

BUDGET ASSUMPTIONS

**PUBLIC UTILITIES
1997
OPERATING AND CAPITAL BUDGET ASSUMPTIONS**

Below are general and specific budget assumptions/guidelines provided to utilities for preparation of their 1997 Operating and Capital Budgets.

REGULATION

Assume continued economic regulation by Alaska Public Utilities Commission (APUC) for AWWU and ML&P.

Assume continued economic regulation by the Federal Maritime Commission (FMC) for the Port.

Assume continued operation oversight by the Federal Aviation Administration (FAA) for Merrill Field.

UTILITY OWNERSHIP

Assume continued Municipal ownership in 1997.

RATE INCREASES

No rate increases are proposed in 1997. The only exception to a rate increase in 1997 would be if all possible budget reductions have been attempted to offset the need for a rate increase and if one or more of the following conditions have been satisfactorily demonstrated:

- Debt service coverage not adequate.
- Projected cash reserves for working capital not adequate on a sustained basis to cover operating costs.
- Debt/equity ratio projected to fall below criteria established by the regulatory body authorized to oversee the utility.
- Increased rate revenue is determined to be the most prudent funding source for maintaining the utility's plant in a cost-effective working condition.

MUNICIPAL UTILITY SERVICE ASSESSMENT (MUSA)

Assume mill rates for MUSA (in lieu of taxes) to be same as 1996 mill rates. MUSA (in lieu of taxes) currently does not apply to the Port or Merrill Field. 1.25% MUSA currently applies only to Solid Waste disposal (and ATU).

REVENUE DISTRIBUTIONS

Assume that the Port and Solid Waste Disposal (and ATU) will continue to provide a revenue distribution to General Government. The Port's 1997 revenue distribution is proposed for \$696,000. Solid Waste Disposal's 1997 revenue distribution was proposed by the Administration in the amount of \$400,000; Assembly action taken 11/26/96 reduced Solid Waste Disposal's 1997 dividend to zero. It is assumed that ATU will provide general government with an \$8.3 million dividend in 1997.

INTEREST

Assume an interest cost on new 20-year G.O. bonds to be 5.94% - 6.12%. For new Revenue bonds assume an interest cost of 6.31% - 6.43%. Interest income should be calculated assuming a rate of 5.8% - 6.2%.

INTRAGOVERNMENTAL CHARGES (IGCs)

The Office of Management & Budget (OMB) provided each utility with IGC charges to be budgeted in 1997. In general, no significant change in IGCs from general government is expected in 1997 compared to the prior year, except that utilities will receive less of a benefit from self insurance applied fund balance in 1997.

POPULATION

For budgetary purposes, assume that the 1996 population level will continue in 1997.

INFLATION

In general, inflation (i.e., CPI - all urban consumers) is anticipated to approximate 3.1% in 1997. Each utility, however, may apply applicable inflation rates to the commodities they use.

COMPENSATION COSTS (Salaries and Benefits)

Assume a wage freeze will be realized for all labor groups in 1997, except JCC. Assume non-frozen JCC employees will receive a maximum wage increase of 2.5% effective March 1, 1997. Inflationary increases related to benefits were also provided to the utilities based on recommendations by the Benefits Committee.

1997 BUDGET IMPACTS (specific to individual utilities)--

MUNICIPAL LIGHT AND POWER

ML&P's price per thousand cubic fee ("MCF") of gas is established during the 3rd quarter of each year. It is determined by the average price of third quarter light sweet crude oil futures. The price, as verified with Arco, will increase approximately 17.8% per MCF for 1997. The cost of gas is a flow through for ML&P, which means that as fuel costs increase, revenues increase correspondingly. ML&P's net income will, therefore, not be affected by the rise in fuel costs. (If the purchase of Shell's one third portion of the Beluga Gas Field, described below, is finalized the increase will be reduced.)

In April of 1996, ML&P received approval from the Assembly to submit a contingent bid of \$125.1 million and enter into a preliminary sales agreement with Shell for the purchase of their one third share of the Beluga River Gas Field. Over 80% of the Utility's sales is from electricity generated from ML&P's natural gas fired turbines. The Utility's goal is to lock in the supply of a critical resource for the long term and protect against future increases in natural gas prices. If the gas acquisition is completed, it is estimated that the acquired reserves together with the gas under current contracts with other Beluga producers will be adequate to completely meet ML&P's natural gas requirements through 2016 and partially meet its needs from 2017 through 2026.

ANCHORAGE WATER AND WASTEWATER

AWWU has budgeted \$7 million in revenue bonds to be issued by the Water Utility. Additionally, the Wastewater Utility intends to borrow \$2.8 million in 1997 from the State loan program. AWWU's capital program will be funded with a mixture of debt and equity, which is necessary to offset the decline in State capital appropriations.

SOLID WASTE SERVICES

In 1987 the Merrill Field Landfill was closed after approximately fifty years of operation. Although the closed landfill no longer accepts solid waste it still has systems that must be maintained in order to be in compliance with environmental regulations. A study completed in 1994 recommended the leachate collection system at the landfill be upgraded to prevent the possibility of offsite migration of leachate. Normally costs associated with a capital project are capitalized and depreciated over the life of the asset constructed. Since the landfill no longer accepts solid waste, accounting regulations require all costs associated with the upgrade be expensed in the year the costs are incurred. SWS originally planned to construct the leachate collection system during 1995 and 1996. Instead the project was all done in 1996 at a cost of \$4.2 million. The \$4.2 million expense in Solid Waste Disposal's 1996 operating budget will result in a \$2.6 million net loss per Generally Accepted Accounting Principles (GAAP). The net loss is purely an accounting entry and therefore should not be construed as a sign of negative performance on the part of the utility. Both the Refuse Collections Utility and Solid Waste Disposal Utility are projecting positive incomes well into the future.

PORT OF ANCHORAGE

Revenues are expected to increase in 1997 as a result of wharfage charges on projected higher tonnage levels and higher appraised land valuations on Port leases/rentals.

Capital requirements of a possible new general cargo carrier would also impact the Port's 1997-2002 Capital Improvement Program requirements. The extent of that impact, based on information available, could not be estimated at the time the Port's 1997 Budget was prepared, nor, is there any commitment anticipated prior to November, 1996.

The Port's 1997-2002 Capital Improvement Program anticipates two (2) Land Development Projects: Lot 4A in 1997-1998 and Transit Area E in 1999-2000. Should customer demand warrant that the project schedules run concurrently or that the Transit Area E project be accomplished first, the Port may need to sell approximately \$6 million of revenue bonds as early as 1997.

MERRILL FIELD AIRPORT

Merrill Field continues to actively pursue federal grants, with state matching assistance, for all grant-eligible Capital Improvement Projects. During 1996 the Airport expects to receive \$3.4 million dollars in federal funds, although the average in previous years is one million dollars annually. Current proposals before Congress indicate a reduction in the FAA Airport Capital Improvement Program. This proposed reduction would reduce Alaska's share of the Capital Improvement Program, and subsequently, Merrill Field's share.

Merrill Field has developed a marketing portfolio which is being offered to individual pilots and aviation businesses who are interested in relocating to Merrill Field. This economic revitalization endeavor is the result of a cooperative effort between the business owners and airport management.

Merrill Field is developing a leasing policy manual in an effort to encourage development of existing leasehold properties on the airport. In conjunction with this effort, the Airport is also establishing additional lease lots. The leasing of additional airport property will favorably impact Merrill Field's budget by providing a broader revenue base.