

BUDGET ASSUMPTIONS

**PUBLIC UTILITIES
1999
OPERATING AND CAPITAL BUDGET ASSUMPTIONS**

Below are general and specific budget assumptions/guidelines provided to utilities for preparation of their 1999 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 1999.

RATE INCREASES

No rate increases should be proposed in 1999 unless all possible budget reductions have been first been fully considered and if one or more of the following conditions can be demonstrated:

- Debt service coverage not adequate.
- Projected cash reserves for working capital not adequate on a sustained basis to cover operating costs during 1998/99. (NOTE: a 45-day reserve of working capital should not be a deciding factor in judging the adequacy of your reserve cash since utilities can temporarily borrow from the general fund cash pool for unforeseen events.)
- 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 1998 mill rates. MUSA (in lieu of taxes) currently does not apply to Merrill Field. 1.25% MUSA applies to Solid Waste Disposal. The Port of Anchorage should budget for a 1999 Municipal Enterprise Service Assessment (MESA) payment.

INTEREST

Assume debt service for new insured 20-year G.O. bonds to be 5.25% - 5.75%. For new insured Revenue bonds assume 5.30% - 5.80%. Interest income should be calculated assuming a rate of 5.50% - 5.75%.

INTRAGOVERNMENTAL CHARGES (IGCs)

Assume IGCs from general government to municipal utilities will increase over the rates established first quarter 1998 due to the following primary reasons: (1) reallocation of MISD/ATU charges, (2) no self-insurance fund balance applied, and (3) additional PFISHR project costs.

For all other IGCs, assume no significant change over that level contained in the first quarter revised 1998 general government operating budget revision approved by the Assembly.

POPULATION

For budgetary purposes, assume (per the City's demographer) that Anchorage's population will be approximately 258,800 in 1998 and 260,000 in 1999.

INFLATION

In general, inflation (i.e., CPI - all urban consumers) is anticipated to approximate 2.0% in 1999. Each utility, however, may apply applicable inflation rates to the commodities they use.

COMPENSATION COSTS (Salaries and Benefits)

All labor contracts are up for renegotiation in 1998. IBEW's re-negotiated contract calls for a wage freeze in 1999 while the re-negotiated JCC contract authorizes a wage increase in 1999 of 1.0-3.5% depending on CPI figures to be received February 1999.

1999 BUDGET IMPACTS (specific to individual utilities)--

MUNICIPAL LIGHT AND POWER

The 1999 contract price of gas is determined by the average price of 1998 third quarter Light Sweet Crude Oil futures. It is estimated that the 1999 contract price of gas, per thousand cubic feet (MCF), will decrease approximately 25% over the 1998 contract price. ML&P will buy its fuel from ARCO and Chevron at a lower contract price than last year, but will also sell to Chugach Electric Association, Inc., ENSTAR and the Department of Defense at a lower contract price. The transfer price of gas from the Gas Division to the Electric Division is held constant at \$1.50 per MCF plus taxes and royalties. The effect on the budget will be lower Operating Revenue and lower Operating Expense.

ANCHORAGE WATER AND WASTEWATER

The Water Utility intends to issue \$15 million in revenue bonds in 1999 to fund a portion of its capital improvement program. Additionally, the Wastewater Utility anticipates borrowing \$5.2 million in 1999 from the State of Alaska Clean Water Fund, which is the state's revolving loan fund, providing low-interest loans to finance sewerage, solid waste and other non-point source pollution projects. AWWU's capital program will be funded with a mixture of debt and equity.

SOLID WASTE SERVICES

The Solid Waste Disposal 1999 budget is projected to increase 9.7% over the 1998 approved budget. The increase is attributable to labor contract cost increases, recycling program costs and increases in depreciation costs, future landfill closure costs, MUSA and IGCs. Solid Waste Services' budget assumes a \$1 per revenue ton set aside to fund recycling efforts in Anchorage. Future landfill closure costs have increased as a result of a recalculation required by GASB-18.

PORT OF ANCHORAGE

Revenues are anticipated to be flat or increase only slightly. Absent a \$100,000+ user reimbursement for new improved security services, 1999 Revenues would be below the 1998 level. Petroleum Wharfage Revenues are anticipated to remain below the 1998 level in the outyears due to the increased production and rail delivery of North Pole refinery jet fuel to Anchorage.

Expenses are anticipated to increase as a result of increased depreciation due to booking new plant in-service in 1999 and the net impact of the new Port MESA payment in 1999.

The Port's 1999-2004 Capital Improvement Budget anticipates major projects in following areas: Land Development, Lot 4A Upgrade Project construction in 1998-1999; Terminal Development, Port/Elmendorf Emergency Access Road 1999-2001; and, Harbor Development, Knik Arm Shoal Dredging in 1999-2000 and South Terminal Expansion Project construction in 2001-2002.

Increased costs of the Knik Arm Shoal Dredging Project could require an additional \$2.3 million in local sponsor participation. Funding of the additional local sponsor share is dependent on a State of Alaska grant of \$1.15 million in 1999, combined with a 50% local match using Port funds.

MERRILL FIELD AIRPORT

Merrill Field continues to remain debt free by actively pursuing federal and state airport grant funds for all grant-eligible capital improvement projects. Merrill Field received over \$2.0 million dollars during Federal Fiscal Year 1998. By working with the federal and state grant managers, Merrill Field will continue to secure a reasonable portion of the grant funding as it becomes available.

Merrill Field continues to develop its economic revitalization program through cooperative efforts of the business owners, airport management, and surrounding communities. Recent Airport Improvement Projects now provide taxiway access and utility infrastructure along the west side of the airport for hangar development. These new aviation developments will have a positive impact upon the airport budget by providing a broader revenue base.