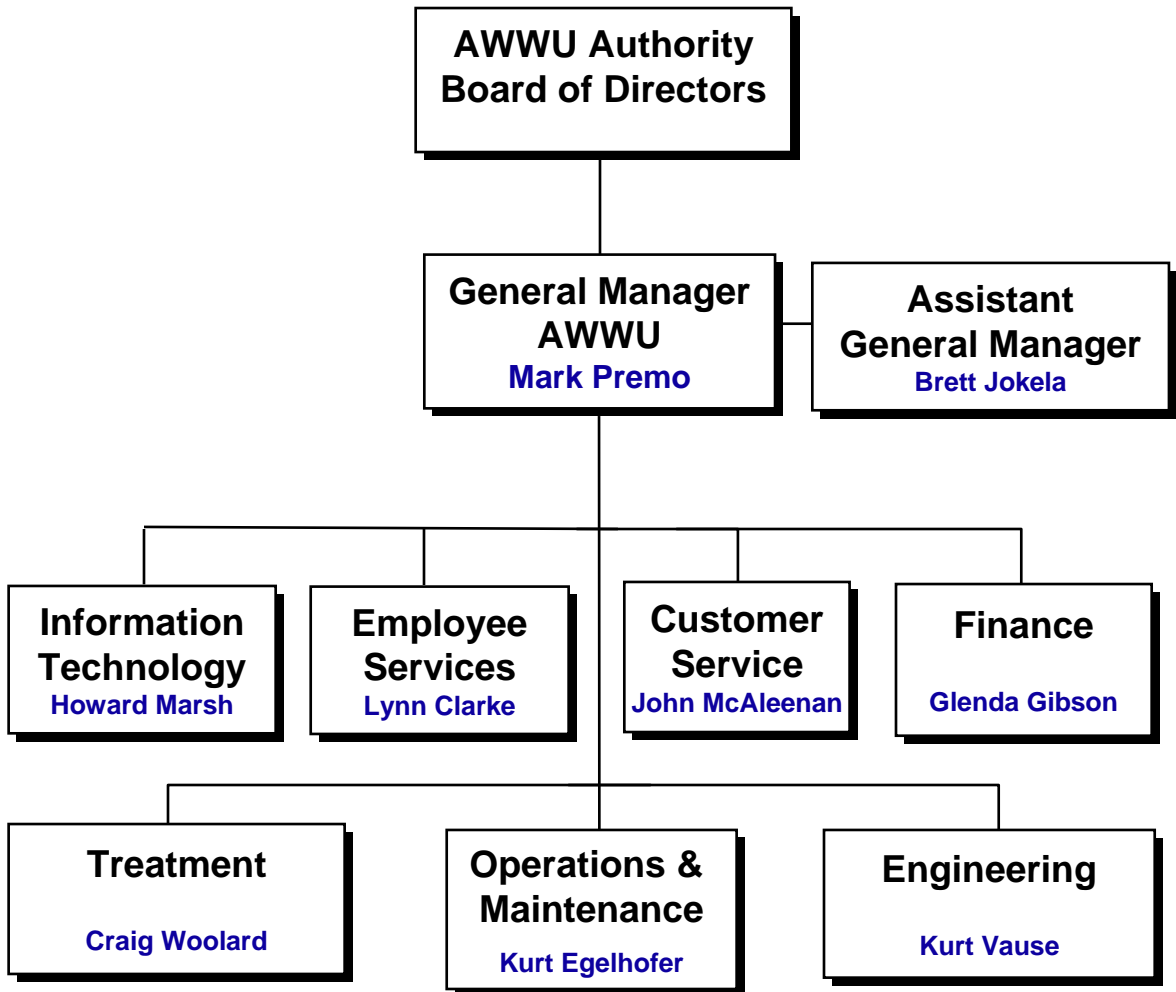
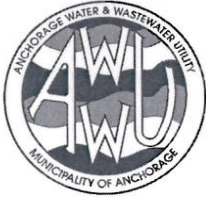


**ANCHORAGE WATER AND
WASTEWATER UTILITY**

ANCHORAGE WATER & WASTEWATER UTILITY

ORGANIZATION CHART





**ANCHORAGE WATER AND WASTEWATER UTILITY
BOARD RESOLUTION**

No. 2009-13

Meeting Date: September 2, 2009

**Subject: Recommendation of 2010 AWWU Capital and Operating Budgets to the
Municipal Assembly**

WHEREAS, AWWU Authority Board Finance Committee worked with staff on multiple occasions, from July through August 2009, to review and discuss the prospective capital and operating budgets for the utility; and,

WHEREAS, the AWWU Authority Board of Directors invited testimony at a Public Hearing on the proposed budget on September 2, 2009.

NOW, THEREFORE, THE AWWU AUTHORITY BOARD OF DIRECTORS
RESOLVES:

to recommend to the Municipal Assembly appropriation of the Capital and Operating Budgets for Anchorage Water Utility and Anchorage Wastewater Utility for 2010 as follows:

Anchorage Water Utility	Capital Improvement Budget	Operating Budget
2010	35,530,000	48,155,000

Anchorage Wastewater Utility	Capital Improvement Budget	Operating Budget
2010	30,780,000	37,876,000

Approved by a majority vote of the AWWU Authority Board of Directors.

Timothy M. Sullivan, Sr.

Chair, AWWU Board of Directors

2 September 2009
Date

**AUTHORITY BOARD
APPROVED**

Date: September 2, 2009

ANCHORAGE WATER & WASTEWATER UTILITY PROFILE

ORGANIZATION: Anchorage Water and Wastewater Utility (AWWU) is the largest water and wastewater utility in the State of Alaska. The service area equals 125 square miles of metropolitan Anchorage, from Eklutna to Girdwood. The Utility collects water from two major surface watersheds and many deep underground wells. The Utility treats and distributes water to approximately 54,700 residential, commercial, military, and industrial accounts throughout the urban areas of Anchorage. The Utility's wastewater facilities serve approximately 55,600 residential, commercial and military accounts. This represents an estimated population base of 236,000 residents who receive water service and 240,000 residents who receive sewer service. AWWU's wastewater treatment plants operate 24 hours per day, discharging treated wastewater into Cook Inlet, Eagle River and Glacier Creek. The public investment in these systems, treatment plants, mains and sewers, laboratories, and reservoirs, totals just over \$1 billion. AWWU employs 286.5 people and spends approximately \$86 million annually to operate the water and wastewater systems. Through education, training, certification programs, field experience and longevity of service, AWWU's employees are a dedicated team. Treatment plant operators, engineers, laboratory technicians, maintenance craftsmen, accountants, customer service representatives and field personnel all work together to ensure Anchorage's water and wastewater systems perform efficiently.

GOVERNANCE: AWWU is a public corporate authority of the Municipality of Anchorage governed by a seven member Board of Directors, appointed by the Mayor and approved by the Anchorage Municipal Assembly. The Directors serve five year staggered terms. The current Board members are very experienced professionals in the fields of law, engineering, accounting, public health, environmental project management and government. The Board shall operate and manage AWWU and, in general, may exercise any power unless otherwise provided in the Municipal Charter, the Code or prohibited by State law. Regular meetings are held monthly and are open to the public. Board meetings focus on Utility operations and highlights.

Although they share one workforce, the utilities are separate economic and regulated entities. A profile of each utility is shown below:

ANCHORAGE WATER UTILITY

HISTORY: From the first intake of water at Lower Ship Creek, and a few miles of woodstave water lines downtown more than 75 years ago, Anchorage's public water utility has grown into an enterprise with a net plant in service of approximately \$430 million that delivers nearly 27 million gallons of water to customers each day, for a little more than \$1 per household. The original water system for Anchorage was installed by the Alaska Railroad in 1917. In 1921, the City purchased the water system and associated water rights from the Alaska Engineering Commission. As the City expanded by annexation, the water system was extended into new areas and independent water systems previously serving the annexed areas were acquired by the City. The entire service area is now

governed by the Municipality of Anchorage as a result of unification of the City of Anchorage and the Greater Anchorage Area Borough (GAAB) on September 15, 1975.

SERVICE: Anchorage's water supply is dominated by two surface watersheds, Eklutna Lake and Ship Creek. Several deep wells provide the Utility with supplementary sources of water. Until 2000, Ship Creek Water Treatment Plant was the main water production facility. With the shift of 24-hour operations to the Eklutna Water Treatment Facility, AWWU has made better use of its higher-pressure water and more effective use of personnel. The Eklutna water supply originates at Eklutna Lake, a drought-resistant natural reservoir. Fed by runoff from Eklutna Glacier and snow-pack from the Chugach Mountains, the eight-mile long lake can supply up to 300 million gallons of water each day. The Eklutna Water Treatment Facility is capable of treating up to 35 million gallons per day.

Ship Creek remains an important water source for Anchorage with the Ship Creek Water Treatment Facility in standby mode. From spring through fall, the waters of Ship Creek and the treatment facility are able to provide as much as 24 million gallons of water per day.

AWWU also operates 16 wells that can provide up to 16 million gallons per day.

The Girdwood community is served by a stand-alone system which includes two AWWU wells.

REGULATION: Since December 1970, AWU has been regulated by the Alaska Public Utilities Commission (APUC), which was renamed the Regulatory Commission of Alaska (RCA) on July 1, 1999. AWU holds a Certificate of Convenience and Necessity for serving portions of the Anchorage Bowl, Eagle River and Girdwood. This commission, prior to implementation, must approve all rates and tariffs. They also regulate service areas and service quality. The RCA is composed of five members appointed to six-year staggered terms by the Governor of the State of Alaska and confirmed by the State Legislature.

ENVIRONMENTAL MANDATES: In recent years, several federally mandated programs have directly impacted the Utility's water operating costs. The Safe Drinking Water Act, Americans with Disabilities Act, and Community Right-to-Know are some of the current and ongoing laws that impact the Utility.

PHYSICAL PLANT: AWU operates two treatment plants and operates 16 wells on an as-needed basis. Average daily water production in 2008 was 23 million gallons per day (gpd). AWU has the capacity to provide up to 75 million gpd. The distribution transmission system equals approximately 830 miles of waterline and 7,020 fire hydrants.

ANCHORAGE WASTEWATER UTILITY

HISTORY: The Alaska Engineering Commission first installed sewers in downtown Anchorage in 1916 along the lower bluff near the Alaska Railroad Depot. As Anchorage grew, construction of sewers continued and by the end of World War II, sewers were available to much of the area between Ship Creek and Chester Creek, west of Cordova

Street. GAAB was created in 1964, and was granted area wide sewer authority. The last major private sewer utility was acquired by the GAAB in 1972. The Utility is now owned and governed by the Municipality of Anchorage as a result of unification of the City of Anchorage and the GAAB on September 15, 1975.

SERVICE: Anchorage's enjoyment of drinking water is just one part of the AWWU system. After the day's water is used, it must be treated before it is returned to the environment. The creeks and inlets downstream from Anchorage's wastewater treatment facilities are not adversely impacted by treated effluent, which is AWWU's principal measure of success. The Anchorage community benefits from the superior operation of the three wastewater treatment plants that serve its growing population.

REGULATION: Since 1971, the Anchorage Wastewater Utility has been regulated by the APUC, which was renamed the RCA on July 1, 1999. The Utility holds a Certificate of Convenience and Necessity for serving the Anchorage Bowl, Eagle River, and Girdwood. This commission, prior to implementation, must approve all rates and tariffs. They also regulate service areas and service quality. The RCA is composed of five members appointed to six-year staggered terms by the Governor and confirmed by the State Legislature.

ENVIRONMENTAL MANDATES: All three of AWWU's wastewater treatment facilities are subject to discharge limits imposed by individual National Pollutant Discharge Elimination System permits issued by the Environmental Protection Agency (EPA). Each permit is good for a period of five years after which they may be renewed. All three permits expired in 2005. AWWU submitted timely renewal applications six months in advance of the expiration dates of each permit. The Eagle River permit was reissued early in 2006 but the Girdwood and Asplund facilities permits have not yet been received. Both expired permits, however, have been administratively extended by the EPA until renewal takes place. Renewal of the Asplund permit could be complicated by the listing of Cook Inlet Beluga whales as endangered under the Endangered Species Act by the National Marine Fisheries Service. AWWU is cooperating with EPA in its efforts to evaluate whether the permit reissuance might affect the recovery of the whales. AWWU anticipates increased monitoring requirements in the permit renewal.

PHYSICAL PLANT: The John M. Asplund Wastewater Treatment Facility is one of the few facilities in the nation operating under an EPA waiver from secondary treatment. The primary treatment provided by this facility removes up to 80% of the solids from the influent wastewater meeting the criteria necessary for discharge to the marine waters of Cook Inlet.

The smaller Eagle River and Girdwood Wastewater Treatment facilities provide advanced secondary treatment prior to discharge to Eagle River and Glacier Creek respectively. These facilities remove up to 99% of the pollutants from the incoming wastewater prior to discharge.

In 2008, the Asplund Wastewater Treatment Facility treated an average 29.2 million gallons per day (mgd). The Eagle River Wastewater Treatment Facility treated an average 1.5 mgd and the Girdwood Wastewater Treatment Facility treated .5 mgd. The three

facilities have a design capacity of 61.1 mgd. The collection system has approximately 740 miles of lines.

The Asplund Facility, built in 1972, is Alaska's largest wastewater treatment plant. As wastewater treatment technology and the demands of community growth have developed over the last two decades, utility operators and engineers have kept pace. The Asplund plant was upgraded in 1982, and expanded and upgraded again in 1989. Ingenuity and vigilant maintenance have consistently enabled the Utility to operate this facility at its optimum level.

In conjunction with the permit renewal process, a facilities plan update was prepared in 1999. The facilities plan evaluated the existing condition of the Asplund facility and identified improvements necessary to meet the future needs of the community. The facilities plan identified \$15 million worth of improvements to the solids handling, headworks, administration, incineration, and thickening process areas of the facility. Construction of new solids handling improvements including sludge dewatering, storage and load out facilities was completed in 2001. Design of headworks improvements began in September 2002. Construction was completed in 2005. Other process and building improvements have been undertaken since 2006 which extend the life of the sludge incinerator and other treatment process equipment, as well as the building and laboratory facilities. Future projects to complete facility upgrades are identified in AWWU's Capital Improvement Program.

ANCHORAGE WATER & WASTEWATER UTILITY 2010 OPERATING & CAPITAL BUDGET ASSUMPTIONS

Below are the specific AWWU budget assumptions, used in the preparation of the Anchorage Water Utility and Anchorage Wastewater Utility 2010 Operating and Capital Budgets.

REGULATION

Assume continued economic regulation by Regulatory Commission of Alaska (RCA).

AUTHORITY

AWWU is now an Authority, governed by an appointed Board of Directors. Assume continued Authority status in 2010.

UTILITY OWNERSHIP

Assume continued Municipal ownership in 2010.

MUNICIPAL UTILITY SERVICE ASSESSMENT (MUSA)

Assume mill rate calculation for MUSA/MESA (in lieu of taxes) will be the same as 2009. Assume AWWU will prevail before the Superior Court on the 2004/2005 MUSA Rate Case.

INTEREST

Assume debt service for new State of Alaska loans to be 1.5%. Short-term interest income calculated assuming a rate of 2.0%.

INTRAGOVERNMENTAL CHARGES (IGCs)

Assume increase of 5%.

RATE INCREASES

Assume 2.5% rate increase for each Utility.

POPULATION

Assume customer growth of .031%.

COMPENSATION COSTS (Salaries and Benefits)

Assume AMEA increase in accordance with current labor agreement to be 3.2%, assume 3.0% for Plumbers (PLU). Plumbers contract expires 6/30/10. Assume Non-Reps and Execs mirror the AMEA agreement.

ANCHORAGE WATER AND WASTEWATER UTILITY HIGHLIGHTS AND FUTURE EVENTS

AWWU Continuous Improvement, Communication and Leaders of Change

AWWU has a mature continuous improvement program that was initiated in 1998 as the Excellence Adventure. An employee team guides the process and promotes internal and external communication under the vision of the AWWU Leadership Team. Working together successfully through a combination of Utility-wide re-engineering teams and Division teams, the employees and managers of AWWU continue to develop a more efficient and competitive business operation including a revitalized employee suggestion program. This success enabled rate increases to be deferred for a number of years by holding expenses down.

The Leaders of Change was formed in 2001 to leverage the energy and expertise of the strong AWWU supervisor group in moving continuous improvement into the day to day business of AWWU. This group has defined a process to help hire to the culture, developed a knowledge retention program for the entire Utility to help mitigate the impact of many impending retirements, and initiated supervisory training to fill supervisory skill gaps.

Girdwood Wastewater Treatment Plant Replacement

The tertiary wastewater treatment plant in Girdwood is currently at design capacity and has exceeded its useful life. The conclusion of a recent facility analysis recommends complete replacement of the facility and many of the outdated processes within the next few years. The project timing will also allow expansion of the planning horizon for growth in the Girdwood area. This project is in design with construction expected to begin in 2011. The total project costs for the new Girdwood plant are estimated to exceed \$50M.

Asplund Disinfection

The disinfection equipment used at the Asplund Wastewater Treatment Facility is at the end of its useful life and the current process of disinfection is becoming outdated. With supply costs rising at a rate of approximately 15% per year, newer technologies need to be explored and implemented. Additionally, the method currently in use poses concerns for security and potential new regulations which may limit the ability for use and mandate the need for the proposed change. This project is in the preliminary design phase with construction expected summer 2010. Total project costs are estimated to be \$9M.

Ship Creek Water Treatment Facility Heat Exchanger

The AWWU Ship Creek Water Treatment Facility is located adjacent to the ML&P George M. Sullivan Power Generation Plant (Sullivan plant). It is here the Eklutna water transmission main ties into the network of water mains serving the Anchorage Bowl. At a minimum depth of bury of 10 feet, winter freezing of unheated water in lines and the reservoirs they serve is a constant threat. The Sullivan plant has excess heat that cannot be reused and is considered "low value". AWWU's ability to take some of the excess heat from the Sullivan plant to heat Eklutna water will provide mutual benefit to ML&P, AWWU,

and their customers. Design is currently underway with construction scheduled for fall 2010. Total project costs are estimated to be approximately \$5M.

South Anchorage Water Improvement Projects (SAWIP)

The three projects that make up SAWIP will continue the initiative to supply Eklutna water to our customer base in South Anchorage, one of the fastest growing areas of the Municipality. Recommended in the 2005 Anchorage Water Master Plan, projects are underway for a new water transmission main and two new reservoirs, ranging from the initial planning stage to being in construction.

The first of these facilities to be constructed will be the Hillside Water Transmission Main (WTM). This project will extend a 24" water main 15,000 feet from Elmore Road at Abbott Road (Anchorage Loop Ph V) south to the existing booster station at Elmore Road and 135th Avenue. Construction on the Hillside WTM has commenced and completion is anticipated fall 2010. Total project costs for this phase are estimated to be \$17.5M.

A new 1 million gallon reservoir in the Goldenvue vicinity will provide fire, emergency, and operational storage for the AWWU system south of Rabbit Creek. It will be constructed adjacent to the existing 500 gallon reservoir southeast of Prominence Pointe. Construction is anticipated to begin by September with completion in fall 2010 with total project costs estimated to be less than \$7.5M.

Negotiations are currently underway to acquire the site for a new 5 million gallon reservoir near Elmore Road and Huffman Road. The proposed reservoir will be situated at an elevation that will maximize gravity pressure from the Eklutna Water Treatment Facility and eliminate the need for additional pumping. The new reservoir will serve the emergency demands, fire water supply, and operational needs of South Anchorage west of Elmore Road. Design is planned for 2010 with construction to begin spring 2011. Total project costs are estimated to be \$12.7M.

Girdwood Water Improvements

The final phase of the Girdwood Water Improvements project will expand water service beyond the Girdwood Townsite Area and school to complete a looped water system for the upper Girdwood Valley. Girdwood Water Improvements Phase 2B is currently scheduled for construction spring 2010 and total project costs are estimated to be \$6M.

Neighborhood projects

2010 begins the program of major water and sewer pipe rehabilitation work affecting large portions of neighborhoods. Through use of modern technology and equipment, AWWU has been documenting higher than usual maintenance requirements affecting pockets of subdivisions. Of particular concern are areas where maintenance digs find multiple failures associated with corrosion. Balancing the risk of failure with the costs associated with these large rehabilitation projects has become a primary focus of the Engineering Division. Water and sewer pipe renovation and rehabilitation projects in Wonder Park in East Anchorage, Bayshore in South Anchorage, and the Calais subdivision in Midtown are programmed over the next six years.

Aging Infrastructure

In addition to the major neighborhoods, several smaller water and sewer renovation and rehabilitation projects are scheduled to occur throughout the Anchorage Bowl, Northern Communities, and Girdwood. These projects are designed to replace aging infrastructure to maintain service levels. Water and sewer main rehabilitations, involving “trenchless” techniques such as microtunneling, directional drilling, sliplining, and cured-in-place are planned in addition to standard open-trench techniques.

NPDES Permit Renewal

The discharge permits for all three of AWWU's wastewater treatment facilities expired in 2005. Renewal applications were submitted to EPA prior to expiration. The Eagle River WWTF permit was reauthorized in May 2006. Re-authorizations for Girdwood WWTF and Asplund WWTF are under consideration by ADEC and EPA, respectively. Until new permits are issued, the plants operate under administrative extensions of the existing permits. The Asplund WWTF permit reissuance could be complicated by the listing of Beluga whales as endangered under the Endangered Species Act by the National Marine Fisheries Service (NMFS). EPA is obligated to consider whether the permit reissuance might affect the recovery of the whales, and will submit a biological evaluation to the NMFS providing a conclusion on the likelihood of the discharge permit renewal affecting the species and its critical habitat. AWWU is assisting EPA in this effort with contractor support. Following review of the EPA biological evaluation, NMFS will render a “biological opinion” regarding the effects of the discharge, and may apply conditions to the permit action. Such conditions could include increasing the level of treatment at the plant above the current level of primary treatment, which is authorized in the current permit under Section 301(h) of the Clean Water Act. We anticipate increased monitoring requirements in the permit renewal that may provide data for federal scientists to better understand the cause of the decline of the whales.

Information Technology

Enterprise Resource Planning and Customer Information & Billing Systems

AWWU will be continuing to look at its needs for an Enterprise Resource Planning tool that will provide the necessary Financial and Purchasing automation. This process will include a comprehensive assessment of current needs and result in an implementation plan to replace the aging existing system. In addition, the Utility will continue to enhance and upgrade its Customer Information and Billing System.

Technology Presentation of Utility Information

The IT Division will continue to integrate systems and relational databases through the use of Internet technology. The Utility will continue development and implementation of Intranet/Internet applications along with Geospatial enabling technologies. These applications and data are used to enhance communication and electronic reporting by allowing real-time access to dynamic data through the use of browser technology, creating an Intranet/Internet portal to the Utility's electronic information. The ability to access data

from different systems and present it in a straightforward manner through easy to use browser screens will improve Utility decision processes.

Utility Technology Hardware and Software Enhancements

AWWU will continue to upgrade its technology services to better serve the rate-payer. The Utility's telecommunications services, both voice and data, were upgraded to provide efficient and effective access to personnel and electronic information. Rate-payers will benefit by having faster access to the enriched set of services that include bill presentment and payment, the ability to publicly participate in capital projects, and otherwise communicate with the Utility in an interactive electronic manner. In addition, AWWU intends to continue to deploy and enhance its mobile technologies for field personnel. The purpose of enabling the field force with wireless technology is to better serve the public by providing electronically all the necessary documentation and information to serve the public need.

Customer Information Systems (CIS)

The Customer Service Division implemented their billing system from Ventyx, Inc. on September 1, 2005 providing customers with access to their accounts over the Internet and interactive voice response over the telephone. We are in the process of upgrading this software to a new release with a projected implementation date of April 1, 2010. Electronic bill presentment/payment will be available to our customers in January 2010. Customers will then have the option of receiving, reviewing, and paying their bills via e-mail.

The "Coins Can Count" program kicked off in July 2007 and we have collected over \$14,000 and assisted 52 families thus far in paying their water and/or wastewater bills. This voluntary program allows customers to round their bill up to the next dollar with the remaining change to fund a program for those AWWU customers in need. This program is in partnership with the Department of Health and Human Services for determining eligibility for the assistance.

Employee Services

The Employee Services Division has focused on safety related issues this year. We worked on several tasks such as the new Safety Manual and Emergency Response Plan. We have an increased presence in the field with more site assistance visits. In response to concerns regarding hearing conservation, we've purchased Dosimeters and we are now monitoring noise level exposures. We made improvements on how we handle our Material Safety Data Sheets (MSDS). We purchased an automated program, which will manage and update our Hazard Communication program. This program will give immediate hazard information to employees for every chemical they will use and will identify the proper protection equipment to use for employee safety. This division also monitors AWWU's compliance for the Disadvantage Business Enterprise/Women-Owned Minority Program (D/WBE).

The Employee Services Division will continue to explore enhancements to our systems and processes. We will continue to ensure human resources are in full compliance with all federal and state law requirements. We will continue to provide assistance to

businesses/contractors and vendors in the D/WBE Program, conduct an emergency response tabletop exercise for division directors, expand topics for Supervisor Academy Program, expand on safety related training topics to ensure regulatory compliance and to help reduce incident rates, and position and prepare notes for labor negotiations with the Plumbers and Pipefitters, Local 367.

Regulation

AWWU is subject to economic regulation by the Regulatory Commission of Alaska (RCA or Commission). The RCA regulates AWWU's tariff rules and rates.

AWWU currently has four open rate case dockets with the RCA. AWWU also intends to file additional rate increase requests for both Utilities effective no later than January 1, 2010.

2002 Test Year Rate Case (MUSA) — Rates Effective 2004 – 2005: Dockets U-04-22 / U-04-23

AWWU filed for interim and permanent rate increases for both its water and sewer utilities in 2004. Although most issues in the cases were settled based on a stipulated agreement with the Regulatory Affairs and Public Advocacy (RAPA) section of the Attorney General's (AG) office in mid 2005, the issue of Municipal Utility Service Assessment (MUSA) on contributed plant included in rates was rejected by the RCA. Reconsideration of this decision was denied by the RCA and their decision was upheld in a subsequent appeal to the State Superior Court. AWWU and the MOA continue to strongly believe that this order was in error and filed a final appeal of the Commission decision to the Supreme Court of the State of Alaska.

On May 8, 2009, the Supreme Court of the State of Alaska found "no reasonable basis in the record" for the 2005 determination by the RCA that MUSA associated with contributed utility plant could not be collected in AWWU rates. The Court remanded the case to the RCA for further proceedings to make a determination on the merits of the reasonableness of AWWU's proposed rate increase.

On May 18, 2009, AWWU filed a motion for clarification of the Court's decision as to the scope of the remand and the law that is to be applied. The AG filed limited opposition to AWWU's motion on May 28, 2009. The AG did not oppose AWWU's motion for clarification of the scope and law to be applied, but did oppose suggestions by AWWU regarding the interpretation of the remand. The AG also requested clarification as to whether the RCA is to make a determination based on the current evidentiary record, reopen the evidentiary record to make a determination, or if the RCA should be allowed to exercise its own discretion in the matter regarding the evidentiary record.

The Alaska Supreme Court has not yet responded to the motions from AWWU or the AG.

2007 Test Year Rate Case — Rates Effective 2009: Dockets U-08-157 / U-08-158

In November 2008, AWWU filed Revenue Requirement Studies (RRS) for both its water and wastewater utilities to increase rates on an interim and permanent basis. RAPA has filed testimony opposing a number of items in both RRS, including AWWU's proposed rate

of return, payroll expense, and adjustments to true up the timing of project closures to plant. A hearing is scheduled at the RCA beginning on September 21, 2009. A final decision on the outcome of these cases is expected in early 2010.

2008 Test Year Rate Case — Rates Effective 2010: No Docket Numbers Assigned

AWWU has completed preliminary draft analyses of potential rate changes based on a 2008 test year RRS. The estimated rate changes have been incorporated into the preliminary 2010-2011 budget. AWWU will request Assembly approval to submit calculated rate increases to the RCA. AWWU plans to request interim and refundable rate increases become effective no later than January 1, 2010.

Financial Management Goals/Long Range Financial Plan

In 2008, AWWU's Board of Directors established financial goals to address the competing needs of public health, environmental stewardship, community growth and economic development, customer service, workforce development, and return on investment to the Municipality. In keeping with these goals, the AWWU Board of Directors passed Board Resolution 2008-7(s) establishing financial management goals for AWWU.

AWWU staff undertook the initiative to develop a long range financial plan to address the financial management goals established by the Board of Directors. A financial policy model was constructed and multiple scenarios were tested and presented to the Board of Directors.

On September 3, 2008, the Board of Directors passed Board Resolution 2008-16(s) establishing the long range financial plan for AWWU.

The financial policy model and the long range financial plan are integral components of the annual budget process. The model is updated annually with the previous year's financial results, current economic regulation requirements, and growth and earning assumptions. The budget is then developed using the model to ensure compliance with the established financial management goals.

ANCHORAGE WATER & WASTEWATER UTILITY WORK FORCE PROJECTIONS

DIVISIONS	2007	2008	2009	2010	2011	2012	2013	2014	2015
GM	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
IT	17.0	17.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0
O & M	85.5	85.5	85.5	85.5	85.5	85.5	85.5	85.5	85.5
TRMT	62.0	62.0	62.0	62.0	62.0	62.0	62.0	62.0	62.0
FIN	26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0
ES	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
CS	42.0	42.0	42.0	42.0	42.0	42.0	42.0	42.0	42.0
ENG	33.0	34.0	38.0	38.0	38.0	38.0	38.0	38.0	38.0
TOTAL FULL TIME	277.0	278.0	283.0	283.0	283.0	283.0	283.0	283.0	283.0
TEMPORARY FTE'S	3.5	4.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
TOTAL FTE'S	280.5	282.5	286.5	286.5	286.5	286.5	286.5	286.5	286.5
INTERNS	3.5	6.5	7.0	7.0	7.0	7.0	7.0	7.0	7.0

ANCHORAGE WATER UTILITY

11-YEAR SUMMARY

UTILITY FORMAT - 2010 OPERATING BUDGET (\$ in Thousands)

	Actual				Proforma	Budget	Forecast				
Financial Overview	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenues	39,214	39,903	45,427	46,251	48,080	48,780	52,920	57,730	61,050	64,760	67,390
Expenses and Transfers	35,862	36,623	40,544	44,787	45,829	48,155	49,880	51,950	54,960	58,000	60,030
Net Income (Loss)	3,353	3,281	4,883	1,463	2,251	625	3,040	5,780	6,090	6,760	7,360
Dividend to General Government	0	0	0	0	0	0	800	1,600	1,907	2,010	2,231
Increase in Net Assets	3,353	3,281	4,883	1,463	2,251	625	2,240	4,180	4,183	4,750	5,129
Workforce Authorized per Budget	268.5	277.5	280.5	282.5	286.5	286.5	286.5	286.5	286.5	286.5	286.5
Capital Improvement Program	22,255	33,500	35,000	32,400	34,000	35,530	40,970	40,800	42,500	42,500	41,600
New Debt	2,024	6,875	77,925	9,175	9,600	14,400	16,600	16,500	58,200	17,200	16,800
Net Plant (12/31)	380,505	382,624	409,365	433,285	447,010	463,114	484,968	505,958	527,663	548,628	568,088
Net Assets (12/31)	64,889	68,170	73,053	74,516	76,767	77,392	79,632	83,812	87,995	92,745	97,874
Operating Cash	14,804	14,232	18,167	17,122	12,529	7,869	5,007	5,447	5,955	5,643	5,765
Construction Cash Pool	0	0	0	36,684	30,962	24,938	14,713	2,033	29,108	14,183	2,623
Restricted Cash	5,684	5,180	54,834	3,253	0	0	0	0	0	0	0
Total Cash	20,488	19,412	73,002	57,060	43,490	32,806	19,720	7,480	35,064	19,826	8,388
IGC's - General Government	1,370	1,371	1,060	1,111	1,300	1,360	1,418	1,479	1,543	1,609	1,678
MUSA	5,731	5,478	5,259	5,763	6,358	6,650	6,900	7,230	7,540	7,870	8,180
CCP Borrowings from Gen'l Govt.	4,118	11,525	194	0	0	0	0	0	0	0	0
Total Outstanding LT Debt	122,451	117,389	191,482	197,152	199,968	207,783	217,371	225,061	273,357	277,585	283,713
Total Annual Debt Service	11,806	12,053	11,940	14,377	16,027	17,370	18,076	20,409	22,938	27,545	25,696
Debt Service Coverage (Revenue)	1.98	1.96	2.20	1.40	1.57	1.36	1.62	1.79	1.82	1.63	2.17
Debt/Equity Ratio	64 / 36	63 / 37	72 / 28	73 / 27	72 / 28	73 / 27	73 / 27	73 / 27	76 / 24	75 / 25	74 / 26
Rate Change Percent	7.76%	8.90%	7.00%	0.00%	7.00%	2.50%	8.00%	9.10%	5.30%	5.00%	3.70%
Single Family Rate	\$31.30	\$34.10	\$36.50	\$36.50	\$39.06	\$40.03	\$43.23	\$47.17	\$49.67	\$52.15	\$54.08
Statistical/Performance Trends:											
Number of Accounts	53,906	54,316	54,525	54,697	55,107	55,278	55,693	56,110	56,531	56,955	57,382
Average Treatment (GPD) (000)	27,600	26,000	25,300	23,300	23,470	23,540	23,720	23,900	24,080	24,260	24,440
Miles of Water Lines	820	826	828	828	834	837	843	849	856	862	869
Number of Hydrants	6,839	7,030	7,130	7,021	7,074	7,096	7,149	7,202	7,256	7,311	7,366

**ANCHORAGE WATER UTILITY
STATEMENT OF REVENUES AND EXPENSES**

	2008 ACTUAL	2009 PROFORMA	2010 BUDGET
OPERATING REVENUES			
CHARGES FOR SERVICES	41,921,180	45,400,000	46,600,000
MISCELLANEOUS	1,135,708	1,250,000	1,250,000
TOTAL OPERATING REVENUES	43,056,888	46,650,000	47,850,000
OPERATING EXPENSES			
SOURCE OF SUPPLY	2,633,254	2,725,000	25,025,000
TREATMENT	4,187,959	6,222,000	
TRANSMISSION	5,795,812	4,600,000	
CUSTOMER ACCOUNTS	2,391,825	2,202,000	
GENERAL & ADMINISTRATIVE	7,617,978	7,842,000	
DEPRECIATION	7,442,828	7,400,000	8,000,000
MUSA	5,762,882	6,358,000	6,650,000
TOTAL OPERATING EXPENSES	35,832,538	37,349,000	39,675,000
OPERATING INCOME	7,224,350	9,301,000	8,175,000
NON-OPERATING REVENUE			
RENTAL INCOME	45,358	30,000	30,000
INTERGOVERNMENTAL REVENUE	664,439	-	-
TRANS FRM MEDICAL/DENTAL FUND	162,315	-	-
INTEREST INCOME, NET	990,083	1,400,000	900,000
SPECIAL ITEM - NPO/OPEB REVERSAL	1,331,430	-	-
TOTAL NON-OPERATING REVENUE	3,193,625	1,430,000	930,000
NON-OPERATING EXPENSE			
AMORTIZATION	705,980	700,000	700,000
INTEREST	8,759,667	8,400,000	8,400,000
CAPITALIZED INTEREST	(510,930)	(620,000)	(620,000)
TOTAL NON-OPERATING EXPENSE	8,954,717	8,480,000	8,480,000
NET NON-OPERATING EXPENSE	(5,761,092)	(7,050,000)	(7,550,000)
NET INCOME	1,463,258	2,251,000	625,000
DIVIDEND TO GENERAL GOVERNMENT	-	-	-
INCREASE IN NET ASSETS	1,463,258	2,251,000	625,000

ANCHORAGE WATER UTILITY STATEMENTS OF CASH FLOW

	2008 ACTUAL	2009 PROFORMA	2010 BUDGET
SOURCES OF CASH:			
NET INCOME	1,463,258	2,251,000	625,000
REVERSE: DEPRECIATION	7,442,828	7,400,000	8,000,000
REVERSE: AMORTIZATION	705,980	700,000	700,000
BOND PROCEEDS	-	-	-
STATE LOANS	9,174,912	9,600,000	14,400,000
GRANTS	2,408,165	2,000,000	2,000,000
OTHER	33,692	355,000	152,000
TOTAL SOURCES OF CASH FUNDS	21,228,835	22,306,000	25,877,000
USES OF CASH:			
ADDITIONS TO PLANT	31,521,583	26,130,000	29,026,000
PAYMENT ON CASH POOL LOAN	194,445	-	-
DEBT PRINCIPAL PAYMENT	5,455,124	6,245,000	7,285,000
TOTAL USES OF CASH FUNDS	37,171,152	32,375,000	36,311,000
NET INCREASE (DECREASE) IN CASH	(15,942,317)	(10,069,000)	(10,434,000)
CASH BALANCE JANUARY 1	73,001,872	57,060,000	46,991,000
CASH BALANCE DECEMBER 31	57,059,555	46,991,000	36,557,000
DETAIL OF CASH BALANCE:			
EQUITY IN CAPITAL ACQUISITION ACCT	36,684,410	30,962,000	24,938,000
RESTRICTED CASH ACCOUNTS	3,252,715	3,500,000	3,750,000
EQUITY IN GENERAL CASH POOL	17,122,430	12,529,000	7,869,000
TOTAL CASH DECEMBER 31	57,059,555	46,991,000	36,557,000

**ANCHORAGE WATER UTILITY
2010 OPERATING BUDGET DETAIL**

	2008 ACTUAL	2009 PROFORMA	2009 BUDGET	2010 BUDGET
LABOR				
Wages	8,622,247	9,755,000	9,696,000	9,081,500
Benefits	5,648,801	5,545,000	5,243,000	6,054,500
Subtotal	14,271,048	15,300,000	14,939,000	15,136,000
SUPPLIES				
Chemicals	298,271	375,000	490,000	495,000
Plant, Shop, & Office Expense	1,732,984	1,440,000	1,923,000	1,753,000
Subtotal	2,031,255	1,815,000	2,413,000	2,248,000
INTRAGOVERNMENTAL CHARGES				
Finance Dept	216,262	320,000	354,000	441,500
Information Technology Dept	386,106	475,000	400,000	418,000
Employee Relations Dept	131,404	110,000	150,000	130,000
Other	376,736	395,000	350,000	370,000
Subtotal	1,110,508	1,300,000	1,254,000	1,359,500
OTHER SERVICES				
Charitable Contributions	96,483	85,000	100,000	-
Professional Services	940,442	637,000	850,000	731,000
Rent/Leases	879,677	850,000	825,000	901,000
Utilities	2,207,895	2,465,000	3,072,000	3,156,000
Contracted Mtnce/Repair	1,048,335	950,000	763,000	1,204,500
Insurance	86,674	92,000	85,000	108,000
Other Services/Charges	884,745	747,000	645,000	831,000
Operating Expense Transfer to CWIP	(930,234)	(650,000)	(650,000)	(650,000)
Subtotal	5,214,017	5,176,000	5,690,000	6,281,500
OTHER EXPENSES				
Depreciation	7,442,828	7,400,000	7,950,000	8,000,000
MUSA	5,762,882	6,358,000	6,050,000	6,650,000
Interest Expense	8,759,667	8,400,000	8,300,000	8,400,000
Capitalized Interest	(510,930)	(620,000)	(840,000)	(620,000)
Amort Deferred Debits/Discounts	705,980	700,000	600,000	700,000
Subtotal	22,160,427	22,238,000	22,060,000	23,130,000
TOTAL EXPENSES	44,787,255	45,829,000	46,356,000	48,155,000

ANCHORAGE WATER UTILITY
2010 - 2015 CAPITAL IMPROVEMENT PROGRAM
FINANCIAL SUMMARY
(In thousands of dollars)

	2010	2011	2012	2013	2014	2015	Total
TOTAL, AWWU-funded and Other	35,530	40,970	40,800	42,500	42,500	41,600	243,900
LESS: Funded by Grants & Other	2,000	2,000	2,000	2,000	2,000	2,000	12,000
BALANCE: AWWU-funded	33,530	38,970	38,800	40,500	40,500	39,600	231,900

PROJECT CATEGORY

General Plant	17,534	11,800	10,350	7,398	8,030	8,112	63,224
Repair & Rehabilitation	10,781	12,085	28,035	31,517	29,124	28,773	140,315
Transmission/Distribution	5,215	15,085	415	1,585	3,346	2,715	28,361
Improvement Districts	-	-	-	-	-	-	-
TOTAL AWWU-funded	33,530	38,970	38,800	40,500	40,500	39,600	231,900
Imp. Dists & Grants	2,000	2,000	2,000	2,000	2,000	2,000	12,000
TOTAL	35,530	40,970	40,800	42,500	42,500	41,600	243,900

SOURCE OF FUNDING

Debt	27,530	32,970	35,300	37,500	38,500	34,600	206,400
Equity	6,000	6,000	3,500	3,000	2,000	5,000	25,500
Subtotal	33,530	38,970	38,800	40,500	40,500	39,600	231,900
Imp. Dists & Grants	2,000	2,000	2,000	2,000	2,000	2,000	12,000
TOTAL	35,530	40,970	40,800	42,500	42,500	41,600	243,900

ANCHORAGE WASTEWATER UTILITY

11-YEAR SUMMARY

UTILITY FORMAT - 2010 OPERATING BUDGET (\$ in Thousands)

	Actual				Proforma	Budget	Forecast				
Financial Overview	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenues	29,168	31,538	36,218	36,832	37,550	38,470	42,310	46,450	49,040	52,300	55,180
Expenses and Transfers	26,729	27,988	31,883	35,425	35,307	37,876	39,610	41,640	44,780	47,760	50,510
Net Income (Loss)	2,439	3,550	4,335	1,407	2,243	594	2,700	4,810	4,260	4,540	4,670
Dividend to General Government	0	0	0	0	0	0	800	1,600	1,587	1,406	1,498
Increase (Decrease) in Net Assets	2,439	3,550	4,335	1,407	2,243	594	1,900	3,210	2,673	3,134	3,172
Workforce Authorized per Budget	268.5	277.5	280.5	282.5	286.5	286.5	286.5	286.5	286.5	286.5	286.5
Capital Improvement Program	19,988	26,221	27,344	21,600	25,600	30,780	40,620	31,980	33,540	33,540	35,100
New Debt (Bonds, Loan Fund)	3,239	2,653	44,851	12,111	10,000	14,000	18,000	14,000	50,000	15,000	16,000
Net Plant (12/31)	273,169	272,975	282,918	292,164	310,372	317,792	337,569	361,805	385,641	402,801	420,745
Net Assets (12/31)	45,337	48,887	53,222	54,629	56,872	57,466	59,366	62,576	65,249	68,383	71,555
Operating Cash	7,853	8,596	13,899	15,626	13,293	9,474	4,950	4,386	4,832	4,530	4,772
Construction Cash Pool	0	0	0	14,208	11,008	12,618	15,901	3,218	24,709	17,200	9,365
Restricted Cash	1,069	969	28,149	426	0	0	0	0	0	0	0
Total Cash	8,923	9,565	42,048	30,260	24,301	22,091	20,851	7,604	29,541	21,730	14,137
IGC's - General Government	1,324	1,126	1,011	1,140	1,300	1,360	1,418	1,479	1,543	1,609	1,678
MUSA	4,080	4,068	3,868	4,089	4,407	4,700	4,810	5,110	5,480	5,840	6,100
CCP Borrowings from Gen'l Govt.	3,541	10,185	8,930	0	0	0	0	0	0	0	0
Total Outstanding LT Debt	65,949	62,066	104,919	113,532	119,686	130,202	144,639	154,335	199,488	207,852	216,522
Total Annual Debt Service	9,292	7,786	5,668	8,400	10,125	9,326	9,876	11,321	13,157	16,397	17,676
Debt Service Coverage (Revenue)	9.40	9.77	5.67	2.88	2.84	2.61	3.28	4.01	3.53	2.81	3.04
Debt/Equity Ratio	56 / 44	53 / 47	64 / 36	66 / 34	66 / 34	68 / 32	70 / 30	71 / 29	75 / 25	75 / 25	75 / 25
Rate Change Percent	6.83%	4.01%	9.50%	0.00%	6.50%	2.50%	9.50%	9.50%	5.20%	5.60%	5.00%
Single Family Rate	\$23.75	\$26.30	\$28.75	\$26.80	\$28.54	\$29.26	\$32.03	\$35.08	\$36.90	\$38.97	\$40.92
Statistical/Performance Trends:											
Number of Accounts	54,892	55,272	55,470	55,635	56,052	56,226	56,648	57,073	57,501	57,932	58,366
Average Treatment (GPD) (000)	30,170	30,060	29,400	31,200	31,430	31,530	31,770	32,010	32,250	32,490	32,730
Miles of Wastewater Lines	717	721	723	743	749	751	757	762	768	774	779

ANCHORAGE WASTEWATER UTILITY

STATEMENT OF REVENUES AND EXPENSES

	2008 ACTUAL	2009 PROFORMA	2010 BUDGET
OPERATING REVENUES			
CHARGES FOR SERVICES	33,269,254	35,500,000	36,500,000
MISCELLANEOUS	1,311,881	1,300,000	1,400,000
TOTAL OPERATING REVENUES	34,581,135	36,800,000	37,900,000
OPERATING EXPENSES			
COLLECTION	3,778,334	3,810,000	24,376,000
TREATMENT	8,076,071	9,089,000	
CUSTOMER ACCOUNTS	1,842,958	1,998,000	
GENERAL & ADMINISTRATIVE	7,696,199	7,953,000	
DEPRECIATION	6,230,703	4,400,000	5,200,000
MUSA	4,088,967	4,407,000	4,700,000
TOTAL OPERATING EXPENSES	31,713,232	31,657,000	34,276,000
OPERATING INCOME	2,867,903	5,143,000	3,624,000
NON-OPERATING REVENUE			
INTEREST INCOME, NET	217,437	750,000	570,000
INTERGOVERNMENTAL REVENUE	637,983	-	-
TRANS FRM MEDICAL/DENTAL FUND	155,950	-	-
SPECIAL ITEM - NPO/OPEB REVERSAL	1,239,409	-	-
TOTAL NON-OPERATING REVENUE	2,250,779	750,000	570,000
NON-OPERATING EXPENSE			
AMORTIZATION	131,703	130,000	130,000
INTEREST	4,150,149	4,070,000	4,170,000
CAPITALIZED INTEREST	(570,418)	(550,000)	(700,000)
TOTAL NON-OPERATING EXPENSE	3,711,434	3,650,000	3,600,000
NET NON-OPERATING EXPENSE	(1,460,655)	(2,900,000)	(3,030,000)
NET INCOME	1,407,248	2,243,000	594,000
DIVIDEND TO GENERAL GOVERNMENT	-	-	-
INCREASE IN NET ASSETS	1,407,248	2,243,000	594,000

**ANCHORAGE WASTEWATER UTILITY
STATEMENTS OF CASH FLOW**

	2008 ACTUAL	2009 PROFORMA	2010 BUDGET
SOURCES OF CASH:			
NET INCOME	1,407,248	2,243,000	594,000
REVERSE: DEPRECIATION	6,230,703	4,400,000	5,200,000
REVERSE: AMORTIZATION	131,703	130,000	130,000
BOND PROCEEDS	-	-	-
STATE LOANS	12,111,434	10,000,000	14,000,000
GRANTS	797,334	1,000,000	1,000,000
OTHER	179,522	144,000	146,000
TOTAL SOURCES OF CASH FUNDS	20,857,944	17,917,000	21,070,000
USES OF CASH:			
ADDITIONS TO PLANT	20,102,448	19,450,000	19,640,000
PAYMENT ON CASH POOL LOAN	8,929,611	-	-
DEBT PRINCIPAL PAYMENT	3,086,745	3,976,000	3,614,000
TOTAL USES OF CASH FUNDS	32,118,804	23,426,000	23,254,000
NET INCREASE (DECREASE) IN CASH	(11,260,860)	(5,509,000)	(2,184,000)
CASH BALANCE JANUARY 1	41,520,837	30,260,000	24,751,000
CASH BALANCE DECEMBER 31	30,259,977	24,751,000	22,567,000
DETAIL OF CASH BALANCE:			
EQUITY IN CAPITAL ACQUISITION ACCT	14,207,631	11,008,000	12,618,000
RESTRICTED CASH ACCOUNTS	426,029	450,000	475,000
EQUITY IN GENERAL CASH POOL	15,626,317	13,293,000	9,474,000
TOTAL CASH DECEMBER 31	30,259,977	24,751,000	22,567,000

**ANCHORAGE WASTEWATER UTILITY
2010 OPERATING BUDGET DETAIL**

	2008 ACTUAL	2009 PROFORMA	2010 BUDGET
LABOR			
Wages	7,999,375	8,095,000	8,534,400
Benefits	5,240,382	5,397,000	5,689,600
Subtotal	13,239,757	13,492,000	14,224,000
SUPPLIES			
Chemicals	853,343	890,000	896,500
Plant, Shop, & Office Expense	1,569,269	1,436,000	1,572,700
Subtotal	2,422,612	2,326,000	2,469,200
INTRAGOVERNMENTAL CHARGES			
Finance Dept	243,988	320,000	441,500
Information Technology Dept	386,102	475,000	418,000
Employee Relations Dept	131,404	110,000	130,000
Other	378,540	395,000	370,000
Subtotal	1,140,034	1,300,000	1,359,500
OTHER SERVICES			
Charitable Contributions	95,608	85,000	-
Professional Services	1,069,295	1,121,000	1,504,000
Rent/Leases	717,839	727,000	724,300
Utilities	1,874,544	2,850,000	2,642,000
Contracted Mtnce/Repair	800,177	519,000	953,000
Insurance	86,674	90,000	91,600
Other Services/Charges	1,011,148	1,040,000	1,058,400
Operating Expense Transfer to CWIP	(1,064,126)	(700,000)	(650,000)
Subtotal	4,591,159	5,732,000	6,323,300
OTHER EXPENSES			
Depreciation	6,230,703	4,400,000	5,200,000
MUSA	4,088,967	4,407,000	4,700,000
Interest Expense	4,150,149	4,070,000	4,170,000
Capitalized Interest	(570,418)	(550,000)	(700,000)
Amort Deferred Debits/Discounts	131,703	130,000	130,000
Subtotal	14,031,104	12,457,000	13,500,000
TOTAL EXPENSES	<u>35,424,666</u>	<u>35,307,000</u>	<u>37,876,000</u>

ANCHORAGE WASTEWATER UTILITY
2010 - 2015 CAPITAL IMPROVEMENT PROGRAM
FINANCIAL SUMMARY
(In thousands of dollars)

	2010	2011	2012	2013	2014	2015	Total
TOTAL, AWWU-funded and Other	30,780	40,620	31,980	33,540	33,540	35,100	205,560
Less: Funded by Grants & Other	1,000	6,000	6,000	2,000	2,000	2,000	19,000
BALANCE: AWWU-funded	29,780	34,620	25,980	31,540	31,540	33,100	186,560

PROJECT CATEGORY

General Plant	19,600	31,690	3,786	16,644	11,716	5,069	88,505
Repair & Rehabilitation	10,080	2,830	22,044	14,726	17,879	24,266	91,825
Transmission/Distribution	100	100	150	170	1,945	3,765	6,230
Improvement Districts	-	-	-	-	-	-	-
TOTAL AWWU-funded	29,780	34,620	25,980	31,540	31,540	33,100	186,560
Imp. Dists & Grants	1,000	6,000	6,000	2,000	2,000	2,000	19,000
TOTAL	30,780	40,620	31,980	33,540	33,540	35,100	205,560

SOURCE OF FUNDING

Debt	23,780	26,120	20,480	27,540	27,540	29,100	154,560
Equity	6,000	8,500	5,500	4,000	4,000	4,000	32,000
Subtotal	29,780	34,620	25,980	31,540	31,540	33,100	186,560
Imp. Dists & Grants	1,000	6,000	6,000	2,000	2,000	2,000	19,000
TOTAL	30,780	40,620	31,980	33,540	33,540	35,100	205,560