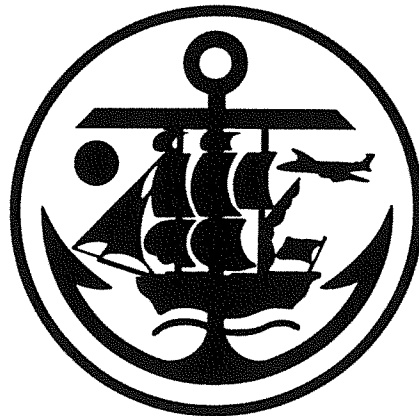


**SIX YEAR FISCAL PROGRAM
2003 - 2008**



Municipality of Anchorage

**George Wuerch
Mayor**

2003 - 2008
SIX YEAR FISCAL PROGRAM
MUNICIPALITY OF ANCHORAGE

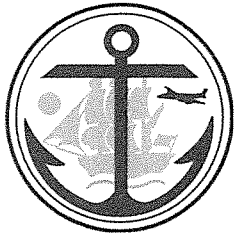
George Wuerch, Mayor

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Municipality of Anchorage

Office of the Mayor

George P. Wuerch, Mayor



September 28, 2002

Dear Residents of Anchorage:

I am pleased to present the Six Year Fiscal Program for years 2003-2008. This report represents a look at what might be in store for Anchorage during the next six years. In order to focus on the future, the report also reviews past and present issues and events, the Administration's goals and objectives, and other significant factors that may influence the future of our city.

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

But the future is not without its challenges. In order to meet the demands of our citizens and help attract new businesses and visitors, we need to maintain and improve our basic infrastructure as well as the services we are expected to provide.

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

I am very optimistic about Anchorage's future. I believe the initiatives described within the Six Year Fiscal Program will lead us toward furthering Anchorage's image as one of the most desirable cities in America in which to live and worthy of our designation as an All-America City.

Sincerely,

George P. Wuerch
Mayor

PREFACE

In accordance with the Charter, the Mayor is required to submit to the Assembly a “six-year program for public services, fiscal policies and capital improvements of the Municipality. The program shall include estimates of the effect of capital improvement projects on maintenance and personnel costs.”

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

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

If the reader desires more demographic and financial information about Anchorage, there are a number of alternative sources available at Municipal libraries and on the Municipal website at www.muni.org.

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

2003 - 2008
SIX YEAR FISCAL PROGRAM
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1. EXECUTIVE SUMMARY

The 2003-2008 Fiscal Program provides a six year profile of key factors affecting the Municipality. It discusses key initiatives of the Administration, economic trends and outlook, public services and capital project funding, long-term fiscal projections and fiscal policy options. The Six-Year Fiscal Program is designed to generate public discussion so we can plan for changing fiscal conditions and maintain a stable fiscal environment.

This document presents options to be considered by the Assembly and the public how best we can meet future fiscal requirements while continuing to expand our local economy. Options to meet future fiscal requirements include economic development opportunities and aligning spending with expected revenues.

The Administration has set out its priorities in the following categories: Public Safety, Economic Growth, Quality of Life, Individual and Family Development and Spirit of Community. These priorities unify department efforts and help determine how public funds are spent. Each priority has specific measures of success that are part of the “Investing for Results” program.

“Investing for Results” helps to improve efficiency and effectiveness. By making better use of technology, re-engineering processes, and restructuring departments and responsibilities, the Municipality continues to work towards delivering the right services at the right price.

The outlook for 2003 is one of modest but stable growth. There will be modest growth in employment, especially in the services industry. Construction activity will also continue to be strong, and travel and tourism should remain steady.

There are, however, some areas of concern. Decline in oil production, global economic stability, and the State’s fiscal uncertainty are among those issues that could have a negative impact on the economic future of Anchorage.

Fiscal Projections — The six year fiscal projections for the Municipality of Anchorage are contained in Chapter 5. The projected fiscal surplus/shortfall shown on Page 5-2 reflects the following three broad assumptions: (1) very modest growth in revenues,

(2) modest growth in expenditures, and (3) priority public services maintained at year 2002 base level through the six year projection period. A number of additional fiscal impacts which could lead to more significant budgetary shortfalls are also analyzed in this chapter of the Six Year Fiscal Program.

It is important to keep in mind that circumstances may arise which can change the assumptions and thus the projected fiscal outlook.

2. BACKGROUND

This section of the Fiscal Program provides a summary of major issues that influence the Municipality's current fiscal condition or are areas associated with local government's mission. Areas covered in this subsection include the following:

- Investing for Results
- Public Safety
- Economic Growth
- Spirit of Community
- Quality of Life
- Individual and Family Development
- Municipal Budgets and Budget Trends

Investing for Results

Investing for Results is the Municipality's report card. It's a program that provides citizens with information on Anchorage's citywide priorities and measures of success. It helps answer the question of whether government spending has produced results or provided citizens with the value they expect. In the budget, departmental services and success measures are listed by program. This is the Municipality's report of the "return on investment" for citizen dollars - the Municipality's "bottom line."

The first year (2002) of performance measures is just the beginning in creating the baseline for Municipal services. As the program progresses, it will help determine whether the Municipality is doing the right things at the right price.

Public Safety

Making sure Anchorage is a safe place to live, work and visit is a tremendous responsibility for the men and women whose job it is to provide for the public's safety.

For the Police and Fire Departments, the Health and Human Services Department, Transportation Inspection, Office of Emergency Management and the staff involved in the city's AWARE program, safety is paramount 24 hours a day, seven days a week.

The mission of the police is to protect life and property, enforce laws and promote public safety. For patrol officers this includes responding to emergencies and calls for police service, investigating traffic accidents and enforcing traffic laws. For detectives it requires investigating crimes, arresting criminals and bringing cases to closure.

Police are also called on occasionally to protect special visitors to our city, as they were when President George W. Bush visited Anchorage earlier this year en route to the Far East.

The Municipality's Office of Emergency Management ensures the city is prepared for all potential emergencies and disasters.

Economic Growth and Opportunities

There are also a number of positive steps available by which government can encourage private sector investment and the creation of new jobs and opportunities to increase individual wealth and prosperity for all residents.

The steps being taken by the Municipality of Anchorage include improving the quality of life in our city, the safety of neighborhoods, supporting our public education and university systems, maintaining a stable fiscal environment, seeking improvements for our utility and transportation infrastructure, and fostering a general attitude within government that makes customer service the top priority.

As the state's major commercial, transportation, finance and government center, Anchorage has experienced robust growth in most employment sectors, particularly commercial building construction and major public works projects.

Anchorage is a gateway to the world—just nine hours from 95 percent of the world's industrialized nations. The tonnage of air cargo moved through the airport made Anchorage the fourth busiest in the world last year, behind Memphis, Los Angeles and Hong Kong.

Thanks to strong support from the Alaska Congressional Delegation and from the Anchorage Caucus in the Legislature, federal and state funding is anticipated for the needed expansion at the Port of Anchorage. With more than 80 percent of the state's population served by the port, plus the potential for new military and tour ship business, expansion is vital. Federal and state dollars are also funding the construction of two major roads in Anchorage, which will be the first new roads in almost 20 years.

One exception to the positive economic indicators is the employment reductions occurring in oil production and services. No development of new fields is expected in the next two years, and the two largest producers are cutting back on their overall capital expenditures in Alaska. It is also reported that because of the Phillips/Conoco merger, Anchorage may lose as many as 60 jobs.

Virtually every department in municipal government in one way or another contributes to the economic vitality of the city. One office that has a major influence is the Office of Planning, Development and Public Works. Six departments are under the umbrella of this office: Planning, Project Management & Engineering, Development Services, Street Maintenance, Traffic, and Facilities & Fleet Management.

Their mission statement: "To provide good planning for livable neighborhoods, a safe and healthy community, and a sustainable economy; to build and maintain city streets; and to help citizens get their construction projects completed safely and according to code."

The Real Estate Division of the Heritage Land Bank also has a pro-development mission statement, which is "the promotion of economic growth through sound real estate practices on behalf of the public and all levels of government through reclaiming lost tax revenue, responsible property and lease management, and conducting sales of tax-foreclosed properties to repay the municipality's tax base."

The Anchorage Economic Development Corporation, working in partnership with the Anchorage Chamber of Commerce and the Mayor's Office, funded "Vision Anchorage," a strategic planning project to identify strengths, weaknesses and opportunities for diversifying economic development in the Anchorage area. The broad-based plan includes an evaluation of Anchorage's economic base and developing tools and strategies that will help existing businesses strengthen and expand their presence, as well as ways that the region might attract new, complementary enterprises.

Construction and Infrastructure Development

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

Below is a partial listing of major construction activity that has occurred or is in process over the past two years.

Private Sector Development

- New major retail establishments (2 Fred Meyer stores, Lowes Hardware, Safeway, Best Buy)
- Over 400,000 square feet of new office space
- 300 new hotel rooms (Aspen Hotel, Hilton Garden Inn, Dimond Center Hotel)
- Alaska Regional and Providence Hospital expansions
- Southcentral Foundation expansion
- New eating and entertainment establishments (Wayne's Barbeque, Chili's, Boston Pizza, IHOP)
- Expanded cargo facilities at Ted Stevens Anchorage International Airport
- New recreational facilities (Alaska Club expansion, H2Oasis water park currently under construction)
- Strong residential home construction
- Revived Multi-family residential construction activity

Public Sector Development.

- New Anchorage jail replacement
- New fire stations for Tudor/Baxter and Southport areas, Downtown fire station replacement
- Accelerated road construction and rehabilitation
- UAA Expansion
- Anchorage International Airport expansion
- Anchorage Loop Water Transmission Main Project
- New schools (elementary and middle schools, Dimond High replacement)

Quality of Life

There are a multitude of factors that people use when determining their quality of life. The list can include just about everything from personal income to air quality, traffic congestion, recreational opportunities, surrounding scenery, cost of living and weather conditions.

Anchorage is the second most frequently requested duty station for the military. Reader's Digest named Anchorage one of the best cities in America to raise a family. Last year, in an analysis of the nation's largest 65 cities, the *Cleveland Plain Dealer* determined Anchorage ranks eighth best after factoring in local taxes, average time to drive to work, median income, level of education, percentage of residents below the poverty line and how much of an average citizen's monthly income goes for house payments or rent.

Municipal government influences many of the factors that determine the quality of life for residents and visitors. One of the primary missions of the Municipality of Anchorage is to provide a livable, sustainable northern community that exists in harmony with its environment and where citizens of all ages enjoy an outstanding quality of life.

The role of our Planning Department is to help guide the development of the community. The Planning Department is responsible for the Municipality's 2020 Comprehensive Plan, now available on CD. The plan, developed with assistance from hundreds of volunteers, envisions multiple town centers and open spaces that will contribute to Anchorage's quality of life as the city grows.

The Department of Cultural and Recreational Services is responsible for providing recreational and educational opportunities that benefit all residents.

- Municipal libraries serve the informational and recreational reading needs of the public.
- The Anchorage Museum of History and Art provides cultural and educational opportunities and helps preserve the cultural heritage of Alaska.
- Ice arenas and other facilities operated by the Municipality host sporting events and convention crowds all year long.

From ball fields and trails in the summer to ski trails and skating rinks in the winter, this department provides outdoor recreational opportunities that contribute to a better quality of life for people of all ages. Likewise, the department's beautification efforts throughout the Municipality, which emphasize flowers in the summer and bright lights in the winter, help to brighten hearts and spirits.

Usually overlooked when factors are considered for quality of life assessments are local utilities. The dependability, low cost and quality of essential utility services has had a significant impact for Anchorage. Municipal water, electric and solid waste services have a long record of providing reliable services at low costs. Unfortunately, the city experienced its first potential water shortage this spring, when residents of South Anchorage were asked to conserve water due to low levels in the reservoirs and an inadequate water delivery system. The solution for this problem, to construct a larger diameter pipeline, is awaiting federal permits.

The Public Transportation Department, or People Mover, is responsible for meeting the public transportation needs of all Anchorage residents and visitors, including persons with disabilities via its paratransit system. A new route restructure that is being implemented in 2002 and 2003 will increase the number of riders by providing more frequent service and longer evening and weekend hours on key routes.

The Street Maintenance Department provides year-round maintenance and improvement of Municipal streets, parks, trails, drainage systems and streetlights. The department is responsible for removing snow from city maintained streets, park facilities, sidewalks and trails.

The Traffic Department's job is to create, enhance and maintain safe, reliable multi-modal transportation that meets the community's needs. This includes long-range plans for Anchorage's road systems, promotion of safe neighborhood traffic and maximum public safety on city streets.

Spirit of Community

When neighbors look after neighbors, and people from all walks of life voluntarily pitch in to help someone else in need, they demonstrate a "sense of community." Government can't pass laws or write regulations to require a sense of community. But government can set the tone through good example, by helping residents better understand the needs within the community and by providing opportunities for people to be involved.

Anchorage was selected in this year's All-America City competition primarily because of our demonstrated sense of community. Our approach to solving problems through citizen participation, our celebration of many cultures, the respect and dignity that residents afford one another, and the community's involvement in numerous efforts to improve the lives of others were among the factors taken into account by the All-America City judges.

Anchorage demonstrated its sense of community in 2001 when we hosted the Special Olympics World Winter Games Alaska. It was the second largest sporting event in the world with 2,750 athletes competing from 74 countries.

To make it a success, event organizers put out the call for 5,000 volunteers from within Anchorage. More than 8,000 residents stepped forward to help. By the time the games were completed, Anchorage was credited for having conducted the best games ever—the result, in large part, of the spirit of community.

Last year, after a racial incident involving paint balls, more than 100 citizens turned out to participate in a public process that identified a number of ways for the city to address problems of racism and to promote the celebration of cultural differences. Many of their recommendations are being implemented today.

Following the September 11 terrorist attacks, more than 1,100 citizens enrolled in the AWARE Academy which taught basic emergency preparedness. The training was all voluntary. Executives from the Municipal Manager's Office, the Emergency Operations Center, the Fire Department and other departments pitched in to design the AWARE course and share teaching responsibilities. The Mayor and Municipal Manager were among the volunteers who taught parts of the course. The AWARE program is now being expanded to schools.

According to the United Way Campaign, which raised more than \$9 million in this city last year, Anchorage has the highest per capita giving of any city its size. The spring clean-up effort again this year saw thousands of volunteers alongside our highways picking up the trash that accumulated over winter. Health and Human Services programs, our municipal libraries, the city's beautification program—all depend greatly on hundreds of volunteers.

All these are valid measures for assessing Anchorage's spirit and sense of community.

Individual & Family Development

Taxpayers in Anchorage, through the municipal government, help pay for a quality public education system, affordable housing, and programs that promote physical and mental health to enable citizens to fully participate in the economy and the community.

The Anchorage School District, which is the 82nd largest in the nation, serves just under 50,000 students in 88 public schools from Eagle River to Girdwood. These include

elementary, middle, and high schools, a vocational school, specialized programs and charter schools.

The school district's mission is: "To educate students for success in life." Anchorage students this past year scored above average on standardized tests in all the basic skill areas. Among the many indicators that quality education is provided is that this year's class of graduating seniors has been offered \$18 million in scholarships and awards from local and national universities, companies and organizations.

Next to the Anchorage School District, the Municipality of Anchorage's Department of Health and Human Services (DHHS) has the largest role in providing services that assist individual and family development.

The mission of DHHS is "to be a leader and a partner promoting health and well being in the Anchorage community." Its core responsibilities include maintaining the public health infrastructure, issuing licenses and enforcing health codes and regulations, providing clinical public health services, providing preventive health education services and promotions, and responding to community emergencies.

Among the programs administered by DHHS is the SAFE City Program. It develops and maintains community prevention and intervention systems that provide collaborative and multi-disciplinary strategies, education, and planning in the areas of sexual assault, domestic violence, child abuse and neglect, substance abuse in high risk populations, homelessness, and emergency alcohol services for the public inebriate.

The Community Development Division of the Planning Department provides financial counseling to low income, first-time home buyers to sustain home ownership and makes federally-funded grants available to nonprofit and public service agencies that assist citizens in becoming self-sufficient.

The University of Alaska Anchorage, a state-operated university, with an enrollment of about 15,000 full- and part-time students, along with Alaska Pacific University, Charter College and Wayland Baptist University, all private, offer residents opportunities for advanced degrees and continuing education.

Another contributor to the growth of individuals in the community includes the Municipality's library system, the mission for which includes the promotion of a literate and well-educated population.

Budgets and Budget Trends

General Government Operating Budget. The 2002 revised operating budget was approved at \$273,759,000, an increase of 2.5% over the 2001 revised budget. This overall increase is less than the inflation rate of 2.9% for 2001. Through better use of technology, re-engineering processes, and restructuring departments and responsibilities, the Municipality continues to deliver the right services at the right price.

Municipal Utilities' Operating and Capital Budgets. All Municipal utilities (Municipal Light and Power, Anchorage Water Utility, Anchorage Wastewater Utility, Refuse Collections, Solid Waste Disposal, Merrill Field, and the Port of Anchorage) continue to be fiscally stable and prudently managed. This stability, coupled with their modern utility plants, helps make Anchorage a desirable area for new businesses to locate. These utilities continue to exhibit strong financial conditions.

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

Taxpayer support of bond initiatives has been very strong over the last several years. Most recently, in the April 2002 election, voters approved four bond proposals for a total authorization of \$46 million. They also approved two bond proposals totaling \$99 million for school construction and renovation.

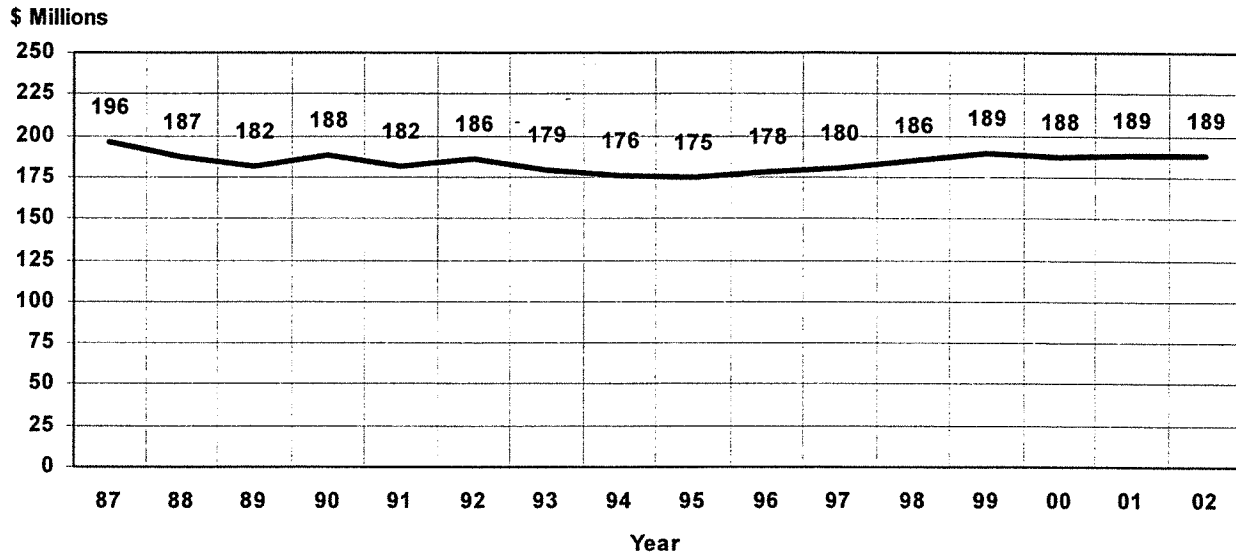
Emphasis will continue to be placed on rehabilitating and maintaining our Municipal infrastructure through an aggressive program to obtain State grant funding, use of bond proceeds, and other local funds.

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

Budget Trends

Adjusting for inflationary rates, the General Government Operating Budget has decreased by 4% since 1987 as shown in the following graph:

**General Government Operating Budgets
1987 - 2002 *
(in real dollars) ****

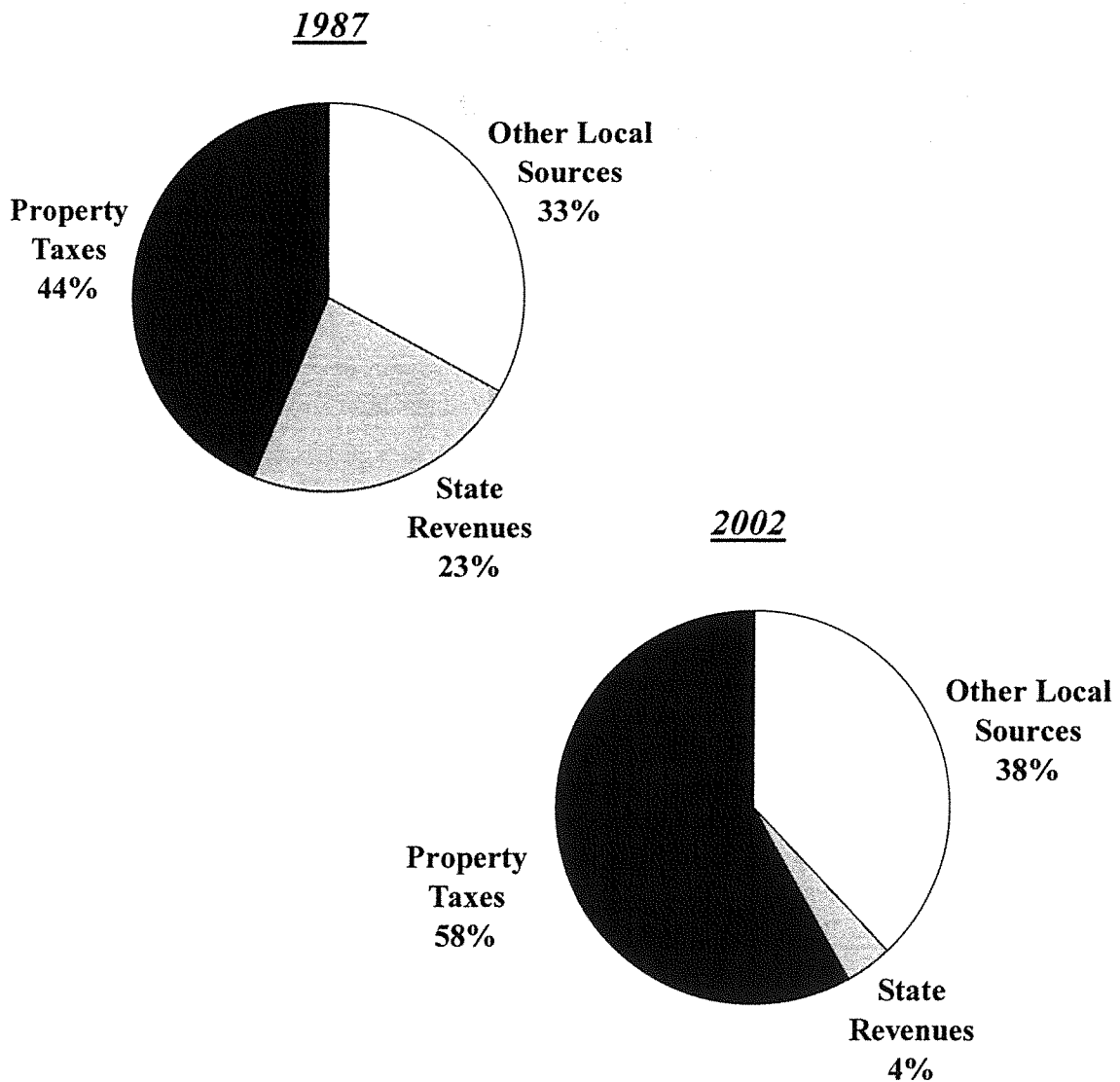


* 1987-2002 Revised Budgets

** 1987 used as base.

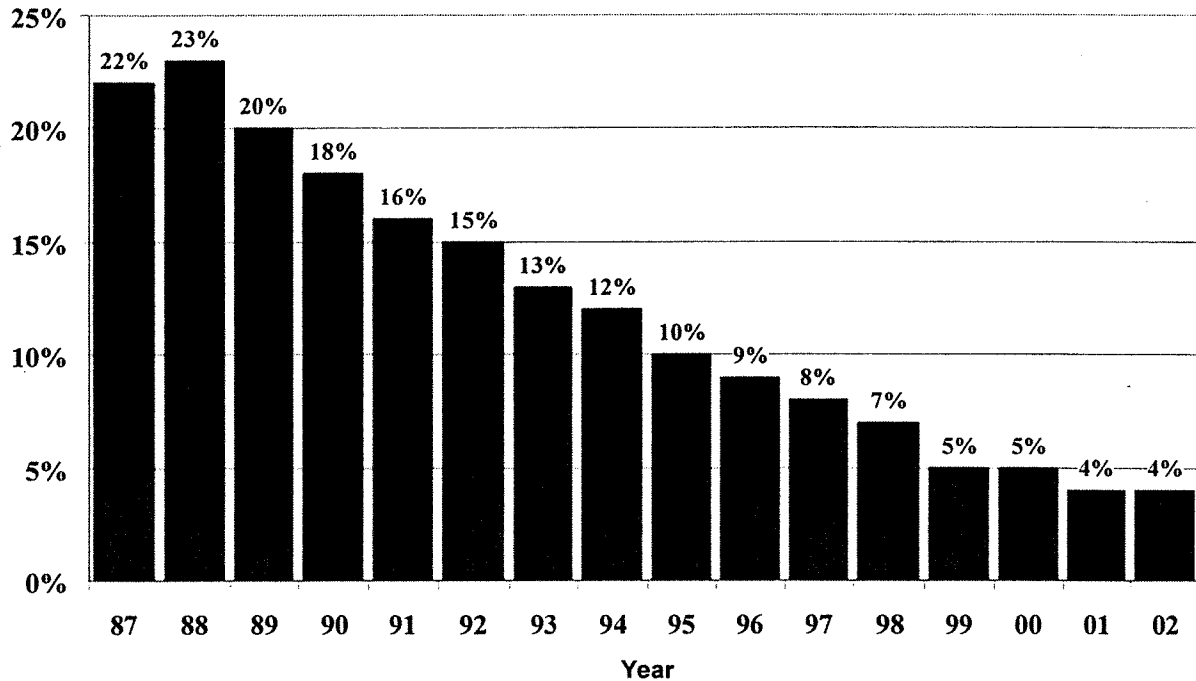
Adjustments have been made to the General Government Operating Budget over the last decade to absorb inflation and accommodate for reductions in State and federal revenue sharing. State and federal mandates such as ADA requirements, have contributed to increases in capital budget expenditures in order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

**General Government Operating Budget
Revenue Sources
1987 - 2002 ***



* 1987 and 2002 Revised Budgets

**State Operating Revenues as a Percentage of
General Government Operating Budget
1987 - 2002 ***



* 1987 - 2002 Actual Revenues received.
1987 - 2002 Revised Budgets.

There has been a dramatic decline since 1987 in the amount of state revenue support for local government services. As a result, the percentage of local property taxes required to fund the general government budget has increased proportionately.

- Since 1987, annual Safe Communities Funding/State Revenue Sharing to the Municipality has decreased \$32 million.

The 2001 State legislature made a modest increase to Safe Communities and Revenue Sharing funding and the 2002 legislature maintained that same level. This represents a trend we hope will continue. Increases in these programs directly reduce the burden on the Anchorage taxpayers.

3. ECONOMIC TRENDS AND OUTLOOK

2003 is expected to produce modest but steady growth. Beyond 2003 the economy's outlook is that it will remain stable with continued growth of about 1.4% per year. The Anchorage Economic Development Corporation projects the total job growth in Anchorage will be about 1,900 in year 2002, compared with 2,800 new jobs in 2001. Most of the new jobs are in the service sector. Unemployment continues to remain low, at 4.4% in June, but up slightly from the 3.7% rate in the same period last year.

Most of the growth for next year is anticipated to come from the services industry, the fastest growing sector of the economy. Health care will be the leader, as the aging of Alaska's population continues.

Construction will also continue to be strong. Anchorage voters in April approved construction bonds totaling almost \$138 million, and there is another \$464 million in statewide construction spending which will be presented to the voters for approval in November.

Oil prices have steadily risen in 2002 from a low of \$17.52 in January to \$27.41 in August. Continued unrest in the Middle East and the potential for military action against Saddam Hussein may keep the price of oil in the higher range.

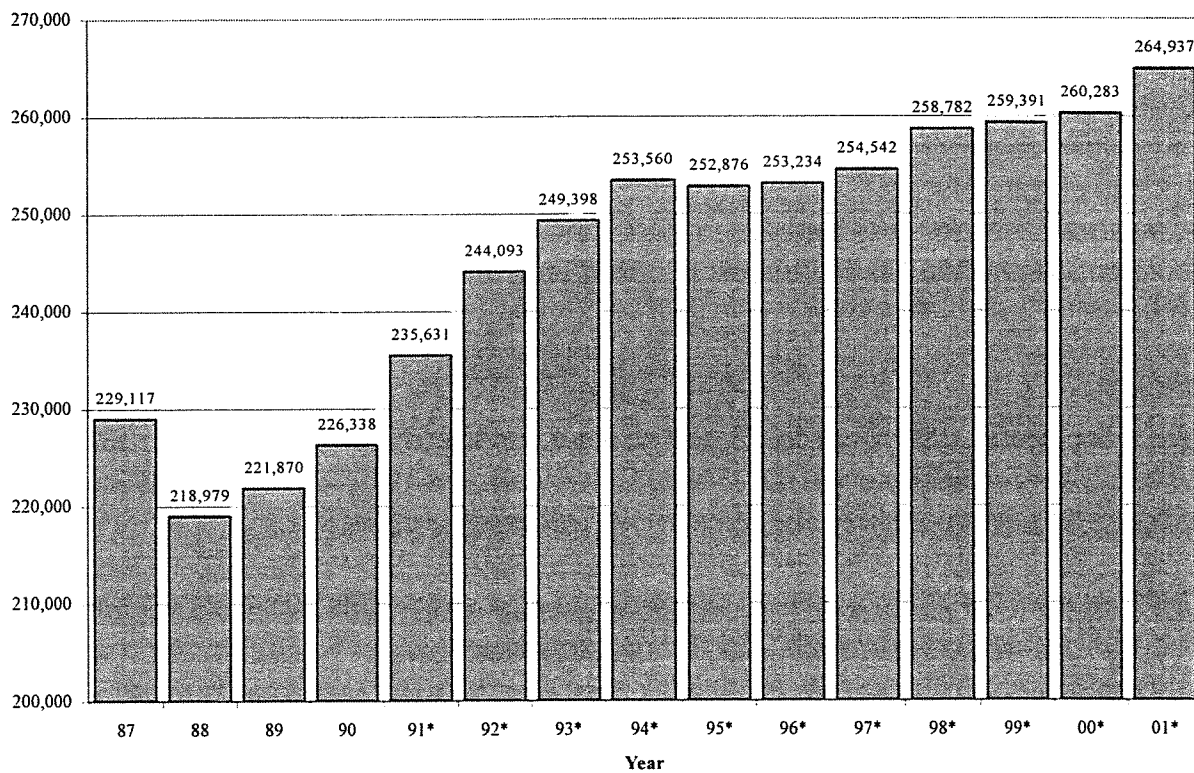
Merger and consolidation activity continues to play a large role in Alaska's oil industry. The recent merger of Phillips and Conoco suggests there may be more job reductions within the industry. The new Phillips/Conoco company has already announced plans to reduce their Alaska workforce by up an estimated 60+ positions.

Travel and tourism was expected to be down significantly after the events of September 11. Some estimates anticipated a reduction of as much as 35%. While the final numbers are not yet in, it appears that tourism sales will be close to the 2001 record of \$84 million. Convention business may even surpass the 2001 total of \$81 million.

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

POPULATION — The estimated population of Anchorage as of 2001 is 264,937, an increase of 1.8% over the 2000 estimate. On average, the population has increased just over 1% per year for the past 15 years

**Anchorage Population
1987 - 2001**

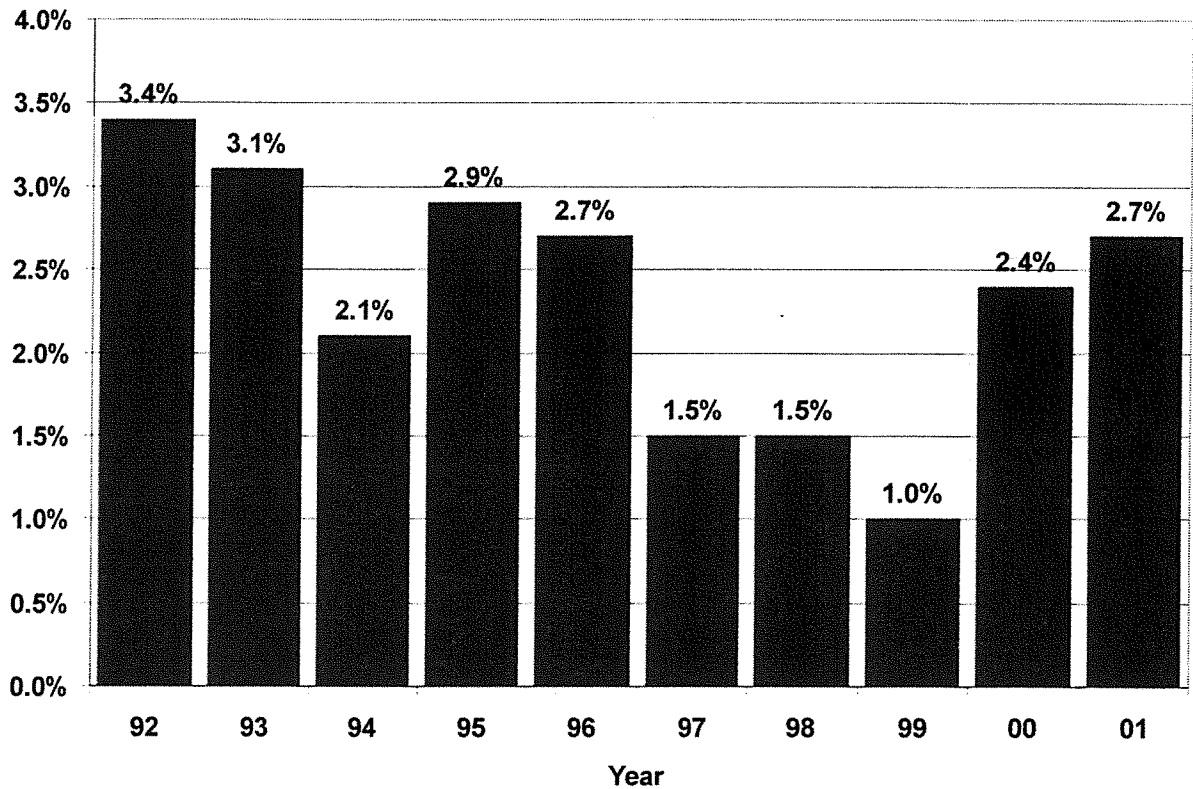


* The 1991-01 totals reflect revised estimates made by the Alaska Department of Labor (September, 2001). Estimates for 2002 will not be available until October-November 2002.

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

INFLATION — The Consumer Price Index for Urban Consumers (CPI-U) measures price changes (inflation) in consumer expenditures such as housing, transportation, food and beverage, medical care, apparel, recreation and other goods and services. Inflation for 2001 was 2.7%, slightly higher than 2000. For the first half of 2002, inflation advanced 1.0%. Inflation for initial budgetary purposes is assumed by the administration to be 2.5% for 2003.

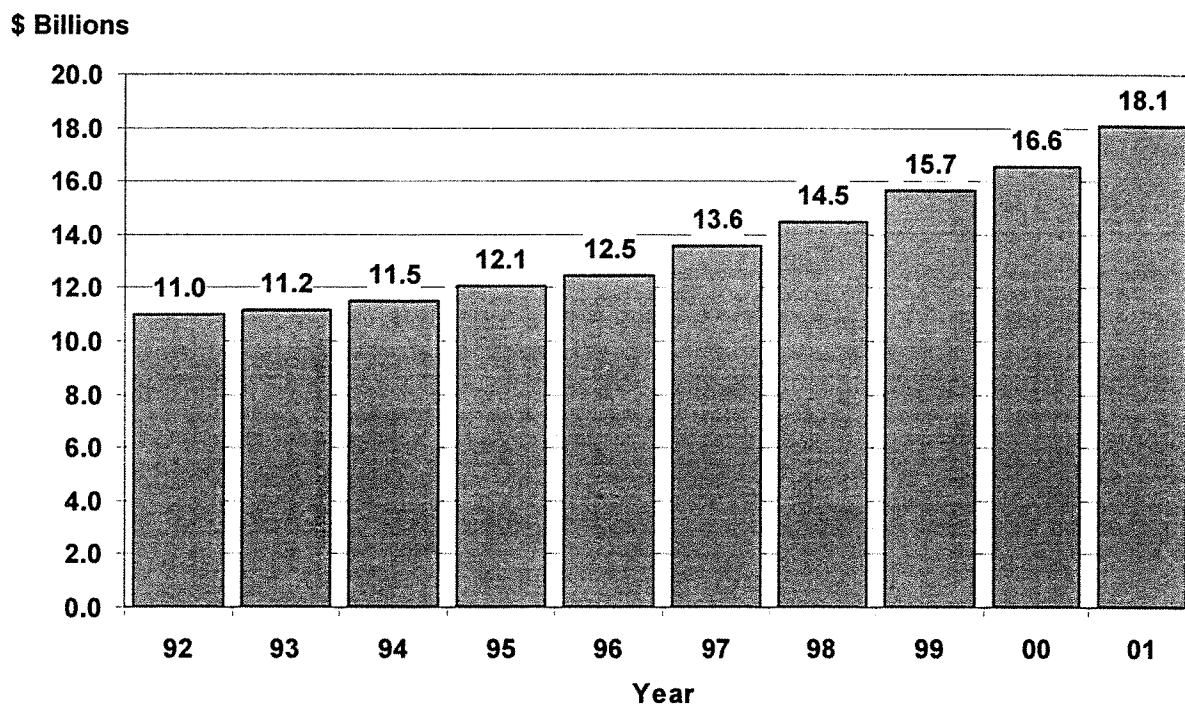
**Anchorage Consumer Price Index (CPI-U)
Annual Change for All Items
for All Urban Consumers
1992 - 2001 Historical Trend**



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

ASSESSED VALUATIONS — As demonstrated below, assessed values have shown steady growth over the past 10 years, with an increase of 9% between 2000 and 2001. Due to the positive trends in new construction, coupled with active market trends, assessed values are expected to continue to moderately increase during the period of 2003-2008.

**Full Value Determination of
Real and Personal Property Assessed Values
1992 - 2001 Historical Trend**

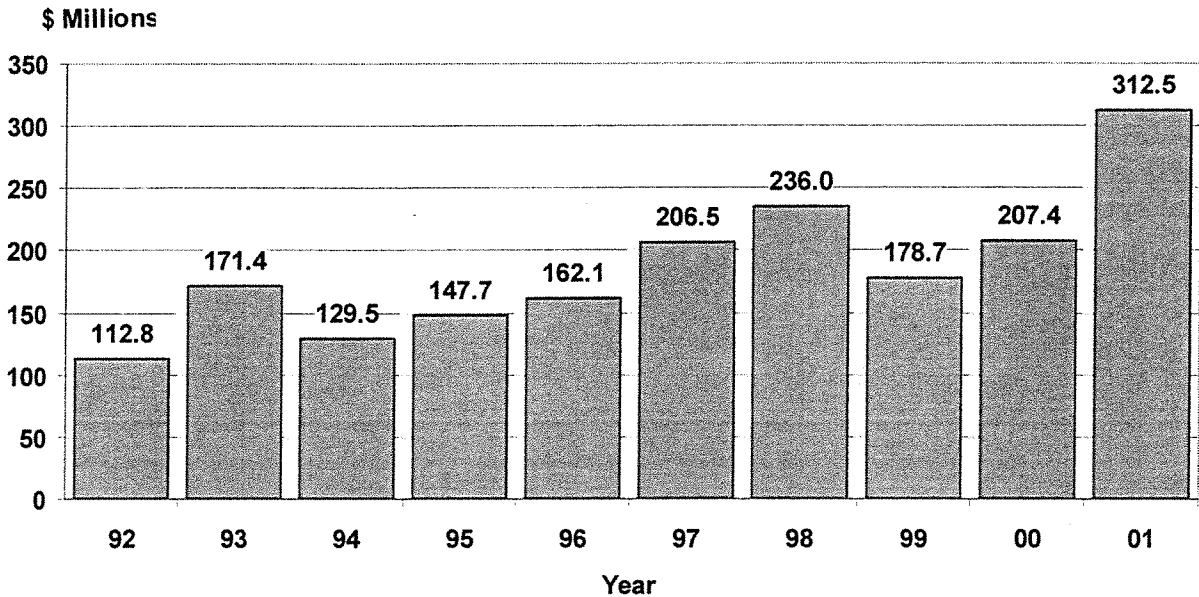


NOTE The total number of real property parcels appraised in 2001 is 89,966. Values shown above include residential property, personal property, commercial property, and Utility Net Plant (i.e., MUSA).

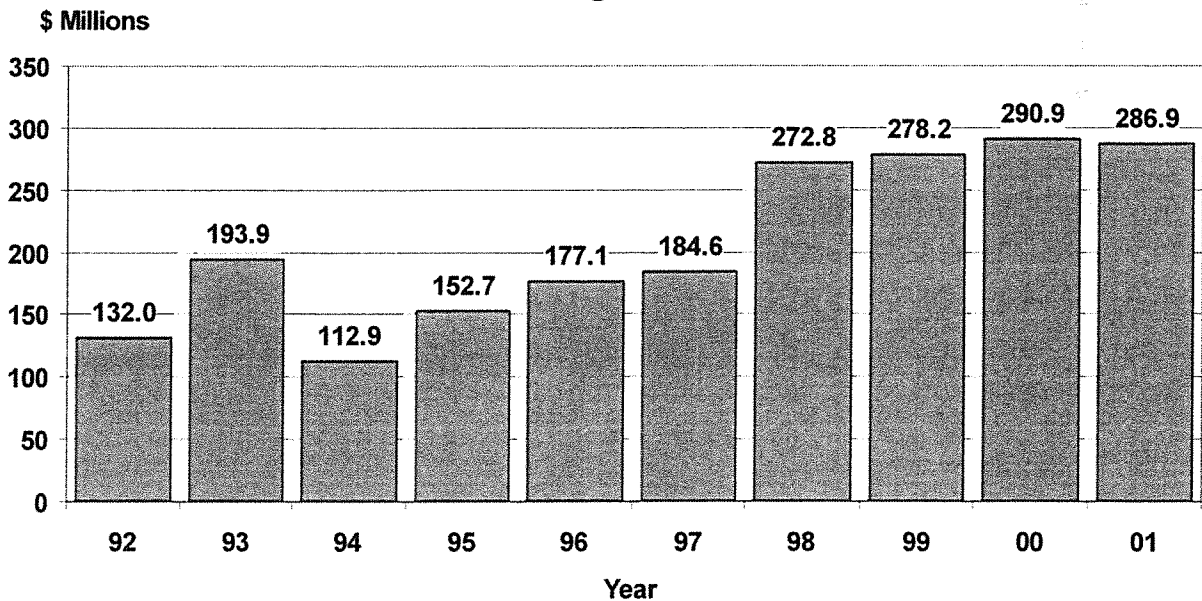
Source: State of Alaska, Office of State Assessor

NEW CONSTRUCTION — Anchorage’s construction activity for 2001 was \$599 million, the highest level of construction since the early 1980s. Residential construction was extremely strong, logging a 50% increase over year 2000 and making up for a slight decrease in commercial construction.

Residential Building Permit Dollar Value



Commercial Building Permit Dollar Value



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

Source: Public Works Department, MOA

Major Opportunities/Concerns

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

Current and Future Economic Activities and Opportunities

- Expansion of Anchorage International Airport and its increased use as a global logistics, international warehousing and cargo distribution hub
- Increased activity and infrastructure expansion at the Port of Anchorage (*multi-purpose dock, expanded staging areas, improved road access*)
- Ship Creek area development/revitalization, working with Alaska Railroad
- Creation of new jobs (*technical, construction, service, and retail*)
- Continuation of commercial construction (*hotels, retail stores, food/beverage/entertainment establishments, health care facilities, State and Municipal facilities, local schools, roads and utility infrastructure*)
- Sustained, healthy level of residential construction (*new housing units, renovation of existing stock, subdivision platting and development*)
- Continued growth in tourism and convention industry
- Potential for increased domestic travel
- Enhancement of all-season tourism (*Girdwood area development, multi-use trail system expansion, snow machine opportunities*)
- Relocation of new industries to Anchorage (*seafood processing and distribution, software development, light manufacturing*)
- Increased allocation of Transportation Equity Act for the 21st Century (TEA-21) funds for transportation projects (*roads, trails, overpasses, bridges, beautification, air quality*)
- Use of Garvee and general obligation bonds to expedite State support of road construction
- Allocation of Community Development Block Grants (CDBG) to fund projects that improve quality of life and revitalize low income neighborhoods
- Increased development of smaller, marginal oil fields
- Potential for opening ANWR for oil exploration
- Natural gas pipeline
- Development of new oil exploration within the National Petroleum Reserve area

Current and Future Economic Concerns

- Continued decline in Prudhoe Bay oil production
- Oil price stability
- Global economic stability
- War on terrorism
- Alaska's fiscal uncertainty
- Decline in State revenues to Anchorage
- Shifting of State and Federal responsibilities to local government without adequate funding (*unfunded mandates*)

4. PUBLIC SERVICES AND CAPITAL PROJECT FUNDING

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

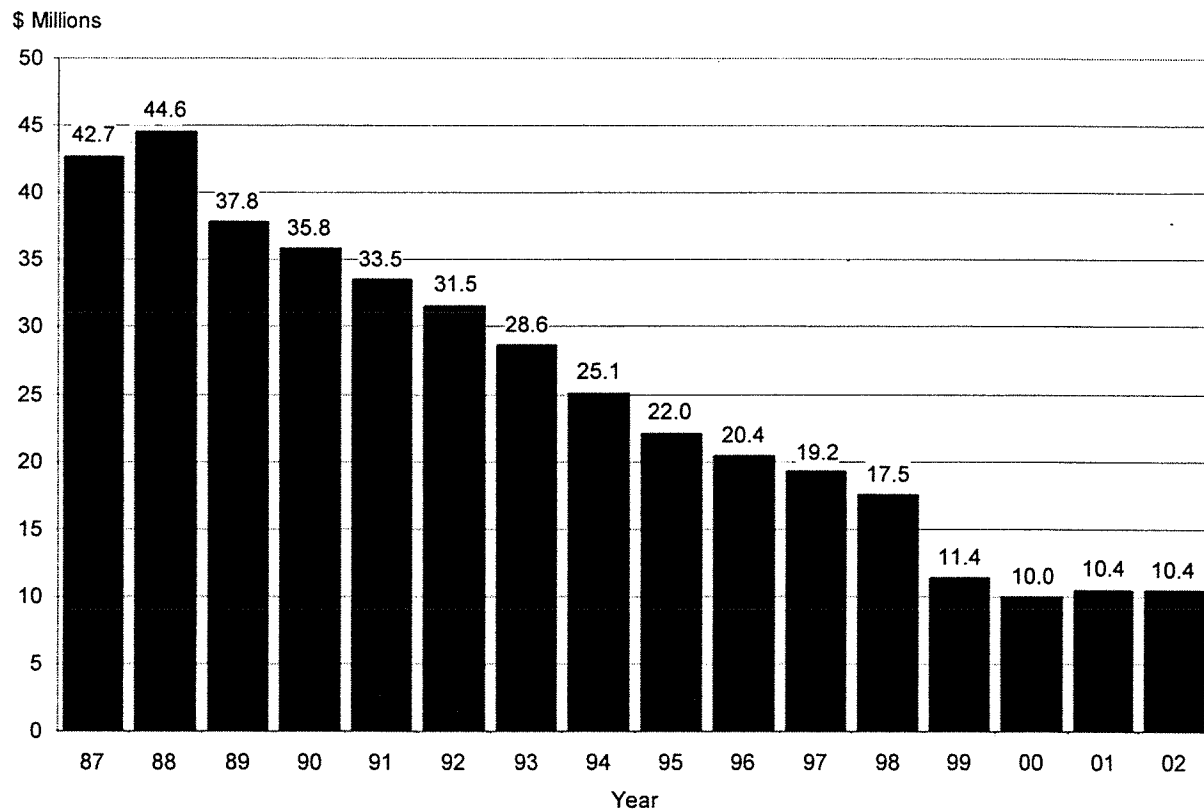
- responding effectively to fire, rescue and emergency medical situations
- improving our roadway public transportation systems
- making our City safer, cleaner and healthier
- balancing responsible development with rational environmental concerns
- providing cultural, recreational and educational activities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

Unless alternative revenue sources occur in the future, the local property taxpayer can expect to continue to bear the majority of the tax burden in the future.

State Revenues (Operating and Capital)

Between 1986 and 2000, Safe Communities Funding (which replaced the former Municipal Assistance Program in 1997) and State Revenue Sharing decreased an average of nearly 11% per year. In 1999, alone, Municipality experienced an unexpected cut of 35%, or \$6 million, which lead to immediate budget cuts and the elimination of a proposed property tax decrease. Year 2001 saw a reversal of this trend and the Municipality actually received an additional \$400,000 over year 2000. That same level was maintained in 2002. We are hopeful that this represents recognition by the state legislature that these programs are vital to the health of Alaska's local governments.

Safe Communities Funding* and State Revenue Sharing 1987 - 2002



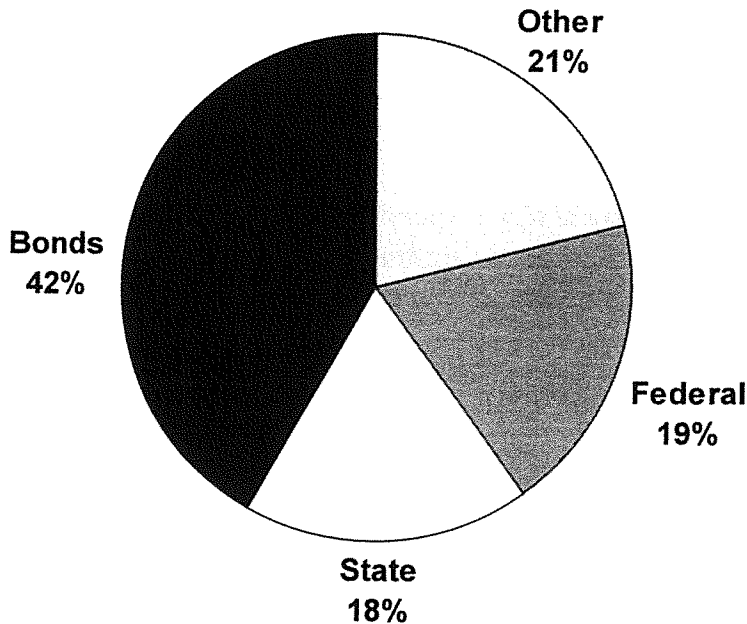
Does not include the one-time double payment received in 1997 due to a change in the program payment date.

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

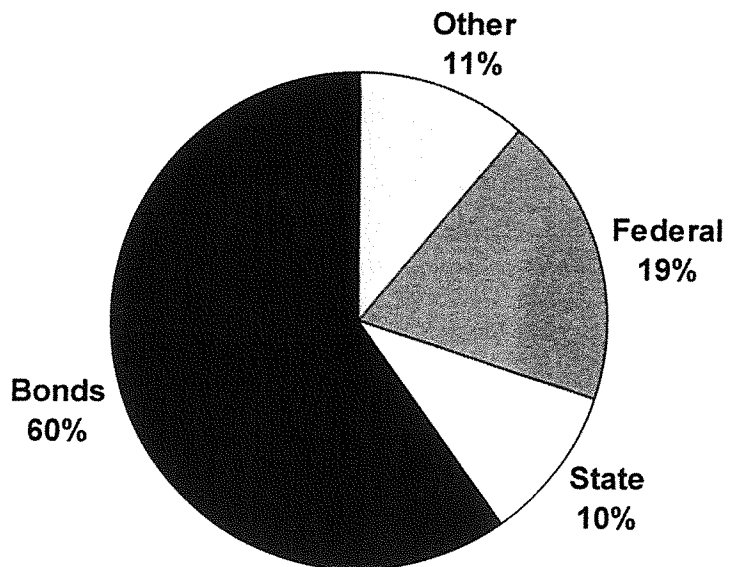
For the second consecutive year, there were funds available for appropriation by the State legislature for discretionary capital funding in 2002. Anchorage was fortunate to receive \$5.6 million more than in 2000. Because of the reduction in State discretionary capital funding over the past 10 years, there has been a change in our capital funding approach. The Municipality's capital budget currently focuses more on obtaining State matching grants (as opposed to discretionary grants) and relies more heavily on voter-approved bonds to provide local funds for match purposes and to help offset the reduction in State capital funding. The following charts demonstrate the trend toward increased local funding of capital projects:

**Capital Funding Requested
Funding Sources as % of Total Capital Budget
1997/2003 Comparison**

1997 Proposed Budget



2003 Proposed Budget



Tax Cap Limit

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

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

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

Factors such as population growth, new construction, inflation, and additional debt service are all expected to be significant components in the calculation of future tax caps.

Spending Limitation

In addition to the existing tax cap limitation, there is also a spending limitation in place. Per capita expenditures in the general government operating budget for tax-supported services shall be increased over the previous year's budget by an amount no more than the percentage increase in the July CPI over the previous July CPI and those additional increased necessary to provide voter and legally mandated services.

Anchorage School District

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

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

5. FISCAL PROJECTIONS AND POTENTIAL STRATEGIES

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

- potential for downturn in the Alaska economy
- further decline in state and federal revenues
- increase in interest and/or inflation rates
- additional unfunded federal/state mandates

As discussed later in this chapter, three major alternative strategies to help us work through potential future fiscal challenges involve:

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

The alternative strategies presented later in this chapter are for discussion purposes only. They are not intended to be recommendations.

PROJECTIONS

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

- Historical budget-related trends
- Historical economic trends and general outlook in major areas impacting the City such as population, inflation, assessed values and new construction
- Current and future economic activities and opportunities
- Other fiscal environment considerations such as State revenues, tax cap limit, debt service, O&M costs, and the Anchorage School District

**SIX YEAR FISCAL PROGRAM
PROJECTIONS OF REVENUES & EXPENDITURES (in \$ Millions)
2003-2008**

Six Year Budget Projection Assumes Continuation Level Budget	PROJECTIONS					
	2003 Oper'g Budget	2004	2005	2006	2007	2008
REVENUES						
Federal Revenues (no decrease beyond 2003)	\$0.49	\$0.49	\$0.49	\$0.49	\$0.49	\$0.49
State Revenues (no decrease beyond 2003)	12.00	12.00	12.00	12.00	12.00	12.00
Local Revenues (+1.0% per yr beyond 2003)	78.60	79.39	80.18	80.98	81.79	82.61
Property Taxes (+4.3% beyond 2003-average increase for past 10 years)	171.23	178.59	186.27	194.28	202.64	211.35
Fund Balance Applied (no change beyond 2003)	1.81	1.81	1.81	1.81	1.81	1.81
IGC's Outside General Government (+1.1% beyond 2003)	17.40	17.59	17.78	17.98	18.18	18.38
TOTAL REVENUES	\$281.53	\$289.87	\$298.54	\$307.54	\$316.91	\$326.64
EXPENDITURES						
Personal Services (step/longevity increases only -- +2.5% beyond 2003) *	\$158.93	\$162.90	\$166.98	\$171.15	\$175.43	\$179.81
Debt Service, (+2.5% beyond 2003)	44.04	\$45.14	\$46.27	\$47.43	\$48.61	\$49.83
Other (+2.5% beyond 2003)	78.56	80.52	82.54	84.60	86.72	88.88
TOTAL EXPENDITURES	\$281.53	\$288.57	\$295.78	\$303.18	\$310.76	\$318.53
FISCAL SURPLUS/SHORTFALL--REVENUES OVER/(UNDER) EXPENDITURES	\$0.00	\$1.30	\$2.75	\$4.37	\$6.15	\$8.11

* All known contractual obligations have been factored into the 2003 expenditure base.

Note 1: The Six Year Projections of Revenues & Expenditures shown above represent the projected result presuming there is modest growth in total revenues and expenditures.

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

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

**SIX YEAR FISCAL PROGRAM
FUTURE POTENTIAL REVENUE & EXPENDITURE IMPACTS (in \$ Millions)
2003-2008**

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

For a downloadable Excel spreadsheet of future potential revenue and expenditure impacts, please visit our website at www.muni.org

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

	2003	2004	2005	2006	2007	2008
State Revenue Sharing Decrease (5% per year)	(\$0.57)	(\$1.11)	(\$1.63)	(\$2.12)	(\$2.59)	(\$3.03)
State Revenue Sharing Increase (5% per year)	\$0.57	\$1.17	\$1.80	\$2.46	\$3.16	\$3.89
Wage Increase (annual avg. increase of 1.5% per yr.)	\$0.00	(\$2.38)	(\$4.80)	(\$7.26)	(\$9.75)	(\$12.28)
Additional Debt Service costs (assuming 70% passage for all bonds proposed in 2003-2008 CIB/CIP)	\$0.00	(\$1.98)	(\$5.13)	(\$7.46)	(\$9.47)	(\$11.03)
Additional O&M Costs for all projects cited in the 2003-2008 CIB/CIP (assuming 70% of the funding requests are realized)	\$0.00	(\$0.66)	(\$1.71)	(\$4.47)	(\$7.55)	(\$10.97)
Mandated Service Increases (flat \$500K per year)	\$0.00	(\$0.50)	(\$1.00)	(\$1.50)	(\$2.00)	(\$2.50)
Discretionary Budget Increases (flat \$1M per year)	\$0.00	(\$1.00)	(\$2.00)	(\$3.00)	(\$4.00)	(\$5.00)

Note 1: Using 2002 as a base year, a 1% decrease in State Revenue equates to approximately \$114,000 in lost revenues.

Note 2: The 1.5% average annual wage increase shown above is not specific to any particular labor group.

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

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

POTENTIAL STRATEGIES

Broadened Tax Base Through Economic Development

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

If the Municipality of Anchorage is to continue to provide an adequate level of government services to its residents and maintain a strong, stable, diversified economy, we must aggressively work toward encouraging economic development.

“Vision Anchorage,” a steering committee of 40 representatives of the public and private sectors is in the process of developing an economic development plan for Anchorage. Initiated by Anchorage Economic Development Corporation and the Anchorage Chamber of Commerce and partially funded by a grant from the Municipality, Vision Anchorage will prepare a plan which will serve as a blueprint for new business investment and job creation.

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

- Anchorage International Airport related growth (global logistics and cargo hub expansion)
- Port of Anchorage expansion
- Continued growth of tourism and convention business
- Potential for gas pipeline
- Potential for oil development within ANWR, National Petroleum Reserve area and currently marginal fields
- Ship Creek area development/revitalization
- Girdwood area development
- State fiscal support for infrastructure development
- Federal grant programs such as Community Development Block Grants and Transportation Equity Act.

Expenditure Options

The following is a list of potential methods that have been identified over the years as a way to reduce or contain Municipal expenditures:

- **Efficiency Measures / Consolidation** — Provide government services using fewer resources through improved work methods and use of technology.
- **e-Commerce** — Provide more complete and timely information through the prudent use of automated tools and equipment. By using technology to provide better access to information, decision making will be enhanced and worker productivity will increase.
- **Service Contracting** — Contract for those services that can be delivered more cost effectively by the private sector. Possible areas include contracting to smooth seasonal and cyclical costs, construction project management, and similar activities. Contract out to nonprofits when those organizations can provide services more efficiently and cost effectively.
- **Reduce “Red Tape”** — Change cumbersome, inefficient policies, ordinances, and regulations that do not provide enough benefit to be cost effective through a careful evaluation of current methods and processes by hiring private consulting firms to perform management reviews in specific areas.
- **Increase Use of Volunteers** — Continue to facilitate cooperative efforts between private citizen volunteer groups and local government in order to minimize the cost of providing public services and make our city a better place to live.
- **Maintain Infrastructure** — Continue to emphasize maintenance and rehabilitation of Municipal infrastructure (roads, parks, trails, facilities, information management systems) in order to limit increases in future operation and maintenance costs. Maximize use of non-Municipal funding sources, such as state and federal grants to help fund maintenance and rehabilitation projects.

Revenue Options

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

In order to provide long-term relief to property taxpayers, ways to diversify our revenue stream could be considered. New permanent revenue sources should be evaluated in terms of their ability to maintain our current fiscal stability.

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

Optional Sources of Revenue

- **User Fees** — Consider new or increased user fees that can be justified by the cost causer/cost payer principle.
- **Taxes** — As our City continues to grow the issue of whether to move toward a more diversified tax base will necessitate a public discussion among public officials, local business leaders, and interested individuals/organizations.

Taxes or tax strategies to consider:

- Year round sales tax (A sales tax measure failed to attain voter approval in the April 2001 election.)
 - Seasonal sales tax
 - Obtain real property sales data for assessment purposes
 - Increased hotel-motel tax
 - Elimination of real property tax exemptions for special interest groups
 - Elimination of the exemption from the hotel-motel tax for small Bed & Breakfast establishments
 - Assess business/commercial aircraft as business property
 - Increase auto registration tax
 - Utility franchise tax
- **Utility Contributions** — Utilities, both public and private, receive government services and therefore should continue to help to support the operation of general government in Anchorage. Continual monitoring needs to occur as to the type and amount of payments made by all utilities, both private and public, so that payments made by utilities to general government for services received are fair and equitable.
 - **Sale of Municipal Assets** — The Municipality of Anchorage owns and operates five utilities that could potentially be sold: Anchorage Water Utility, Anchorage Wastewater Utility, Refuse Collections Utility, Solid Waste Disposal Utility, and Municipal Light and Power. As was demonstrated by the sale of the Anchorage Telephone Utility in 1999, utility sales have the potential of providing revenues to the Municipality and increasing the property tax rolls.

6. CONCLUSION

Anchorage is a vibrant city that is doing very well. We are an All-America City whose citizens are willing to step up to the plate and address those challenges that arise from time to time.

We will continue to focus on the five areas of emphasis that are necessary for our continued well being: public safety, economic growth, quality of life, spirit of community, and individual & family development.

Within the Municipality we will continue to ensure value for dollars invested in city services through the Investing for Results program by making sure the Municipality is delivering the right services at the right price.

There are a number of fiscal alternatives which may affect our future. Some of those are beyond our control, but how we react to them will shape the direction the city takes. This Six-Year Fiscal Program has presented some of these alternatives for future consideration.