

SIX YEAR FISCAL PROGRAM

2002 - 2007



Municipality of Anchorage

George Wuerch
Mayor

***2002 - 2007
SIX YEAR FISCAL PROGRAM
MUNICIPALITY OF ANCHORAGE***

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September 28, 2001

Dear Residents of Anchorage:

I am pleased to present the Six Year Fiscal Program for years 2002-2007. 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.

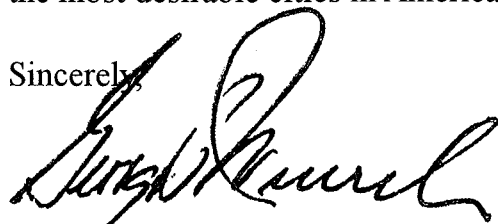
Anchorage's future remains bright. Anchorage citizens and businesses alike continue to exhibit confidence in our City. The growth and diversification of Anchorage's economy has continued and remains strong with low inflation, low unemployment and low interest rates.

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 economic 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.

Sincerely,

A handwritten signature in black ink, appearing to read "George P. Wuerch", written in a cursive style.

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, there are a number of alternative sources available at Municipal libraries, such as:

- Anchorage Indicators
- Comprehensive Annual Financial Report
- General Government Operating Budget
- General Government Capital Budget/Program
- Municipal Utilities Operating Budget and Capital Budget/Program

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.

2002 - 2007

SIX YEAR FISCAL PROGRAM

TABLE OF CONTENTS

<u>Section</u>	<u>Description</u>	<u>Page</u>
	Mayor's Letter	
	Preface	i
1.	EXECUTIVE SUMMARY	1 - 1
2.	BACKGROUND	
	• Fiscal Efficiency	2 - 1
	• Public Safety	2 - 2
	• Economic Development	2 - 2
	• Livable City	2 - 5
	• Public/Private Partnership	2 - 5
	• Fiscal Stability	2 - 6
	• New Construction and Enhanced Infrastructure	2 - 7
	• Improved Government Processes	2 - 8
	• Budgets	2 - 9
	• Budget Trends	2 - 10
3.	ECONOMIC TRENDS AND OUTLOOK	
	• Major Economic Indicators (Population, Inflation, Assessed Valuations, New Construction)	3 - 2
	• Major Opportunities/Concerns	3 - 6

<u>Section</u>	<u>Description</u>	<u>Page</u>
4.	PUBLIC SERVICES AND CAPITAL PROJECT FUNDING	
	• State Revenues (Operating and Capital)	4 - 1
	• Tax Cap Limit	4 - 4
	• Spending Limitation	4 - 4
	• Anchorage School District	4 - 4
5.	FISCAL PROJECTIONS AND POTENTIAL STRATEGIES	
	<u>Projections:</u>	
	• Six Year Projection of Revenues and Expenditures	5 - 1
	<u>Potential Strategies:</u>	
	• Broadened Tax Base Through Economic Development	5 - 4
	• Expenditure Options	5 - 5
	• Revenue Options	5 - 6
6.	CONCLUSION	6 - 1

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1. EXECUTIVE SUMMARY

The 2002-2007 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.

Issues to consider include:

Maximum Return for Tax Dollars Spent — A priority for this Administration is ensuring Anchorage taxpayers get value for tax dollars spent on municipal services.

Although Anchorage taxes are among the lowest in the nation, we must strive to be efficient with the resources available to us. Local government must continue to offer its services to the public as efficiently as possible.

Public Safety — Public Safety continues as a prime focus of this administration. The threat of a wildfire on the hillside areas and all too frequent apartment complex fires are receiving the attention and resources of the Anchorage Fire Department. The issue of alcohol related offenses continues to be a priority for the Municipality as well.

The potential for a wildfire on the hillside areas of Anchorage, Eagle River/Chugiak, and Girdwood poses a significant threat to the safety of our residents in these areas. In recent years the spruce bark beetle kill has heightened this threat. A multi-pronged offense has been mounted to minimize the exposure to wildfire. An education campaign was launched to provide residents with information on steps they can take to lessen their

exposure. Chipping services and wood lots were set up to help clear beetle kill trees. Additional equipment has been acquired to assist with prevention and suppression efforts, thanks in large part to Federal grant assistance.

Alcohol related offenses, particularly DUI, domestic violence, and sexual assault have received much needed attention from the community as a whole and the public safety/criminal justice sector in particular.

Construction of a new state jail and inebriate drop off center for Anchorage is scheduled for completion in April 2002. When finished, the facility will provide our public safety and public health officials with the tools to more effectively and efficiently deal with some of our social and criminal problems.

Renovation of the Anchorage Emergency Operations Center was recently completed. Although the center has been the location for several exercises, it was successfully activated following the September 11, 2001 terrorist attacks on New York and Washington, D.C.

Quality of Life — Anchorage and Alaska abound with unique cultural and recreational activities and opportunities. We will focus on maintaining our existing municipal facilities and encourage non-tax supported development of other venues. These include the planned expansion of the Anchorage Museum of History and Art and the Cuddy Family Midtown Park, which are possible due to generous donations from the Rasmuson Foundation and the Cuddy family respectively.

Economic Growth and Opportunities — The outlook for Anchorage's economy is one of continued stable growth. Historically, the Anchorage economy has run counter-cyclical to the rest of the country and that appears to be the case now. Job growth, as forecast by the State of Alaska Department of Labor and the Anchorage Economic Development Corporation should be in the 2.3% to 2.7% range annually for Anchorage.

Major driving forces in Anchorage's future economic growth include: Anchorage-based international freight and logistics operations, convention and tourism industry, oil and gas industry, health care industry and our universities. As these sectors grow in the future so will the level of growth in new construction, both residential and commercial. To accommodate expanded construction growth, the Municipality's permitting processes are being improved through technology enhancements.

Fiscal Projections — The six year fiscal projections 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) negligible growth in expenditures,

and (3) priority public services maintained at year 2001 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.

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2. BACKGROUND

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

- Efficiencies
- Public Safety
- Economic Development
- Livable City
- Public/Private Partnership
- Fiscal Stability
- New Construction and Enhanced Infrastructure
- Improved Government Processes
- Budgets
- Budget Trends

Efficiencies

To meet the challenge of balancing spending with available revenues, the Administration has spent considerable time and effort in the past 15 months to "thinking outside the box." Through departmental reorganization and increased use of technology, numerous changes have been made in the way the Municipality does its business.

Municipal departments have been organized into four teams: Administration, Public Safety, Operations, and Enterprise Activities. Within these teams, departments have been aligned based on functionality. For example, because of the close relationship between the Planning Department and Development Services, these departments are under one umbrella department called the Office of Planning, Development, and Public Works. The result of this reorganization is a more closely coordinated development process that saves the Municipality money and creates a more efficient permitting process for builders and developers.

As part of the shift to e-Government, many paper-based permitting functions can now be accomplished on-line. For instance, inspections may now be requested through the

Internet. Soon, plan review comments will also be available on-line and rezone application files are available via the internet. Future plans call for some permit applications to be available on line as well.

In addition, taxpayers can now pay their taxes with a credit card via the Internet.

Public Safety

This Administration, with the support of the Municipal Assembly, continues to improve public safety for our citizens.

The Anchorage Police Department has reorganized with an emphasis on "Citizens First". To accomplish this, a community policing squad was created by which an officer is assigned to specific police beats for the purpose of attending community councils, visiting classrooms, attending PTA and PTSA and other civic and community meetings for the purpose of sharing crime prevention strategies.

Last year a comprehensive audit was performed on the Fire Department. The final report contained 112 recommendations, most of which have been or are in the process of implementation. When fully implemented, fire suppression capabilities will be significantly improved. One of the primary recommendations of the audit was to strengthen fire prevention services. That has become a major focus, especially in light of the potential for wildfires on the hillside areas and the unacceptable number of apartment complex fires Anchorage has experienced in the past 2 years.

In January 2000, the Office of Emergency Management moved into a new Emergency Operations Center. The new center gives the Municipality the ability to deal more effectively with any disasters that may arise in the future. It was put to a successful test when it was activated immediately after the terrorist attacks on September 11, 2001.

Economic Development

Anchorage's unique geographic location, diversified business community, transportation infrastructure, and access to natural resources make our City a center of business opportunity for global trade and tourism and for business within Alaska. Over the past several years Anchorage's economy has grown and diversified significantly thereby providing a more stable tax base and contributing to a positive economic outlook. We intend to continue to pursue opportunities in the future that will expand and diversify the Anchorage economy consistent with maintaining our quality of life.

The Oil and Gas industry. This industry will continue to play a major, positive role in Anchorage's growing economy. Development of smaller fields on the North Slope, new discoveries in Cook Inlet, the possibility of opening ANWR for exploration, and the creation of a joint gas pipeline study group are all positive developments for Anchorage.

Development of smaller North Slope oil fields will continue, Alpine and Northstar fields are on line and the new Meltwater field is expected to come on line in 2002. New discoveries by Forest Oil and Union Oil Companies will help breathe new life into the Cook Inlet oil fields.

The prospect of drilling for oil within the coastal plain of the Arctic National Wildlife Refuge appears more likely now than at any time previously. The U. S. House of Representatives passed an energy bill this year that includes a provision for opening the coastal plain to drilling. Support for drilling is gaining momentum in the Senate, and there is growing sentiment to increase the domestic supply of oil after the attacks on the World Trade Center and Pentagon.

BP, Exxon, and Phillips will invest \$75 million to study the construction of a natural gas pipeline. Feasibility, engineering and environmental studies will be performed over the next two years.

Ted Stevens Anchorage International Airport (AIA). The Airport's 10-year "Gateway Alaska" plan is well underway. When completed, the program will cost in excess of \$350 million. Improvements to the primary access route to the airport to meet current and projected traffic demands, are nearly complete. Despite some delays, terminal and airside/landside improvements are currently under construction, including an Alaska Railroad terminal. These improvements represent the largest construction project in Anchorage at this time. Construction activity will continue into 2004.

AIA is key to economic growth in Anchorage. As the State's #1 transportation hub, AIA serves over 5 million passengers per year and provides over 6,200 jobs in Anchorage. AIA has become a vital business center and Alaska's link to the world.

Air Cargo Industry. Air cargo traffic in Anchorage has grown significantly since the early 1990s adding over 4,000 new jobs. The transportation and access corridors play an important part in the future growth of the cargo business in Anchorage and are a prime example of how Anchorage's economy has diversified. AIA has established itself as one of the world's major air cargo airports. More than two dozen international cargo carriers have operations at AIA and the airport is ranked number one in America based on the landed-weight of all-cargo planes.

Within the past year, ten new cargo routes to China were authorized. Eight of those ten went to Anchorage-based carriers. Northwest Airlines, Polar Air Cargo, and Atlas Air are all in the process of expanding their service. In addition, FedEx has announced plans for a four-phase expansion at its Anchorage sorting hub.

Ship Creek Development. The Alaska Railroad continues with plans to develop its property along Ship Creek between the Port of Anchorage and Downtown. Their master planning effort provides for the broad redevelopment of Ship Creek over the next twenty years. It also outlines a set of short-term achievable and implementable tasks and addresses long-term infrastructure investment with targeted redevelopment plans. It is a road map for potential development of Ship Creek based on targeted land uses for each development district and specific development guidelines including streetscapes, lighting, landscaping, signs, and construction standards.

Tourism and Convention Services. Consultants, on behalf of the Mayor's Convention Center Task Force, recently completed a study on a new convention center. The findings included the following: We have outgrown the Egan Center and it cannot be expanded. A new civic and convention center is economically feasible at 280,000 square feet with 50,000 square feet of exhibit space. Construction would cost an estimated \$100 million. A new center would bring \$51 million into the economy each year, and downtown is the best location for a new center.

Funding for the new convention center is proposed to come mainly from revenue bonds which would be paid by an increase in the Municipal hotel and motel bed tax. It is proposed to place the issue of a bed tax increase on the ballot in April 2002 and if approved by the voters, plans will move forward to select a final site and begin construction plans.

Building Industry. In recent years construction has become one of Anchorage's strongest and most stable industries. Although the level of activity in 2000 was below the record setting pace of 1998, construction activity remained strong. Year 2000 is on track to be another outstanding year. For the first time since 1986, new office buildings are under construction, being built on speculation and without tenants. In order to streamline the Municipal permitting system, a new one-stop permit and development center was completed and placed in service in early 2000. The building industry (and ultimately the consumer) will benefit from the shortened turnaround times, greater efficiencies, reduced costs, and enhanced public interface that come with this building.

Promoting Anchorage as a Great Place to Live and Do Business. Low taxes, a streamlined one-stop building permit system, low utility rates, a functional/attractive road system, modern utility plants, enhanced recreational opportunities, enhanced facilities

at our universities are all positive characteristics which make Anchorage a more livable and attractive city.

The Administration will continue to work closely with the Anchorage Economic Development Corporation (AEDC), Anchorage Chamber of Commerce, and the Eagle River/Chugiak Chamber of Commerce in encouraging new business development in our City as well as with the Anchorage Convention and Visitors Bureau (ACVB) to attract convention business and tourists.

Neighborhood Revitalization. Lower income areas of Anchorage have been identified as potential recipients of Community Development Block Grant (CDBG) funds to continue to revitalize these neighborhoods. CDBG funds have also been used to improve public safety and enhance the appearance of Fairview and Mountain View neighborhood streets.

Livable City

As we begin the new century, quality of life will be the most important economic development force of our foreseeable future. People want to live and do business in a community they can take pride in, and one that is safe, clean, and offers a healthy lifestyle. Business will seek out communities that can offer their employees a good place to live and raise a family.

Anchorage has received numerous commendations over the last several years. Most recently, Anchorage was given a grade of "A" as a kid-friendly city by Zero Population Growth. Reader's Digest ranked Anchorage as one of the best fifty places in America to raise a family. The Anchorage Water Utility received recognition for the "Best Tasting Water in the U.S." and Solid Waste Services received the system excellence award for best overall landfill operation in North America. Anchorage also was recognized previously for having one of America's best trail systems.

Public/Private Partnership

A number of programs ranging from crime prevention to cleanup/beautification, to sport activities have all demonstrated how local government and private citizens and organizations can work together to make our City a better place to live. Volunteers have and will continue to play a key role in helping to improve City programs, services, and quality of life.

Examples of public/private partnerships include:

- Cuddy Family Midtown Park. Expansion of this park located in Midtown Anchorage adjacent to the Loussac Library has been made possible thanks to a significant contribution made by the Cuddy family.
- Anchorage Museum of History and Art. A major expansion of our museum, made possible by a \$50 million grant from the Rasmuson Foundation, is currently in the planning stage. The expansion of the 30-year-old facility will accommodate existing expansion needs, allow the incorporation of a science component, and add a section to house treasures from the Smithsonian.
- Downtown Business Improvement District. The Administration assisted in the formal creation of a Business Improvement District (BID), which enhances the viability of downtown by focusing on funding services, which make downtown cleaner and safer for businesses and tourists. To achieve the goals of the BID, the Anchorage Downtown Partnership, a non-profit organization was formed to facilitate the delivery of services to downtown such as street patrol, litter cleanup, snow removal, etc.
- Chuck Albrecht Softball Complex. The first phases of these new Midtown ballfields were financed by a combination of state grants and Municipal bond funds. Anchorage Sports Association will fund the completion and operation of the fields through an agreement with the Administration.

Fiscal Stability

Through prudent stewardship of the City's finances, we continue to maintain a strong and stable financial position despite decreasing State revenues as evidenced by the following:

- In 1999, the two leading national bond rating agencies, Standard and Poor and Moody's, upgraded Anchorage's bond ratings from A to AA- based on the Municipality's stable financial outlook, strong financial performance, and excellent cash management. Anchorage has continued to maintain those favorable ratings.
- The most recent District of Columbia nationwide comparison of Tax Rates and Tax Burdens ranks Anchorage as having the lowest overall tax burden among the largest cities in each of the 50 states and the District of Columbia. In every category and household income measure Anchorage was cited as the city with the lowest taxes in the nation.

New Construction and Enhanced Infrastructure

Over the past several years Anchorage has experienced very strong levels of new construction, both private and public sector construction. 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 five years.

Private Sector Development

- New major retail establishments (Office Depot, Tesoro, Fred Meyer, Wal-Mart)
- New hotels (Anchorage Downtown Marriott, Holiday Inn Express, Courtyard by Marriott, Hampton Inn, Fairfield Inn, Clarion Hotel, Hawthorn Suites, Ramada Limited, Residence Inn)
- Alaska Regional and Providence Hospital expansions
- Southcentral Foundation expansion
- New eating and entertainment establishments (Wayne's Barbeque, Orso, Century Theatres)
- New cargo facilities: Federal Express & UPS expansions, Penn Air, Alaska Air, Lynden, Williams/Lynx CargoPort
- Oil & Gas sector related facilities: Signature/AFSC jet fuel pipeline, Northstar modular construction
- Value Added: Alaska Seafood International
- New privately funded indoor skating rinks
- New waterpark, H2Oasis currently under construction
- New and expanded auto dealer showrooms
- New commercial office buildings:
 - NAM 40,000 s.f. building
 - 3000 C Street 82,000 s.f. expansion
 - Arctic Slope 200,000 s.f. building
- Strong residential home construction
- Multi-family residential construction

Public Sector Development.

- New Jail to replace Sixth Avenue facility
- Replacement Fire Stations for Jewel Lake/Sand Lake area, Downtown, Eagle River and Girdwood
- Anchorage International Airport Expansion
- South Anchorage Sports Park, Chuck Albrecht Softball Complex, Midtown Park expansion
- Various Road Upgrades (Old Seward Highway, Arctic Blvd., 15th Avenue, 100th Avenue)
- Traffic Calming Road Improvements within Fairview and Mountain View
- East Northern Lights Blvd. Rehabilitation— Lake Otis to Muldoon
- Minnesota/International Airport Road Interchange
- Recycled Asphalt Pavement (RAP) program resulting in covering 36 miles of gravel roads within the bowl area over the past three years
- Road Improvement District (RID) program to reconstruct subdivision streets
- Cook Inlet Navigation Corridor Improvement Project (Knik Arm Shoal)
- Anchorage Loop Water Transmission Main Project
- New schools (elementary and middle schools, Dimond High replacement)

Improved Government Processes

Municipality of Anchorage's Internet Web Site. In order to make local government more accessible to the public the Municipality established an Internet Web Site four years ago. Since its inception, the site has been very popular with local citizens and other interested parties such as tourists and businesses outside of Alaska.

The website offers an effective means of promoting Anchorage as a great place to live and work as well as providing useful, easy-to-access information to citizens about local government. Enhancements to the Website which have been added in the past year include:

- Anchorage 2020 Comprehensive plan online
- Food establishment inspections
- Snow plowing schedules
- Solid Waste Services recycling information
- Wetlands permits
- Real property tax information
- "Firewise" Information
- Zoning and Platting case information
- Pay property taxes

Anchorage Bowl Comprehensive Plan 2020.

The Comprehensive Plan - *Anchorage 2020* has been approved and will provide the foundation for the community's vision of the future including Anchorage's emergence as a premiere northern city. The Comprehensive Plan will streamline and improve public and private community development decisions for many years to come. The plan outlines the goals and objectives; assesses current conditions and trends; and evaluates alternative plan scenarios;

Municipal Building Permit Process. The Administration has implemented many recommendations received from developers and builders and our own consultants regarding the municipal permitting process. These recommendations have streamlined the permitting process and made it more user-friendly, timely, and responsive to the community at large. In early 2000 the new Municipal Permit Center was opened. The Permit Center offers one-stop shopping for municipal construction permits.

Budgets

General Government Operating Budget. The 2001 operating budget was approved at approximately \$15 million below the Municipal Tax Cap. This action has the effect of reducing the cost to taxpayers for future budgets by the same \$15 million, as the tax cap uses the prior year's property taxes as the base for the following year, adjusted for inflation, population, and new construction.

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, makes Anchorage a highly 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 federal 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 2001 election, voters approved five bond proposals for a total authorization of \$47 million. The majority of this money will help build roads, parks, and fire facilities.

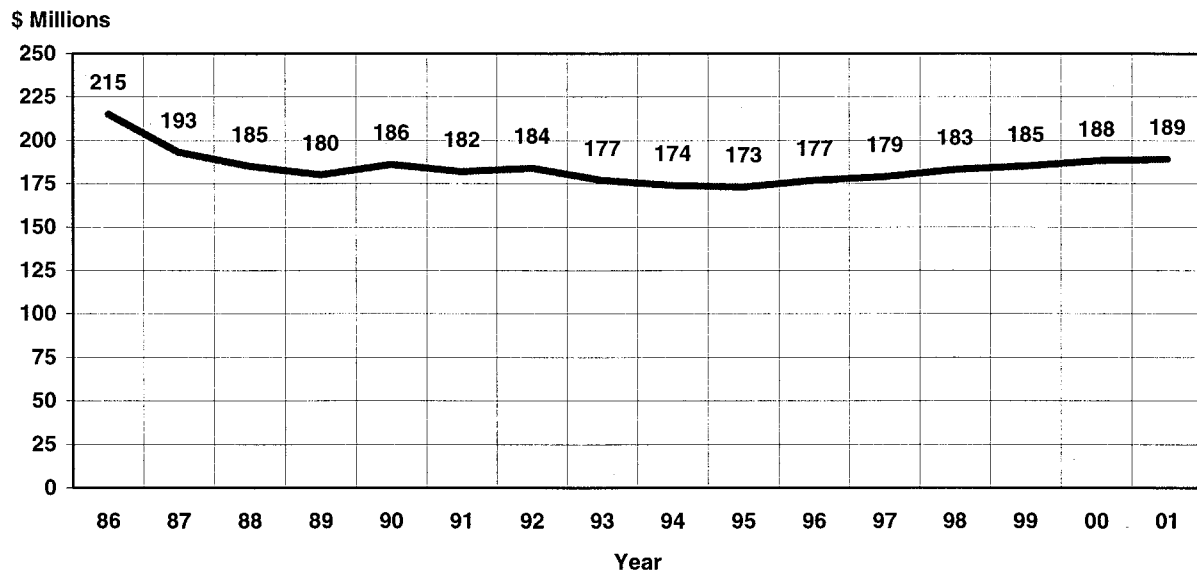
Emphasis will continue to be placed on rehabilitating and maintaining our Municipal infrastructure through an aggressive program to obtain State grant funding, use of bond proceeds, and other local funds.

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 14% since 1986 as shown in the following graph:

**General Government Operating Budgets
1986 - 2001 *
(in real dollars) ****

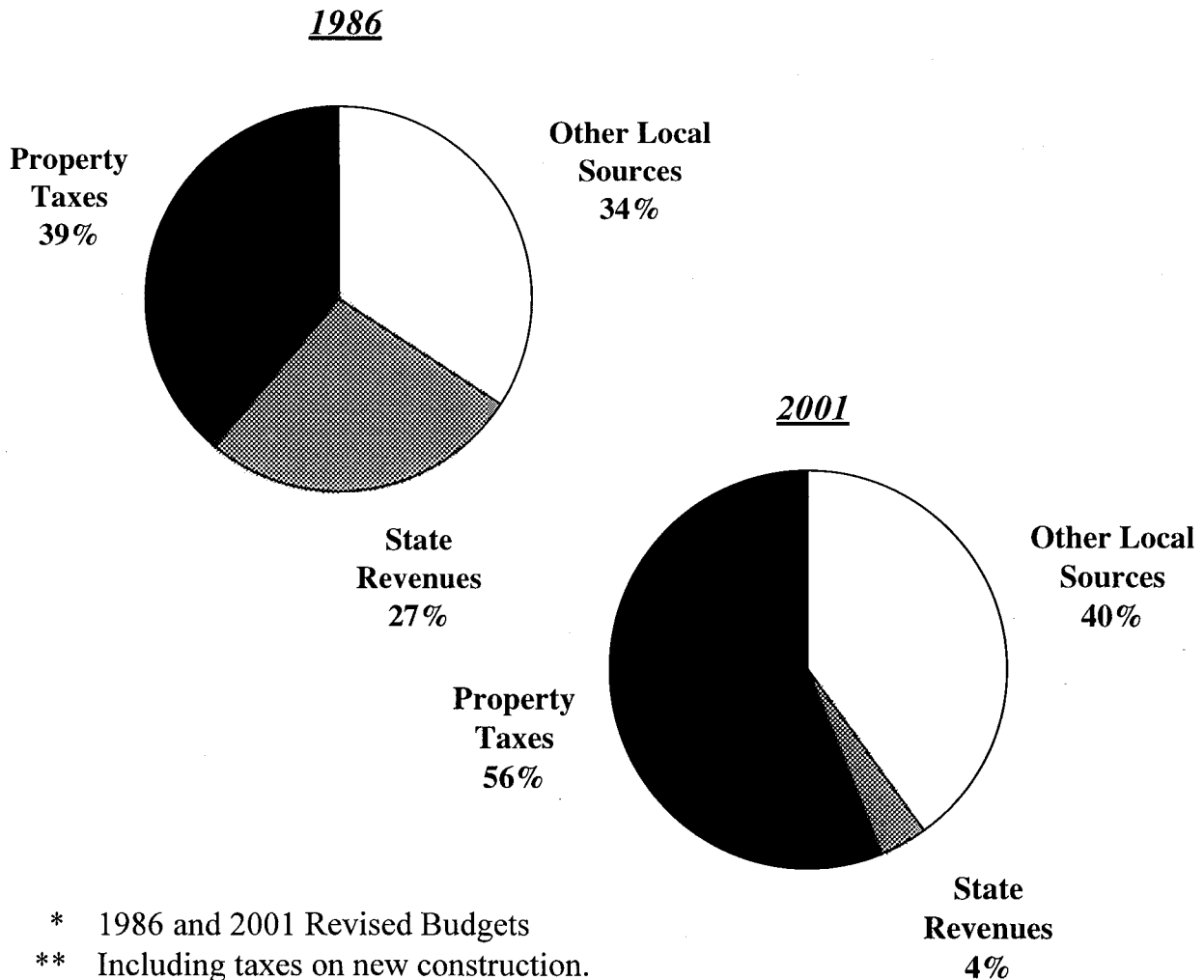


* 1986-2001 Revised Budgets

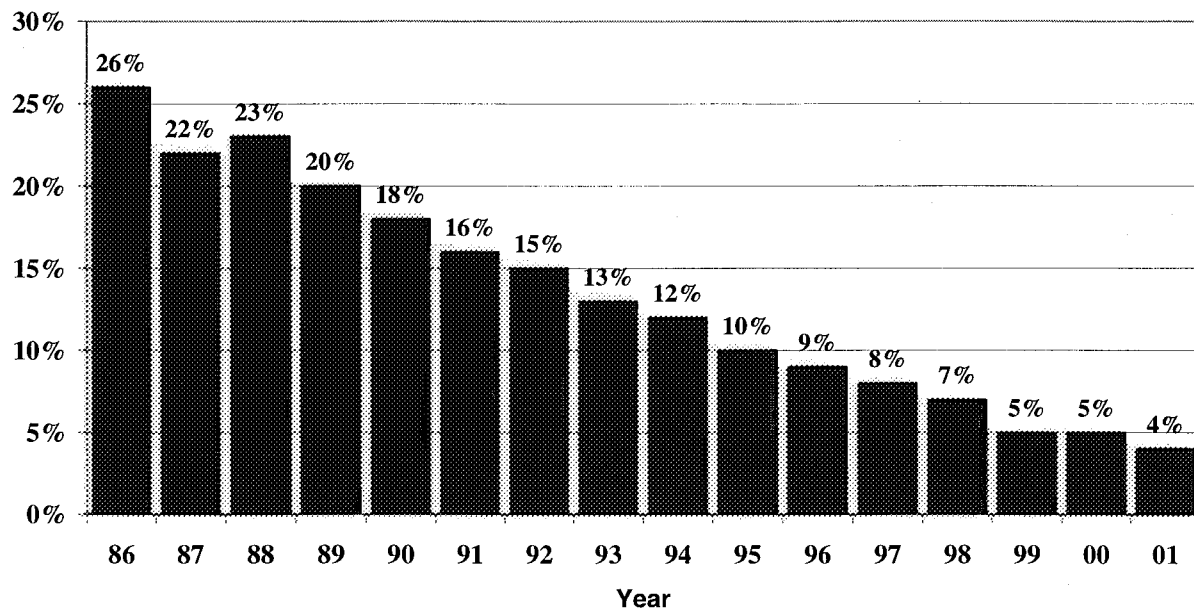
** 1986 used as base.

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 and underground storage tank removal, 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 the tax shifting caused by the State's revenue reductions.

**General Government Operating Budget
Revenue Sources
1986 - 2001 ***



State Operating Revenues as a Percentage of General Government Operating Budget 1986 - 2001 *



* 1986 - 2001 Actual Revenues received.
1986 - 2001 Revised Budgets.

There has been a dramatic decline since 1986 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 1986, annual Safe Communities Funding/State Revenue Sharing to the Municipality has decreased \$45 million. Consider the following facts about the impact of legislative actions on the owner of an \$180,000 Anchorage home:

- Safe Communities Funding and Revenue Sharing cuts since 1986 totaled a cumulative \$400 million in 2001. This represents a cumulative tax burden of approximately \$4,300 to the owner of an \$180,000 home.
- The unfunded amount of the senior citizen/disabled veteran tax exemption totals \$133 million over the same period. The fact that the State originally started fully funding this program and then gradually reduced that funding to \$0 has created a cumulative tax burden of more than \$1,400 on a \$180,000 home.

The 2001 State legislature actually made a modest increase to Safe Communities and Revenue Sharing funding, a trend we hope will continue. Increases in these programs directly reduce the burden on the Anchorage taxpayers.

3. ECONOMIC TRENDS AND OUTLOOK

2001 is expected to be Anchorage's 13th consecutive year of economic growth. Beyond 2001 the economy's outlook is that it will remain stable with modest growth of about 2% per year. The Anchorage Economic Development Corporation projects the total job growth in Anchorage will be about 1,900 in year 2001, compared with 3,400 new jobs in 2000. Most of the new jobs are in the service sector. Unemployment continues to remain low, at 3.7% in July 2001, and monthly unemployment rate in the past 12 months has not exceeded 5.0%.

There are, however, some recent events that may impact the rate of economic growth. The shutdown of Reeve Aleutian Airways resulted in a loss of 170 jobs. Alaska Marketplace also closed its doors, laying off approximately 230 Anchorage workers. Wells Fargo Bank completed its acquisition of National Bank of Alaska and there may be some downward adjustment of its employment totals. There may be some job losses in the air transportation industry in Anchorage due to the nationwide layoffs following the terrorist attacks on the U.S. Although each instance is unrelated to the other, the cumulative effect may slow near term economic growth.

Oil prices have climbed from the \$10 per barrel price in late 1998 to a 10-year high of over \$33 per barrel in September 2000. Just prior to the September 11, 2001 terrorist attacks, oil prices were in the \$23-27 range, but dropped below \$20 afterward.

After several years of downsizing their workforces, Alaska's major oil producers BP and Phillips (formerly ARCO) grew in 2000. This trend has continued in 2001 and is expected to continue in 2002. The creation of a joint gas pipeline study group by BP, Exxon, and Phillips has helped further increased employment numbers. Additionally, the multiplier effect of this increased activity positively impacts construction, transportation, engineering services, and other industries.

Health care, retail, finance and other services continue to account for the majority of new jobs in Anchorage. It is estimated that 80% of new jobs in 2001 will come from these sectors. While the oil industry still controls about 25% of the dollar value of economic output, other sectors are strong and less driven by oil prices and oil employment.

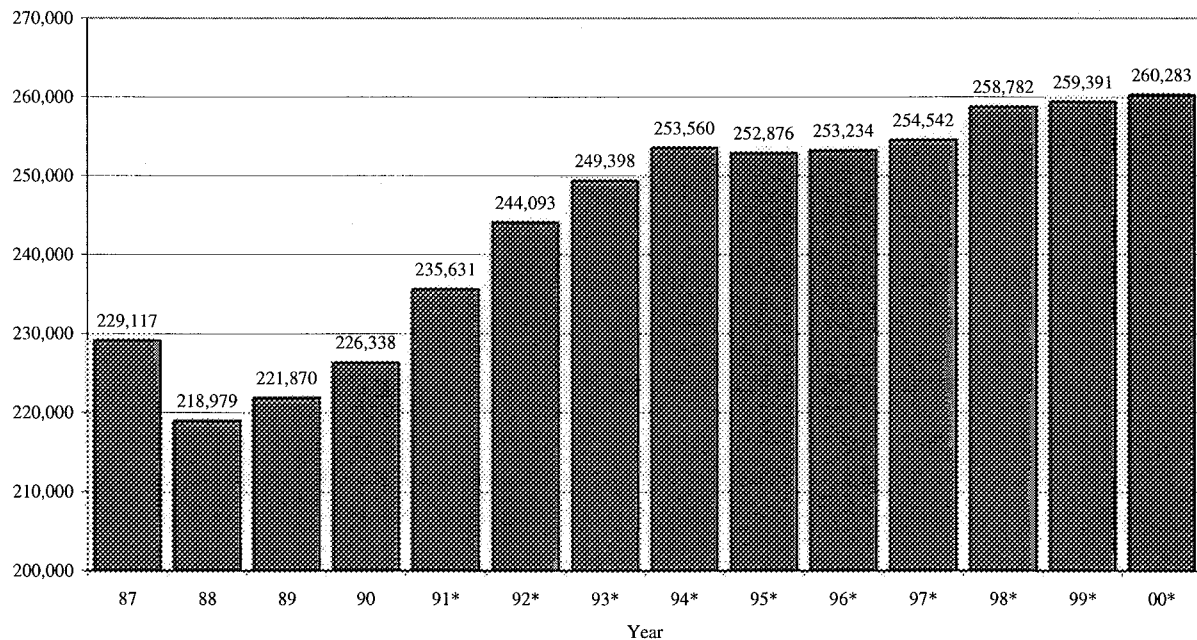
Low inflation and interest rates, together with a stronger, diversified economy, helps explain the continued high level of construction activity in Anchorage. Federal

employment levels, particularly in the military, appear to have stabilized. Growth in air cargo and tourism continue to be cornerstones to a larger, broader, healthier Anchorage economy.

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

POPULATION — Since 1990 Anchorage's population has grown over 15%. The Department of Labor projects that Anchorage's population will grow an average of just under 1% per year for each of the next five years. The school age population is expected to increase at a slightly higher rate over this time period, while the senior citizen population is expected to exhibit the strongest upward trend.

**Anchorage Population
1986 - 2000**

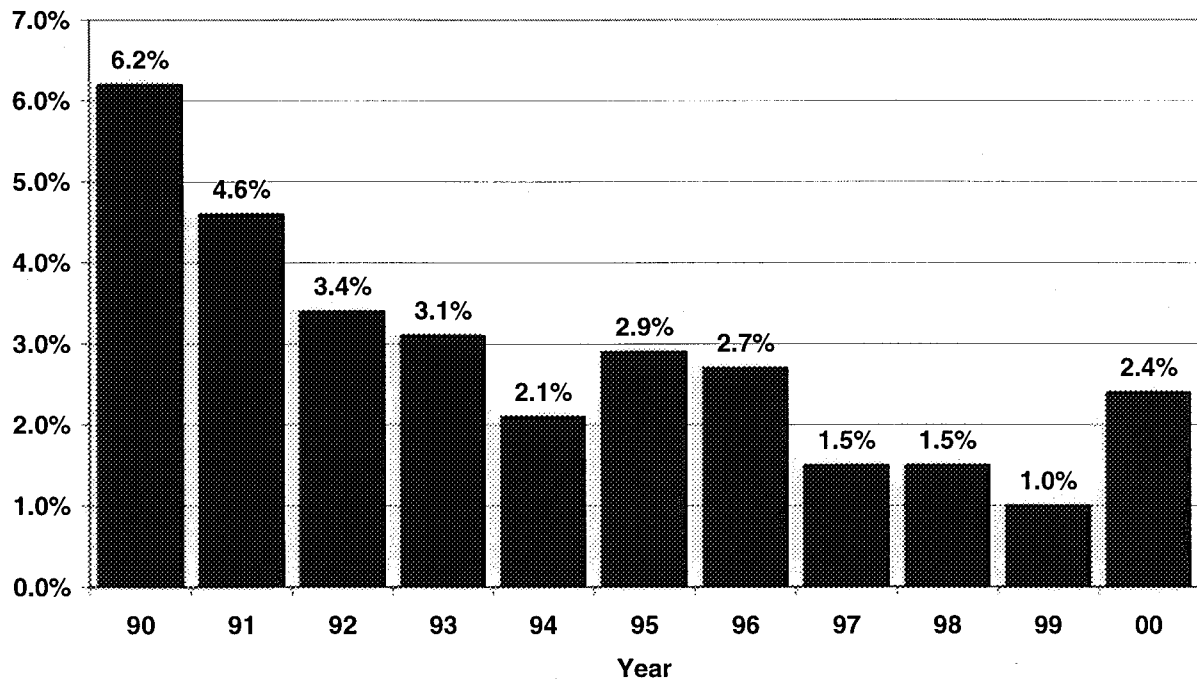


* The 1991-00 totals reflect revised estimates made by the Alaska Department of Labor (September, 2000). Estimates for 2001 will not be available until October-November 2001.

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 2000 was 2.4%, a jump from the low rates of the past three years. For the first half of 2001, inflation advanced 1.6%. Inflation for initial budgetary purposes is assumed by the administration to be 2.9% for 2002.

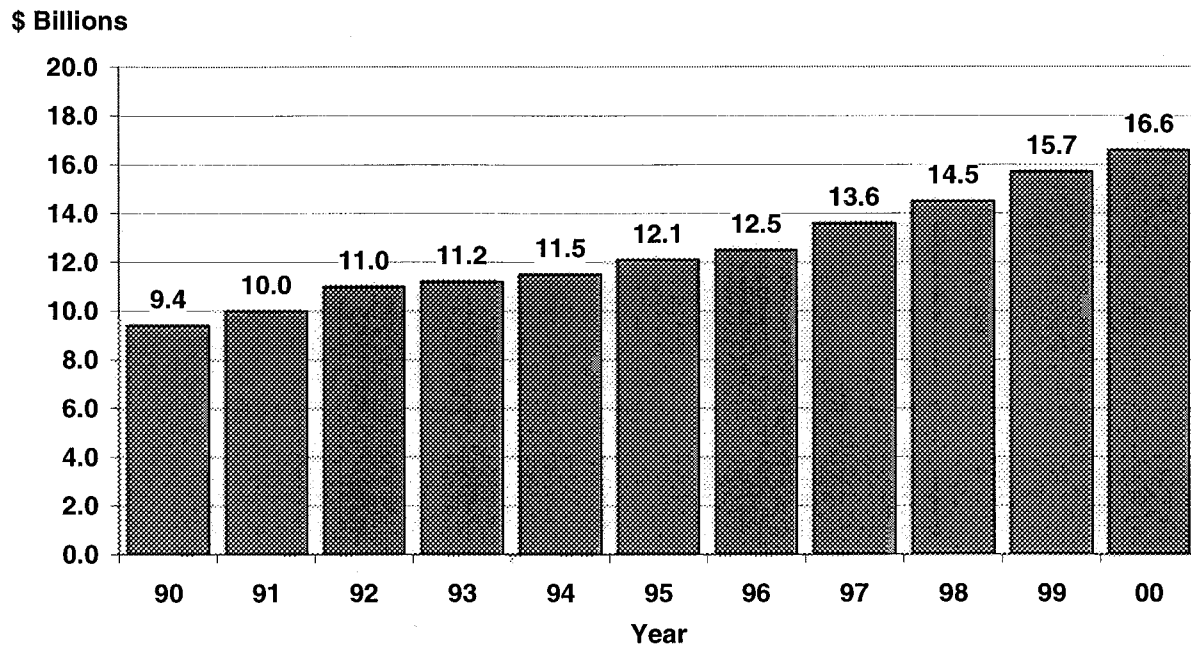
**Anchorage Consumer Price Index (CPI-U)
Annual Change for All Items
for All Urban Consumers
1990 - 2000 Historical Trend**



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

ASSESSED VALUATIONS — As demonstrated below, assessed values have rebounded since 1990 and have shown steady annual growth.

**Full Value Determination of
Real and Personal Property Assessed Values
1990 - 2000 Historical Trend**

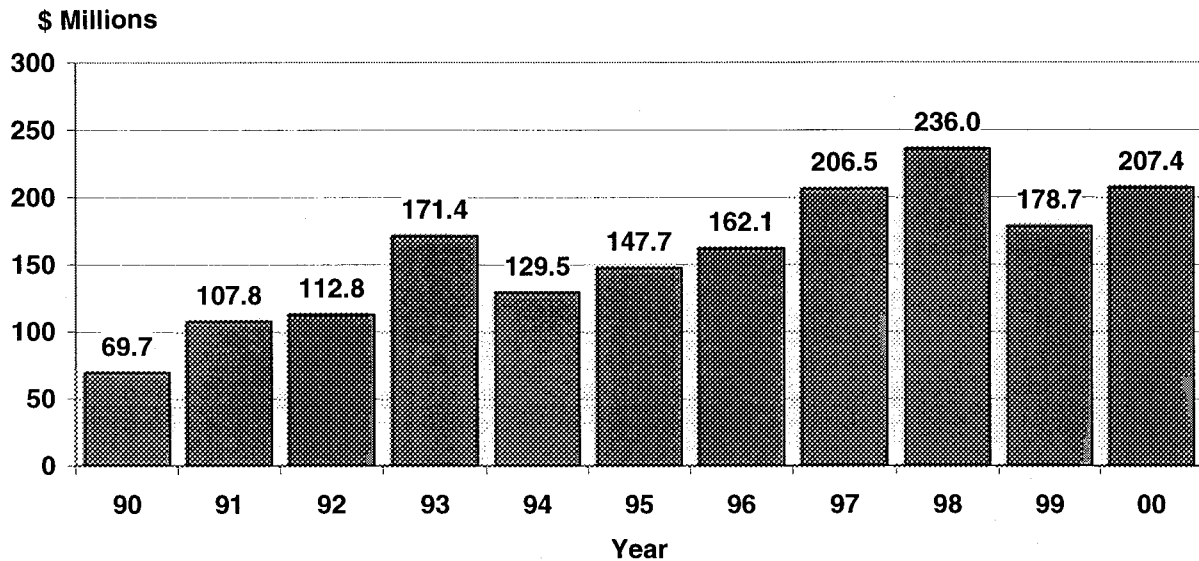


NOTE The total number of real property parcels appraised in 2000 is 89,580. Values shown above include residential property, personal property, commercial property, and Utility Net Plant (i.e., MUSA).

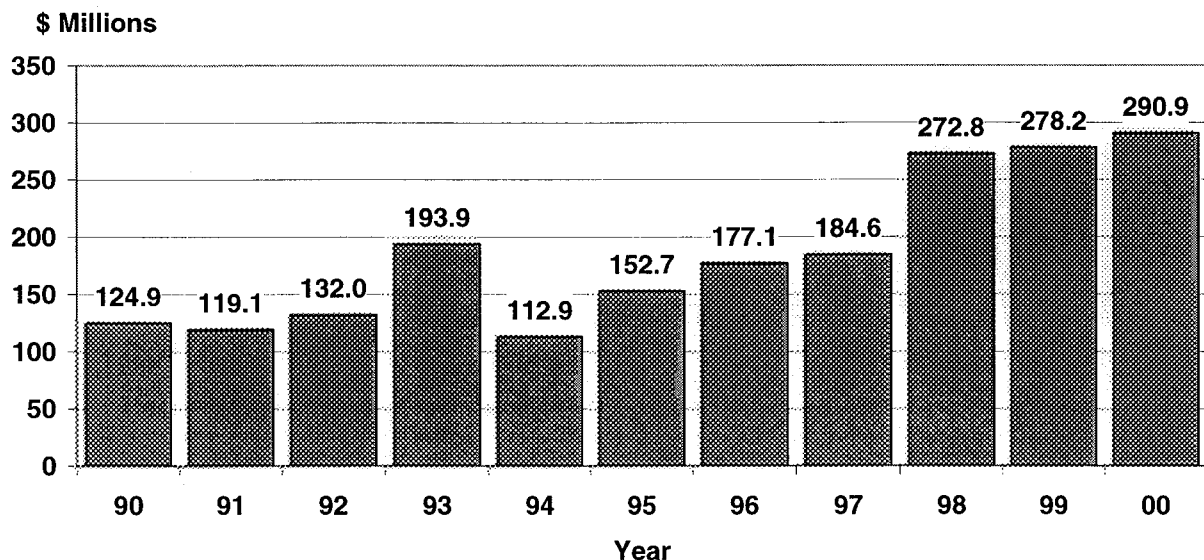
Source: State of Alaska, Office of State Assessor

NEW CONSTRUCTION — Anchorage's construction activity peaked at just under the half billion dollar mark in 2000. 2001 activity is on a pace to exceed that number by about 15%, marking it as the best construction year since 1984. Residential construction alone is exceeding 2000 by over 55%.

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

- 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
- Enhancement of all-season tourism (*Girdwood area development, Alaska Native Heritage Center, multi-use trail system expansion, snow machine opportunities*)
- Ship Creek area development/revitalization, working with Alaska Railroad
- New civic and convention center
- Expansion of Anchorage International Airport
- Increased use of Anchorage International Airport as a global logistics, international warehousing and cargo distribution hub
- Relocation of new industries to Anchorage (*seafood processing and distribution, software development, light manufacturing*)
- Increased activity and infrastructure expansion at the Port of Anchorage (*multi-purpose dock, Cook Inlet navigation improvements, improved road access,*
- 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
- Potential worldwide recession
- Impact of terrorist attacks on U.S. such as decline in air travel and tourism
- Decline in State revenues to Anchorage
- Shifting of State and Federal responsibilities to local government without adequate funding (*unfunded mandates*)

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4. PUBLIC SERVICES AND CAPITAL PROJECT FUNDING

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

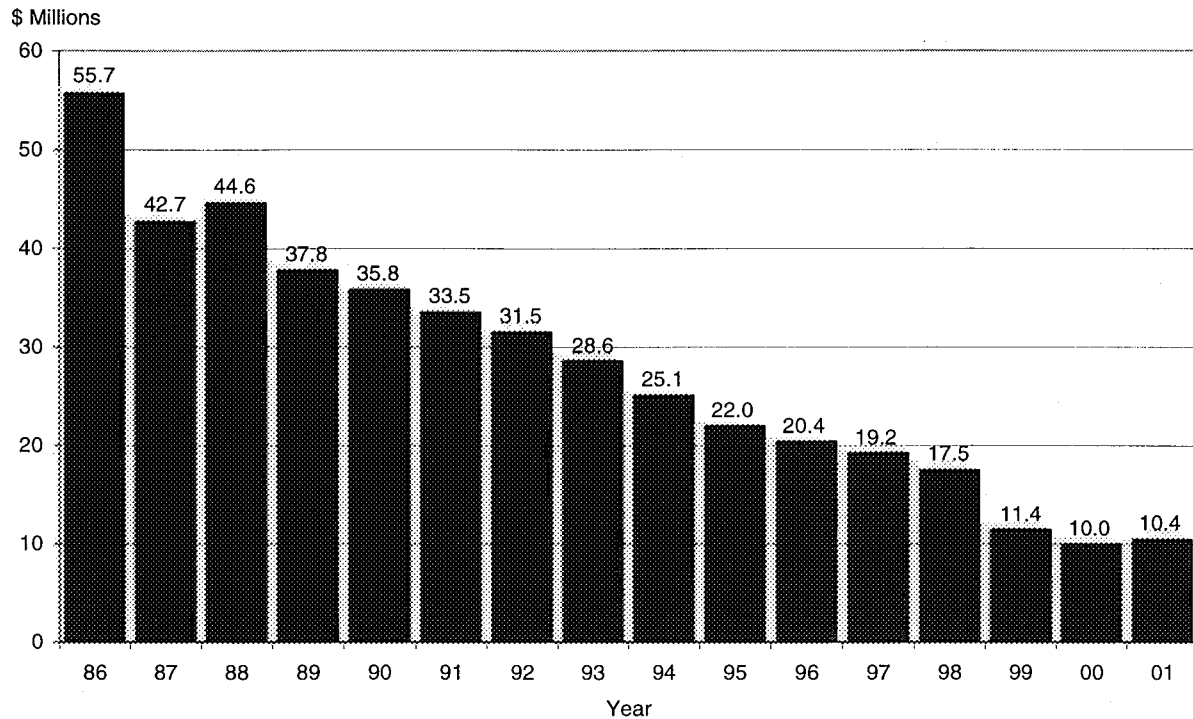
- responding effectively to fire, rescue and emergency medical situations
- improving our roadway public transportation systems
- making our City safer, cleaner and healthier
- balancing responsible development with rational environmental concerns
- providing cultural, recreational and educational activities 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. We are hopeful that this represents a 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
1986 - 2001**



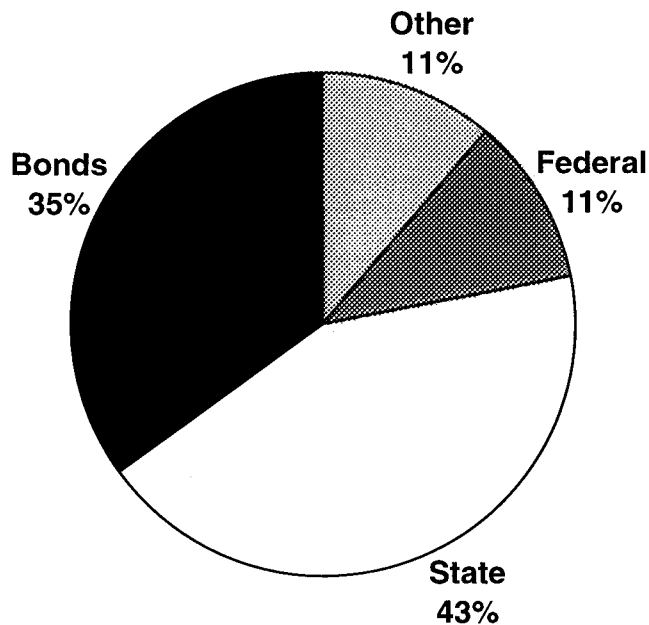
Does not include the one-time double payment received in 1997 due to a change in the program payment date.

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

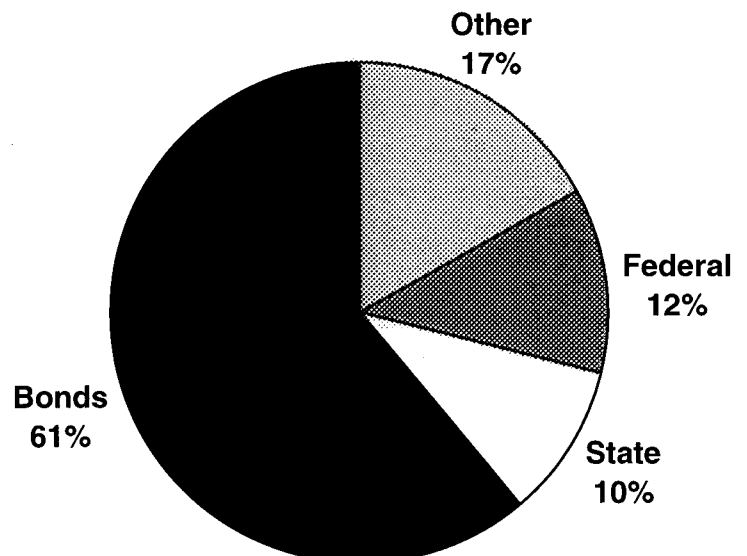
For the first time in ten years, there were surplus funds available for appropriation by the State legislature for discretionary capital funding. Anchorage was fortunate to receive \$5.6 million more than in 2000. Because of the reduction in the availability of State discretionary capital funding generally 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
1995/2002 Comparison**

1995 Proposed Budget



2002 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. The administration and the assembly have worked hard over the past 6 years to ensure that the annual operating budgets stay under the tax cap. The Administration intends to propose a 2002 operating budget that is also within the tax cap

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.

The School Budget Advisory Commission (SBAC) plays an important role in challenging the School District to find better ways to contain growth in their budget. They monitor Anchorage School District spending and provides reports and recommendations to the Municipal Administration and Assembly.

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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 national or worldwide recession
- further decline in State revenues
- increase in interest and/or inflation rates
- additional unfunded federal/state mandates

As discussed below, the 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 below 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 over the past five years, 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 consideration such as State revenues, tax cap limit, debt service, O&M costs, and Anchorage School District

SIX YEAR FISCAL PROGRAM
PROJECTIONS OF REVENUES & EXPENDITURES (in \$ Millions)
2002-2007

Six Year Budget Projection Assumes Continuation Level Budget	2002 Oper'g Budget	PROJECTIONS				
		2003	2004	2005	2006	2007
REVENUES						
Federal Revenues (no decrease beyond 2002)	\$0.49	\$0.49	\$0.49	\$0.49	\$0.49	\$0.49
State Revenues (no decrease beyond 2002)	12.18	12.18	12.18	12.18	12.18	12.18
Local Revenues (+1.0% per yr beyond 2002)	81.06	81.87	82.69	83.52	84.35	85.19
Property Taxes (+3.6% beyond 2002-average increase for past 10 years)	153.21	158.73	164.44	170.36	176.49	182.85
Fund Balance Applied (no change beyond 2002)	4.23	4.23	4.23	4.23	4.23	4.23
IGC's Outside General Government (+1.1% beyond 2002)	16.47	16.65	16.83	17.02	17.21	17.40
TOTAL REVENUES	\$267.64	\$274.15	\$280.86	\$287.80	\$294.95	\$302.34
EXPENDITURES						
Personal Services (step/longevity increases only -- +2.5% beyond 2002) *	\$149.83	\$153.58	\$157.42	\$161.35	\$165.38	\$169.52
Debt Service, (+2.5% beyond 2002)	37.97	\$38.92	\$39.89	\$40.89	\$41.91	\$42.96
Other (+2.5% beyond 2002)	79.84	81.84	83.88	85.98	88.13	90.33
TOTAL EXPENDITURES	\$267.64	\$274.33	\$281.19	\$288.22	\$295.42	\$302.81
FISCAL SURPLUS/SHORTFALL--REVENUES OVER/(UNDER) EXPENDITURES	\$0.00	(\$0.18)	(\$0.33)	(\$0.42)	(\$0.47)	(\$0.47)

* All known contractual obligations have been factored into the 2002 expenditure base.

Note 1: The Six Year Projections of Revenues & Expenditures shown above represent the projected result if we:

- (1) there is very modest growth in total revenues,
- (2) there is negligible growth in total expenditures, and
- (3) the current level of service is maintained to the public through the year 2007.

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)
2002-2007

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)

	2002	2003	2004	2005	2006	2007
State Revenue Sharing Decrease (5% per year)	(\$0.52)	(\$1.01)	(\$1.48)	(\$1.93)	(\$2.35)	(\$2.76)
State Revenue Sharing Increase (5% per year)	\$0.52	\$1.07	\$1.64	\$2.24	\$2.87	\$3.54
Wage Increase (annual avg. increase of 1.5% per yr.)	\$0.00	(\$2.13)	(\$4.29)	(\$6.48)	(\$8.71)	(\$10.97)
Additional Debt Service costs (assuming 70% passage for all bonds proposed in 2002-2007 CIB/CIP)	\$0.00	(\$2.65)	(\$4.96)	(\$7.23)	(\$8.88)	(\$11.43)
Additional O&M Costs for all projects cited in the 2002-2007 CIB/CIP (assuming 70% of the funding requests are realized)	\$0.00	(\$0.58)	(\$4.06)	(\$7.54)	(\$11.02)	(\$14.51)
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 2001 as a base year, a 1% decrease in State Revenue equates to approximately \$103,000 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. We have already made significant progress toward making Anchorage a better place to live. The more attractive we can make our City, the more new businesses and visitors will realize what a great place Anchorage is to live, work and visit.

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

- Anchorage International Airport expansion (global logistics and cargo hub expansion)
- Continued growth of tourism and convention business
- Oil development within ANWR
- Oil development within National Petroleum Reserve area and marginal fields
- Ship Creek area development/revitalization
- Port of Anchorage expansion
- Girdwood area development
- State fiscal support for infrastructure development
- Transportation Equity Act for the 21st Century (TEA-21) and Community Development Block Grant projects

Expenditure Options

The following is a list of potential ways 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 grants, TEA-21 funds, and CDBG 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 should be considered. New permanent revenue sources need to be evaluated for potential implementation in order 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.
- **Municipal Trust Fund** – Transform the Municipality’s Trust Fund into an endowment, which would ensure the Trust’s earnings will provide tax relief into the future.
- **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,
- Increased hotel-motel tax (A proposed increase in the hotel-motel tax may appear on the April 2002 ballot. The increased revenue would be dedicated to supporting construction of a new convention center.)
- Elimination of the exemption from the hotel-motel tax for small Bed & Breakfast accommodations.
- 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.

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6. CONCLUSION

We will continue our emphasis on maintaining our reduction in crime. We will continue to work on improving our City's quality of life with a cleaner environment; functional, more attractive roads, more cultural and recreational opportunities; low tax and utility rates; and sound fiscal policies. We will continue to promote Anchorage, as one of America's most livable cities and in so doing new businesses, visitors and prospective residents will be encouraged to come to Anchorage.

Quality of life will be the most important economic development force in our foreseeable future. The enhancement of our City's quality of life does not come without a cost. While Anchorage has been identified as having the lowest overall taxes of any major city in America, local homeowners/property taxpayers bear a disproportionate share of the taxes collected. We need to ask ourselves how best to achieve a more balanced tax base. We need to strive to lower property taxes in the future by considering all possible alternatives, for example: pursuing economic development opportunities, decreasing expenditures, and increasing revenues other than property taxes. This Six-Year Fiscal Program has presented some of these alternatives for future consideration.

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