly lower than 2015 primarily because the Utility Revenue Distribution and 1.25% MUSA payment for ML&P were lower due to a ruling by the Regulatory Commission of Alaska. In 2020, the COVID-19 virus had a large impact on the tourism market, dropping revenue for room and motor vehicle rentals significantly.

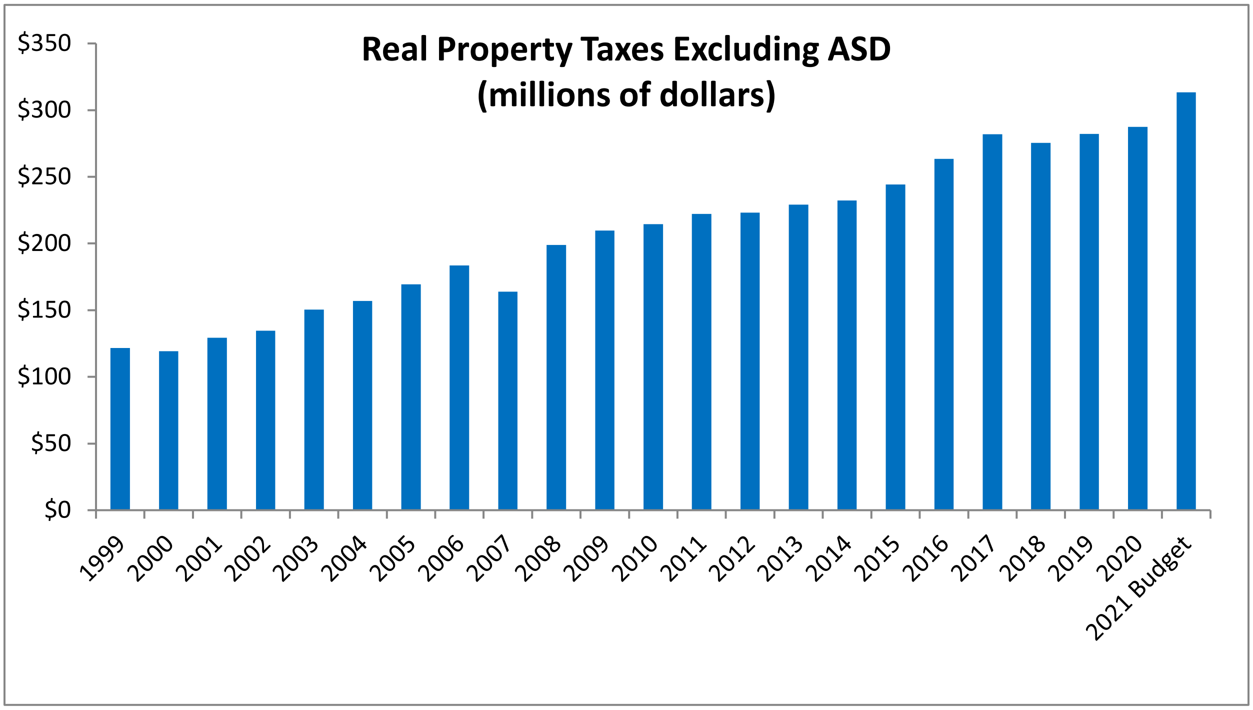


Source: MOA Treasury Division

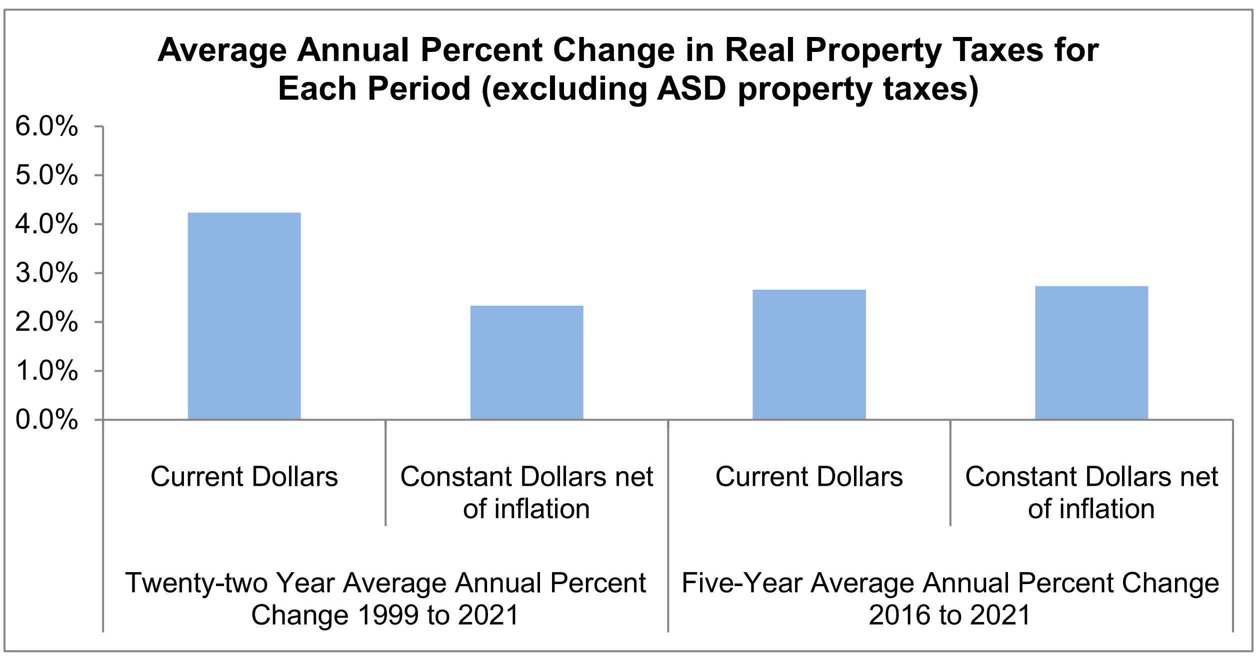
Key Revenue Determinant Categories

Revenues Determined Primarily by the Mill Rate and Taxable Value

Real property tax revenues are the largest component of this category. The amount of real property taxes collected each year is determined by policy decisions by the Administration and the Assembly when they set the mill rates each year. In more recent years, real property tax revenues have increased at a slower average annual rate than the long-term historical trend from 1999 to 2021.

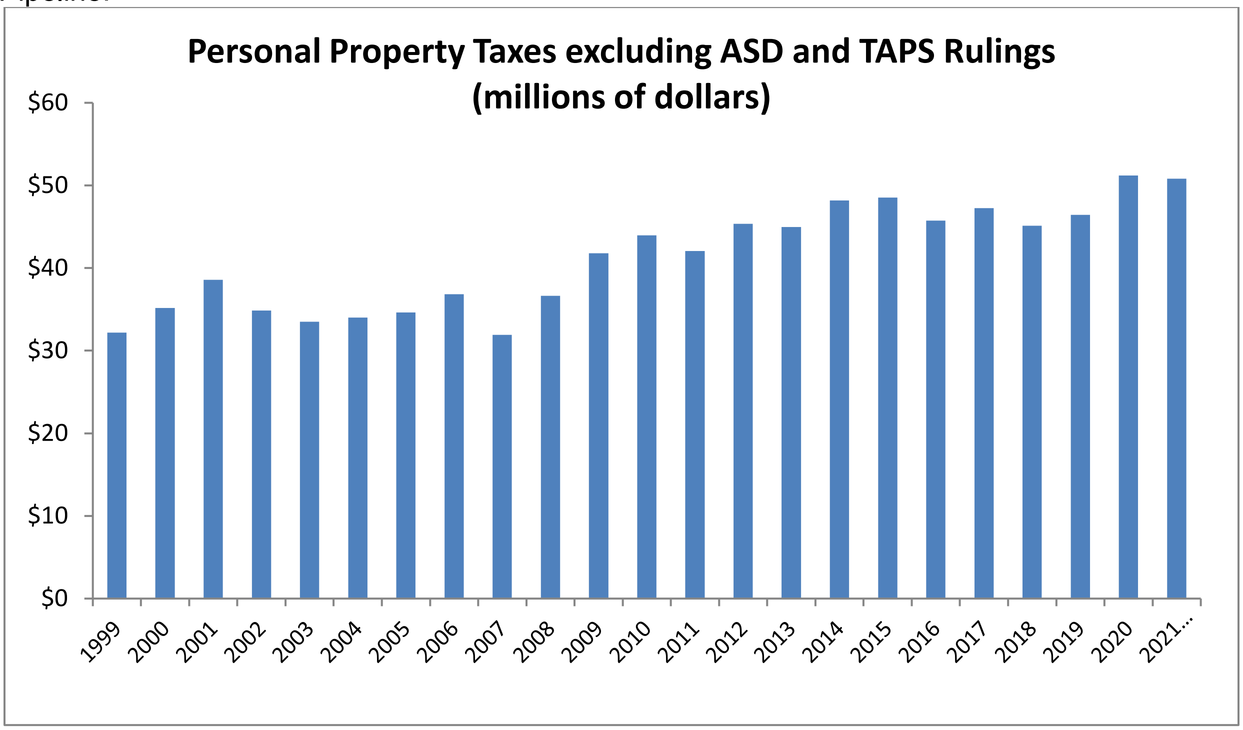


Source: MOA Treasury Division

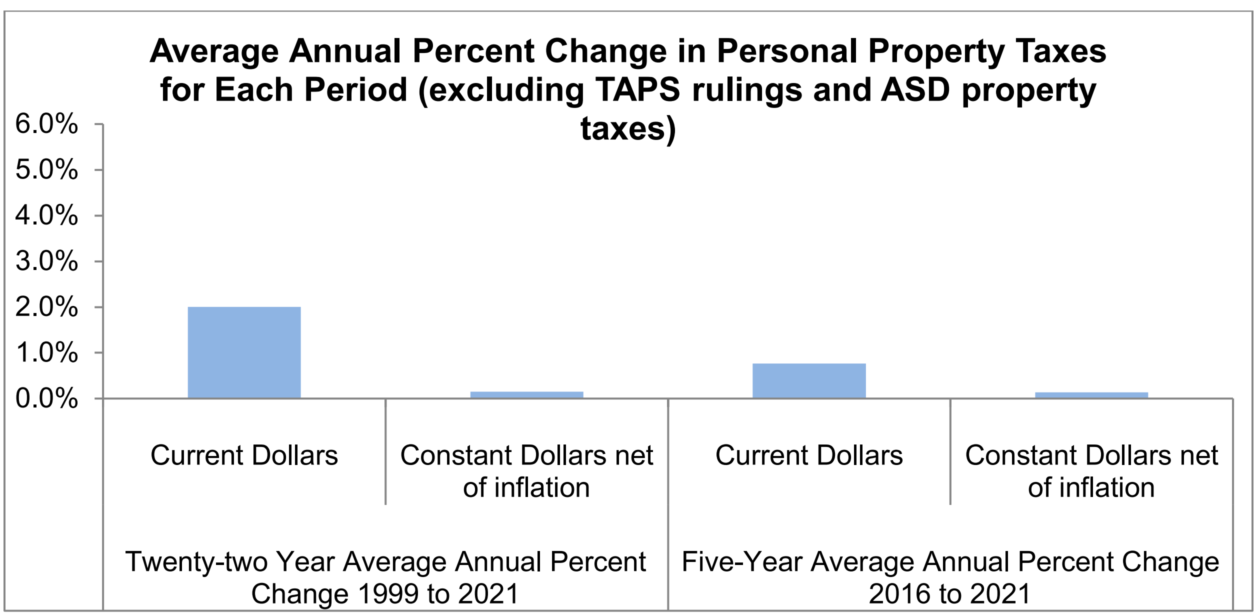


Source: MOA Treasury Division

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 six years, personal property tax revenues have grown at a slower average annual rate than the long-term trend after adjusting for inflation. 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.

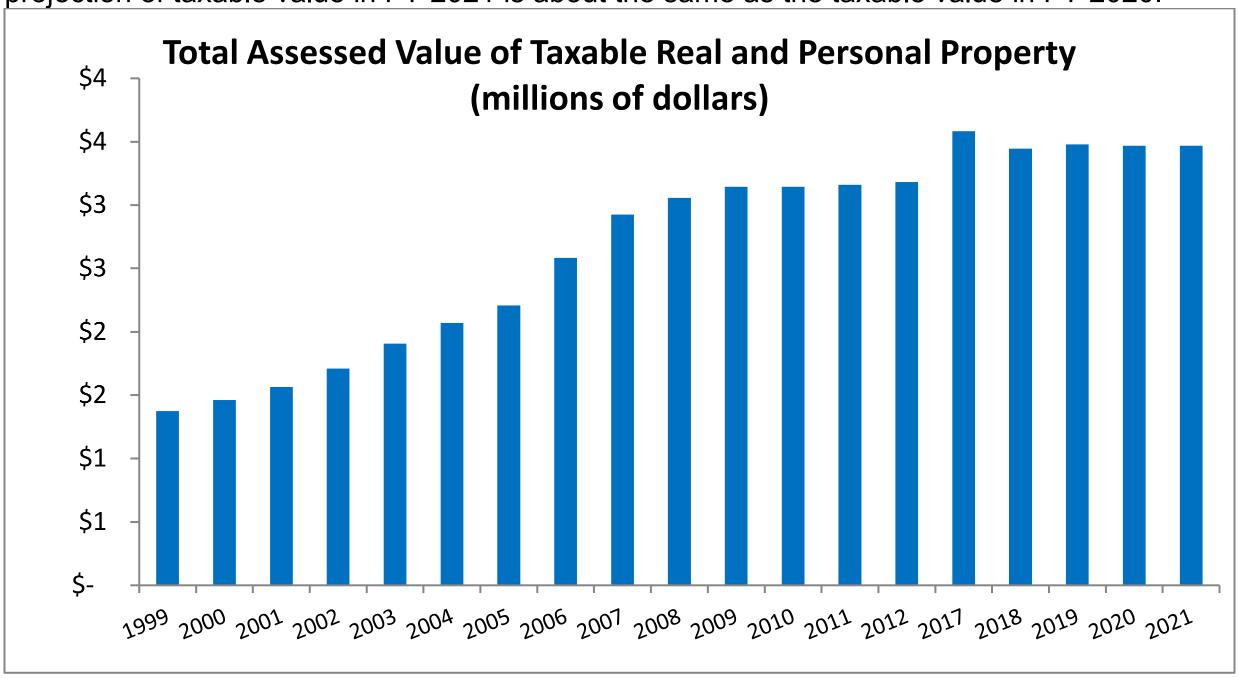


Source: MOA Treasury Division

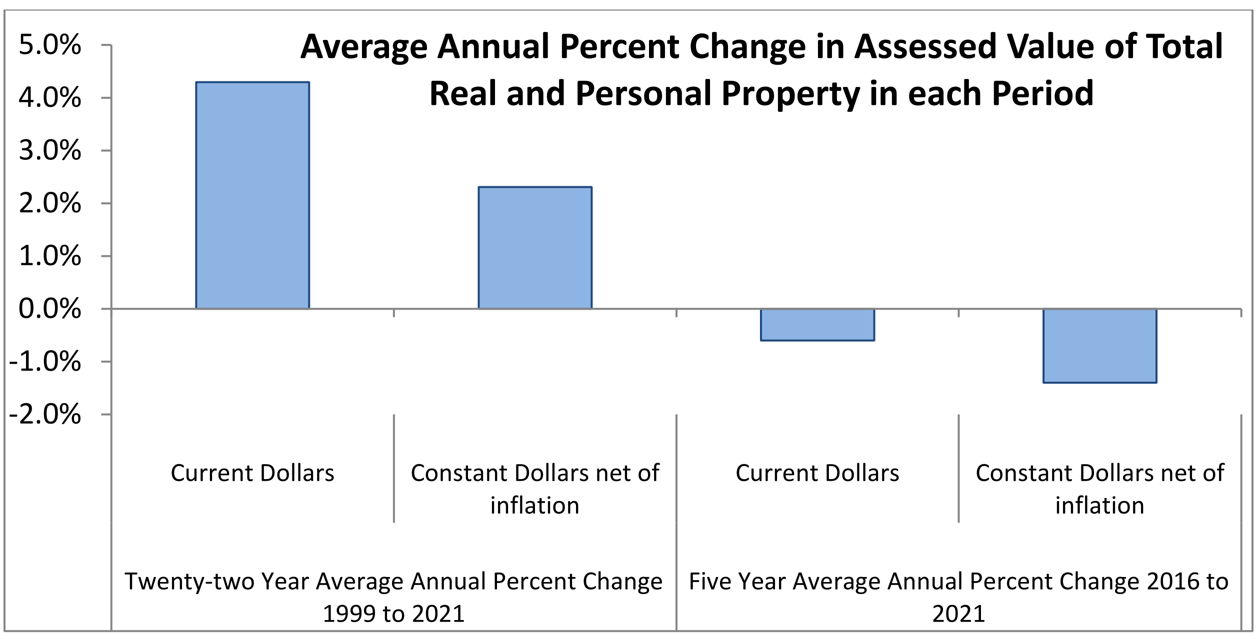


Source: MOA Treasury Division

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 would result in a lower mill rate. For the same level of revenues, a decrease in assessed taxable property value would result 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. Taxable value increased in FY 2014, FY 2015, and FY 2016 but then declined in 2017 and 2018. The current projection of taxable value in FY 2021 is about the same as the taxable value in FY 2020.



Source: MOA Treasury Division

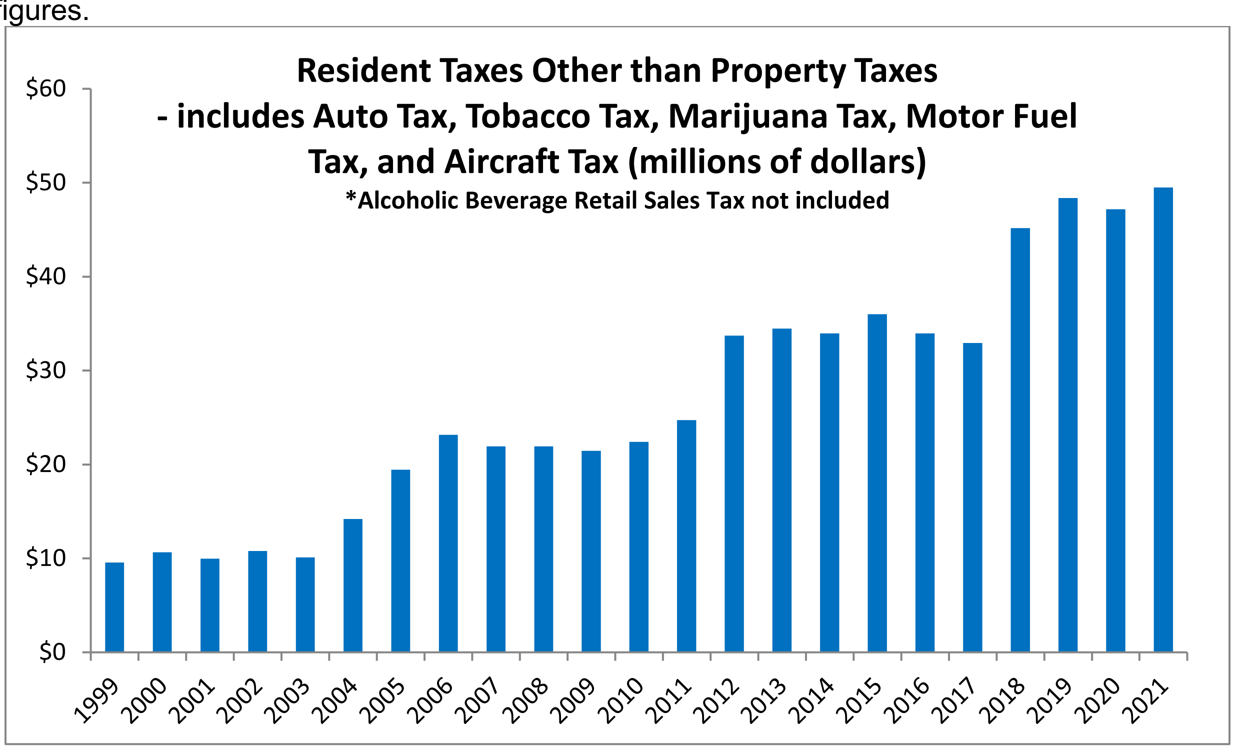


Source: MOA Treasury Division

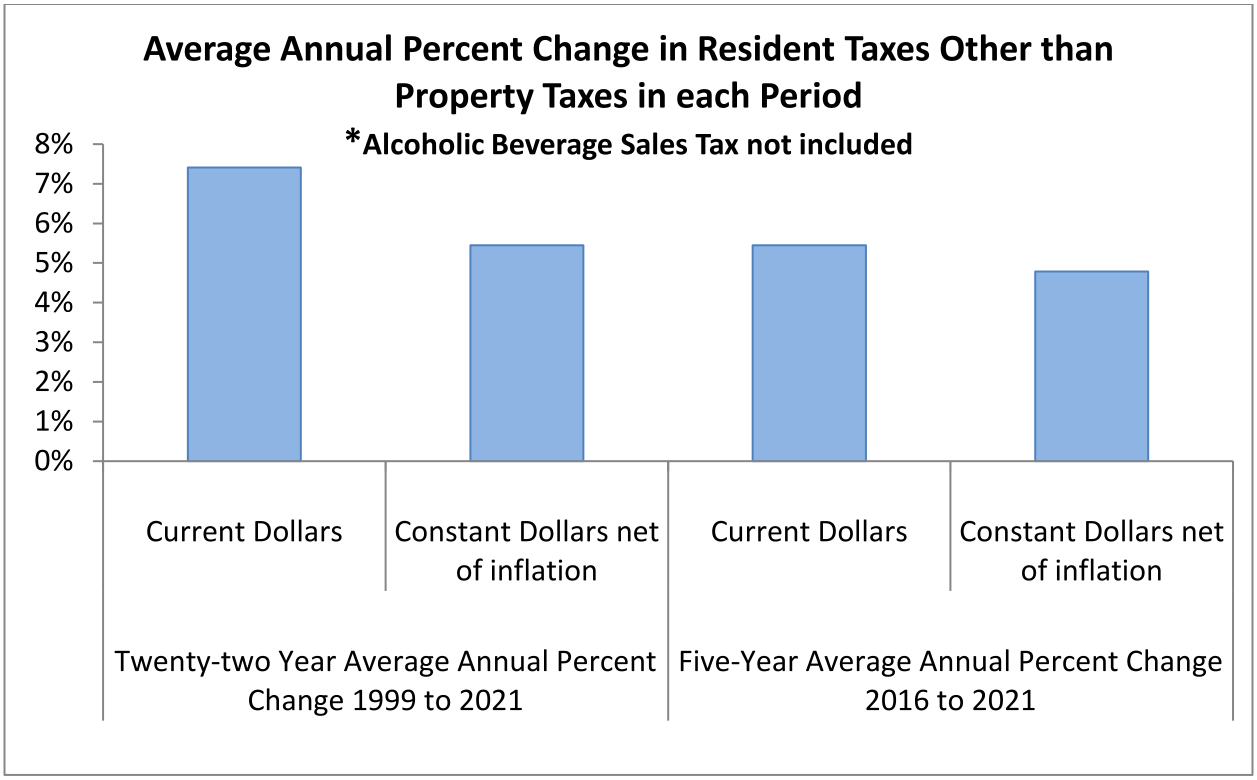
Revenues Determined Primarily by Resident Consumption
These revenues include fees paid by residents for municipal services and facility rentals. It also includes residents' payments of tobacco taxes, motor vehicle registration taxes, motor fuel taxes, marijuana sales taxes, and aircraft registration taxes. This category of revenues contributes about 15 percent of the total general government (101000 Fund) revenues, excluding ASD property taxes and alcoholic beverage retail sales taxes (Fund 206000).

Resident taxes, including motor vehicle registration tax, tobacco tax, marijuana sales tax, motor fuel tax and aircraft tax, are paid primarily by residents of the Municipality. These revenues are affected by changes in the tax rate and consumer choices. Motor vehicle registration 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, substitution to e-cigarettes, and the annual CPI adjustment to the cigarette tax rate.

There was an unusual $1.1M increase in tobacco taxes in 2015 because of a one-time restitution payment due to a court ruling against cigarette smugglers. There was an unusual one-time decrease in tobacco tax revenues in 2017 due to the unexpected closure of Sam's Club in December 2017. The increase in the motor vehicle registration tax rates in 2012 and the increase in the tobacco tax rate in late 2004 and 2011 led to substantial increases in these revenues beginning in those years. There were large increases in resident tax revenues in 2018 and 2019 as the legal retail marijuana market expanded and the motor fuel excise tax was implemented. The alcoholic beverage retail sales tax (fund 206000) is not included in these figures.

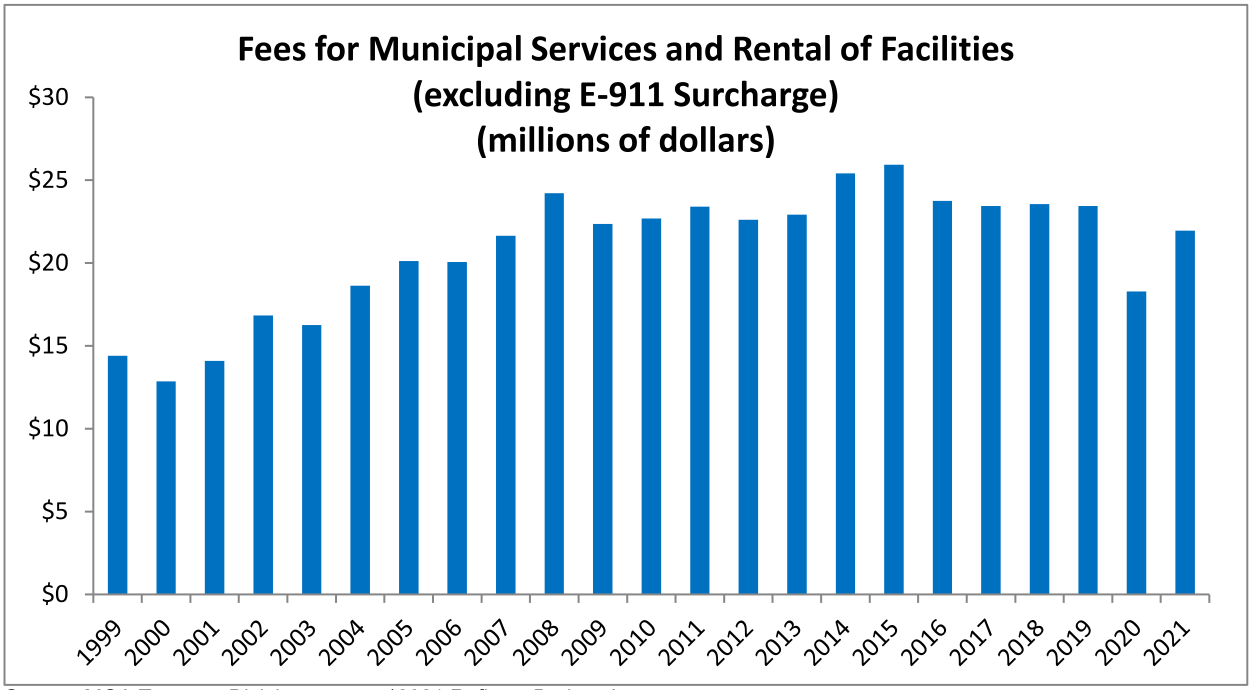


Source: MOA Treasury Division *2021 Reflects Budget Amounts

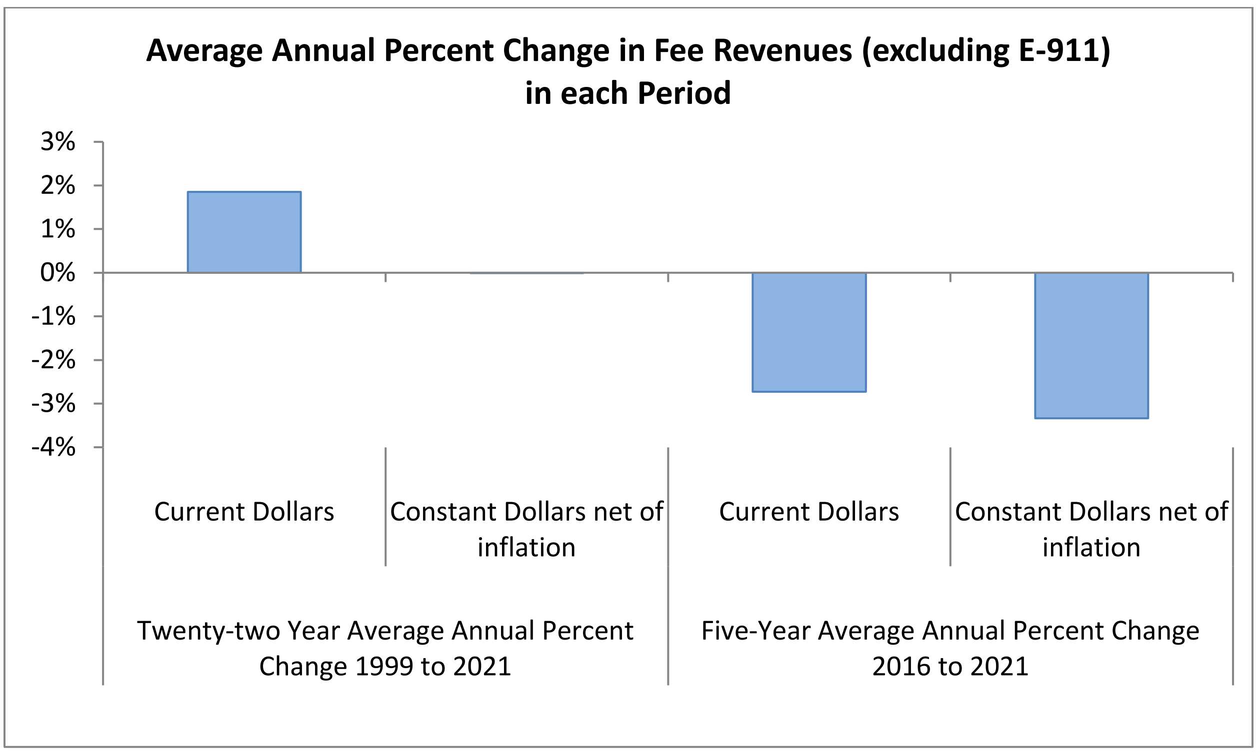


Source: MOA Treasury Division

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, the amount of these services and rentals that residents to use, and extraordinary events such as COVID-19. Since 2009, fee revenues have increased at a slower average annual rate than the long term trend.



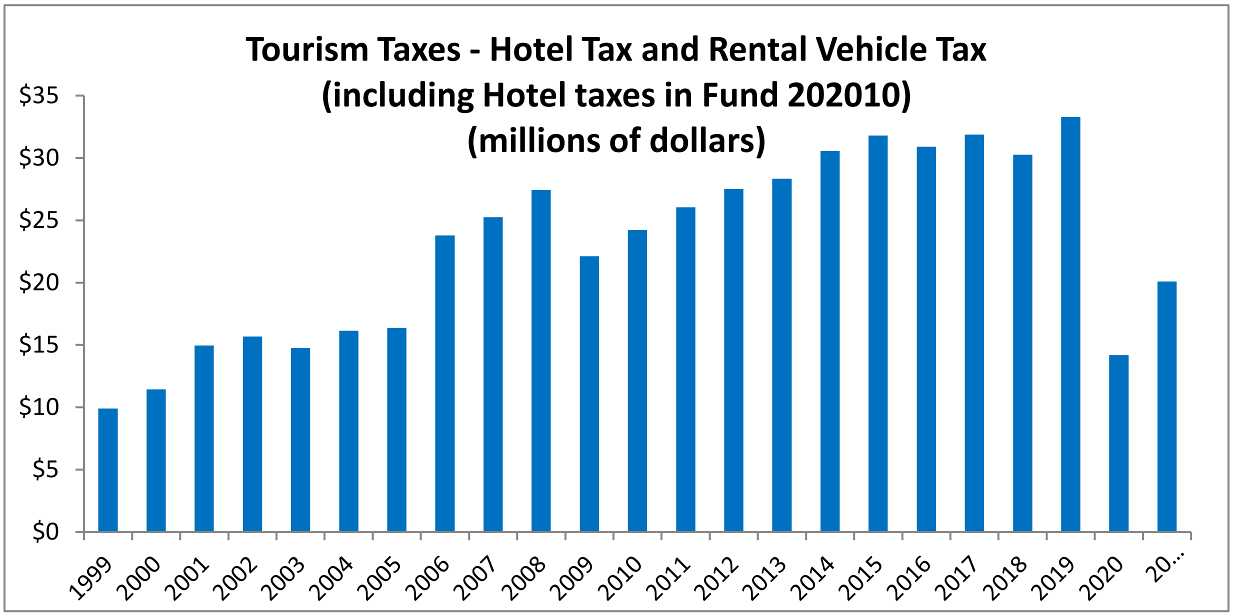
Source: MOA Treasury Division *2021 Reflects Budget Amounts



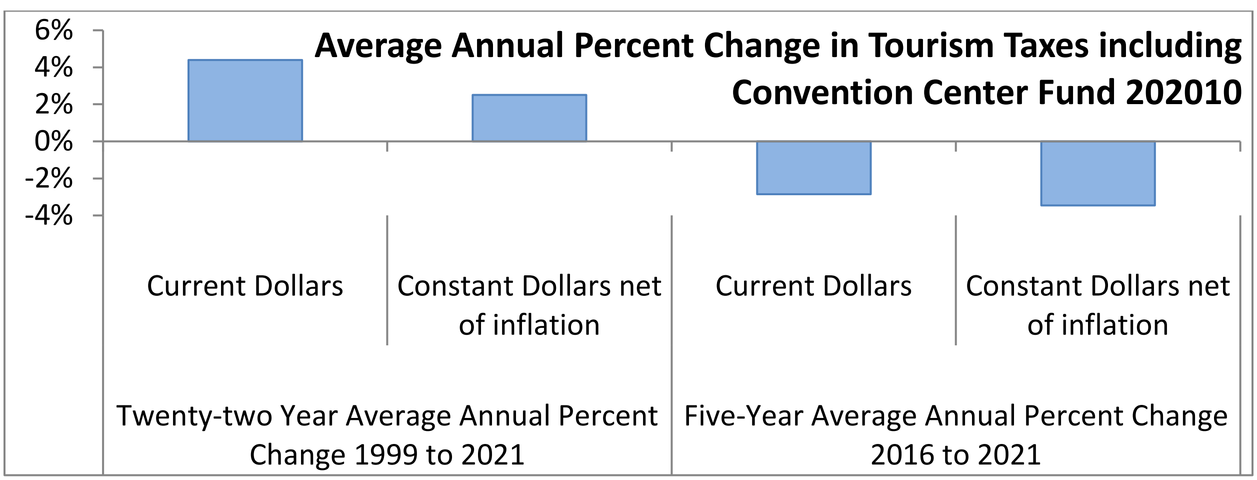
Source: MOA Treasury Division

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 affected by changes in tax rates or by changes in permit fees specified in municipal code. These revenues contribute about 5 percent of total general government (series 101000 Funds) revenues, excluding ASD property taxes.

Tourism-related revenues from the room tax and the rental vehicle tax are affected by the tax rate, the number of visitors coming to Anchorage, how long they stay, and the price they pay for a hotel room or rental vehicle. Tourism taxes increased substantially in 2006 due to a tax rate increase then decreased in 2009 due to the national recession. Tourism taxes have gradually recovered over the subsequent ten years due to increases in the prices charged for hotel rooms and continued growth in the number of visitors to Anchorage. Tourism taxes declined significantly in 2020 because of fewer visitors during COVID-19. Thus far, 2021 has shown notable improvement over 2020.

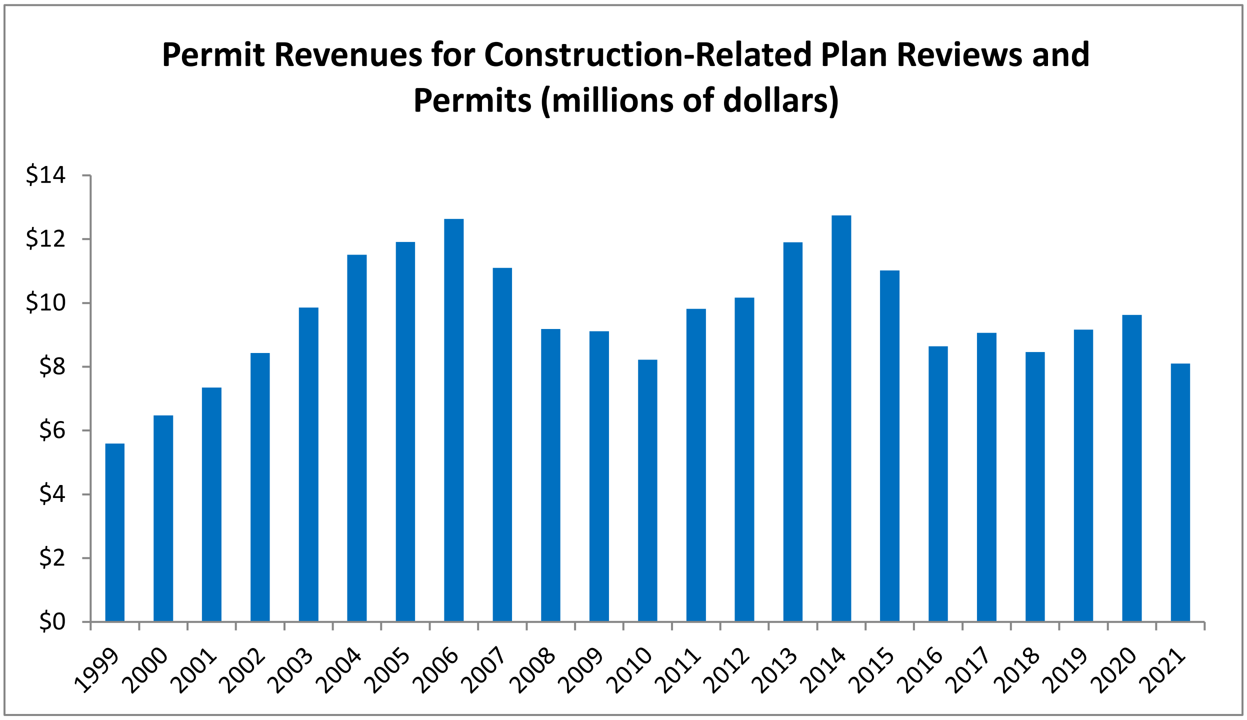


Source: MOA Treasury Division *2021 Reflects Budget Amounts

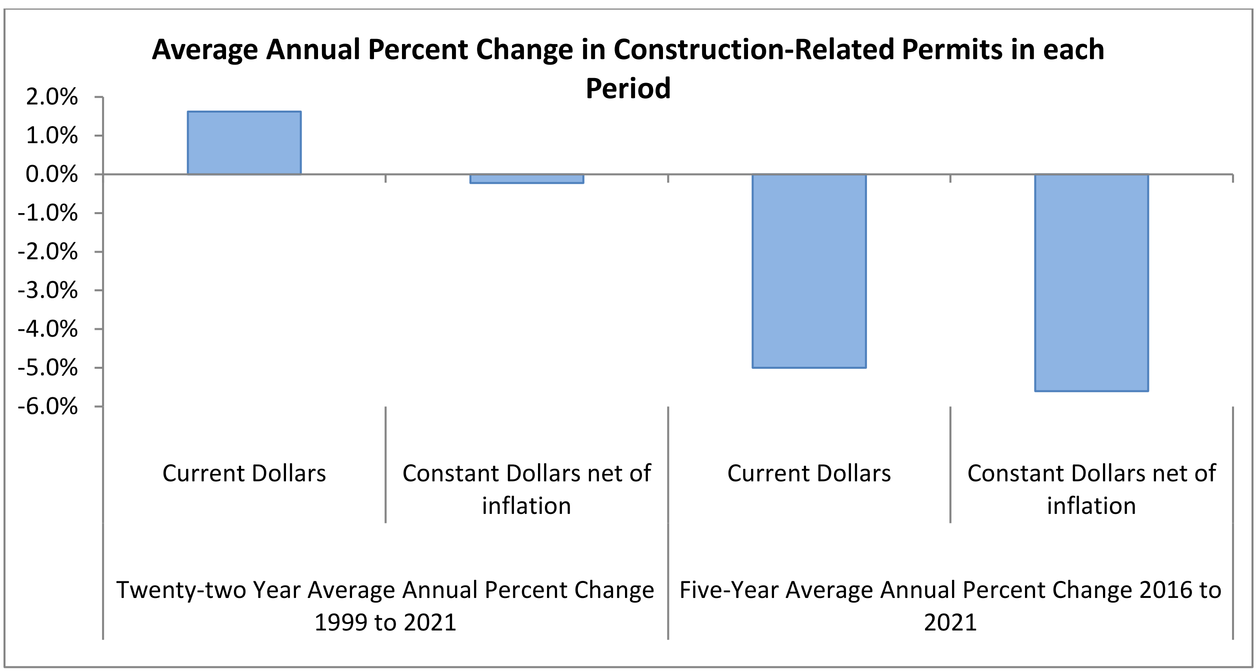


Source: MOA Treasury Division

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 type of construction (residential or commercial / new or renovation), 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. Building permit fee revenues declined in 2015 and 2016 but increased in 2017 and 2018. Revenues were slightly higher in 2020 but are expected to drop in 2021.

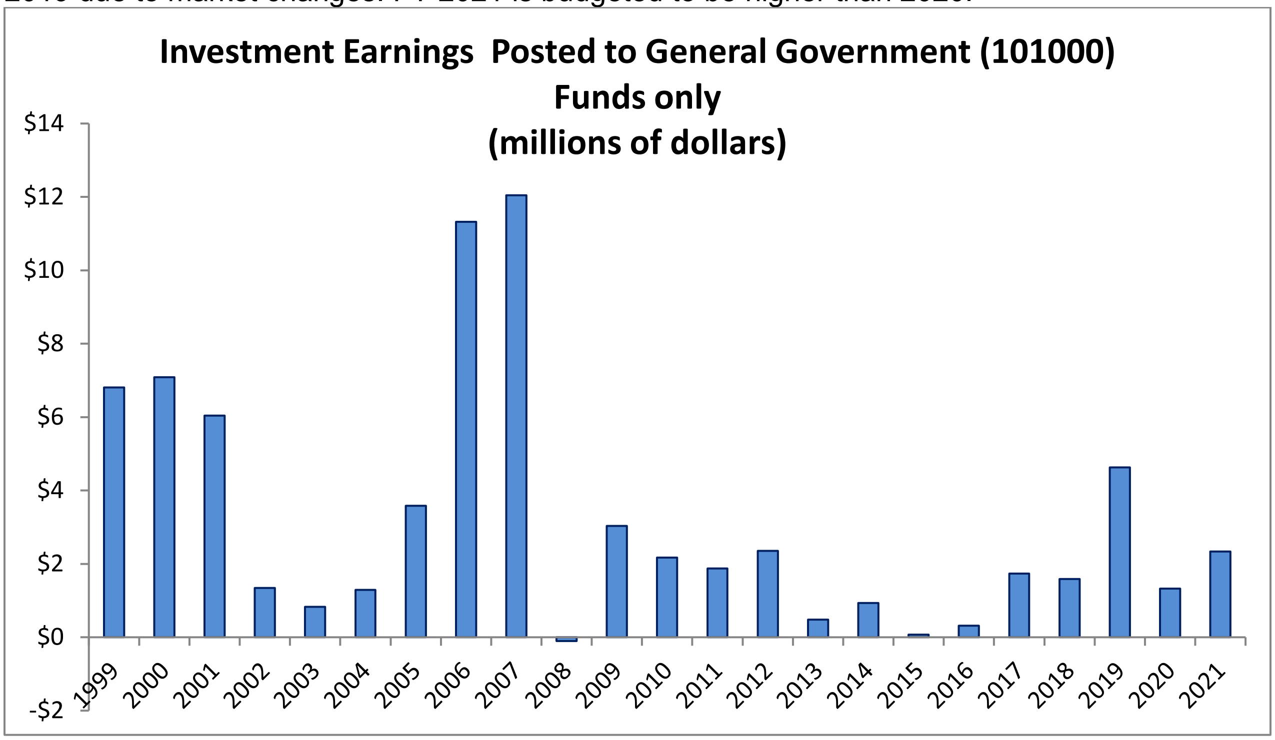


Source: MOA Treasury Division *2021 Reflects Budget Amounts

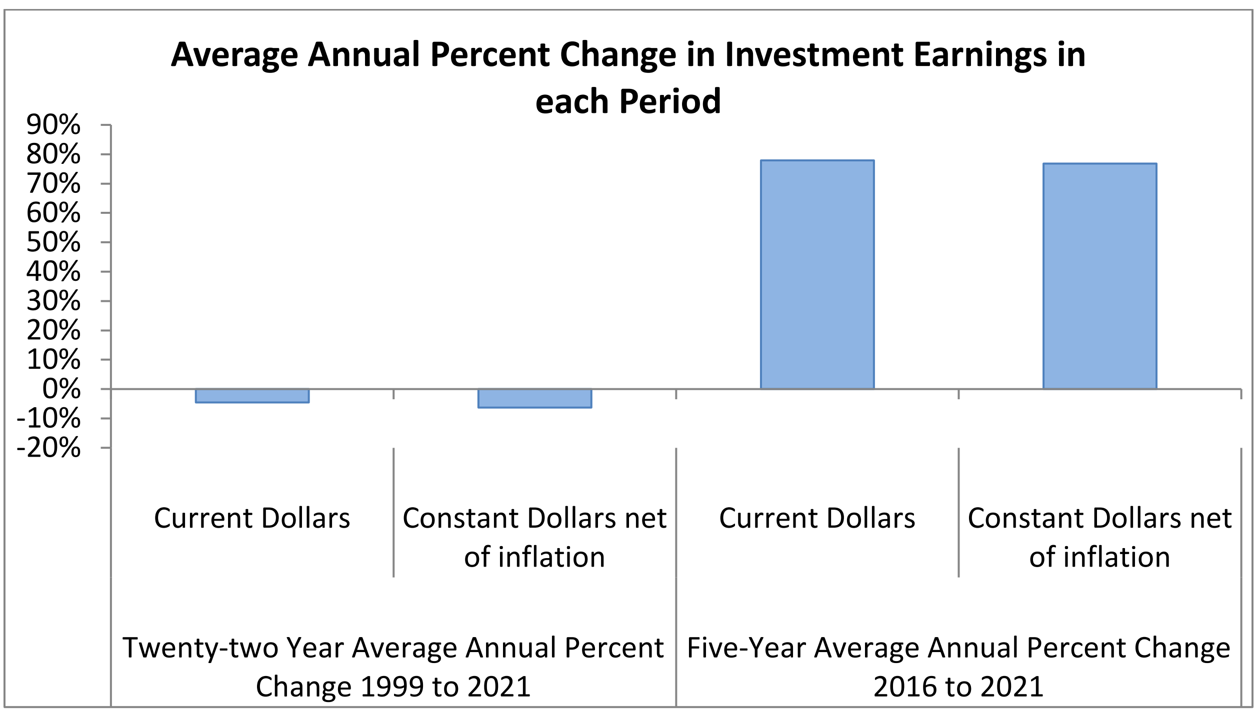


Source: MOA Treasury Division

Investment earnings from the Municipal Cash Pool, Tax Anticipation Notes (TANs), and Construction Pool Investments are affected by the level of Municipal holdings in each type of investment and the 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. FY 2020 investment earnings posted to the general government (101000) funds were lower than 2019 due to market changes. FY 2021 is budgeted to be higher than 2020.



Source: MOA Treasury Division *2021 Reflects Budget Amounts

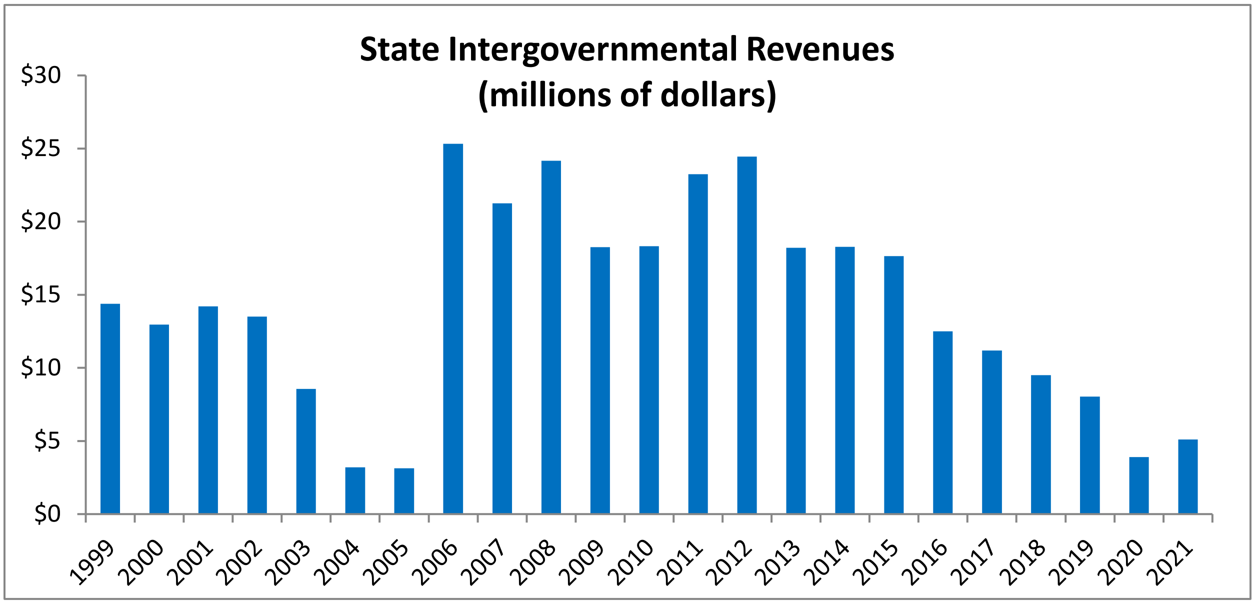


Source: MOA Treasury Division

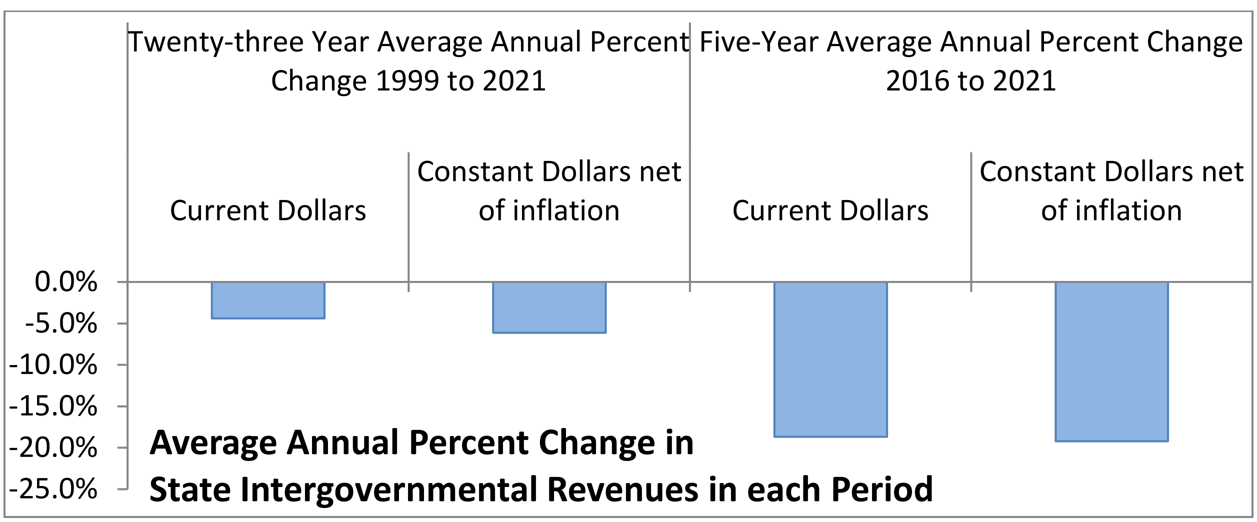
Revenues Determined by Actions of Other Governments
This category includes all State and Federal intergovernmental revenues and State and Federal Payments in Lieu of Taxes (PILT). These revenues contribute about 2 percent of total general government (101000) fund revenues.

State Intergovernmental Revenues: Most of the revenues in this category historically have come from the State of Alaska's Revenue Sharing Program (through 2016) and Community Assistance Program (2017 to the present). The Municipality also receives revenues from the State for the Fisheries Tax, Liquor Licenses, Traffic Signal Reimbursement, and Alaska Housing Finance Corporate PILT payment. Beginning in 2021, Chugach Electric began to pay private PILT to the Municipality per the municipal sales agreement terms with Municipal Light & Power.

Total State Intergovernmental revenues increased substantially in 2006 with higher Municipal Revenue Sharing. Since then, the total State revenues received by the Municipality have declined most years.



Source: MOA Treasury Division



Source: MOA Treasury Division

Expenditures

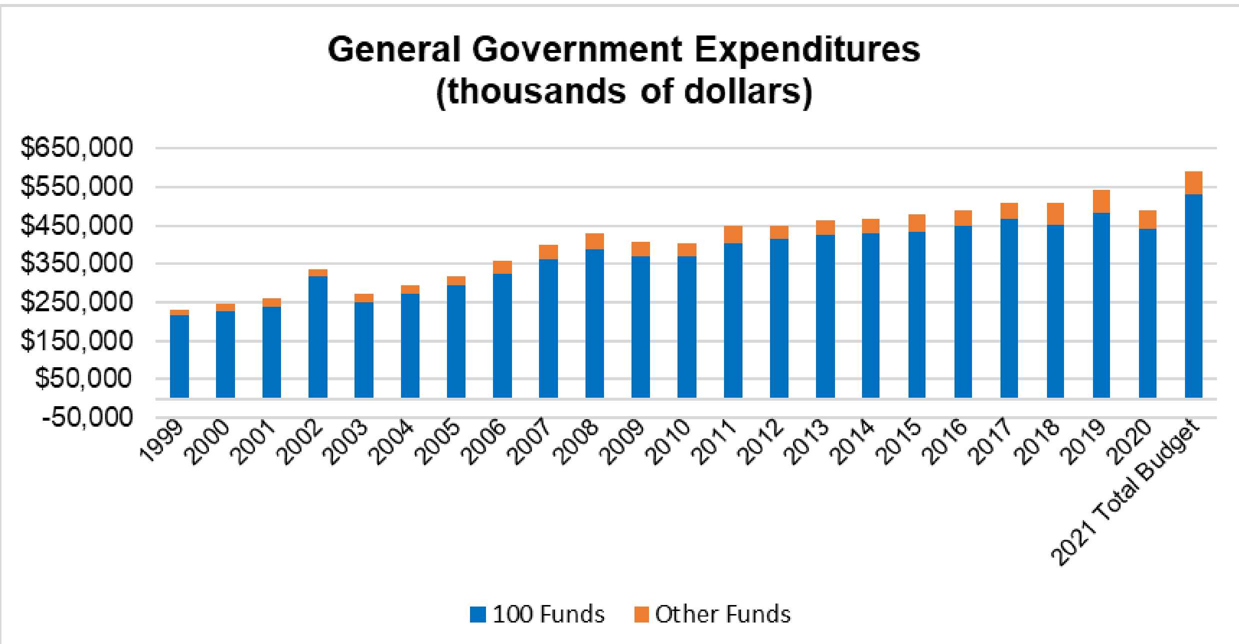
The graph below depicts the actual direct expenditure trends from 1999 to 2020 for Anchorage's general government. 2021 is projected, based on 2021 Revised Budget and supplemental budget changes through August 2021.

Recent increased investment in public safety, support to the SAP project, obligations and commitments, and labor contracts have caused increases to expenditures.

As the State of Alaska reduces funding for necessary services and agencies in our community, the Municipality has stepped in to help address and mitigate the effects of substance misuse, underfunded law enforcement agencies, and a debilitated public mental health care system.

In 2020, $91 million of Police and Fire first responder operating payroll costs were charged to the Coronavirus Aid, Relief, and Economic Security (CARES) Act grant and thus are not featured in General Government; partially offsetting that movement was an increase of $39 million of COVID-19 programs that were funded in General Government 100 Funds.

In 2021, the COVID-19 programs continued as supplemental budget changes of $30 million funded in General Government 100 Funds.



Source: MOA Office of Management & Budget

4. Fund Balance

The Municipality's current Fund Balance Policy is delineated in Assembly Resolution No. 2015-84 and is as follows.

- It is the policy of the Municipality to prepare and manage five major General Government fund budgets so as to maintain unrestricted general fund balance in an amount equal to 10% of current year expenditures as a Bond Rating Designation that will become committed fund balance.

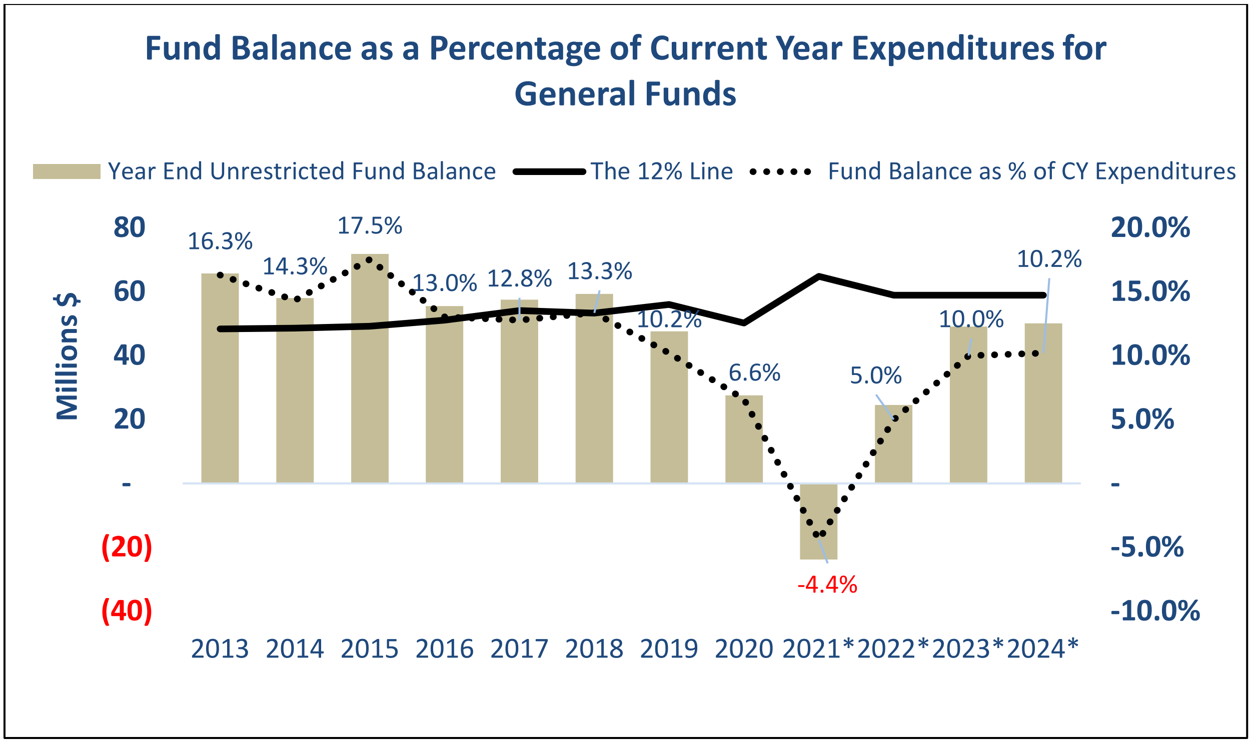
- It is the policy of the Municipality to prepare and manage its Non-major Governmental Operating Funds (Limited Service Areas and Rural Service Areas) budgets so as to maintain an unrestricted fund balance of 8.25% of current year expenditures as a Bond Rating Designation that will become committed fund balance.

- It is the policy of the Municipality to prepare and manage budgets so as to maintain unrestricted fund balances in its five major funds in an amount between 2.0% and 3.0% of current year expenditures as a Working Capital Reserve that will become part of unassigned fund balance.

- Expenditures are defined as total expenditures reported in the CAFR's Statement of Revenues, Expenditures, and Changes in Fund Balance General Fund and shall be reduced by contributions to education, 'On-behalf' payments made on-behalf of the Municipality by the State of Alaska directly to the Public Employees Retirement System (PERS), expenditures in the Police and Fire Retirement Administration Fund 213 and expenditures in the Municipality's Trust Fund 731.

- The Municipality manages its debt in accordance with Rating Agency criteria, which may change from time to time, and the Municipality has the capacity to adapt accordingly. In the event of extraordinary circumstances, including natural disasters and the recent worldwide pandemic.

The following chart demonstrates that the Municipality has been in excess of its Fund Balance Policy up to 2019. Subsequently, the Fund Balance Policy was suspended by the Assembly to allow the Municipality to use fund balance to address the 2018 Point Mackenzie Earthquake and fund its ongoing response to COVID-19 expenditures. We are aggressively seeking reimbursement for both of these events from the State of Alaska and the Federal Emergency Management Agency (FEMA).



Source: CAFR Required Supplementary Information and Note 15 Fund Balance, MOA Controller;
* Forecasted Revenues and Expenses are assumed at 2.0% Growth.

Municipality's General Obligation Bond Rating

The Municipality enjoys the benefits of being a very highly rated government entity by two national rating agencies. The Municipality is currently rated AA+ by Fitch Ratings (Fitch) with a Stable Outlook and AAA by Standard & Poor's (S&P) with a Stable Outlook. The rating agencies have a complex structured rating process for determining an issuers rating. Fitch uses Key Rating Drivers for their assessment methodology and S&P refers to their methodology as a Financial Management Assessment. These processes are comprised of numerous quantitative factors, including a variety of ratios, and qualitative factors that determine a credit score and subsequent rating. Generally speaking, no single factor or ratio determines an issuers rating.

Primary credit factors include:

- Economic strength of the local economy,
- Financial strength of the credit,
- Management and Governance and
- Debt profile.

In determining a rating, the agencies compare the Municipality with other issuers with similar characteristics. The importance of these peer comparisons and additional disclosure of their rating process has been a critical aspect for the rating agencies in the wake of the Great Recession of 2008 as the rating agencies faced increased scrutiny over the appropriateness and accuracy of their ratings.

Fitch Ratings

Fitch currently rates the Municipality AA+ with a Stable Outlook. In their August 3, 2020 rating review of the Municipality they commented on the Municipality's:

- Exceptional resilience to typical stresses,
- Solid expenditure flexibility, and
- Moderate long-term liability burden balanced against a somewhat constrained revenue raising flexibility.

They also commented about their revenue framework assessment. "Fitch expects revenue growth in line with inflation over time, but the municipality may experience some near-term weakness due to economic conditions. Anchorage's tax limitations generate revenue stability, but policymakers' independent legal ability to raise revenues is moderate relative to typical cyclical revenue declines."

On October 30, 2020, Fitch reaffirmed the rating for Municipality as AA+ with a Stable Outlook.

Standard & Poor's (S&P)

S&P currently rates the Municipality AAA with a Stable Outlook. In their most recent rating summary dated July 31, 2020, S&P's analyst noted the following regarding Anchorage:

- Very strong economy,
- Strong management with good financial policies and practices,
- Strong budgetary flexibility,
- Very strong liquidity,
- Adequate debt and contingent liability position, and
- Strong institutional framework score.

Fund Balance Policy Discussion and Update

The Mayor and senior staff understand that a strong Fund Balance Policy is critical with respect to the following concepts:

- Maintain Best Practice & Prudent Management Objectives,
- The Municipality's current policy is out of the criteria range for a AA+/AAA rated issuer,
- Rating Agencies periodically change their rating criteria and 15% continues to be the minimum level for a AAA rating,
- Rating Agencies are concerned that the State's fiscal challenges will affect the Municipality,
- The Municipality's rating may currently be higher than the State of Alaska's rating, however continued downgrades of the State's rating will impact our rating,
- Higher Fund Balances will help mitigate that risk and
- Higher credit ratings mean a lower cost of funds, and lower taxes for taxpayers.

5. Capital Projects

Capital Projects requests from federal, state, and local sources will focus on roads, parks, municipal facilities upgrades, public transportation, and public safety.

The Capital Improvement Program supports the maintenance and development of infrastructure that form the foundation for a strong economy and vibrant Anchorage. The proposed capital funding support that comes from local bonds as well as state and federal funds. In many cases, proposed bond funds leverage matching non-local dollars. Separate capital budgets exist for the Anchorage School District proposed improvements and the municipally-owned utilities.

As capital requests are reviewed, awareness of potential operating costs associated with projects is identified at an individual project detail level for the year(s) after the work is complete. For 2022 – 2027 Capital Improvement Program Operations & Maintenance, the identified costs are increases to the operating budget due to addition of facilities expansion (utilities, etc) and road improvements (street maintenance). Yearly costs by departments are projected as follows:

2022 - 2027 Capital Improvement Program Operations & Maintenance Estimate

(In Thousands)

Department	2022	2023	2024	2025	2026	2027	Total
Information Technology	188	405	397	391	384	310	2,075
Parks & Recreation	112	743	699	731	197	-	2,482
Public Works	73	149	136	155	220	130	863
Total	**373**	**1,297**	**1,232**	**1,277**	**801**	**440**	**5,420**

Source: 2022 Proposed General Government Capital Improvement Program

6. 6-Year Projection Model

Six Year Fiscal Program
General Government Operating Budget
Projections of Funding Sources and Uses ($ thousands)
2022 to 2027

	Total Budget	Proposed Budget	Projections									
Financing Sources	**2021**	**2022**	**2023**		**2024**		**2025**		**2026**		**2027**	
Federal Revenues	269	245	245	0%	245	0%	245	0%	245	0%	245	0%
State Revenues	4,887	5,287	5,358	1%	5,431	1%	5,504	1%	5,580	1%	5,657	1%
Local Revenues	202,044	191,991	192,878	0%	198,261	3%	201,693	2%	205,390	2%	209,084	2%
Property Taxes	264,682	263,986	266,118	1%	270,411	2%	280,394	4%	290,720	4%	301,789	4%
Property Taxes - GO Bond Debt	54,546	53,594	50,557	-6%	48,920	-3%	43,891	-10%	45,027	3%	40,507	-10%
New Revenues			-	0%	-	0%	-	0%	-	0%	-	0%
Fund Balance Applied	48,361	6,968	6,968	0%	7,072	1%	7,179	1%	7,286	1%	7,396	1%
IGCs Outside General Gvt.	28,305	27,944	28,431	2%	28,856	1%	29,288	1%	29,726	1%	30,171	1%
Total Financing Sources	**603,094**	**550,015**	**550,554**		**559,196**		**568,194**		**583,974**		**594,849**	
Change from prior year	**13.9%**	**-8.8%**	**0.1%**		**1.6%**		**1.6%**		**2.8%**		**1.9%**	
Financing Uses												
Salaries and Benefits	310,422	308,384	312,768	1.4%	319,086	2.0%	322,548	1.1%	327,117	1.4%	331,804	1.4%
Debt Service	58,816	57,129	51,137	-10.5%	49,257	-3.7%	44,068	-10.5%	45,135	2.4%	40,568	-10.1%
Depr/Amort	10,288	10,288	10,414	1.2%	10,414	0.0%	10,414	0.0%	10,414	0.0%	10,414	0.0%
Other	223,567	174,214	179,884	3.3%	185,425	3.1%	190,870	2.9%	196,613	3.0%	202,659	3.1%
Total Financing Uses	**603,094**	**550,015**	**554,203**		**564,183**		**567,901**		**579,279**		**585,445**	
Change from prior year	**22.7%**	**-8.8%**	**0.8%**		**1.8%**		**0.7%**		**2.0%**		**1.1%**	
Revenues Over/(Under) Expenditu	**-**	**-**	**(3,649)**		**(4,987)**		**293**		**4,694**		**9,403**	

2021 Total Budget

- Includes 2021 Revised Budget and supplemental appropriations through August 2021

Projections - Overall Assumptions 2022-2027

- This projection is for General Government Operating only and does not include assumptions related to Anchorage School District (ASD) taxing needs nor does it include any assumptions for grants (i.e. COVID stimulus, etc.)
- 2022 Proposed is the base for 2023 through 2027 projections
- Population - per Anchorage Economic & Community Development (AEDC) 3-year Outlook - 2021: 288.5K; 2022: 287.3K; 2023: 285.4K and then flat thereafter
- CPI - 2.9% in 2021, 3% in 2022 and thereafter

Financing Sources

- Federal / State Revs - Assumes no stimulus grant impacts
- State Revs - Revenue sharing stable at $1.7 million (amount budgeted in 2021) in 2022 and thereafter
- Local Revs - Ambulance Supplemental Emergency Medical Transportation (SEMT) Medicaid reimbursement program $2.4 million in 2023 and thereafter
- Property Taxes - Tax $150K under the Cap all years, uses projected Population and CPI as growth and includes GO Bond Debt project
- Property Taxes - Assumes no new Operations & Maintenance (O&M) in 2023 and thereafter
- Property Taxes - Assumes no exemption recovery in 2023 and thereafter
- Taxes - MESA/MUSA/Dividends from Enterprise/Utilities are from respective 8-Year summaries provided in 2022 Proposed documents
- Fund Balance - Assumes no fund balance use for 100 Funds and does not include any adjustment for funding emergency ordinances that are not reimbursed by FEMA
- Most other revenues increase 2% in 2023 and thereafter

Financing Uses

- Salaries and Benefits - Work hours: 2023: 2080; 2024: 2096; 2025: 2088; 2026: 2088; 2027: 2088
- Salaries and Benefits - Current contract changes then last approved rate change thereafter, except Assembly: full year costing at 2022 rates in 2023 then flat thereafter; EXE and Non-Rep 1% in 2023 and thereafter; IAFF: flat (contract lapsed 06/30/2021 and new contract is currently being negotiated; Mayor: flat.
- Salaries and Benefits - Medical at 4% increase per year
- Salaries and Benefits - Assumes non-calculated (Vacancy Factor, Overtime, etc.) flat from 2022
- Debt Service - per schedule from Public Finance - assumes no new General Obligation Bond debt
- Other (includes leases, contracts, utilities, etc.) - Increasing by CPI

Source: MOA Office of Management & Budget