Appendix V

SIX YEAR FISCAL PROGRAM

2012-2017

Municipality of Anchorage

Dan Sullivan
Mayor

September 30, 2011

MUNICIPALITY OF ANCHORAGE
Six Year Fiscal Program
2012 - 2017

Dan Sullivan, Mayor

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Lucinda Mahoney……………………………………. Chief Fiscal Officer
George Vakalis……………………………………... Municipal Manager
Cheryl Frasca……………………………………………………... OMB

PREFACE

In accordance with the Municipal 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 critical public services. The purpose of this “Six Year Fiscal Program” is to provide a financial plan to provide services demanded by the public for review and consideration.

The “Six Year Fiscal Program” is intended to encourage a balanced approach towards responding to ever changing fiscal conditions. Achieving balance starts with a mindful approach and engaged activities to keep the cost of local government in focus. In addition to cost containment, other fiscal strategies include economic development, expenditure reductions and revenue enhancements. Key strategic policy decisions will need to be made in order to determine exactly what the appropriate balance point should be.

Detailed demographic and financial information about Anchorage are available at, Municipal libraries and the Municipal web site at www.muni.org. Relevant documents include:

- Comprehensive Annual Financial Reports
- General Government Operating Budgets
- General Government Capital Budgets/Programs

SIX YEAR FISCAL PROGRAM

2012 – 2017

TABLE OF CONTENTS

1. MAJOR SIX YEAR STRATEGIC PLAN, VISION, MISSION, VALUES AND GOALS

The City of Anchorage has a set of overarching goals that were identified by the Mayor and his Administration. The goals presented herein are the program and service areas in which the Administration intends to focus over the next few years.

Strategies for accomplishing these goals have been developed and are in process of being implemented. Departments are responsible for monitoring their business plans so that they are in alignment with the City's goals. The Performance.Value.Results program was implemented in 2010 with the goal of measuring performance relative to the strategy. Departments developed specific performance measures. The measures are included in the budget book and are also available on the City's web site. Aligning priorities with services helps departments manage their resources effectively and measure their progress more accurately.

Although not specifically mentioned, we will continue to provide other basic services to the public.

The Municipality's Strategic Plan, including our Values, Mission, Vision, Elements and Goals, provides an overall direction for carrying out the activities of the Municipality in order to best meet the needs of the people who live and work here.

Such a plan aligns our priorities with financial resources and allows for a more informed and in-depth annual discussion of how best to achieve the desired results on behalf of the community. The Strategic Plan is intended to be a living document and, as such, will be modified to adapt to events in our ever-changing world.

Values: Describe the qualities and behaviors that are core to our organization. They are our foundation and determine the rightness of our direction. Our core values include:

- *Safety* - providing for the safety and well-being of our community
- *Excellence* - passion to do our best every day
- *Stewardship* - using our time and resources wisely
- *Integrity* - doing the right thing, not the easy thing
- *Accountability* - accountable to the community for our actions

Mission: Our mission is *"To provide and maintain effective and fiscally responsible municipal services that foster a high quality of life".*

Vision Elements: Our vision elements are:

- *Exemplary Municipal Operations* - described as; effective and efficient service delivery and exceptional customer service.
- *A Safe Place to Call Home* - described as; low violent crime, timely fire and ambulance response, safe neighborhoods and parks, well prepared for emergencies, solutions for our homeless population.
- *Flourishing, Broad-based, and Sustainable Economy* - described as; fiscal stability, predictable diversified taxes, stable property taxes. Favorable bond ratings. Reliable long-term sources of energy. Stable and efficient regulatory environment that doesn't discourage business development. Incentives for redevelopment.
- *Inviting Place to Live, Work and Play* - described as; a diverse community with unity of purpose, high quality education, lifelong learning second to none and sufficient infrastructure to support health care, and cultural and recreational activities.
- *A Premier Destination* - described as; a vibrant downtown, major events hosted, visitor friendly and a signature feature.

Goals: Our strategic goals and related strategies are:

1. *Improve the Efficiency and Effectiveness of Municipal Operations*

    a. Restructure local government to match the organization with its mission and streamline processes to improve internal and external service delivery
    b. Establish a system to measure and communicate operational performance
    c. Revise labor ordinances and personnel rules to maximize efficiencies
    d. Optimize information technology to improve business performance
    e. Develop and implement a facilities management plan that ensures efficient and full utilization of space, including use of our recreational and cultural public facilities
    f. Improve street maintenance (snow removal, potholes, street sweeping and striping)
    g. Pursue privatization and managed competition

2. *Strengthen Public Safety*

    a. Improve management and deployment of all public safety resources
    b. Reduce social and fiscal impact of chronic public inebriates
    c. Achieve compatibility of communication systems between agencies
    d. Develop and exercise a crisis management plan
    e. Maintain building codes to reflect safe building standards rationalized to Alaska
    f. Promote citizen responsibility for a safe community

3. *Achieve Fiscal Sustainability*

    a. Develop a realistic six year fiscal plan
    b. Reduce/hold the line on property tax
    c. Maintain a favorable bond rating
    d. Operate at, or below, current budgets
    e. Instill department accountability for financial management

4. *Improve the Transportation Systems*

    a. Improve traffic flow
        i. Connect major roadways

ii. Improve high volume intersections
iii. Evaluate signalization

b. Extend life cycle of roads
c. Maintain a robust transit system that serves as an affordable and reasonably convenient mode of transportation, particularly to employment centers.
d. Coordinate transportation improvements and extensions with Anchorage Water and Wastewater Utility water and sewer extensions.

5. *Achieve a Stable and Reliable Source of Energy*

a. Develop a stable and economical short-term energy plan to deal with any shortages
b. Identify and advocate for new energy sources
c. Advocate for a regulatory environment that doesn’t discourage development in Cook Inlet
d. Encourage the Regulatory Commission of Alaska to be responsive to supply and demand
e. Develop and implement a long-term energy conservation plan
f. Develop a communications vehicle to make the public aware of critical issues
g. Explore merging of utilities in the Municipality of Anchorage
h. Continue working with the Energy Task Force

6. *Promote Economic Development*

a. Attract additional economic development opportunities
b. Foster a vibrant oil and gas industry
c. Support the University of Alaska Anchorage’s and the Anchorage School District’s workforce development programs
d. Investigate opportunity for Winter Olympics
e. Advance relationships with Anchorage Economic Development Corporation (AEDC); Anchorage Convention and Visitors Bureau; Anchorage Community Development Authority; and CivicVentures, an Alaska non-profit corporation
f. Evaluate stable business taxes and user fee structures

g. Streamline our permitting and plan process to be more attractive to business and establish time limits for plans and warranty approvals.
h. Judiciously use development tools; such as, tax deferrals and abatements, to encourage new business
i. Set priorities for publicly-funded infrastructure in order to support infill and redevelopment of major employment centers and community centers in accordance with the comprehensive plan's intended pattern of growth.

7. Improve community relations and earn a positive public opinion as to the Sullivan Administration's overall performance and the delivery of core services

    a. Maintain open, cordial and professional relationships with the public and media
    b. Achieve an organization culture that puts a high value on community service and accountability
    c. Promote diversity awareness in the community and encourage unity in the pursuit of common goals
    d. Promote volunteerism and non-profit groups to provide community service

8. Enhance academic excellence and learning while maintaining cost-effectiveness

9. Maximize Federal and State support for priority programs and projects

10. Work effectively with the Municipal Assembly

Capital Projects

Capital project requests from Federal, State and local sources will focus on transportation, energy, and public health and safety. The Municipality of Anchorage (MOA) can expect more limited funding availability from outside sources. In turn, we need to maintain our favorable bond ratings by limiting per capita debt. We will continue to seek favorable debt refunding opportunities to decrease interest rates and long-term debt obligations.

The capital program will be based on the premise that we must first adequately maintain our current assets before we add any significant new projects with high operation and maintenance costs. The Sullivan Administration's goal is to avoid an increase in overall debt during the forecasted time period. In aggregate, over the next six years, we expect to pay down existing debt in an amount greater than newly issued debt going forward.

2. ECONOMIC TRENDS AND INDICATORS

Introduction

A year ago, AEDC noted that the national and global economies had stabilized after a deep recession, but also warned that the road to recovery would be a bumpy one. Six months ago, AEDC cited renewed job growth for Anchorage, improvement in the Anchorage Business Confidence Index, and clear signs of recovery in the national economy. In the first half of 2011, however, U.S. economic indicators weakened – from housing and gross domestic product, to jobs and the unemployment rate – and the recovery looks more tenuous.

As a reminder of the relevance of the U.S. economy to Anchorage, in 2009 the national recession pushed seven out of the eight indicators AEDC tracks and forecasts into negative territory. All but one of the indicators then turned positive in 2010 as the national economy stabilized.

But as AEDC and others have noted, Alaska has also been partially sheltered from the national economic storm. That will continue to be the case as long as oil prices remain high. Simply stated, oil revenue has generated large state government surpluses, which have allowed Alaska to invest, build, and provide crucial economic stability during a period when most other states are cutting budgets, services, and jobs.

Looking ahead to the remainder of 2011 and the 2012-14 forecast period, Alaska and Anchorage are still in a position of relative economic strength, and modest growth is forecasted in all eight of the indicators discussed below.

Population

A city with a growing population, all other things being equal, is a city with a growing economy. Anchorage's population in 2010, according to the U.S. Census, was 291,826, a 12% increase since the 2000 Census was taken. Anchorage's population growth for the decade was slightly below the statewide percentage of 13%, but a notch above the national growth rate of 10%.

Looking ahead, most of Anchorage's population growth will continue to come from natural increase (births minus deaths). Net migration numbers turned positive in 2009 after two years of losses and will likely stay positive for as long as Anchorage's job market and economy remain healthy compared to other U.S. cities.

AEDC forecasts population growth of 1.7% in 2011, decelerating slightly over the next three years to 1.2% as the U.S. economy improves and migration gains slow.

Employment

A decline of 900 jobs in 2009 ended Anchorage's 20-year streak of job gains, but growth resumed – by a slim margin – in 2010. Preliminary numbers for 2011 show continued growth, thanks mostly to health care, professional and business services, and leisure and hospitality. Government jobs are down 260 through May compared to the same five months in 2010.

After years of steady losses, construction jobs have leveled off and the preliminary 8,300 May job count matched May 2010 numbers. The last time May construction jobs equaled or exceeded year-ago levels was 2005 when the job count was 18% higher at 9,800. Construction activity reaches its seasonal peak in August, but the early summer numbers suggest better news for the industry.

Health care deserves mention for its perpetual growth, irrespective of whether the economy is in expansion, recession, or recovery mode. Through May, health care's job count is up 740 over the same five-month period in 2010, and as Baby Boomers enter their senior years, more growth is nearly certain from 2012-14.

Health care-related construction is also one of the few bright spots in private sector commercial construction. Providence's $150 million "Generations" project, which is expanding and renovating the maternity center and expanding cardiac surgery facilities, is the largest private project in progress in 2011 with construction expected to last through 2014.

AEDC forecasts employment growth of around 1% for 2011 and 2012, accelerating slightly in to 1.5% annually in 2013 and 2014.

Personal Income

Personal income is a broad measure of economic health that includes employment income as well as income from other sources such as investments (ex: dividends, rental income) and government transfer payments (ex: Social Security, Permanent Fund Dividend (PFD)).

Of Anchorage's $17.5 billion in 2009 personal income, 69% came from employment (including self-employment income), 16% from investments and other non-employment sources, and 15% from government transfer payments (virtually all of which came from Permanent Fund Dividends (PFD).

Anchorage personal income fell in 2009 for the first time in decades as a result of the recession and the drop-off from 2008's especially large PFD and one-time "resource rebate." Data for 2010 is not yet available for Anchorage, but personal income for Alaska increased by almost 4% and Anchorage personal income likely grew by a similar percentage in 2010.

AEDC forecasts personal income growth of 3.9% in 2011, accelerating to 5.2% by 2014 as general economic conditions improve outside Alaska's borders and local conditions remain mostly favorable.

Anchorage Passenger and Freight Volume

Nearly 5 million people passed through the Ted Stevens Anchorage International Airport in 2010, a 2% increase over 2009 numbers. There is still a significant amount of pre-recession ground to recover, however, after the 9% drop in 2009.

The first four months of 2011 looked strong with passenger traffic up 6%. This indicator is particularly dependent on the U.S. economy. Consumer confidence has weakened in recent months and travel is often a discretionary purchase that can be delayed or foregone. Nevertheless, Anchorage air passenger traffic is expected to continue its rebound in 2011, climbing 4%, followed by slightly slower growth over the next three years due to more conservative consumer spending.

Cargo traffic through the airport provides a uniquely direct insight into the economic health of the national and international economies. Cargo volume through Anchorage closely mirrored the timing of the recession: volume peaked in December 2007 at nearly

300,000 tons then fell in fits and starts to a low of just under 100,000 tons in April 2009. Not coincidentally, the National Bureau of Economic Research – the acknowledged authority in dating U.S. recessions – determined that the U.S. recession began in December 2007 and ended in June 2009.

The volume of air cargo through the airport bounced back to about 90% of pre-recession highs in 2010. Airport officials noted the growth in air cargo slowed and are expecting flatter growth for the rest of 2011 and the next several years.

AEDC forecasts growth of 0.5% in air cargo volume in 2012 followed by growth of 2% in both 2013 and 2014 in general correlation with global economic conditions.

Building Permit Values

The value of Municipality of Anchorage building permit applications provides a partial measure of new construction activity in Anchorage.

Residential permit values, not including townhouses, condominiums, and apartment buildings, which are counted as commercial, increased by 12% in 2010 – the first annual increase since 2003. The numbers continued to climb through the first quarter of 2011 and the $23 million permitted was the highest first quarter total since 2007.

Commercial construction permits fell 3% in 2010, and at $227 million are also significantly down from highs earlier in the decade. Commercial permitting hit a high point in 2006 at $412 million. First quarter numbers from 2011 were up, with $80 million permitted, almost twice the $41 million permitted in the first quarter of 2010.

Government construction permitting numbers are especially volatile, ranging from $2 million in some quarters to more than $100 million in others. The annual numbers, which smooth some of that volatility, show a decline from 2009's $85 million to $43 million in 2010. First quarter 2011 numbers were also down from first quarter 2010, although figures can be misleading considering much of the state capital budget money being spent is on transportation projects.

AEDC forecasts that the combined building permit numbers will increase for the first time in five years in 2011 and continue to rise at about 5% a year over the 2012-14 as the investment climate slowly improves.

Port of Anchorage Freight Volume

The total volume of freight that moved through the Port of Anchorage in 2010 was up 4% from 2009 to 4 million short tons, though still well off 2005's high point of 5 million short tons. Through the first four months of 2011, overall tonnage is up an estimated 20% over the year, due primarily to an increase in tanker port calls and, to a lesser degree, an increase in vehicle deliveries.

Following what is expected to be a solid growth year in 2011 of 5%, port officials expect more modest increases over the 2012-14 period. Assuming no unexpected shocks to the local or outside economies, petroleum shipments in support of air cargo is expected to show moderate growth and shipment of other goods is expected to be flat or slightly positive.

AEDC forecasts a freight volume increase of 1.9% in 2012, growing incrementally to 2.5% annually by 2014.

Visitor Numbers

Statewide, early indicators for 2011 are generally positive and total visitor numbers are expected to be up slightly from last year. The number of visitors who came to Alaska by highway or ferry – though small compared to visitors who come on cruise ships or by air – were both up noticeably in 2010 for the first time in years, and Anchorage bed taxes were up 7% in 2010. Car rental taxes were up 8% in 2010 and both bed taxes and car rental taxes were up 8% over the year in the first quarter of 2011 and this trend continued through the second quarter of 2011.

Much of the cruise ship-related visitor traffic through Anchorage comes at the beginning or end of one-way itineraries, but for the second season in a row Holland America's Amsterdam made a port of call in Anchorage every other Friday with a capacity of about 1,400 passengers and 600 crew members. Silver Seas and Oceana cruise lines also made port calls in Anchorage for the first time in 2011. In all, the three lines made a total of 11 calls during the 2011 season.

Total Alaska cruise passenger volume peaked at just over 1 million in 2008 before dropping to about 880,000 in 2010 due to the redeployments. In total, 885,000 cruise passengers are expected to visit Alaska in 2011, increasing to 930,000 passengers in 2012.

Challenges Ahead

Despite the forecasted gains, there are two economic clouds on the horizon. How they develop and how the city and state prepare for them will consume much of the economic and political discussion over the next decade.

The first is the near certain belt-tightening by the federal government, which has always played an outsized role in the health of the Alaska and Anchorage economies compared to most other U.S. states and cities. Everyone from the Federal Reserve to credit rating agency Standard and Poor's have warned that current deficit levels are unsustainable, leaving little doubt that cuts are coming. *When* they come is still uncertain and the democratic process is not a fast one, so the heaviest impacts will likely come farther down the road than the 2012-14 period.

The other challenge facing Anchorage and the state in the coming years is the ongoing decline in oil production. The issue is not new or unexpected – Prudhoe Bay is the largest oil field in North America and the 18th largest ever discovered in the world, so production declines after a certain point were part of the bargain – but the issue becomes more pressing as declines continue. Since reaching a peak of more than two million barrels a day in 1989, production has steadily fallen and averaged 607,000 barrels a day through the first half of calendar year 2011.

The development of several smaller new fields has slowed the decline and there is significant potential for more onshore and offshore Alaska oil to be produced, but reversing the decline will be a major undertaking whose feasibility depends both on world market conditions and the politics of taxes and environmental regulations. In the longer-term, demand for oil is expected to grow and higher prices have given many oil-producing regions new life.

A resurgent interest in oil would be even more important to Alaska considering that prospects for a natural gas pipeline have dimmed. Long believed to be the next big thing for Alaska, a pipeline through Canada looks less likely after BP and ConocoPhillips announced they were abandoning their joint venture Denali Project. A separate project led by TransCanada is still being pursued although a fall in natural gas prices due to large scale development of shale gas in the U.S. is a significant hurdle.

Ultimately, it is very clear that the health of the Anchorage and Alaska economies is closely tied to the state’s abundant natural resources. Of those resources, oil has easily been the most important economically for at least the last 30 years, and will likely remain so for the foreseeable future.

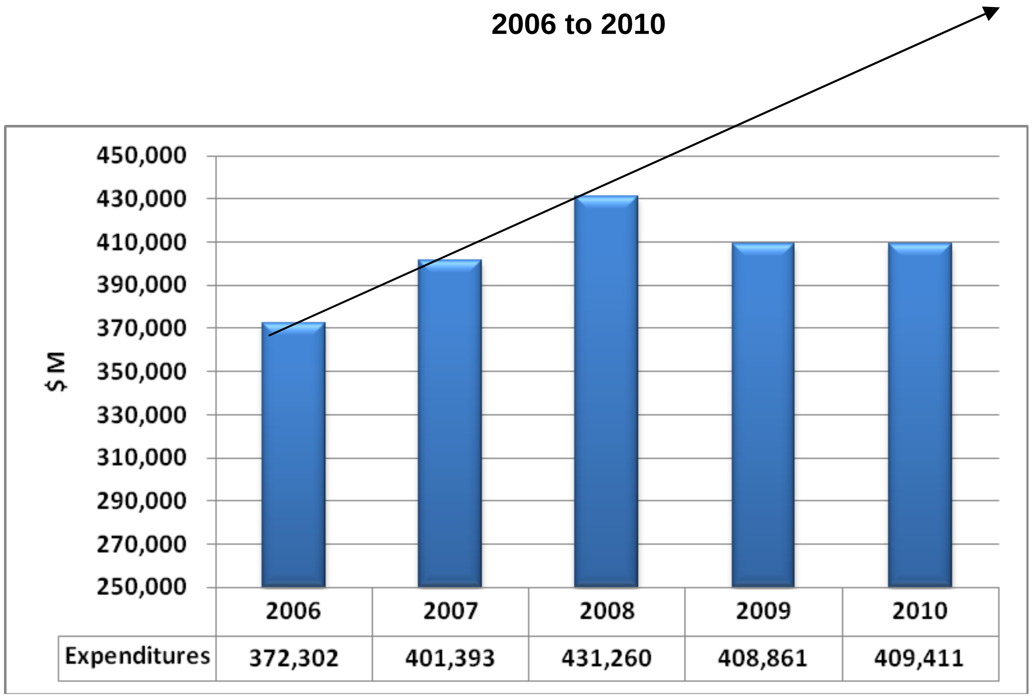
3. HISTORICAL FINANCIAL TRENDS

When the Sullivan Administration took office in 2009, the national economy was in the midst of what was later referred to as the Great Recession with nearly 10% national unemployment and millions of homes in foreclosure. Anchorage was significantly impacted by the effects of the national recession, particularly in the areas of construction, tourism and investment income. Fortunately, the impact to Anchorage and Alaska was not as severe as other parts of the country. Due to a sudden major decline in 2008 investment income and unrealistically budgeted revenues for public safety and public finance in 2009, the Sullivan Administration was compelled to take immediate corrective action to reduce expenditures in order to better align with newer expectations. While nearly $10 million of revenue shortfall was identified, tens of millions of dollars of additional future costs tied to new labor contracts approved in 2008 served to add many times greater magnitude to the long-term fiscal problems faced by the City.

The graph below depicts the actual expenditure trends from 2006 to 2010 for Anchorage general government. Clearly, the trajectory of expenses established as far back as 2006 did not offer a long-term sustainable course for the City, particularly in the midst of severe market declines and a severe national recession. As a result of budget cutting measures implemented in years 2009-2010 and further into 2011, the Sullivan Administration has successfully turned back time to a more sustainable level of government, with healthier fund balances, high bond ratings and more efficient delivery of city services. This proactive and serious approach to addressing past, current and future budget shortfalls has served the City well and kept it from falling into a fiscal hole that countless other local and state governments around the country have experienced during this recessionary period.

MOA General Government Actual Expenditures

2006 to 2010



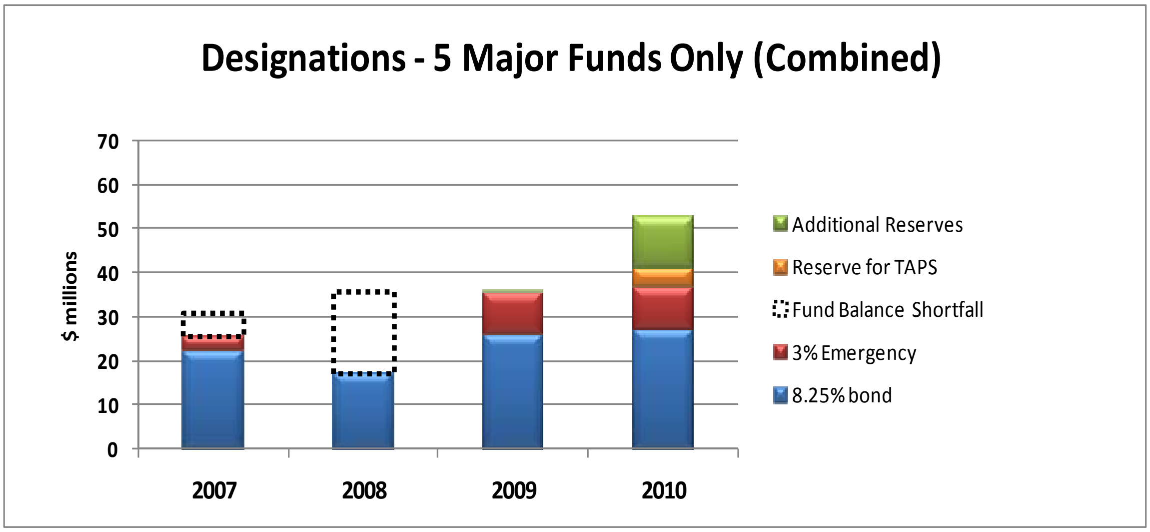
Source: MOA OMB and MOA Controller

The financial impact of reducing the expenditures in 2009 and 2010 enabled the MOA to restore its fund balance sufficient to earn a AA+ rating from Fitch Ratings (Fitch) and AA from Standard and Poor's. Fund balance is the difference between the revenues and expenditures of a governmental fund and is one of the key indicators of financial health. The MOA has an internal fund balance policy that requires 8.25% of revenues to be set aside to ensure investors of our bonds that we have a reserve to pay our annual debt service. Additionally, another 2% to 3% is set aside for potential emergencies. The following graph depicts the historical fund balance trends, for the five primary general government funds, from 2007 to 2010.

Municipality of Anchorage

Fund Balance

2007 to 2010



As noted in the graph above, in 2007 and 2008, fund balance reserve requirements were not attained. In 2009, fund balance was restored to the MOA internal policy amount. In 2010, additional fund balance reserves were used to fund a police academy, provide property tax relief, and to pay off loans and liabilities that occurred prior to July 2009. Reduced liabilities included retiring of a loan to Municipal Light and Power, and funding to clean up environmental contamination at Kincaid Park and Reeve Boulevard.

MOA Bond Rating Discussion

The MOA currently enjoys the benefits of being a highly rated governmental entity by two rating agencies. The MOA is rated AA by Standard and Poor's and AA+ by Fitch, both with a Stable Outlook. These benefits include a low cost of borrowing in the capital marketplace. The MOA issued $61.640 million of bonds in May 2011 and the two rating agencies reaffirmed their ratings of the MOA, including the Stable Outlook. The report by Fitch affirmed the MOA's "AA+" rating and Stable Outlook, citing various inherent credit strengths that figured prominently in the rating review process. Two key rating drivers identified by Fitch included:

- Maintenance of structural budget balance and adequate reserve levels in the face of cost pressures; and
- Performance of the local and state economy.

However, the report also included the comment that the MOA's "…*current reserve position is somewhat below average for this rating level.*"

Rating agencies have long held that a credit rating is a composite of quantitative factors (e.g. financial ratios) and qualitative characteristics, such as strength of management. Local government ratings are based on the following four credit factors:

- Economic Strength,
- Financial Strength,
- Management and Governance, and
- Debt Profile.

In determining a rating, the rating agencies compare the MOA to other issuers with similar characteristics. The importance of these so-called "peer comparisons" in the credit rating process has risen as the rating agencies face increased scrutiny over the appropriateness and accuracy of their ratings. But while the rating agencies have published reports acknowledging the importance of such peer analysis, it has avoided stating what financial and debt ratio levels correspond to specific rating categories.

The fact that the MOA's ratings were affirmed earlier this year is evidence that its' "below average" reserve level is not – in and of itself – a ratings driver. However, the level of importance of such balances in the ratings process may increase if the MOA begins to experience weakness in other credit areas and the balances are projected to be insufficient to offset these declines should the downward trend continue.

At this time, neither rating agency has indicated to MOA management that there is a rating action being contemplated, either positive or negative.

Fund Balance Discussion

Our financial advisors from First Southwest Company (First Southwest) have recently advocated “a change in the MOA’s fund balance reserve policy such that its ratios would be more in line with those of its peers”. First Southwest also sent us a review of other cities rated Aa1 and Aa2 by Moody’s and their respective ‘Unreserved General Fund Balance as a percent of Revenues’. The review included ten cities rated Aa1 with an average fund balance of 19.7% and a range of 9% to 33%. The review also included sixteen cities rated Aa2 with an average fund balance of 14.2% and a range of 2% to 24%. The MOA’s rating by Fitch of AA+ compares to a rating by Moody’s of Aa1. The MOA’s rating by Standard and Poor’s of AA compares to a rating by Moody’s Aa2. The MOA is in the process of evaluating its fund balance reserve policy to ensure a financially sound position. A change in the MOA’s fund balance policy to move it toward the average of either one of these two averages, over time, is currently under consideration.

4. FISCAL PROJECTIONS AND STRATEGIES

As we look to the future, Alaskan economic trends are modestly positive, with indications of slow growth. The national economic downturn continues and slow, prolonged recovery is expected. The impact of the national economy and future budgetary decisions by Congress could put additional pressure on Anchorage's economy, although the magnitude and timing of these factors cannot be accurately predicted. Compounding the uncertainty of revenue forecasts are the continued increases in expenses facing the Municipality in 2012 and later. The resulting balancing effort is consequently more complex when attempting to match revenue with services.

Near-term, some key fiscal challenges that could negatively impact projections include:

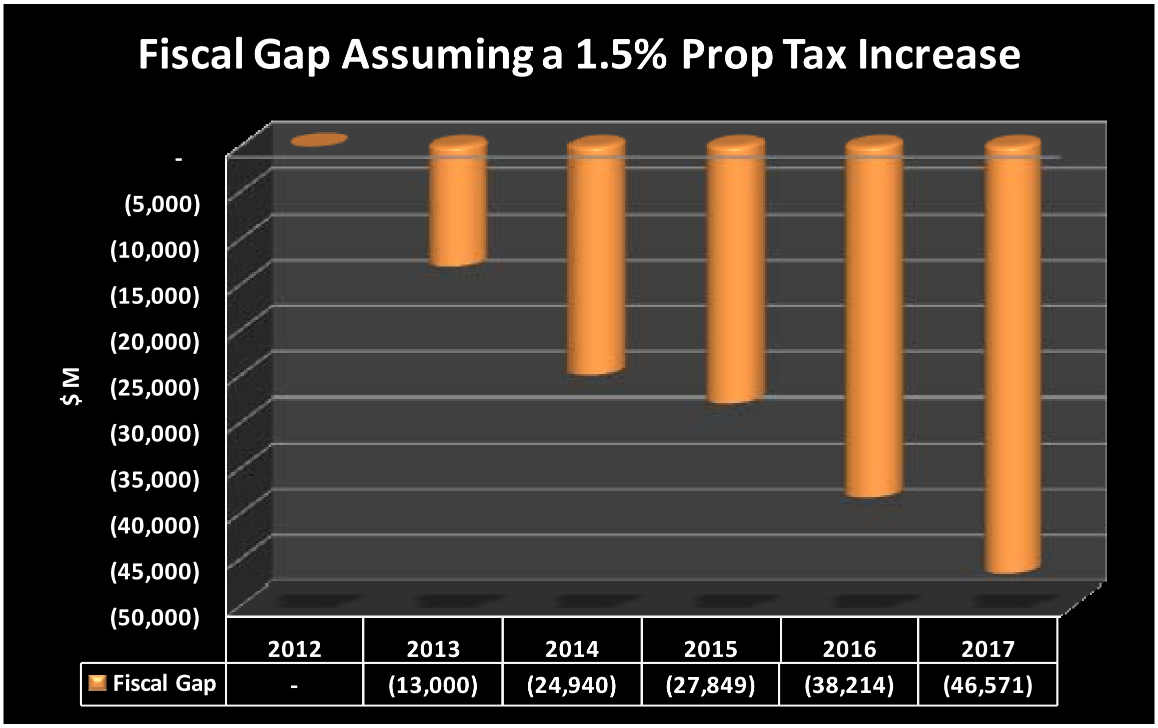
- Increased potential for continued, slow economic conditions, including the possibility of a second recessionary period;
- Potential volatility in oil prices and its effect on State Revenue Sharing;
- Potential cuts to federal grant and program revenues and federal legislation affecting the amount of discretionary personal income;
- Further increases to labor costs and health care costs many times greater than the current and projected Consumer Price Index;
- Potential increase in borrowing costs and inflation-based costs due to sudden increases in interest rates and inflation;
- Potential negative final court ruling associated with the Trans Alaska Pipeline (TAPS) property tax litigation which, if both sides' claims were split, could result in a payback of $7.5 million;
- Unanticipated legal liabilities; and
- Likelihood of an upward adjustment in the actuarial required contribution to the Police and Fire Retirement System pension plan, due to further recent declines in the market value of the plan and/or modifications to the amortization period.

Long-term, some key potential fiscal opportunities that could positively impact projections include:

- Avoidance of a second recession, spurred by economic growth at the national level;
- Stable state and federal revenues;
- Re-negotiated labor contracts with lowered baseline and future costs to conform with actual historical inflation;
- Increased investment income tied to Federal Reserve rate increases;
- A net positive final court ruling in favor of the City regarding all outstanding property tax years associated with the TAPS litigation; and
- Further recovery in the investment market supporting reduction in the actuarial required contribution to the Police and Fire Retirement System retirement plan.

Long-term Fiscal Challenge

A long-term fiscal plan revolving around moderate tax increases and allowing expenses to continually increase (based on the current union agreements and estimated inflation rates), if left unchecked, will lead to continued unsustainable deficits into the future. If the Mayor increases property taxes by 1.5% each year in the Six Year Plan and does not adjust the size of government, the Municipality will find itself in a deficit situation as noted below. The deficit begins at $13 million in 2013 and increases to $46 million in 2017.



Mayor's Plan for Fiscal Sustainability

The Mayor continues to plan for long-term fiscal stability and sustainability. The Mayor's fiscal plan enables a balanced budget by reducing the size of government and increasing property taxes in the range of 1.5% to 3% over the six year forecast period.

To provide sound fiscal planning realizing known future expenses, costs must be adjusted downward to achieve goals of the community in a balanced manner. Based on data received from "Community Dialogues" it is clear that citizens are demanding that government become more efficient. As a result, the Mayor has initiated projects to enable a more efficient government.

Lead by the Mayor, a number of initiatives have begun to evaluate consolidation of staff, streamlined business processes and increased use of new technology in order to reduce the cost to deliver services. Beginning the second half of 2011, a number of significant information system and business process changes are now underway including:

- a new enterprise-wide financial system with SAP as the vendor,

- a new online time tracking system with Kronos as the vendor,
- a new property tax assessment and billing system with one of three finalists to be selected after completion of software demos, and
- operational management studies affecting Information Technology operations and the Operations and Maintenance Department, conducted by two outside expert consultants.

These major investments in new systems and business processes will serve to significantly improve the efficiency and quality of delivered services while at the same time leading to reduced long-term operating costs.

Other efficiency initiatives will continue to be undertaken throughout many functions of government to further reduce the cost and improve the delivery of services to the public.

In following the Mayor's recommended plan for fiscal sustainability and more efficient and accountable government, revenues and expenses can be prudently held in balance over the six year projection period. As needed, adjustments to the plan will be made as specific business actions are implemented by departments.

As illustrated in the preceding graph, significant savings will need to occur in order to achieve a balanced budget.

The financial plan assumptions include:

Expenditure Forecasts

As the Mayor's recommended plan illustrates, cost reductions including a reduced work force and related wages, reduced professional services and discretionary spending are all key elements in addressing the fiscal deficits projected. Reductions in the amount of $13 million are planned for 2013 and an additional $11 million in reductions is planned for 2014. The reductions will continue to increase each year to $35 million in 2017.

Personnel costs continue to be the single largest category of expense and represent an increase in the 2013 cost structure. Labor contracts approved prior to 2009 are incorporated reflecting cost increases of 3% to 6% per year over a six year period. The labor increase element assumes an average amount of increase will be earned by each collective bargaining agreement. The assumption includes the impact of the Performance Improvement Program (PIP) which is included in several of the labor contracts.

Additionally, this fiscal scenario assumes that the cost to provide health care to employees will continue to increase throughout the forecast period. As of August 2011, the average paid claim per month per employee is 5% higher in 2011 than in 2010. National health care reform is also expected to increase the Municipality's cost to provide health insurance to our employees.

Debt service costs vary year to year based on a combination of debt retirement, debt refunding and newly issued debt approved by voters. The Mayor's objective is to limit the increase in debt in future years such that more principal is paid off than is added. In aggregate, the six year projection cites a net overall pay down of debt during the forecast period. Additionally, debt refunding in 2012 is included in the forecast. The impact of the refunding is expected to reduce annual debt service of approximately $400,000 per year.

Additional debt is planned to fund the replacement of an eleven year old Enterprise Resource Planning (ERP) system and the more than twenty year old Computer Assisted Management Assessment (CAMA) system. Both of these systems currently reside on a legacy mainframe system which prevents the Municipality from implementing more efficient processes. Once these two systems are fully replaced, the Municipality expects to gain efficiencies that will bring the Municipality's operations in-line with demonstrated best practices.

The downturn in the stock market in 2008 resulted in an actuarial report for the Police and Fire Retirement System showing an unfunded liability of $101 million. In 2010, the fund recovered somewhat and the present value shortfall was reduced to $63 million. The shortfall translates to a reduced contribution requirement from the Municipality in the amount of $6.2 million per year over the next 15 years. At the time of this report recent significant declines in the stock market, partially reminiscent of the 2008 declines, are presenting added risk that the unfunded pension obligation may increase at year-end which would lead to an increase in the annual contribution requirement starting January

1, 2013, thereby further delaying the period of recovery and adding to the long-term fiscal challenges for the City.

Inflation is expected to increase moderately over the forecast period. All non-labor expenditures were adjusted upward by 2.5% to 3% per year to adjust for annual inflation.

Revenue Forecasts

Local revenue sources are projected to increase modestly as a result of recovering from the recession. Economic forecasts provided from independent organizations such as AEDC, McDowell Group, and others were used as the foundation for the forecasts. Starting in 2012, these local revenue sources are expected to follow a pattern of slow steady growth of 1% to 3% per year, which lags the growth rate of both labor and non-labor expenses.

State Revenue Sharing, which is largely dependent on surpluses existing at the State level, has historically been difficult to predict due to volatility in oil prices year to year. The projection model assumes that State Revenue Sharing remains stable and flat throughout the projection period.

Revenues from Permanent Fund Dividend garnishments, which support Anchorage Police Department operations, are expected to experience further decline in 2013 with a slow upward growth expected thereafter, due to the lingering effect of the severe market value decline in 2008 earnings and its affect on the five year average income that determines distributions. Similarly, distributable earnings from the Municipality's mini permanent fund (i.e., MOA Trust) was nearly 20% less beginning in 2010 and projected to decline an additional 10% before flattening and returning to slow growth.

The Mayor's Six Year Plan is forecasted as follows:

SIX YEAR FISCAL PROGRAM -
PROJECTIONS OF REVENUES & EXPENDITURES ($ 000's)
2012 to 2017

	PROJECTIONS						
Six Year Budget Projection	2011 1Q Bud	2012	2013	2014	2015	2016	2017
REVENUES							
Federal Revenues	2,143	1,587 -26%	1,595 1%	1,708 7%	1,717 1%	1,726 1%	1,736 1%
State Revenues	16,587	16,600 0.1%	16,603 0%	16,640 0%	16,656 0%	16,673 0%	16,690 0%
Local Revenues	147,335	152,326 3.4%	153,591 1%	156,997 2%	159,758 2%	162,787 2%	165,685 2%
Property Taxes	240,836	244,400 1.5%	248,070 1.5%	253,030 2.0%	259,350 2.5%	267,130 3.0%	275,150 3.0%
Fund Balance Applied	8,976	8,100 -9.8%	3,000 -63%	3,000 0%	3,000 0%	3,000 0%	3,000 0%
IGC's Outside General Gvt.	27,335	28,700 5%	30,000 5%	31,400 5%	32,800 4%	34,300 5%	35,800 4%
TOTAL REVENUES	443,212	451,712	452,858	462,775	473,281	485,617	498,061
Change from prior year		2%	0%	2%	2%	3%	3%
EXPENDITURES							
Personal Services	242,866	247,262 2%	259,047 5%	271,488 5%	282,191 4%	293,402 4%	305,075 4%
Debt Service	51,633	57,810 12%	56,690 -2%	61,250 8%	57,710 -6%	61,320 6%	62,130 1%
Other	148,713	146,640 -1%	150,122 2%	153,737 2%	157,439 2%	161,378 3%	165,567 3%
Reductions/Efficiencies	-	-	(13,000)	(24,000)	(25,000)	(31,000)	(35,000)
TOTAL EXPENDITURES	443,212	451,712	452,859	462,475	472,340	485,100	497,772
Change from prior year		2%	0%	2%	2%	3%	3%
REVENUES OVER/(UNDER) EXPENDITURES	0	-	(0)	300	941	516	289
cumulative		0	(0)	300	1,241	1,757	2,046

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