

# **SIX-YEAR FISCAL PROGRAM 2014 - 2019**



**Municipality of Anchorage**

**Dan Sullivan  
Mayor**

October 1, 2013

**MUNICIPALITY OF ANCHORAGE**  
**Six-Year Fiscal Program**  
**2014 - 2019**

**Dan Sullivan, Mayor**

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## ***PREFACE***

In accordance with the Municipal Charter 13.02, 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 for review and consideration in response to services demanded by the public.

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](http://www.muni.org). Relevant documents include:

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

## SIX-YEAR FISCAL PROGRAM 2014 - 2019

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

The Municipality of Anchorage has a set of overarching goals 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 have been 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.

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, life-long 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 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. Utilize the Energy Task Force to help develop energy policy

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); Visit Anchorage; Anchorage Community Development Authority; and CIVICVentures, an Alaska non-profit corporation
  - f. Establish stable business taxes and user fee structures
  - g. Streamline our permitting and planning process to be more attractive to businesses 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 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 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 roads, parks, upgrading our municipal facilities, public transportation and public safety. The Coastal Trail and Bridge Surface Rehabilitation Project during the summer of 2013 is a key example of the Administration's commitment to applying priority capital funding sources to a broad-in-scope capital project focused on rehabilitating and improving existing public infrastructure for the broad benefit of Anchorage residents and visitors.

The 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 future debt service 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.

## **2. ECONOMIC TRENDS AND INDICATORS**

### **Introduction**

The AEDC's (Anchorage Economic Development Corporation) 2013 Business Confidence Index (BCI) shows business confidence continuing to improve in Anchorage. Business confidence is now at its highest level since the BCI survey was launched in 2009. Key economic indicators, particularly employment and income growth, provide the hard facts to support that confidence. The most recent data shows that strong employment growth in 2011 and 2012 is continuing into 2013. In its January employment forecast, the AEDC predicted there would be 1,700 new jobs in Anchorage in 2013. Through June 2013, the economy is on track to add 1,500 jobs, according to the latest data from the Alaska Department of Labor and Workforce Development.

The AEDC Three-Year Economic Outlook examines economic trends through eight key indicators: population, employment, personal income, air passenger and freight volumes, building permits, Port of Anchorage tonnage, visitor industry activity, and oil prices. The forecasts contained in this report are based on historical data, interviews with businesses and organizations in various sectors, and current events. Understanding economic trends provides a framework for future forecasts and fiscal impacts.

### **Population**

Anchorage marked its fifth consecutive year of population growth in 2012, climbing to 298,842 residents, according to ADOLWD (Alaska Department of Labor and Workforce Development) estimates. The addition of 2,758 residents was a 0.9 percent increase from 2011, a rate slightly below the five-year average growth rate of 1.2 percent. The increase from 2011 to 2012 was driven by a natural increase (births minus deaths) of 3,134, while there was net out-migration of 376 during the same period (net migration is the difference between the number of people moving to Anchorage and the number leaving Anchorage). Conversely, the Mat-Su Borough experienced a net in-migration of 1,196 people between 2011 and 2012.

Population growth in Anchorage has not been keeping pace with employment growth (employment increased 1.8 percent in 2011 and 2.2 percent in 2012). Several factors may account for this, including increasing labor participation rates, more non-resident workers in the seasonal labor force, out-migration of retirees, and strong population growth in the neighboring Mat-Su Borough (up 2.2 percent between 2011 and 2012), where a significant number of Anchorage workers reside.

The Municipality of Anchorage now accounts for 41 percent of Alaska's population. If combined with the Mat-Su Borough, the Anchorage/Mat-Su region accounts for 54 percent of the state's total population.

This year Anchorage's population is anticipated to top the 300,000 mark, with continued population growth of 1.1 percent estimated for 2013. Supported by additional natural increase and continuing job growth, that 1.1 percent annual growth rate is expected to continue and hold reasonably steady over the next three years.

## **Employment**

The latest available data shows Anchorage employment growth of about 1 percent through the first six months of 2013, compared to the same period in 2012. That rate of growth is slightly lower than the 1.1 percent rate the AEDC predicted in January. January through June 2013 employment in Anchorage is 1,600 jobs ahead of the same period last year. The private sector is on track to add 2,300 jobs in 2013 (up 1.9 percent); while at the current pace of decline, the government sector may lose 700 jobs. Recognizing that this data is preliminary and subject to revision, drivers of this private sector growth include health care (+470), oil and gas (+430), and professional/business services (+380) sectors. Construction and leisure & hospitality sectors are also showing growth.

Final employment counts for 2012 from ADOLWD showed job growth above the AEDC predictions, with total employment increasing by 3,400 (2.2 percent), from 153,800 in 2011 to 157,200 in 2012. The professional and business services sector accounted for the largest share of this growth, adding 1,100 jobs in 2012. The healthcare sector was another major contributor to employment growth adding 800 jobs. Anchorage's health care sector has added a total of 3,000 jobs over the past five years. From June 2012 to June 2013, 600 government jobs were lost in Anchorage. While total employment (private and public sector jobs) increased 1.0 percent, private sector employment alone grew faster (1.8 percent).

Anchorage is coming off of two years of robust growth; 2,700 jobs in 2011 and 3,400 jobs in 2012, both well above predicted employment growth for those years. Nevertheless, data for the first six months of the year suggest 2013 growth will be in line with the AEDC's employment forecast of 1.0 percent. Beyond this year, the AEDC has growth forecasted conservatively at around 1.2 percent annually in 2014, 2015, and 2016, adding between 1,900 and 2,000 new jobs each year.

## **Personal Income**

Personal income is a measure of total gross income (before taxes) from all sources earned or received by Anchorage residents. It includes employment income, income from other sources such as investments (dividends, rental income, and interest income, among others), and government transfer payments (which include Social Security, Medicaid and Medicare, unemployment benefits, and the Permanent Fund Dividend).

Anchorage resident personal income totaled \$15.1 billion in 2011 (the most recent local-level data available from the Bureau of Economic Analysis (BEA)), 5.2 percent above the 2010 total. This follows growth of 4.7 percent between 2009 and 2010. From 2009 (when income dipped by 4 percent) to 2011, Anchorage residents collectively enjoyed personal income growth of \$1.4 billion (in nominal, non-inflation-adjusted dollars). While Anchorage accounts for 41 percent of Alaska's population, it accounts for 46 percent of total Alaska resident personal income.

More recent personal income data is available for Alaska overall. With trends in Anchorage personal income generally paralleling statewide trends, the 3.7 percent increase in total Alaska resident personal income between 2011 and 2012 suggests Anchorage saw another increase in 2012, likely in the area of 4 percent.

These figures have not been adjusted to account for the effects of inflation. Inflation, based on the Anchorage Consumer Price Index, was 3.2 percent between 2010 and 2011, and 1.9 percent between 2011 and 2012.

The AEDC forecasts personal income growth of 4.5 percent annually from 2013 to 2016 in keeping with long-term trends established since 2001.

## **Anchorage International Airport Passenger and Freight Volume**

Airport passenger volume is a measure of the total number of passengers moving through the airport including enplaning, deplaning, and in-transit passengers. This indicator provides insight to trends in Alaska's visitor sector, as well as resident business and personal travel.

The number of travelers through Ted Stevens Anchorage International Airport (ANC) slipped to just under 5 million in 2012, declining by 120,000 passengers (a 2.5 percent downturn). The ANC passenger traffic in 2012 was about 380,000 passengers below the 2008 peak volume. About a third of the decline (44,000) in 2012 was due to lower numbers of in-transit travelers, mainly fewer transiting Eva Airways and China Airlines passengers. Otherwise the decline in 2012 was due to declining volumes on domestic carriers other than Alaska Airlines and ERA Aviation, which both posted gains. Alaska Airlines accounts for about 60 percent of passenger enplanements and deplanements at ANC.

New players in the Anchorage market this summer include Icelandair (twice a week summer service from Reykjavik) and Virgin America (six non-stop flights a week – summer service – to and from San Francisco).

Passenger volume for the first five months of 2013 was down slightly (0.7 percent) from the first five months of 2012, although the summer months will be key in determining traffic trends for the year. In 2012, July was the peak passenger traffic month at ANC, with 624,000 passengers. The AEDC expects

traffic this summer to push the annual 2013 totals to about 1.5 percent higher than last year. Beyond 2013, passenger traffic is expected to increase at a rate of about 2 percent annually.

Air cargo volume at the airport totaled 2.72 million tons in 2012, down 3.1 percent from 2.80 million tons in 2011. The decline in 2012 extends a downward trend that started in 2011, when air cargo volume slipped 1.1 percent from 2010.

Data for the first five months of 2013 show the downturn continuing, with a 3.1 percent decline compared to same period in 2012. This recent decline was caused by an 8.9 percent decline in cargo enplaned and 10.5 percent decline in cargo deplaned; yet in-transit cargo increased 0.4 percent. In-transit cargo accounts for about 68 percent of the air cargo moving through ANC; in comparison to 17 percent for cargo enplaned and 15 percent for cargo deplaned. Though much of the euro zone remains in recession and Asian economic growth remains uncertain, the increase of in-transit volume of 0.4 percent for 2012 to 2013 year-to-date may be a reflection of gradual global economic recovery, as well as slow improvement in the U.S. economy.

Cargo aircraft landings are down 4.5 percent for the first five months of 2013 in comparison to the first five months of 2012. In terms of cargo landings, United Parcel Service (UPS) and Federal Express are the top two carriers representing 23 percent of all cargo landings. Alaska Central Express, Eva Airways and a wide variety of other carriers account for the remaining 77 percent. Federal Express and UPS account for most of the deplaned (75 percent so far in 2013) and enplaned (91 percent) cargo, processing cargo at their sorting facilities at the airport. The leading transit cargo carriers are more evenly distributed and led by Polar Air Cargo Worldwide, Cathay Pacific Airways, Korean Air, Eva Airways, and China Airlines.

ANC air cargo volume for 2013 is expected to remain below 2012 levels. While World Bank projections of European Gross Domestic Product (GDP) show a decline of 0.1 percent in 2013, longer-term increases of 0.9 percent in 2014 and 1.4 percent in 2015 are expected. U.S. GDP growth of 1.9, 2.8, and 3.0 percent are expected over the same three-year period. Given those positive trends, the AEDC expects a turnaround in air cargo volumes, with annual growth of 1 percent in 2014, 1.5 percent in 2015, and 2 percent in 2016.

## **Building Permit Values**

The application value of building permits issued by the Municipality of Anchorage provides a partial measure of new construction activity in Anchorage. Building permit data is categorized into residential, commercial, and government facility construction; it does not include military construction and road construction projects.

Residential, commercial, and government building permits combined totaled \$448 million in 2012, up about 3.7 percent from 2011. On an annual basis, building permit values have been increasing steadily since bottoming in 2009 at \$395 million.

Residential building permit values (not including townhouses, condominiums, and apartment buildings, which are counted as commercial) increased 34 percent in 2012 (\$150 million) compared to 2011 (\$112 million). Commercial building permit values were down 11 percent between 2011 (\$280 million) and 2012 (\$250 million). Government construction permitting values show an increase of 20 percent from 2011's \$40 million to \$48 million in 2012.

Approximately \$380 million was permitted during the first six months of 2013, up 37 percent from \$277 million during the same period in 2012.

Data for the first six months of 2013 show growth across all three construction sectors, with residential building permit values up 22 percent (from \$75 million in 2012 to \$91 million in 2013), commercial permit values rising 45 percent (from \$167 million to \$243 million), and government permits increasing 31 percent (from \$35 million to \$46 million). It is important to note that government permit figures provide only a partial measure of government construction spending, as transportation and military projects are not included.

While residential construction activity is on the upswing, there is concern that expansion of Anchorage's housing stock is not keeping pace with population growth. According to Alaska Housing Finance Corporation data, Anchorage's 2013 year-to-date rental housing vacancy rate is 3.3 percent. While that rate is an improvement from the 2.6 percent rate recorded in 2012, it still reflects a very tight rental market. So far in 2013, Anchorage monthly rental rates have averaged \$1,119 (up 19 percent since 2008) and higher than any other area in the Railbelt.

A few of the larger commercial and government building permit application values during the first six months of 2013 include: University of Alaska Anchorage (\$30 million), Alaska Regional Hospital (\$16 million), Alaska Native Medical Center (\$15 million), Eklutna Power Plant (\$12 million), Providence Health and Services (\$11 million), Blood Bank (\$10 million), Coronado Park (\$9 million), and Service High School (\$6 million).

Following the strong start to the year, the AEDC estimates that Anchorage will end 2013 with combined building permit valuations about 15 percent above the 2012 level. Additionally, we forecast that from 2014 to 2016 total building permit values will increase by 6.5 percent annually based on the average annual growth rate from 2010 to 2012.

## Port of Anchorage Freight Volume

The total volume of freight moved through the Port of Anchorage in 2012 was down 9.2 percent from 4.1 million short tons in 2011 to 3.8 million short tons in 2012. Lessening petroleum movement accounted for the decline; shore-side petroleum tonnage was down 24 percent and dockside petroleum fell 11 percent. The total tonnage of freight in containers, vans, and flats (a better measure of general economic activity) increased 1.8 percent. This type of freight made up 46 percent of the port's annual tonnage in 2012, the highest percentage of total tonnage since 1998.

The volume of freight moving over the docks at the Port of Anchorage is, in part, a barometer for conditions in the Anchorage and Alaska economies. The Port of Anchorage estimates they move about 90 percent of all Alaska consumer goods and serves about 85 percent of the state's population.

The AEDC projects a modest annual growth of 1.4 percent from 2013 to 2016 based on expected growth in the economy overall (measured in terms of growth in population, employment, and inflation-adjusted personal income).

## Visitor Industry

Alaska's visitor industry is slowly recovering from the 2009 and 2010 recession-era slump. After a 1 percent increase in out-of-state visitor volume in summer 2011 (May-September), summer 2012 saw a 2 percent increase over 2011, according to the Alaska Visitor Statistics Program (AVSP). The increase was largely driven by a 6 percent growth in cruise passenger traffic. The air market (visitors that enter and exit Alaska via air) was down 4 percent, while highway/ferry volume was flat.

Anchorage-specific indicators for summer 2012 include a 6 percent increase in bed tax revenues and a 6 percent decrease in vehicle tax revenues. The disparity may reflect the increase in cruise visitors (who utilizes Anchorage lodging but are less likely to rent cars) and a simultaneous decrease in the air (independent) market; air visitors are more likely than cruise visitors to rent cars. Bed tax revenues have been increasing steadily since the 2009 downturn.

Passengers exiting Anchorage (and Alaska) via domestic air were down by 1 percent (summer 2011-2012), while passengers exiting Anchorage via international air fell 3 percent. The decrease in international exits was largely due to fewer Japan Airlines passengers compared to 2011. Both Condor and Korean Air increased in passenger volume. Edelweiss discontinued service in 2012.

The fall/winter period refers to October through April. Although only 15 percent of Alaska's out-of-state visitors arrive during the fall/winter, nearly three-quarters (73 percent) of these visitors travel to Anchorage (compared to 56 percent in the summer period), according to AVSP data. Statewide, fall/winter 2012-2013 visitor volume is estimated to have decreased by 1 percent from fall/winter 2011-2012.

Anchorage-specific indicators for the fall/winter period include a 5 percent increase in bed tax revenues and a 1 percent decrease in vehicle tax revenues between fall/winter 2011-2012 and fall/winter 2012-2013. Passengers exiting Anchorage via domestic air were down less than 1 percent. Although passengers exiting Anchorage via international air were down by 53 percent, this refers to a drop of only 300 passengers. (Many international visitors to Alaska exit via domestic air in the fall/winter; they also exit from Fairbanks.) Visit Anchorage reported a 2 percent decrease in convention attendance over the fall/winter months.

Looking ahead, statewide visitor volume was projected to increase in summer 2013, largely driven by a 6 percent growth in cruise passenger capacity, though there are mid-season reports of soft demand for cruise berths and some weakness in the cruise/tour component of the industry. No cruise ships are expected to directly call at the Port of Anchorage in summer 2013 after some limited market presence in recent years (11 calls in 2011 and nine calls in 2012).

Nationwide projections indicate a continued (albeit slow) recovery in the tourism industry from the economic recession. According to the U.S. Travel Association, domestic travel is projected to grow by 1.3 percent in 2013, then by 1.8 percent in 2014. Meanwhile, international travel to the U.S. is projected to increase at a faster rate; by 4.0 percent in 2013, then by 5.4 percent in 2014.

## **Oil Prices**

By historical standards, Alaska North Slope (ANS) West Coast Spot prices were quite steady in 2012, ranging from a monthly high of \$123 a barrel in March to a low of \$98 in June. The year ended with ANS West Coast prices at about \$107 a barrel. A similar range of monthly fluctuations has been observed so far in 2013, with a February high of \$133 a barrel and a June (most current) low of \$104 a barrel.

West Texas Intermediate (WTI) crude oil spot prices averaged \$94.05 per barrel in 2012, just slightly under the price predicted in last year's AEDC 3-Year Outlook (\$96.80). WTI crude oil spot prices do not always move exactly in parallel with ANS prices, but WTI price forecasts have served as a reasonable proxy for expected future ANS prices. The \$17 spread in 2012 between prices for ANS crude sold on the West Coast and WTI crude oil is noteworthy, but that spread has been diminishing in 2013. The June ANS West Coast spot price of \$104 a barrel is about \$8 above June's average WTI price.

The U.S. Energy Information Administration (EIA) forecasts that WTI crude oil spot price will average \$94.65 a barrel in 2013 (an increase of just 0.6 percent), then slip to \$91.96 a barrel in 2014 (a decline of 2.8 percent).

EIA does not have an up-to-date price forecast beyond 2014. In their Spring 2013 revenue forecast, the Alaska Department of Revenue anticipates a 4.1 percent increase in oil prices in 2015 followed by a 4.3 percent increase in 2016. Another source of oil price forecasting is the Economist Intelligence Unit (EIU)

which forecasts a similar trend at \$102 per barrel in 2015 and \$105 per barrel in 2016. While uncertainty abounds in the global oil market, the AEDC anticipates a rises in oil prices consistent with EIA forecasts for 2013 and 2014 and EIU forecasts for 2015 and 2016.

## Challenges Ahead

Robust employment growth in Anchorage over the past two years (over 5,000 new jobs) has been more positive than originally anticipated. Healthcare services, along with the business and professional services sector, have been particular bright spots, though there has also been growth in the visitor industry, the oil and gas industry, and the construction sector. Another indicator of a strong employment picture is Anchorage's June 2013 unemployment rate of 5.4 percent, well below the national average of about 7.8 percent. For the months of March, April and May, unemployment in Anchorage averaged 4.8 percent. The local unemployment picture so far in 2013 fairly characterizes a nearly "full employment" economic environment. Unemployment has not been consistently below 5 percent in Anchorage since 2007, when it averaged 4.9 percent, and before that in the 1998 through 2001 period, when it ranged between 4.3 percent and 4.9 percent.

Going forward, several factors could weigh on economic growth in Anchorage, including the high cost of living, reductions in federal spending, and declines in State of Alaska oil revenues. Though not tracked in this 3-year forecast, the relatively high cost of living in Anchorage, especially housing costs, is of growing concern. According to the Council for Community and Economic Research (ACCRA), the cost of living in Anchorage is 29 percent above the national average, with housing 50 percent above the national average. Further, it is anticipated that rental vacancy rates will remain chronically low. Employers could experience increased pressure for wage inflation due to a tighter labor market and high housing costs in Anchorage.

Federal government employment in Anchorage has declined by over 1,000 jobs over the past few years. Sequestration may take a further toll. Military-related spending is also likely to decline going forward. The Army Corp of Engineers is adjusting to the new reality of an Alaska that has substantial military infrastructure yet reduced availability of federal dollars to support that infrastructure.

While oil and gas industry employment in Alaska is at its highest level in many years, the North Slope production decline continues and the industry still faces uncertainty regarding taxes that is now associated with efforts to place a referendum on the ballot to repeal Senate Bill 21.

Despite these challenges, the outlook for Anchorage over the next three years remains positive. Population, employment, and personal income continue to show up-side momentum. Similarly, the construction sector (measured in terms of building permit values and employment) is on the rise. Altogether, these critical measures of economic progress continue to point to growth in Anchorage.

### **3. HISTORICAL FINANCIAL TRENDS**

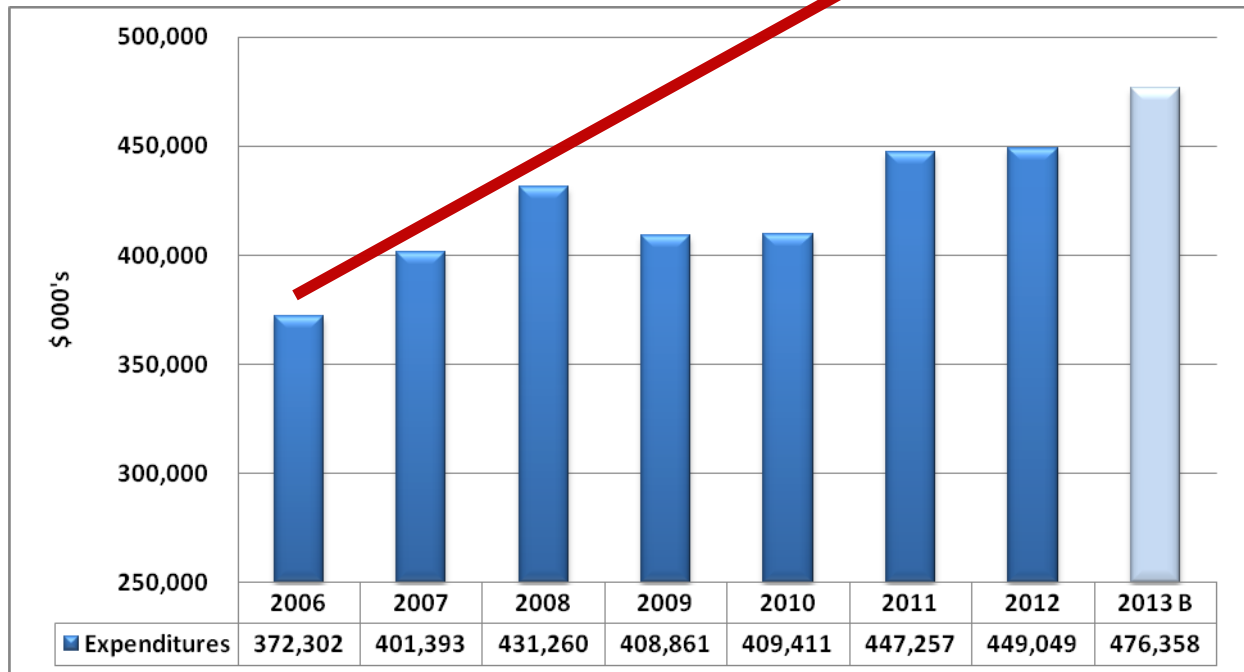
When the Sullivan Administration took office in 2009, the national economy was in the midst of what was later referred to as the Great Recession with nearly 10% national unemployment and millions of homes in foreclosure. Anchorage was impacted by the effects of the national recession, particularly in 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 investments in 2009, the current Administration was compelled to take immediate corrective action to reduce expenditures in order to better align with revised 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.

#### **Expenditures**

The graph below depicts the actual expenditure trends from 2006 to 2013 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 2009-2014, the Sullivan Administration has successfully restructured expenditures 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.

In 2011 the rate of spending, in comparison to 2009 and 2010, increased due to the receipt of additional revenue sharing funds from the State of Alaska. These funds were spent on one-time projects that included environmental remediation, a pay down of an inter-fund loan and investments in efficiency initiatives. The Administration continues to operate Anchorage in a frugal manner by continuing to manage costs in a more efficient manner.

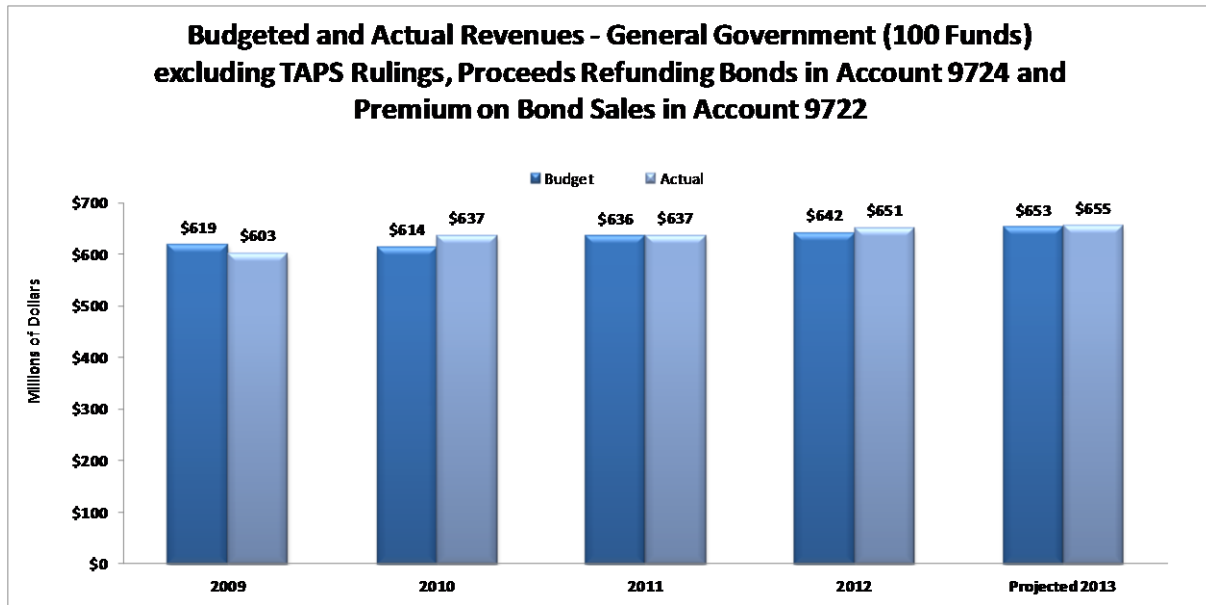
## MOA General Government Actual Expenditures 2006 to 2012



Source: MOA OMB and MOA Controller

## Revenues

Revenues have modestly increased over the past six years. The Municipal Treasury Division regularly monitors and forecasts revenues so that the Administration can proactively control spending to maintain a balanced budget. As illustrated in the graph below, General Government (100 Funds) revenues have met or slightly exceeded budget estimates during the last three years. This promotes confidence in the Municipality's ability to manage expenditures in a balanced manner and to maintain fund balances.



## Long-term Trends in Major Categories of General Government Revenues

A review of long-term revenue trends and its drivers will assist policy makers and citizens when considering potential changes in the revenue structure of Anchorage. In reviewing long-term trends of general government (100 Fund) revenues over the past fifteen years, from 1998 through 2013, the following narrative and graphs shown below identify six major determinant categories that affect changes in revenues over time, as follows:

1. **Determined by Mill Rate and Taxable Value:** Property Taxes and MUSA/MESA payments are determined by the mill rate multiplied by taxable value of real and personal property or utilities' net plant value. The taxable value of property is determined by the Municipal Assessor, and net plant value is derived based on the net book value of utility balance sheets. The mill rate is set by the Assembly each year.
2. **Determined by Resident Consumption:** Revenue from taxes on tobacco, vehicles, aircraft and from fees paid for Municipal services are determined by choices by city residents about how much of these products and services they use. Also included in this category are the Utility Revenue Distribution and 1.25% MUSA revenue. These payments are specific percentages of gross revenues of the utilities, which are determined by local residents' choices about how many utility services they use.

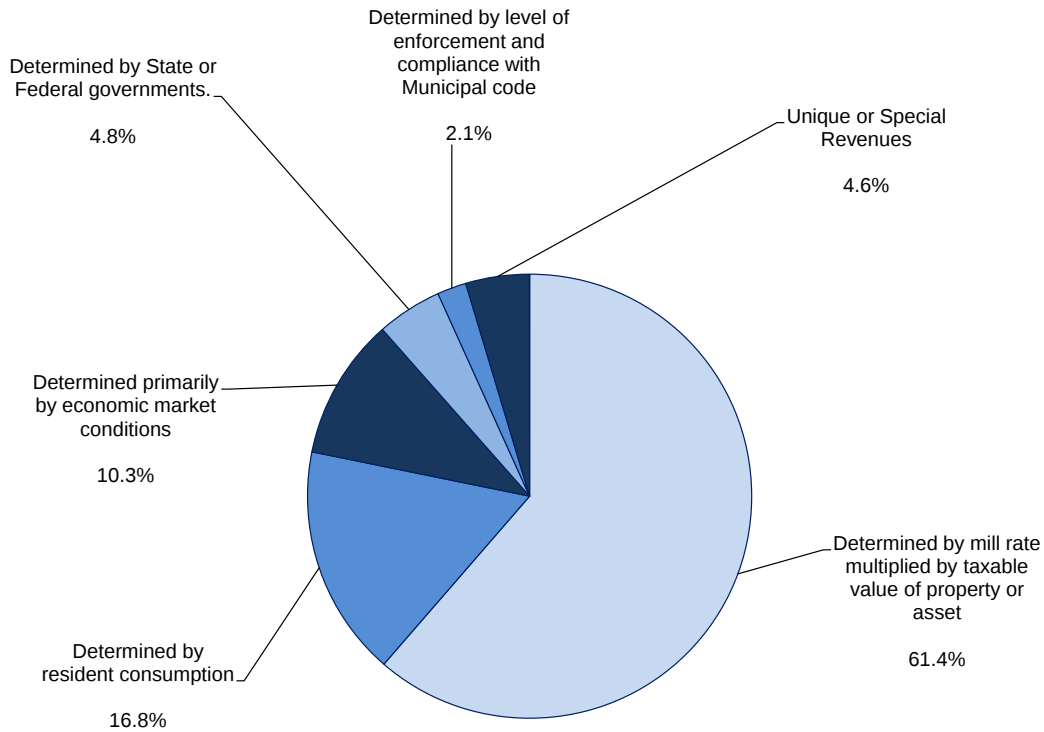
3. **Determined by Economic Market Conditions:** Tourism taxes, construction permit revenues, and investment earnings are determined primarily by economic conditions in the tourism, construction, and investment markets.
4. **Determined by State or Federal Government:** Municipal Assistance, Federal Build America Bond monies, and State and Federal Payments in Lieu of Taxes (PILT) are determined by decisions and actions of the State or Federal governments.
5. **Determined by Level of Compliance and Enforcement of Municipal Code (Code):** Revenues from all types of fines and penalties and interest paid on delinquent taxes are determined by the level of compliance with the Code, the level enforcement of the Code, and collection efforts to collect delinquent taxes or fines.
6. **Unique or Special Revenues:** Contributions from the MOA Trust Fund, contributions from others, lease revenues, property sales, private PILT payments, claims and judgments, miscellaneous revenues, and other special types of revenues are specified in contracts, by court rulings, or special provisions in the Code.

## Summary of All Categories of Revenues

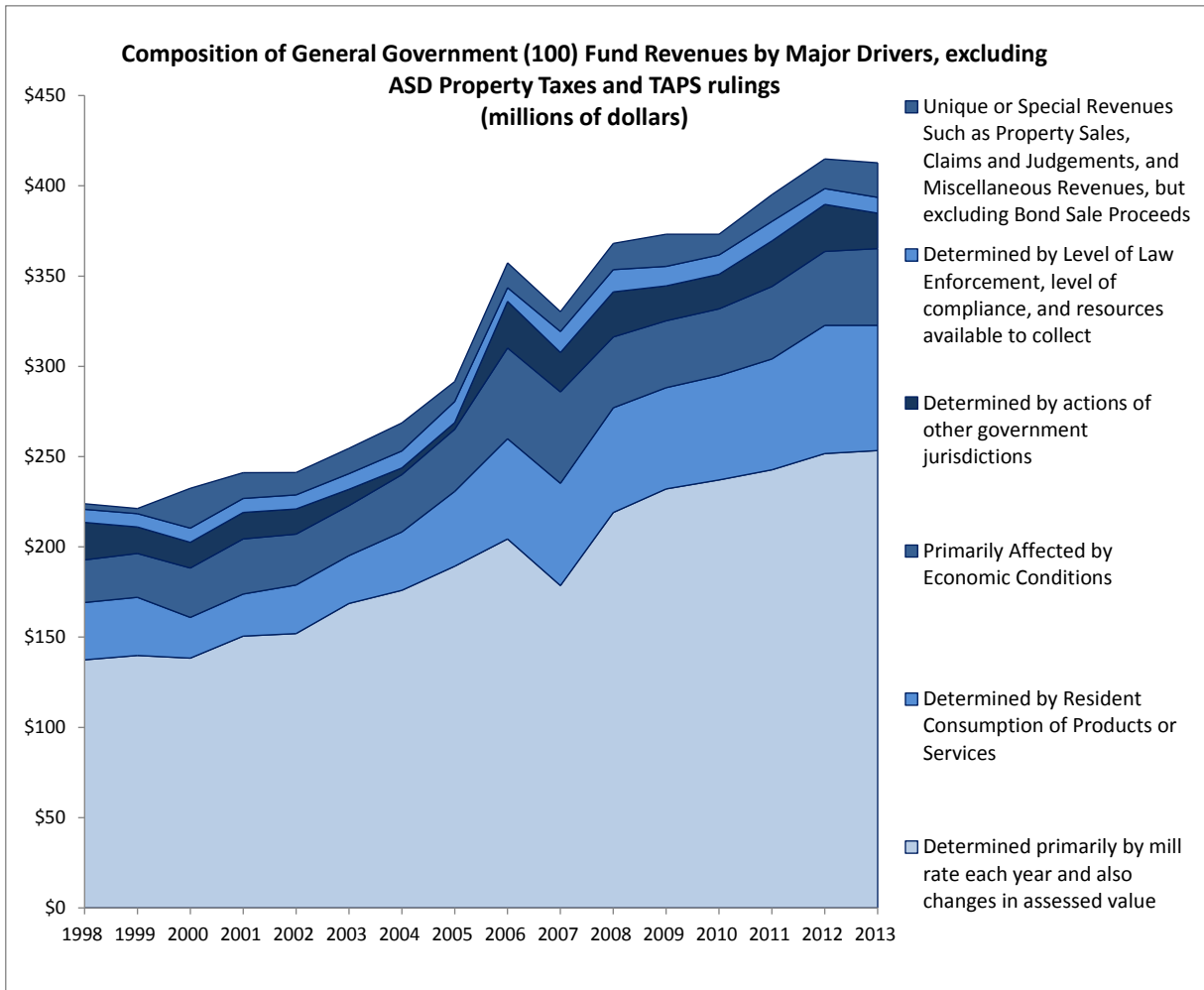
The largest share of general government revenues is determined each year by multiplying the mill rate by taxable value of property or assets. Revenues determined by resident consumption decisions contribute to the next largest share (16%). About 10% of revenues are determined primarily by economic market conditions. Another 4.6% is determined by actions of State or Federal governments. About 2% of revenues are driven by compliance and enforcement of Municipal Code. The remaining 4.4% is determined by a variety of unique or special factors.

The summary pie chart below shows the composition of general government (100 Fund) revenues based on this categorization. It excludes the property tax revenues transferred to the Anchorage School District (ASD) and proceeds from bond sales.

**Composition of General Government (100) Revenues Categorized by Major Determinants in FY 2013 (excluding ASD , TAPS, and Bond Sale Proceeds)**



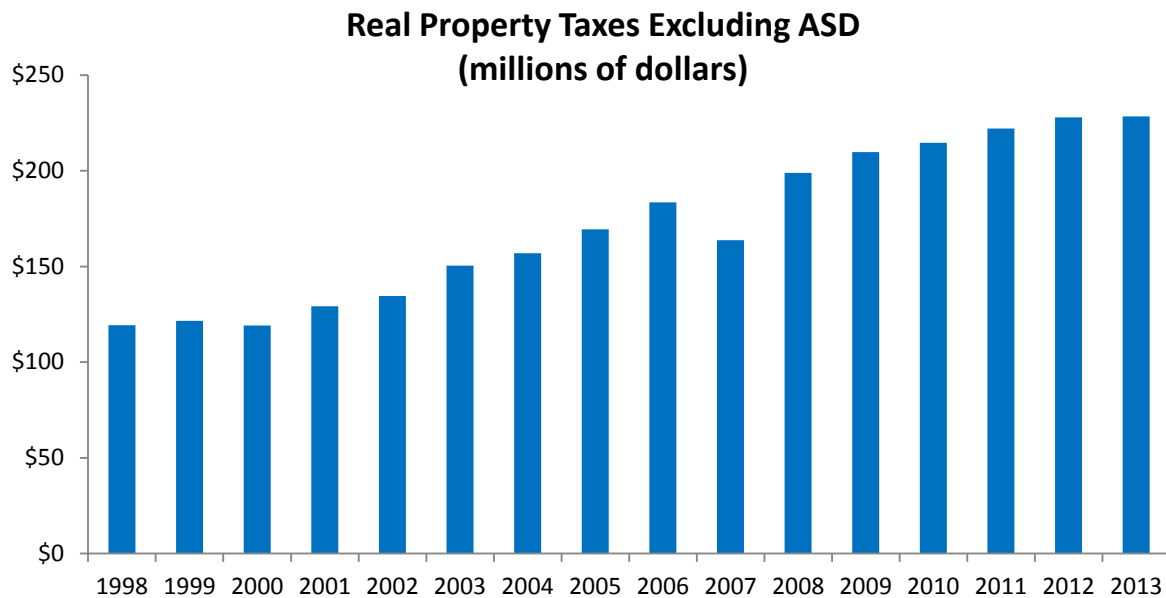
The summary chart below shows the changing composition of revenues for each of the major categories over the last fifteen years. Revenues determined by the mill rate and taxable value of property or value of utility assets have contributed between 60% to 65% of general government (100 Fund) revenues each year over the last fifteen years (these percentages exclude ASD property taxes and revenues from TAPS rulings). Revenues determined by resident consumption have contributed a growing share of revenues mostly because of increases in the tax rate on tobacco and vehicles. Revenues driven by economic conditions in the tourist, investment, and construction markets have contributed a relatively stable share since about 2006. The unusual increase in revenues in 2006 followed by a decrease in 2007 was because some State of Alaska Municipal Assistance revenues were received and posted in 2006 but were applied as a tax credit in 2007.



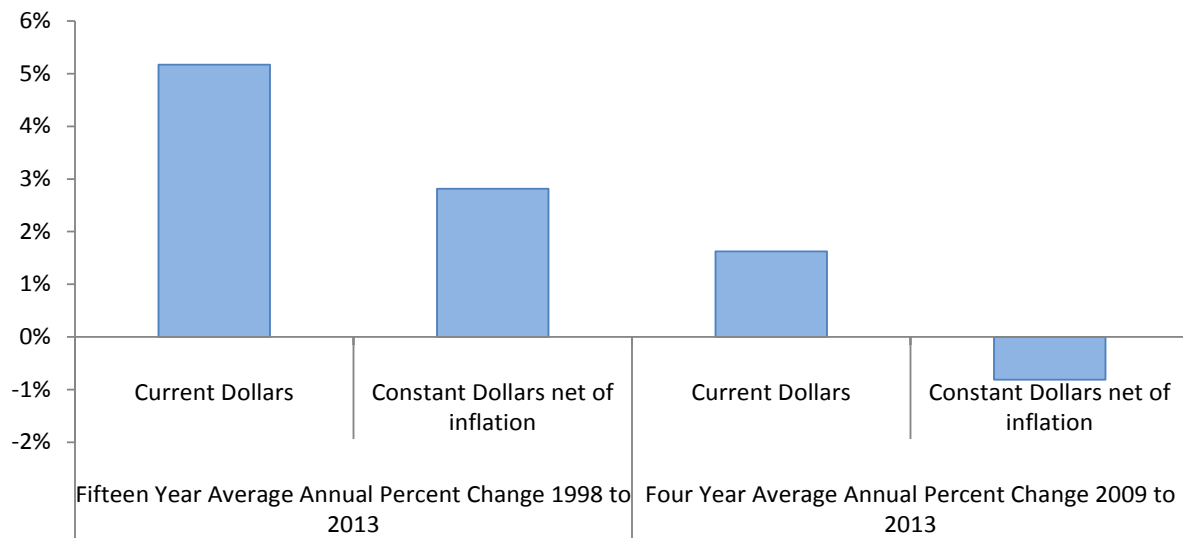
## Key Revenue Determinant Categories

### Revenues determined primarily by the mill rate and taxable value

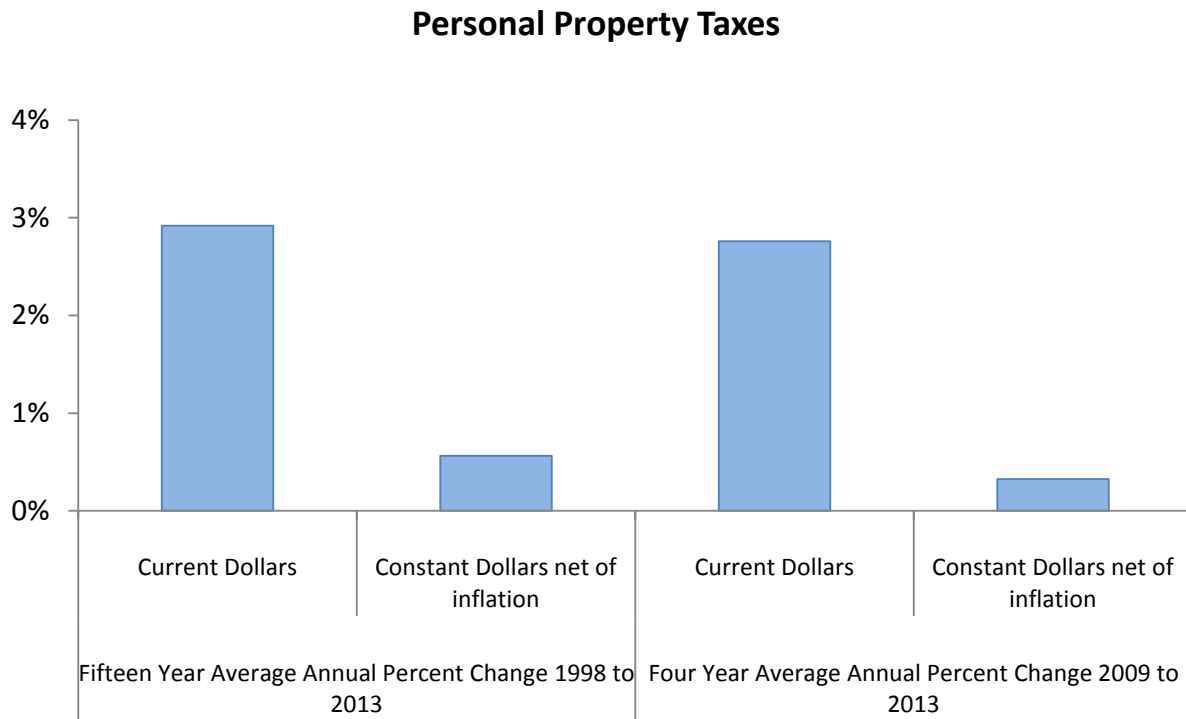
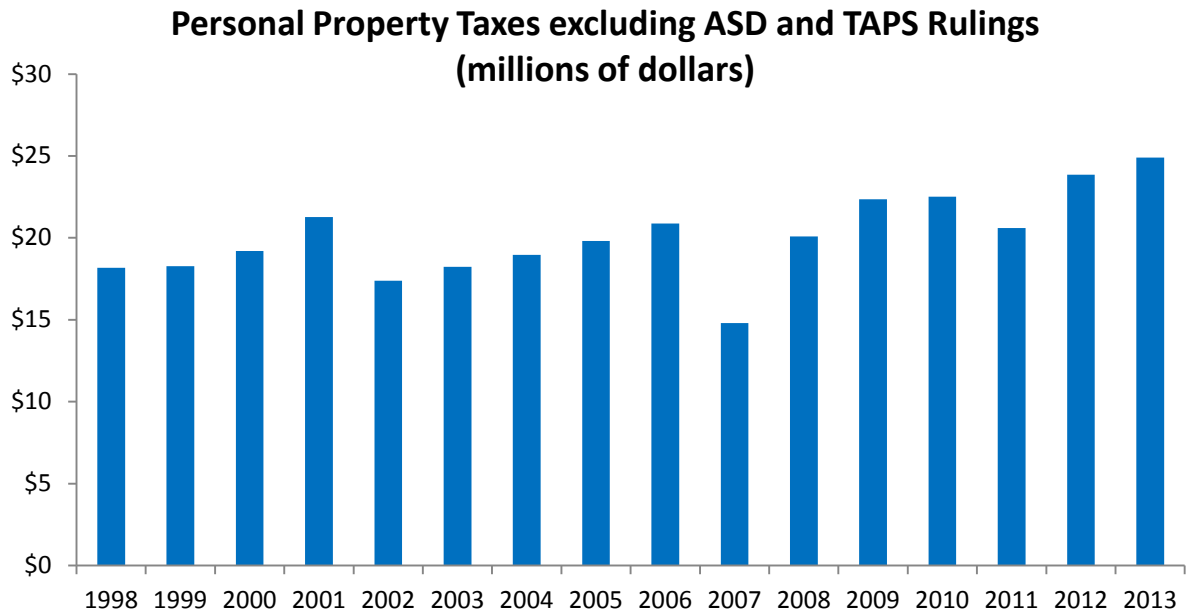
**Real property tax revenues** are the largest component of this category. The level of revenues collected each year is determined by policy decisions by the Administration and the Assembly when they set the mill rates each year. Over the last four years, real property tax revenues have increased at a slower average annual rate than the long-term historical trend from 1998 to 2009. After removing the effects of inflation, real property tax revenues have declined about 1% on average each year over slightly less than one percent the last four years.



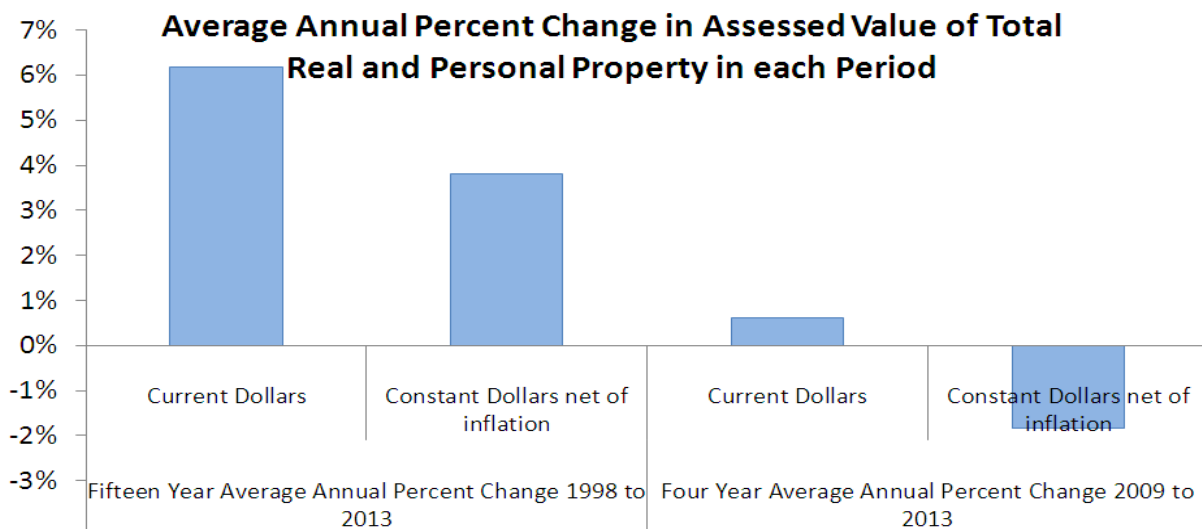
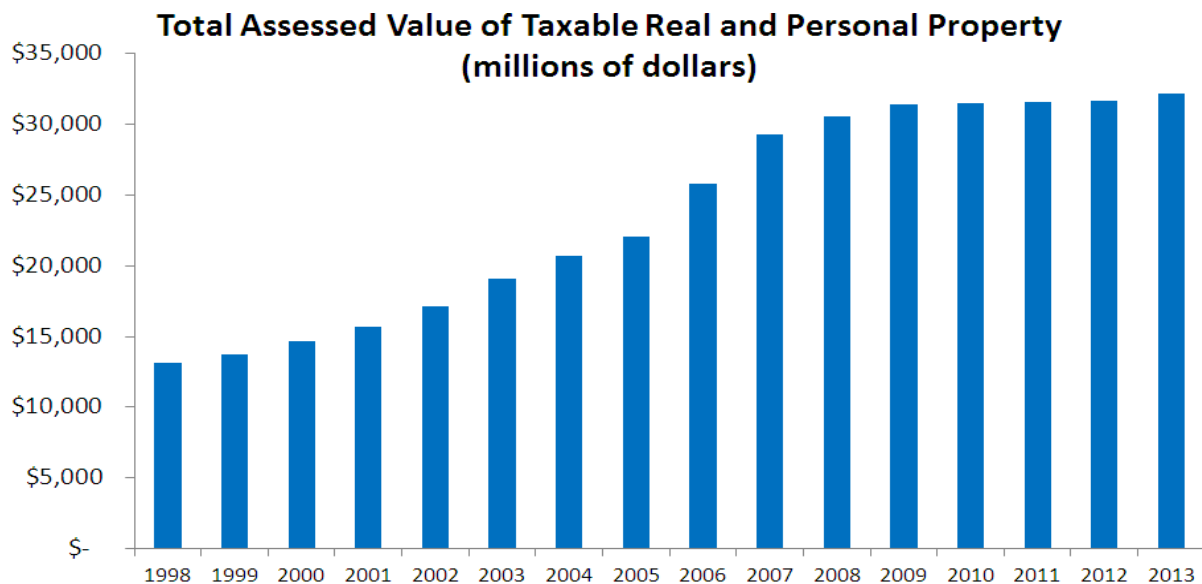
### Real Property Taxes



**Personal property tax revenues** are variable year to year due to changes in the mill rate and changes in the assessed value of business personal property, state oil and gas property, and mobile homes. Over the last four years, personal property tax revenues have grown slightly slower than the long-term trend. The charts below exclude ASD property taxes and the one-time special revenues from the lower court rulings regarding the value of the Trans-Alaska Pipeline in 2010, 2012 and 2013. These court rulings required payments of personal property taxes on state oil and gas properties owned by Alyeska Pipeline.



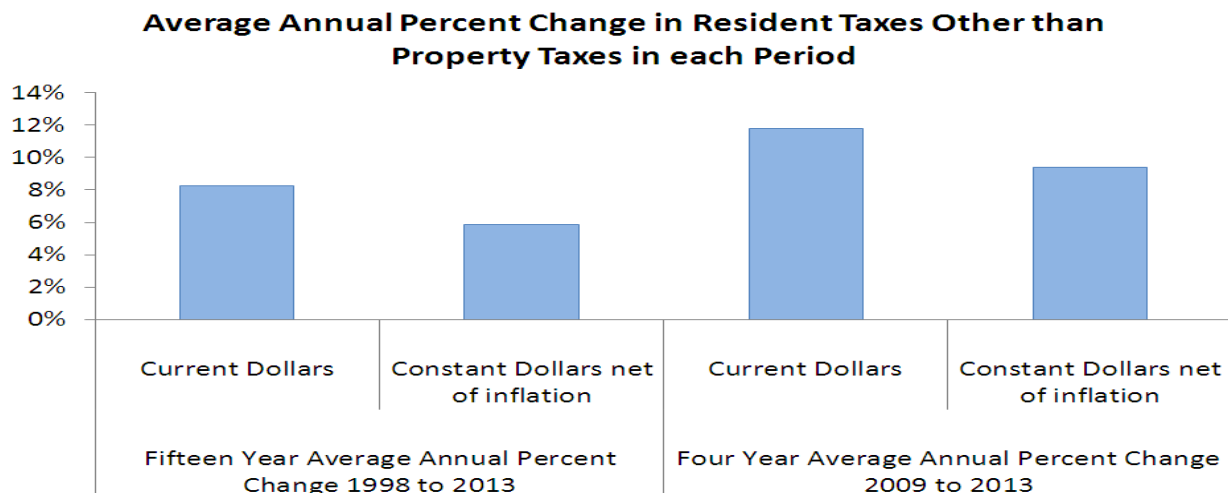
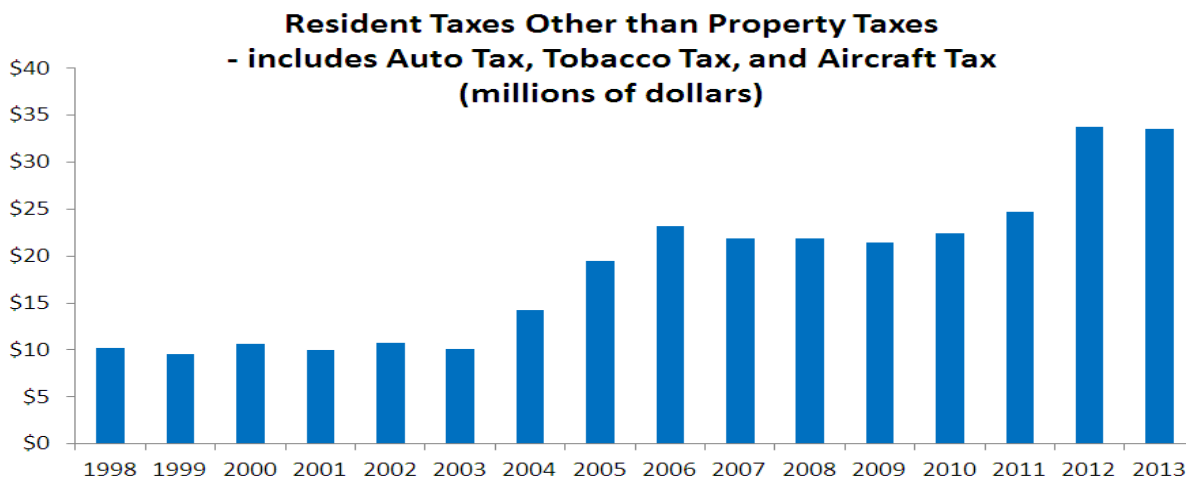
**Assessed Value:** The calculation of real property tax revenues, personal property tax revenues, and MUSA/MESA payments are all dependent on the mill rate. One of the factors affecting the mill rate is the assessed value of taxable property. For a given level of property tax revenues, an increase in assessed taxable property value results in a lower mill rate. For the same level of revenues, a decrease in assessed taxable property value results in a higher mill rate. Because of its effect on the mill rate, it is important to track changes in the total taxable property value over time. From 2009 to 2013, the total assessed value of taxable real and personal property has remained relatively stable compared to previous years. Property Appraisal currently projects a 1.2% increase in total taxable property value in FY 2014.



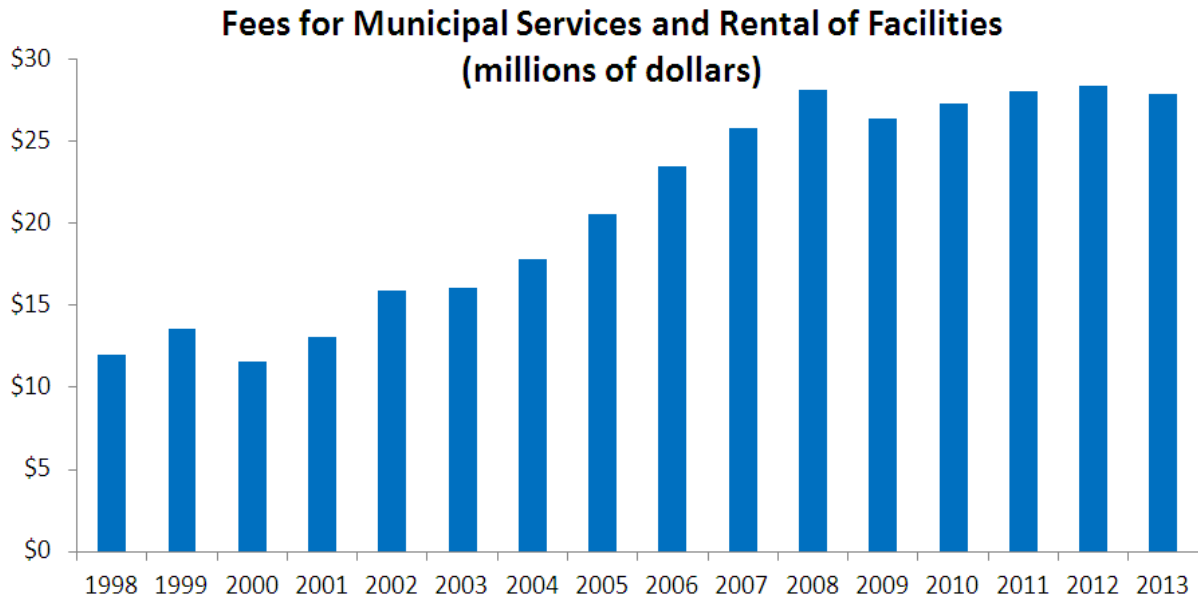
## Revenues Determined Primarily by Resident Consumption

These revenues include fees paid by residents for municipal/utility services and facility rentals. It also includes residents' payments of tobacco taxes, vehicle registration taxes, and aircraft taxes. This category of revenues contributes to about 17% of the total general government (100 Fund) revenues, excluding ASD property taxes.

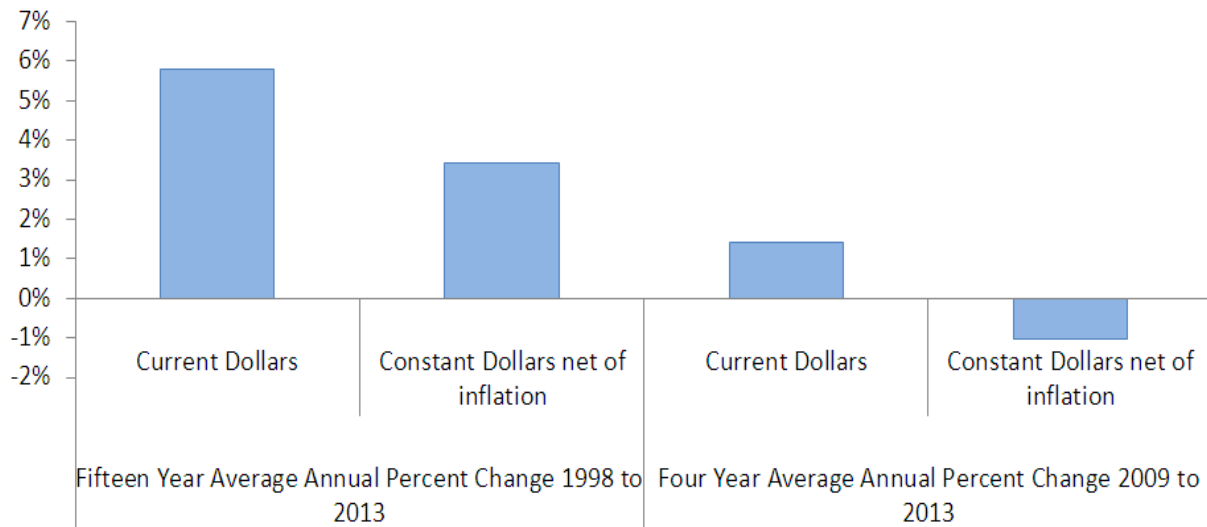
**Resident taxes**, including automobile registration tax, tobacco tax, and aircraft tax are paid primarily by residents of the Municipality. These taxes from vehicles, cigarettes, and aircraft revenues are affected by changes in the tax rate and consumer choices. Auto tax revenues are also affected by the age distribution of vehicles and the percent of the population over 65, because seniors receive an exemption from the registration tax for one vehicle. Tobacco tax revenues are affected by the long-term trend decline in per capita use of tobacco and annual CPI adjustments to the tax rate. Increases in the vehicle registration tax rates in 2012 and the tobacco tax rate in late 2004 and 2011 led to substantial increases in these revenues beginning in those years.



**Fees** paid by residents for Municipal services and facility rental are affected by the amount and types of public services provided by the Municipality, the amount of the fees charged for those services, the amount of Municipal resources and personnel allocated to provide the services, and the amount of these services and rentals that residents choose to use. Since 2009, these fee revenues have increased at a slower rate than previous years.



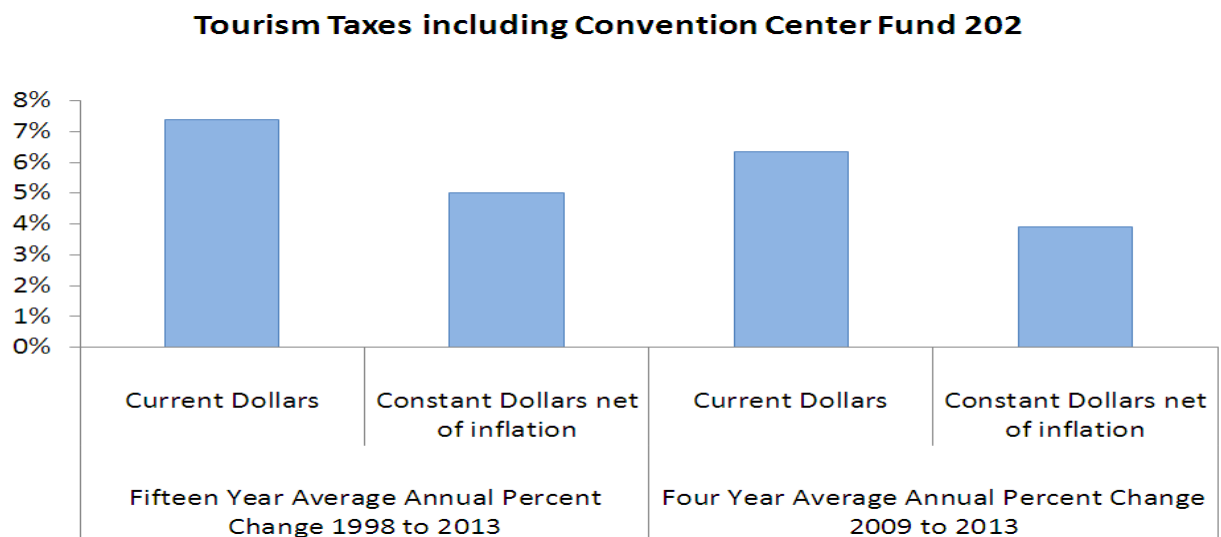
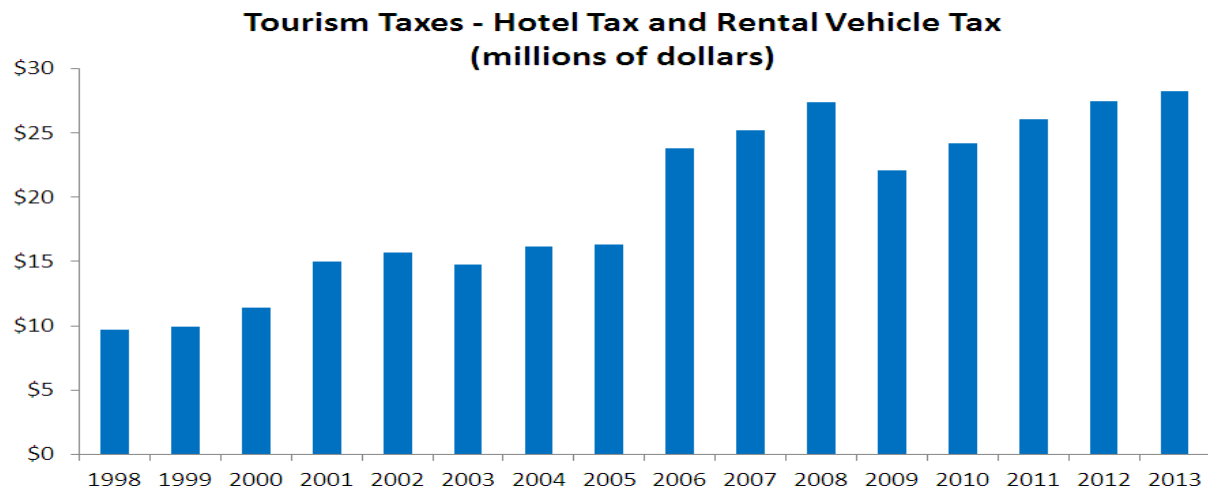
### Fees



## Revenues Determined Primarily by Economic Market Conditions

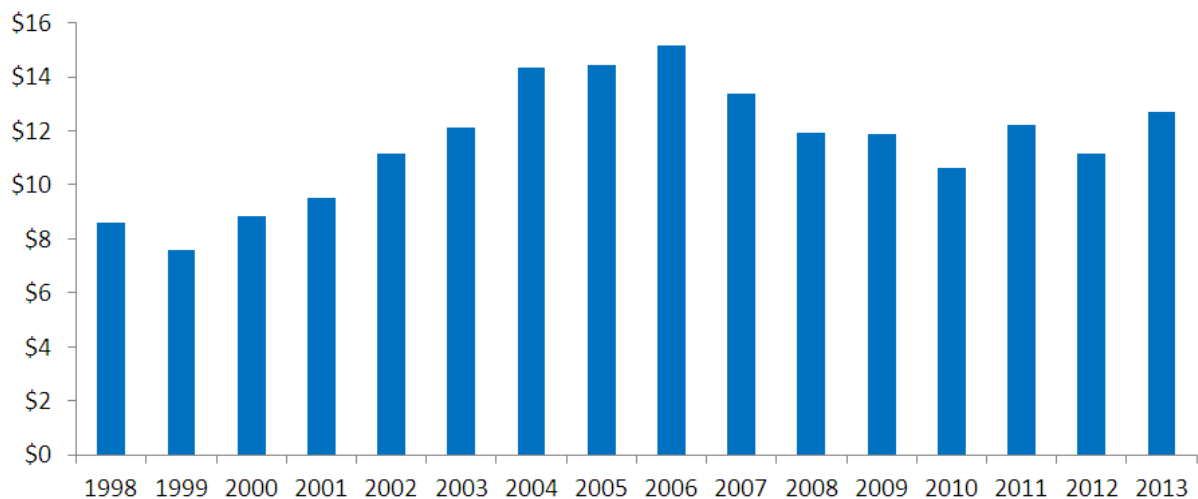
These revenues include all tourism taxes, construction-related permits, and investment earnings. They are primarily affected by changing economic conditions in the tourism market, construction industry, and investment industry respectively. In the long-term, these revenues are also affected by tax rates specified in code and investment policies specified in code or regulations. These revenues contribute about 10% of total general government (100 Fund) revenues, excluding ASD property taxes.

**Tourism-related revenues** from hotel/motel tax and rental vehicle taxes are affected by the tax rate, the number of visitors coming to Anchorage, and the price charged for a hotel room or rental vehicle. Tourism taxes increased substantially in 2006 due to a tax rate increase, then decreased in 2009 due to the national recession, and gradually recovered the last four years primarily due to price increases for room rentals at Anchorage hotels and continued increases in the number of visitors coming to Anchorage.

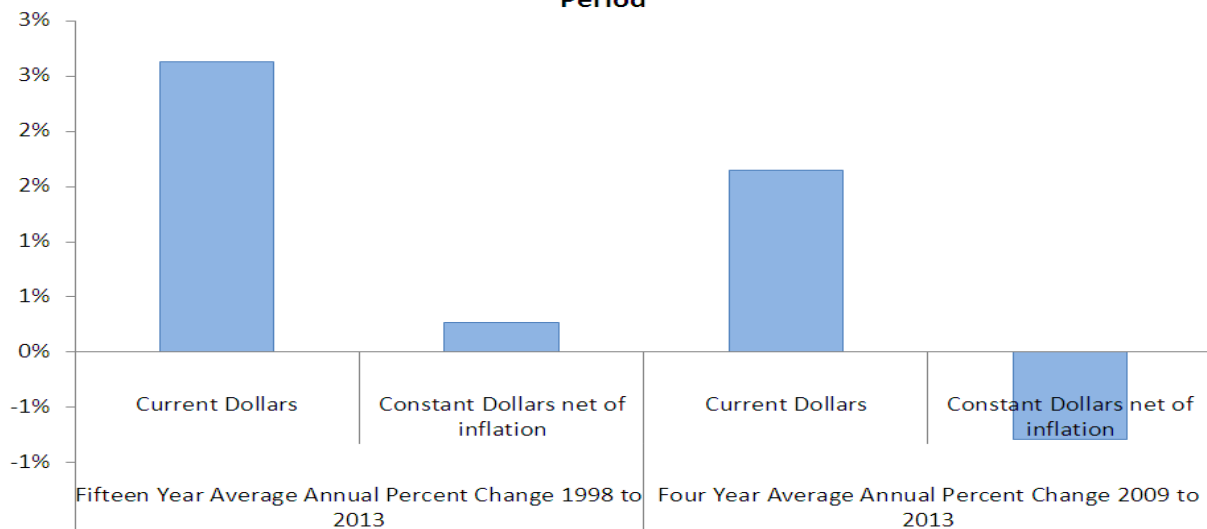


**Construction-related permit revenues** are paid by builders for inspections, reviews, and permits to build construction projects. These revenues are affected by the value of permitted building activity, the level of Municipal resources and personnel available to process permits, changes in the computer system to process permits, changes in code requirements for various permits, and the amount of the fee paid for each type of permit. Aside from increases in 2009, 2011 and 2013 permit fee revenues have declined in most years since 2006.

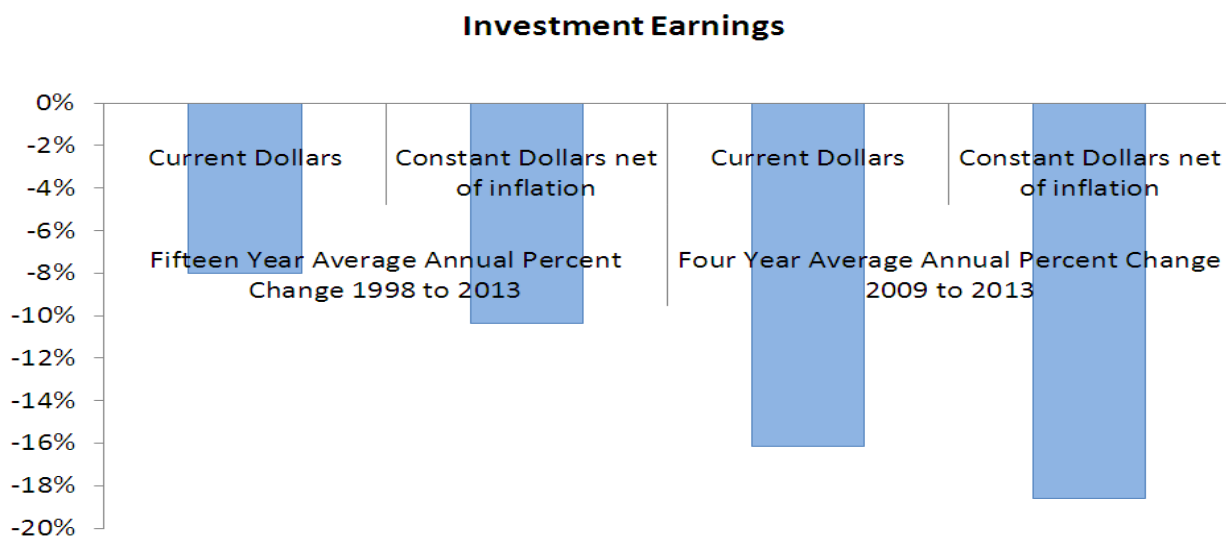
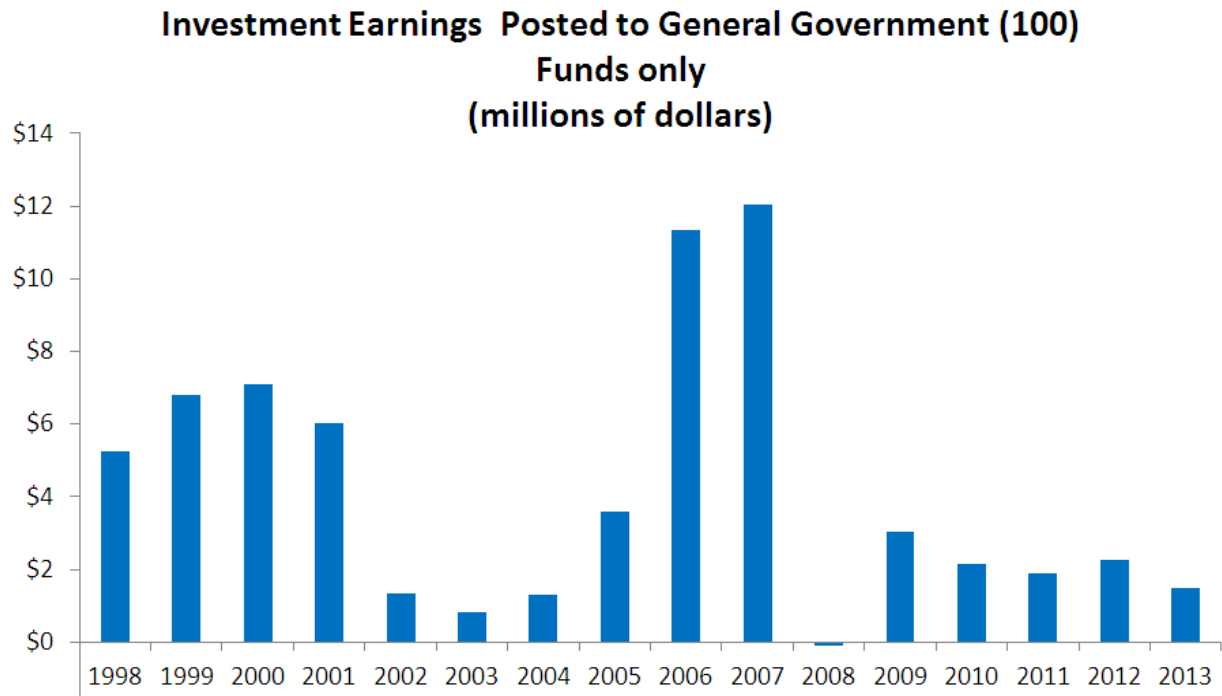
### Permit Revenues for Construction-Related Plan Reviews and Permits (millions of dollars)



### Average Annual Percent Change in Construction Related Permits in each Period



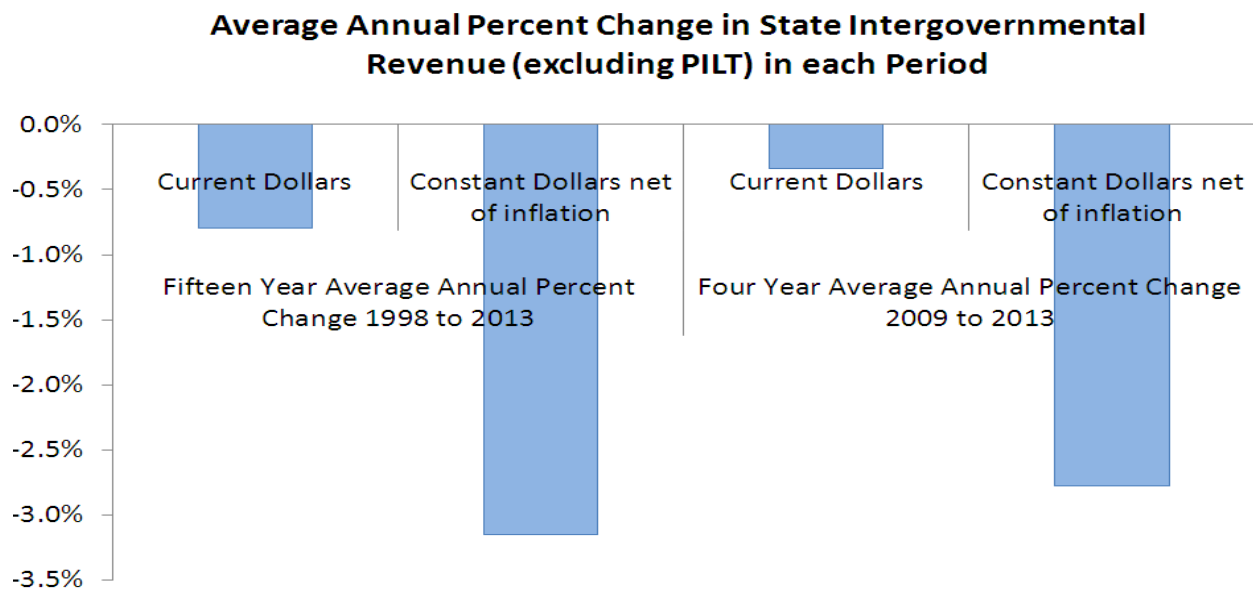
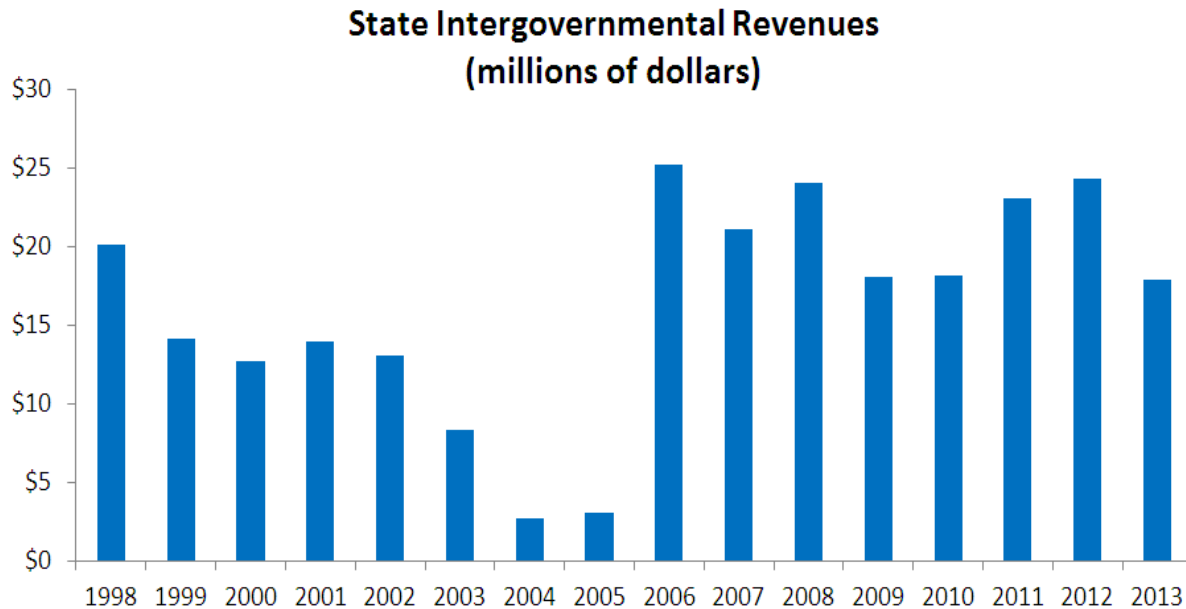
**Investment earnings** from the Municipal Cash Pool, investment proceeds of Tax Anticipation Notes (TANs), and Construction Pool Investments are affected by the level of Municipal holdings in each type of investment and the market rate of return on those investments. In the long-term these revenues are also affected by Municipal code and policies that guide how we invest Municipal Funds. Due to changes in investment policies implemented in June 2007, investment earnings as of August 2013 have been enhanced by an estimated \$55.6 million when comparing “before” and “after” investment strategies employed by the Municipality.



## Revenues Determined by Actions of Other Governments

This category includes all State and Federal intergovernmental revenues and State and Federal PILT payments. These revenues contribute about 5% of total revenues.

**State Intergovernmental Revenues:** Most of the revenues in this category are from the State of Alaska's Municipal Revenue Sharing. These revenues increased substantially in 2006 and continue to remain at a level just under \$15 million annually.



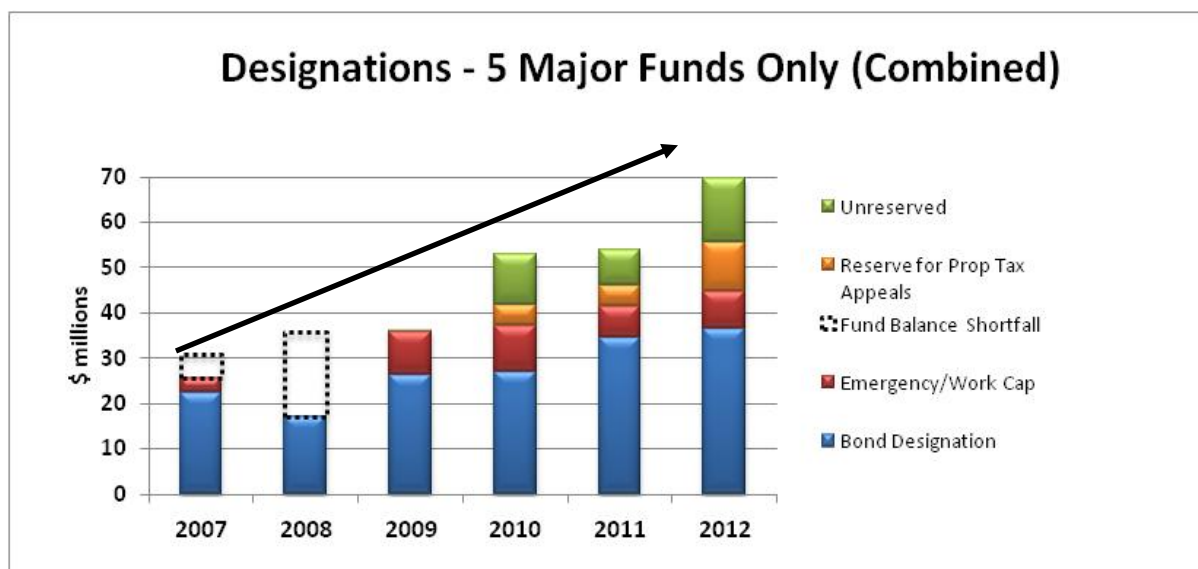
## Fund Balance

The financial impact of reducing the expenditure growth trend in 2009 to 2013 enabled the Municipality to restore its fund balance sufficient to aid in earning an upgrade to AA+ rating from Fitch in 2010 and an upgrade to AA+ in August 2012 from Standard and Poor's, both with a Stable Outlook. Fund balance is the difference between the revenues and expenditures of a governmental fund and is one of the key indicators of financial health. At the end of 2011, the Municipal Assembly improved the internal fund balance policy that requires 10% of select revenues to be set aside to ensure our bond investors that we have a reserve to pay our annual debt service. Additionally, another 2% to 3% is set aside for potential emergencies.

As noted in the graph below, in 2007 and 2008, fund balance reserve requirements were not attained. In 2009, fund balance was restored to the Municipal internal policy amount. In 2010 through 2013, additional fund balance reserves were used to fund public safety initiatives to include a police and fire academy, provide property tax relief, invest in efficiency initiatives, 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.

The following graph depicts the historical fund balance trends, for the five primary general government funds from 2007 to 2012.

### Municipality of Anchorage Fund Balance 2007 to 2012



## MOA Bond Rating

The Municipality currently enjoys the benefits of being a highly rated governmental entity by two rating agencies. The Municipality is rated AA+ by Standard & Poor's (S&P) and AA+ by Fitch Ratings, both with a Stable Outlook. These benefits include a low cost of borrowing in the capital marketplace. 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 primarily 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 Municipality 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.

## Standard & Poor's

On August 24, 2012, the rating agency S&P increased the Municipality's general obligation rating from AA to AA+ with a Stable Outlook. Mayor Sullivan, Chief Fiscal Officer Lucinda Mahoney and representatives of the Municipality's financial advisor, First Southwest Company, met with the S&P rating analysts to review the Municipality's finances in anticipation of a general obligation bond issue in September 2012. At that meeting they presented a comprehensive overview of the Municipality's finances and management as well as the state of Anchorage's economy and its relationship to the entire State of Alaska. Mayor Sullivan petitioned a credit rating increase for the Municipality in light of more than three consecutive years of sound fiscal and management policies combined with the solid local economy.

S&P responded and noted in their report the “strong and improved financial position and policies, as well as the continued diversification of the economic base.” The report also noted the Municipality's central role in the State and regional economy, very strong income levels, stable property tax base, and strong fund balances. S&P also cited the improved reserve fund balance policy. In 2011, the Assembly raised the bond reserve to 10% of current year's revenues, plus an additional 2% to 3% for a working capital reserve.

## Fitch Ratings

Fitch Ratings' most recent report affirmed the Municipality's AA+ Rating and Stable Outlook, citing various inherent credit strengths that figured prominently in the rating review process. Three key rating drivers identified by Fitch included:

- Healthy financial position which “has improved over the past three years despite economic pressure,” including increased fund balances;
- Performance of the local and state economy, including the June 2012 unemployment rate of 6.4% which was two percentage points below the national average; and
- Stable and healthy tax base which “exhibited notable stability through the recent recession.”

The Fitch report also included a reference to the improved reserve policies. However, Fitch continues to note that the Municipality's “...*current reserve position is somewhat below average for this rating level.*” Additionally, the recent report noted that “labor costs are likely to pressure expenditures over the next several years,” although the Municipality has flexibility and options to meet these budget challenges.

## Fund Balance Discussion

The Municipality's General Obligation rating is AA+ by Fitch Ratings. However, they have commented on our somewhat low reserve policy in their reviews. In 2011, our financial advisors from First Southwest Company advocated “a change in the Municipality's fund balance reserve policy such that its ratios would be more in line with those of its peers.” As a result of these two circumstances, the Administration sought and received approval from the Municipal Assembly to increase the fund balance policy, also known as the ‘Bond Reserve Designation’, from 8.25% of prior year revenues to 10% of current year revenues. The Assembly approved eliminating the Operating Emergency Reserve of 2.5% and replacing it with a Working Capital Reserve in a range of 2.00%-3.00% of current year's revenues in the five major funds. In September 2012, both Fitch and S&P commented, in their rating review for the bonds issued that month, upon the Municipality's ‘improved fund balance policy’ and its contribution to a healthy financial position.

## **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 is slow in its recovery and there is great concern about the prolonged level of more than 7% unemployment. 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.

The State of Alaska is forecasting budget deficits into the future ranging from \$384 million to \$925 million. One of its largest expenditures in the future is its contribution to the retirement trust for retired state, municipal, school and other public employees. The unfunded liability is \$12 billion with an anticipated \$1 billion annual contribution from the State of Alaska general fund. The magnitude of this liability and the projected deficits at the state level will likely create pressures on the state budget that may impact funding levels for Anchorage; specifically revenue sharing and state grants.

The Mayor has recently initiated community conversations regarding property tax relief. Property tax relief could be in the form of reduced government expenditures and/or diversification of revenues. Options to diversify revenues include increasing fees for services provided by government, increases in taxes associated with consumption, such as alcohol, or the implementation of a type of sales tax. A sales tax would need to be approved by a 60% vote of its citizens.

Adding to the uncertainty of revenue forecasts are the continued increases in expenses facing the Municipality in 2014 and later. The resulting balancing effort is consequently more complex when attempting to match revenue with the cost of services.

Near- to mid-term, some key potential fiscal threats that could negatively impact projections include:

- Slowdown in the international cargo industry caused by less demand internationally due to weakened or slower growth economies;
- Decreased oil production along with volatility of oil prices, and potential effects on State Revenue Sharing;
- Voter referendums associated with the Fair Labor Act passed by the Municipal Assembly in 2013 and with SB 21, an act passed by the state legislature to reduce taxes associated with oil production;
- Potential cuts to federal grant and program revenues, including cuts to transportation funding and reduction in Alaska's per capita federal spending levels which have historically been

among the highest in the nation and several times greater than the national average per capita allocations;

- Future federal fiscal austerity measures affecting the amount of discretionary personal income and the number of federally-supported jobs in Anchorage, including military;
- Further increases in labor and health care costs in excess of actual inflation as measured by the Consumer Price Index;
- Prolonged low interest return environment for Municipal Cash Pool investments; Potential negative final court ruling associated with the Trans-Alaska Pipeline (TAPS) which, if both sides' claims were split, could result in millions of dollars plus court-ordered interest cost;
- Unanticipated legal liabilities; and
- Further adjustments in the actuarial required contribution to the Police and Fire Retirement System pension plan, should realized investment returns fall short of actuarial assumed returns.

Near- to mid-term, some key potential fiscal opportunities that could positively impact projections include:

- An acceleration in the nation's economic recovery;
- Stable State and Federal revenues;
- Re-negotiated labor contracts with lowered baseline and future costs to conform with actual historical inflation;
- A positive final court ruling in favor of the Municipality regarding all outstanding property tax years associated with the TAPS litigation; and
- Additional recovery and stability in the investment market supporting future reductions in the actuarial required contribution to the Police and Fire Retirement System retirement plan.

The single largest expense in the general government operating budget are the salaries and benefits associated with personnel. Personnel costs continue to increase at a rate that is not sustainable on a long-term basis. The primary goal over the next two years is to renegotiate labor contracts to reduce the growth of total compensation which may include a benefit structure that is shared more equitable between employee and employer. Total compensation is targeted to not exceed the CPI-U for Anchorage plus 1%.

Employees of the Municipality are represented by the labor organizations shown in the following table. Management of the Municipality will be working diligently with the labor organizations over the next two years to bring labor costs back to a sustainable level. The Six-Year Fiscal Program assumes labor increases will be reduced as contracts are re-negotiated.

| <b>Labor Organization</b>                            | <b>Expiration</b> | <b>Membership<sup>(1)</sup></b> |
|------------------------------------------------------|-------------------|---------------------------------|
| Anchorage Municipal Employees Association            | 12/31/13          | 524                             |
| Anchorage Police Department Employees Association    | 12/31/14          | 453                             |
| International Association of Fire Fighters           | 12/31/14          | 353                             |
| International Brotherhood of Electrical Workers/NECA | 10/1/13           | 218                             |
| IBEW / Mechanics                                     | 12/31/13          | 69                              |
| International Union of Operating Engineers           | 06/30/13          | 151                             |
| Public Employees Local 71                            | 06/30/13          | 63                              |
| Plumbers and Pipefitters                             | 12/31/13          | 137                             |
| Teamsters                                            | 12/31/13          | 105                             |
| Non-Represented / Executives / Assembly Employees    | N/A               | 619                             |

(1) As of September 20, 2013.

## Long-Term Fiscal Challenge

While the Mayor has made significant progress over that past four years to reduce the growth of government, external factors such as Federal and State revenues may have a negative impact on Municipal finances. A long-term fiscal plan of flat federal/ state revenues, moderately increasing taxes and increasing expenses based on the current union agreements and estimated inflation rates, will result in continued, unsustainable deficits into the future. The cost structure of the Municipality is structurally unbalanced without fiscal constraints built into labor contracts and cannot be maintained without constant cuts to services.

## Mayor's Plan for Fiscal Sustainability

The Mayor continues to plan for long-term fiscal stability and sustainability in a manner that maintains the current level of services to citizens and ensures appropriate services are delivered efficiently. Due to the uncertainty associated with external funding sources, it is prudent for the Municipality to continue to manage conservatively and continue to identify efficiencies. The Administration strives to manage funding sources by matching on-going resources with continuing services. In order to achieve that, additional on-going revenues are needed to offset increasing costs, mostly associated with labor contracts. The 2014 Proposed General Government Operating Budget assumes that additional major revenue sources are constrained by the Municipal Tax Cap and therefore not available and, as a result, structural changes continue to be implemented to maintain a reduced size for our local government.

The Mayor's Fiscal Plan enables a balanced budget by reducing the size of government and increasing property taxes to 3% over the forecast period. The Mayors plan assumes that funding from Federal and

State governments will be flat over the forecast period requiring local revenues to accommodate the rise in expenditures. The Mayor's goal is to continue to seek efficiencies and to operate the Municipality in a efficient manner. Additionally, as the collective bargaining agreements expire in 2013 and 2014, the Mayor plans to adjust labor costs to a sustainable level that is more closely aligned with revenues. If the 2014 proposed budget is approved by the Assembly, in combination with downward adjustments to the cost of labor and a 3% property tax increase each year, the Municipality will be able to generally operate in a balanced manner with small deficits ranging from \$.5 million to \$5 million over the years.

To provide sound fiscal planning realizing known future expenses, costs will continue to be adjusted downward to achieve goals of the community in a balanced manner. The Mayor is currently implementing projects to enable a more efficient government. These projects will involve changes that will include: organization structure, streamlined business processes and increased use of technology.

Led by the Mayor, a number of initiatives have begun to consolidate staff, streamline processes and new technology in order to reduce the cost to deliver services. The largest initiative is a new enterprise-wide financial system with SAP as the vendor. This initiative will significantly change many of the administrative business processes within the Municipality. The Municipality currently uses an outdated version of PeopleSoft. In 2003, the maintenance fees associated with the software were discontinued and as a result the PeopleSoft system could not be upgraded.

A new online time tracking system with Kronos as the vendor, was implemented in 2012 with final completion aligned with the implementation of SAP. The system automates the capture of time data. Prior to the implementation of Kronos, timekeepers were employed throughout the Municipality to manually enter data. A new property tax assessment and billing system is planned for competitive bid in 2014. Additionally, the MOA is evaluating an implementation of an electronic plan review system that will streamline the plan review process for builders in our community. 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.

As shown in the long-term Fiscal Projection Model revenues and expenses are 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.

## **Expenditure Forecasts**

Per the Fiscal Projection Model, growth of expenditures is reduced to align with revenues. The model assumes the collective bargaining agreements will be modified in 2013 and 2014 to reflect sustainable

labor increases (i.e., total compensation costs capped at CPI + 1%). Professional services and discretionary spending will continue to be managed in an efficient and frugal manner.

Personnel costs continue to be the single largest category of expense and represent an increase in the 2014 cost structure. Labor contracts approved prior to 2009 are incorporated reflecting cost adjustments that reflect to an inflationary amount in 2015 to 2019 of 3% to 3.8% per year. Employee health care costs are incorporated in the total compensation cost and will be closely managed in order to achieve fiscal sustainability.

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, a general obligation bond refunding in 2014 is included in the forecast.

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. As of the April 2013 actuarial report, the pension plan's overall funding status ratio was 80%, up from 77% the year before. As a result, the Municipality's required annual contribution in 2014 will decrease from the \$10 million paid in 2013 to \$8.8 million due in 2014. The unfunded projected liability of all three plans per the actuary's most recent report stands at \$77 million, thereby further delaying the period of recovery and adding to the long-term fiscal challenges for the Municipality. This fiscal plan assumes minor reductions in the annual contribution throughout the forecast period.

Inflation is expected to increase moderately over the forecast period. All non-labor expenditures were adjusted upward by 2% to 3% per year to adjust for inflationary increases.

## **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 the AEDC, UAA ISER group, and others were used as the foundation for the forecasts. In 2014, these local revenue sources are expected to slowly and steadily grow at an overall assumed level of 2% to 3% per year, which is consistent with the planned growth of labor. The growth rate assumption is driven heavily by the policy decisions regarding the growth of property tax revenues and other tax revenue sources which are all subject to tax cap constraints. This scenario assumes property taxes will increase by 3% per year, but remain less than the tax cap.

State Revenue Sharing, which is largely dependent on surpluses existing at the State level, has in years past been unstable and 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 increase in 2014 due to an expected increase in the Permanent Fund dividend check. The poor performance of the fund in 2008 will no longer have a negative impact on the five-year average income that determines distributions.

Similarly, distributable earnings from the Municipality's mini permanent fund (i.e., MOA Trust) are expected to increase by 4% in 2014 and continue to rise into the forecast period.

## Six-Year Projection Model

The Mayor's Six-Year Fiscal Projection Model is as follows:

**SIX YEAR FISCAL PROGRAM**  
**PROJECTIONS OF REVENUES & EXPENDITURES ( \$ 000's)**  
**2013 to 2019**

| Six Year Budget Projection                | PROJECTIONS    |                |                |                |                |                |                |
|-------------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                                           | 2013 B         | 2014           | 2015           | 2016           | 2017           | 2018           | 2019           |
| <b>REVENUES</b>                           |                |                |                |                |                |                |                |
| Federal Revenues                          | 926            | 828 -11%       | 828 0%         | 828 0%         | 828 0%         | 828 0%         | 828 0%         |
| State Revenues                            | 17,767         | 17,832 0%      | 17,833 0%      | 17,833 0%      | 17,833 0%      | 17,833 0%      | 17,833 0%      |
| Local Revenues                            | 159,793        | 153,870 -4%    | 157,610 2%     | 162,253 3%     | 167,069 3%     | 172,133 3%     | 177,640 3%     |
| Property Taxes                            | 253,219        | 260,087 2.7%   | 267,890 3.0%   | 275,930 3.0%   | 284,200 3.0%   | 292,730 3.0%   | 301,512 3.0%   |
| Fund Balance Applied                      | 12,374         | 2,119 -83%     | 3,000 42%      | 3,000 0%       | 3,000 0%       | 3,000 0%       | 3,000 0%       |
| IGC's Outside General Gvt.                | 31,271         | 36,065 15%     | 37,100 3%      | 38,200 3%      | 39,300 3%      | 40,500 3%      | 41,700 3%      |
| <b>TOTAL REVENUES</b>                     | <b>475,350</b> | <b>470,800</b> | <b>484,261</b> | <b>498,045</b> | <b>512,230</b> | <b>527,024</b> | <b>542,513</b> |
| Change from prior year                    |                | -1%            | 3%             | 3%             | 3%             | 3%             | 3%             |
| <b>EXPENDITURES</b>                       |                |                |                |                |                |                |                |
| Personal Services                         | 254,364        | 260,058 2%     | 269,368 3.6%   | 278,742 3.5%   | 288,777 3.6%   | 299,462 3.7%   | 310,841 3.8%   |
| Debt Service                              | 51,539         | 55,586 8%      | 56,988 3%      | 58,934 3%      | 61,063 4%      | 63,355 4%      | 60,384 -5%     |
| Other                                     | 169,447        | 155,156 -8%    | 158,407 2%     | 161,476 2%     | 164,802 2%     | 169,401 3%     | 174,288 3%     |
| Reductions/Efficiencies                   | -              | -              | (502)          | (1,107)        | (2,411)        | (5,193)        | (2,999)        |
| <b>TOTAL EXPENDITURES</b>                 | <b>475,350</b> | <b>470,800</b> | <b>484,261</b> | <b>498,045</b> | <b>512,231</b> | <b>527,025</b> | <b>542,513</b> |
| Change from prior year                    |                | -1%            | 3%             | 3%             | 3%             | 3%             | 3%             |
| <b>REVENUES OVER/(UNDER) EXPENDITURES</b> | <b>-</b>       | <b>1</b>       | <b>(0)</b>     | <b>(0)</b>     | <b>(0)</b>     | <b>(0)</b>     | <b>0</b>       |
| cumulative                                | 0              | 1              | 1              | 0              | (0)            | (1)            | (1)            |

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Submitted by: Chair of the Assembly at the  
Request of the Mayor

Prepared by: Dept. of Finance  
For reading: December 3, 2013

CLERK'S OFFICE

APPROVED

Date:

12-17-13

**ANCHORAGE, ALASKA  
AR No. 2013-312**

**A RESOLUTION OF THE MUNICIPALITY OF ANCHORAGE ADOPTING THE 2014-2019 SIX YEAR FISCAL PROGRAM.**

**WHEREAS**, the Mayor has presented the 2014-2019 Six Year Fiscal Program for the Municipality of Anchorage to the Assembly in the 2014 Budget Book, in accordance with Article XIII, Section 13.02 of the Municipal Charter; and

**WHEREAS**, a duly advertised public hearing was held prior to adoption in accordance with Article XIII, Section 13.02 of the Municipal Charter; and

**WHEREAS**, the 2014-2019 Six Year Fiscal Program provides a program for public services, fiscal policies and capital improvements of the Municipality and presents options for addressing fiscal requirements; and

**WHEREAS**, assumptions and projections contained in the 2014-2019 Six Year Fiscal Program were developed with information that was considered the most reliable and current at the time; now, therefore,

**THE ANCHORAGE ASSEMBLY RESOLVES:**

**Section 1.** To accept the 2014-2019 Six Year Fiscal Program as a working tool for further consideration by the Administration, the Assembly, and the public to address options by which Anchorage municipal government can manage future fiscal requirements.

**Section 2.** This resolution shall be effective immediately upon passage and approval by the Assembly.

PASSED AND APPROVED by the Anchorage Assembly this 17<sup>th</sup> day of December, 2013.



Chair of the Assembly

ATTEST:



Municipal Clerk

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