SIX-YEAR FISCAL PROGRAM

2017 – 2022

Municipality of Anchorage

Ethan Berkowitz

Mayor

September 30, 2016

MUNICIPALITY OF ANCHORAGE

Six-Year Fiscal Program
2017 – 2022

Ethan Berkowitz, Mayor

ASSEMBLY

Elvi Gray-Jackson, Chair
Eric Croft
Amy Demboski
Forrest Dunbar
Bill Evans
Patrick Flynn
Pete Petersen
Bill Starr
Tim Steele
Dick Traini
John Weddleton

ADMINISTRATION

Robert Harris……………..………………………Chief Fiscal Officer
Lance Wilber……………Director, Office of Management & Budget
Michael Abbott…..………………………………Municipal Manager

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, operation, 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 the Six-Year Fiscal Program is to provide a financial plan for review and consideration in response to services required by the public.

The Six-Year Fiscal Program encourages 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 over the next six years in order to determine exactly what the appropriate balance point should be.

Detailed demographic and financial information about Anchorage are available at the Anchorage Economic and Community Development website at www.aedcweb.com; Municipal libraries, and the Municipal website at www.muni.org; relevant documents include:

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

Six-Year Fiscal Program

2017 – 2022

Table of Contents

1. 6-Year Outlook

A sustainable fiscal policy that promotes a safe, secure, and strong Anchorage is a mission of the Administration. As we address the present budget, we must also prepare for Anchorage's future.

The state's fiscal situation has led to a reduced state role, which has consequences for the Municipality. As we manage this transition, our focus is on building self-sufficiency and resilience. That means finding efficiencies and making strategic investments. It also means demonstrating the fiscal discipline that accompanies a results-based budget, which addresses performance and success of services, directing resources to accountable programs that result in the highest level of public service.

2. Economic Trends and Indicators

Introduction

The final numbers for 2015 confirm that employment in Anchorage climbed to record levels last year, averaging just over 156,000 jobs, 1,000 jobs above 2014. Some observers might be surprised by the numbers; however, job growth in Anchorage last year was right in line with AEDC's forecast of 800 new jobs in 2015.

While job growth was solid in 2015, growth started tapering late in the year and by early 2016, the expected decline in employment materialized. In June 2016, employment was down about 2,500 jobs compared to June 2015, according to preliminary Alaska Department of Labor and Workforce Development (ADOLWD) estimates. The job losses are in the expected sectors - Oil and Gas, Construction, Professional Services and State Government. These areas are most directly affected by declining oil prices and revenues. Meanwhile, growth in Health Care, the Visitor Industry and other sectors are offsetting some of the decline in the oil-affected sectors.

As we look ahead and consider the forces that will shape the Anchorage economy over the next three years (and beyond), there are reasons for a mix of optimism and concern. As described in this forecast, the outlook is generally good for the Visitor Industry, the Health Care sector continues to expand, oil prices have rebounded somewhat from 2015 lows, concerns over JBER force reductions have tentatively abated and unemployment remains low.

Uncertainty around the state budget continues to be a dark cloud over Alaska's economy. A long-term fiscal plan remains elusive and until a sustainable revenue and expenditure plan for state government operations and capital projects is in place, economic uncertainty will prevail.

This AEDC 3-Year Economic Outlook, sponsored by Weidner Apartment Homes, describes the likely trajectory of the local economy, based on an analysis of historical and current data, interviews with representatives of businesses and organizations in various sectors and analysis of current events. The Outlook considers trends in eight key indicators: population, employment, personal income, air passenger and freight volumes, building permits, Port of Anchorage tonnage, visitor industry activity and oil prices.

Population

Anchorage's population declined by just under 1,500 residents in 2015, to end the year at 298,900, a drop of approximately 0.5 percent compared to 2014. This population change is the sum of births (+4,600), deaths (-1,600), and net migration (-4,500). While births and deaths have remained relatively steady, net migration (the sum of in-migration to Anchorage and out-migration from Anchorage) has been negative since 2010.

One component of net migration is population movement between Anchorage and the Matanuska-Susitna Borough. In 2014, based on Permanent Fund Dividend (PFD) applications, 3,100 individuals relocated from Anchorage to the Mat-Su. In the same year, 1,800 Mat-Su residents moved to Anchorage, totaling a net decrease of 1,300 residents from the Anchorage population. Access to more affordable housing is likely a primary factor driving that migration.

Population growth has slowed for the combined Anchorage/Mat-Su region, increasing just 300 residents in 2015, lower than the five-year average annual growth of 3,300.

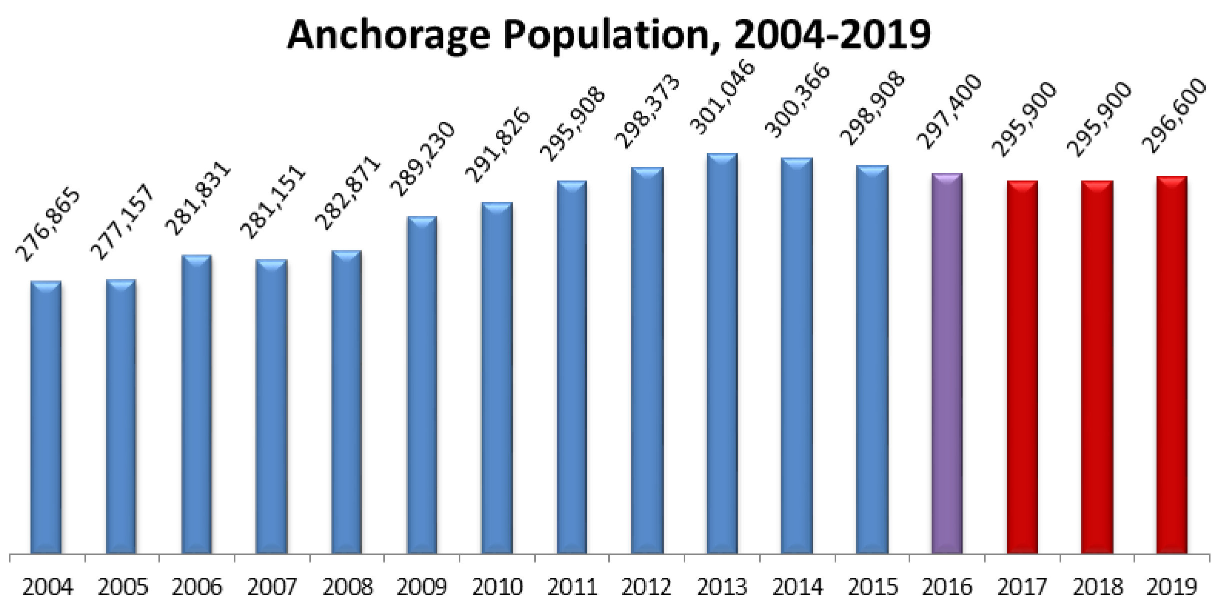
A strengthening national economy also contributes to migration out of Anchorage. This is a reverse of what happened during the Great Recession in late 2007 to mid-2009 when workers from other states were attracted to Anchorage's relatively strong economy. While the national unemployment rate peaked at more than 10 percent in 2010, Anchorage's rate peaked at less than 7 percent; however, since late 2015, the Anchorage unemployment rate has trended above the national rate.

Retirement among an aging population in Anchorage also contributes to individuals leaving the city (and its labor force). In 1980, the median age of Anchorage residents was 26; by 2015 it had risen to age 34. This trend is anticipated to continue, with Anchorage's average age increasing to 37 by 2030, according to projections by ADOLWD.

Finally, economic uncertainty about Alaska's oil-dependent economy is likely having some impact on migration. For historical context, in 1986, after a 50 percent fall in the price of oil and a period of economic recession in Alaska, Anchorage's population declined 4.8 percent over two years. Because Anchorage's economy is more diverse today, similar population losses are not expected to accompany the current oil price downturn.

In 2016, AEDC anticipates another modest population reduction of approximately 1,500 residents, or 0.5 percent. Additional loss (-1,500 residents) is expected in 2017, before population change is predicted to flatten in 2018 (no change from 2017). A slight increase (+700 residents) is anticipated for 2019, as population growth returns to more normal levels, influenced by modest employment increases.

Over the course of this population downturn that began in 2013, AEDC expects a total loss of about 5,100 residents by the end of 2017, a decline of 1.7 percent from the peak.



Source: State of Alaska, Department of Labor and Workforce Development, 2002 to 2014; McDowell Group forecast 2015 to 2018. Provided by AEDC

Employment

Total employment in Anchorage continued to expand in 2015, adding 1,000 net positions over 2014, hitting an all-time high of 156,066 jobs. Compared to 2014, the Health Care (+500 jobs), Leisure and Hospitality (+300 jobs) and Retail (+300 jobs) sectors exhibited the strongest growth, while State Government and Financial Activities employment fell slightly, by 200 jobs and 100 jobs respectively. While 2015 overall (averaged over January-December) was a record year for employment in Anchorage, a comparison of June 2015 with June 2016 indicates softening in employment for Oil and Gas (-700 jobs), Construction (-1,000 jobs), Professional and Business Services (-1,000 jobs) and State Government (-400 jobs). Yet, employment in Health Care (+900 jobs) and Federal Government (+300 jobs) expanded, according to preliminary ADOLWD data.

Driven primarily by reduced oil prices, overall employment in the Oil and Gas sector is anticipated to be lower in 2016 than 2015. Layoffs at BP, ExxonMobil, ConocoPhillips and support sector companies, which began mid-2015, have extended into 2016. On the North Slope, ExxonMobil completed the Point Thompson project and will require fewer contractors; Eni, Repsol-Armstrong and Caelus Energy have postponed exploration activity; BP will idle three drilling rigs; and Shell relinquished offshore leases once worth $2 billion.

At the statewide level, preliminary data indicates employment in the Oil and Gas sector is now about 2,500 jobs (or 17 percent) lower than the record peak of 14,800 jobs observed in March 2015. Current statewide Oil and Gas sector employment is similar to levels last seen in May of 2011. Even with recent job losses, employment in this sector today is still 56 percent higher than the low point of 7,900 jobs observed in June of 2005.

One mitigating factor with respect to Oil and Gas employment losses is that a portion of the jobs in this sector are held by non-residents. While no data is available on the distribution of layoffs between residents and non-residents, likely some proportion of the affected workers are non-residents. The Alaska economy experiences less economic impact from the loss of a job held by a non-resident than a job held by an Alaskan, who spends more payroll dollars in-state.

Similarly, while no data is available on the number of former Oil and Gas employees who have retired rather than being laid off, qualitative reports indicate a material proportion of job losses include individuals who have retired. To the extent these former Oil and Gas employees remain in Alaska, economic impact of these job reductions are mitigated.

While Oil and Gas activity has slowed, portions of the industry continue to invest in infrastructure. ConocoPhillips is continuing its development of CD-5 and Greater Moose's Tooth #1 projects, Caelus Energy is actively drilling at their Smith Bay prospect and Armstrong is beginning to develop their Pikka project. In Cook Inlet, BlueCrest Energy began production from its Cosmopolitan Unit in April 2016, Furie Operating Alaska is drilling in their Kitchen Lights Unit and Hilcorp is permitting its onshore Greystone Project. Doyon and Ahtna are drilling exploratory wells this summer near Nenana and Glennallen, respectively. While uncertainty surrounds the future of the AK LNG project beyond June of 2017, a projected $230 million will be spent in 2016 on work associated with the pipeline's regulatory requirements and design work.

Anchorage's Retail sector continued to add jobs in 2015, increasing slightly more than 1.0 percent, bringing the Retail sector total to 18,100 positions. Clothing stores showed the strongest growth in this category, while electronics and appliance stores engaged in less hiring. The Retail sector is up 200 jobs the first half of 2016, and several new establishments plan to open (including Victoria's Secret) this year.

With the addition of new hotels and restaurants, the Leisure and Hospitality sector saw a net gain in 2015, with employment increasing 1.5 percent to 17,200 jobs. While the job trend through June 2016 has been flat, it is expected that with a healthy visitor season, the Hospitality sector will have a solid performance through the summer.

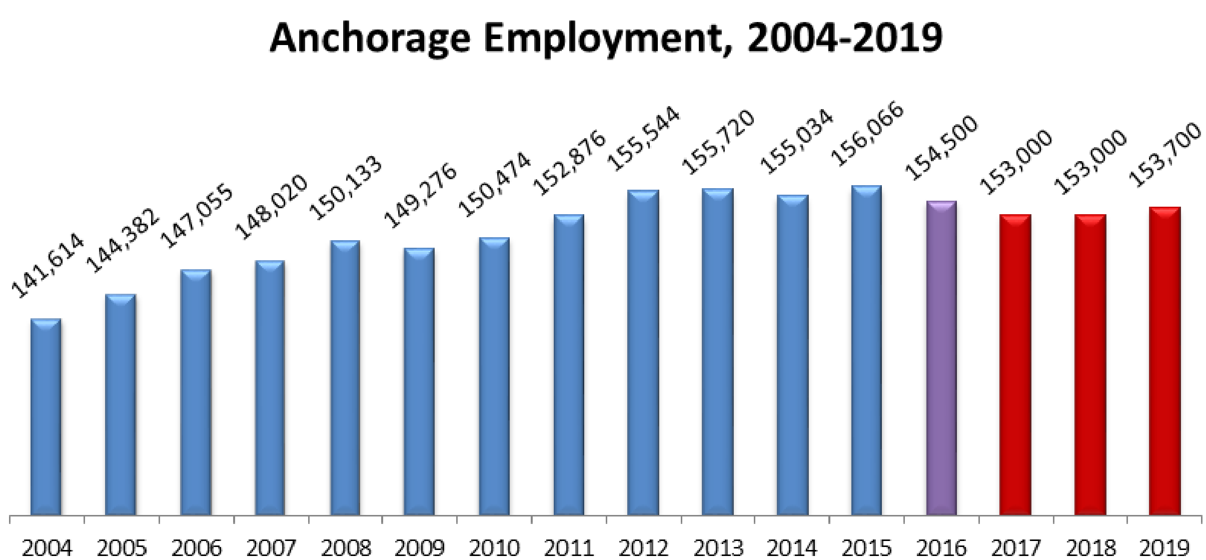
With slightly more than 20,300 positions, Professional and Business Services employment, which includes engineers, architects, and consultants, saw no growth in 2015. Employment in the sector has trended lower since a 2013 peak of nearly 20,900 positions; preliminary data for 2016 indicates that downward trend is continuing.

While Anchorage Construction employment remained flat in 2015 with 8,300 jobs, preliminary data for the first half of 2016 show marked reductions with 1,000 fewer jobs reported in June 2016 compared to the same month in 2015. Activity associated with road, bridge and other federally funded construction is anticipated to be more robust than private sector construction projects, which have seen noticeable declines in the last several months.

Overall Government employment (Federal, State and Local) of approximately 29,200 jobs was slightly down between 2014 and 2015; however, State of Alaska employment in Anchorage fell by slightly more than 200 jobs to 10,600, a 2.1 percent reduction. Over the same period, State of Alaska employment at the statewide level fell by more than 700 jobs (2.8 percent), from 26,500 to 25,800. Compared to the same month in 2015, preliminary data for June of 2016 indicate further declines in State of Alaska employment in Anchorage (-400 jobs) and statewide (-2,000).

In 2015, Local Government employment in Anchorage expanded 2.0 percent to 10,200 jobs. Federal employment was unchanged at 8,500. Compared to the same month in 2015, preliminary data for June of 2016 shows Local (+200 jobs) and Federal employment (+300 jobs) have grown in Anchorage.

In 2016, AEDC continues to forecast overall average Anchorage employment to fall 1.0 percent, or approximately 1,600 jobs. Another decline of 1.0 percent is anticipated in 2017, representing a loss of 1,500 additional jobs. Employment is projected to show no change in 2018, and return to slight growth of 0.5 percent by 2019, a result of improving economic conditions. By the 2018-2019 period, employment in the Oil and Gas, State Government and Construction sectors will have reached their low points related to the economy’s adjustment to lower oil revenue. At that point, various sources of growth in the economy would be expected to result in a net increase in 2019 employment.



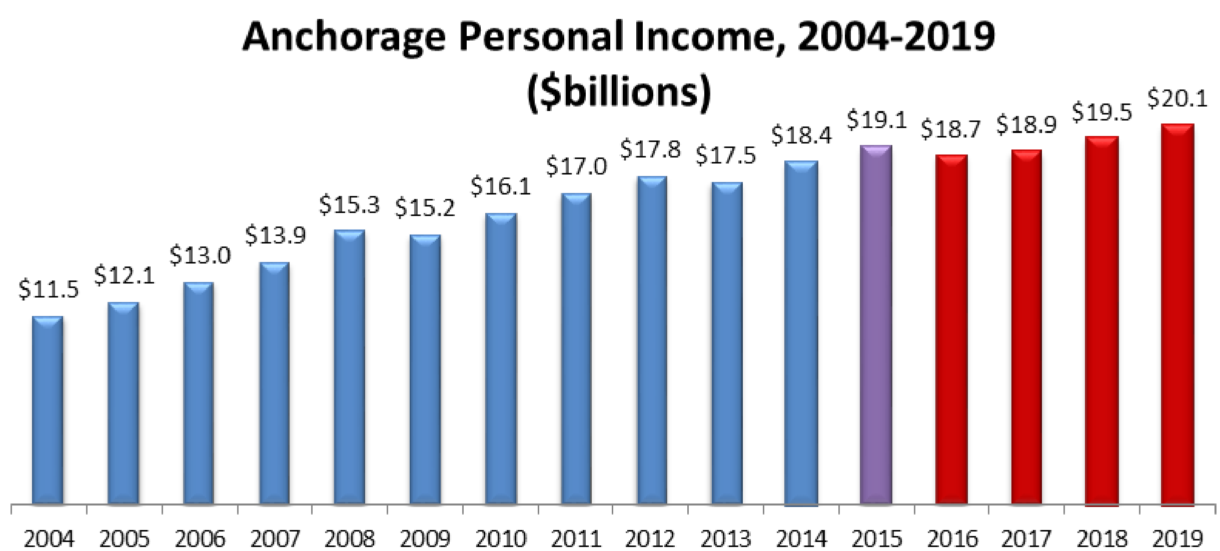
Source: State of Alaska, Department of Labor and Workforce Development, 2002-2014; McDowell Group forecast 2015-2018. Provided by AEDC

Personal Income

After falling slightly in 2013, the personal income of Anchorage residents (the sum of all wages and benefits, investment income and government transfers) increased 5.0 percent in 2014 to $18.4 billion. Wages and benefits (which account for nearly 70 percent of total personal income) increased 3.1 percent to $13 billion. Investment income such as dividends, rental income and interest, increased 3.2 percent to $3.2 billion. Government transfers increased 20 percent to $2.6 billion, driven in part by a doubling of the PFD from $900 to $1,884.

From 2003 to 2014, the annual average growth rate of personal income in Alaska (+5.2 percent) and Anchorage (+4.9 percent) has been higher than the national rate (+4.1 percent); however, in 2012 and 2013, the national growth rate surpassed the Alaska and Anchorage rates, most notably in 2013, when personal income grew at 1.2 percent nationally compared to a decline of 1.1 percent in Alaska and 1.7 percent in Anchorage. While the Alaska and Anchorage growth rates were higher than the national rate in 2014, preliminary data for 2015 indicates personal income at the national level economy grew faster than in Alaska.

With a record PFD ($2,072) in 2015, AEDC estimates personal income growth for Anchorage residents increased by 3.8 percent in 2015; however, with job losses and a possibly lower PFD ($1,000), personal income is expected to fall 2.0 percent in 2016. Slight growth of 1.0 percent is expected in 2017, before a return to approximately 3.0 percent annual growth through 2019.



Source: Bureau of Labor Statistics (2002-2013); McDowell Group forecast (2014-2018)
Provided by AEDC

Anchorage International Airport Passenger and Freight Volume

Ted Stevens Anchorage International Airport (ANC) handles the vast majority of Alaska's air cargo and passenger traffic. An important threshold was crossed in 2015, when 5.5 million passengers transited the facility, marking a return to pre-Great Recession (2007-2009) levels. Air freight volumes continued to increase in 2015, rising to an eight-year high. ANC supports substantial direct and indirect economic activity in Anchorage and air passenger and freight volumes are important indicators of visitor industry strength and consumer and business activity.

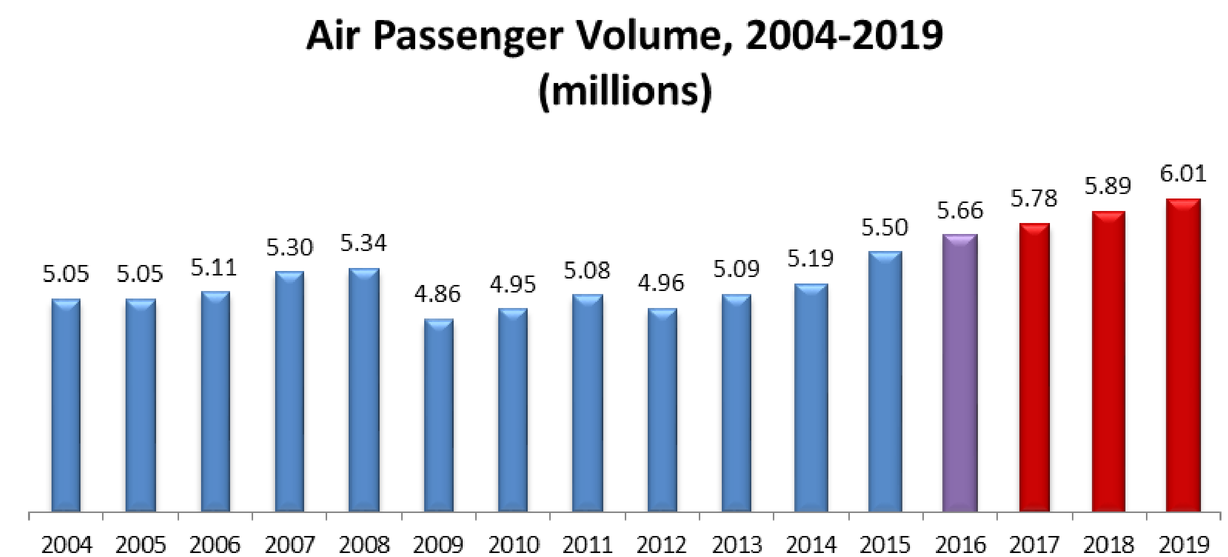
While low energy prices are fiscally challenging for the state economy, jet fuel is one of the airline industry's main expenses. Falling jet fuel prices have contributed to lower airfares and more air passengers, which benefited both passenger and air freight carriers. Over the past five years, more than 600 million gallons of jet fuel and other petroleum products have been used annually at ANC.

Passenger Volumes

Total air passenger volume (enplaned, deplaned and transiting) increased 6.0 percent from 2014 to 2015, a higher rate than the five-year average of 1.4 percent growth. In fact, the 5.5 million visitors passing through ANC in 2015 represent the highest annual volume ever recorded.

Data through the first half of 2016 indicate the possibility of another record-breaking air travel year. The highest level of passenger activity in 2015 occurred on July 21; in 2016, the same level of activity was observed three weeks earlier. A healthy summer visitor season is bolstering passenger volumes at ANC, including independent visitors as well as cruise passengers arriving or departing from ANC as part of their northbound or southbound cruise. These market dynamics are anticipated to outweigh reduced business and State of Alaska government travel.

Anticipating a strong 2016 visitor season, AEDC sees 2016 air passenger volume climbing to 5.7 million, an increase of 3.0 percent. Slightly lower growth of 2.0 percent is expected from 2017 to 2019, when total air passenger volume of more than 6.0 million is anticipated.



Source: Ted Stevens Anchorage International Airport, 2003-2014. McDowell Group estimate (2015) and forecast (2016-2018). Provided by AEDC

Air Freight Volumes

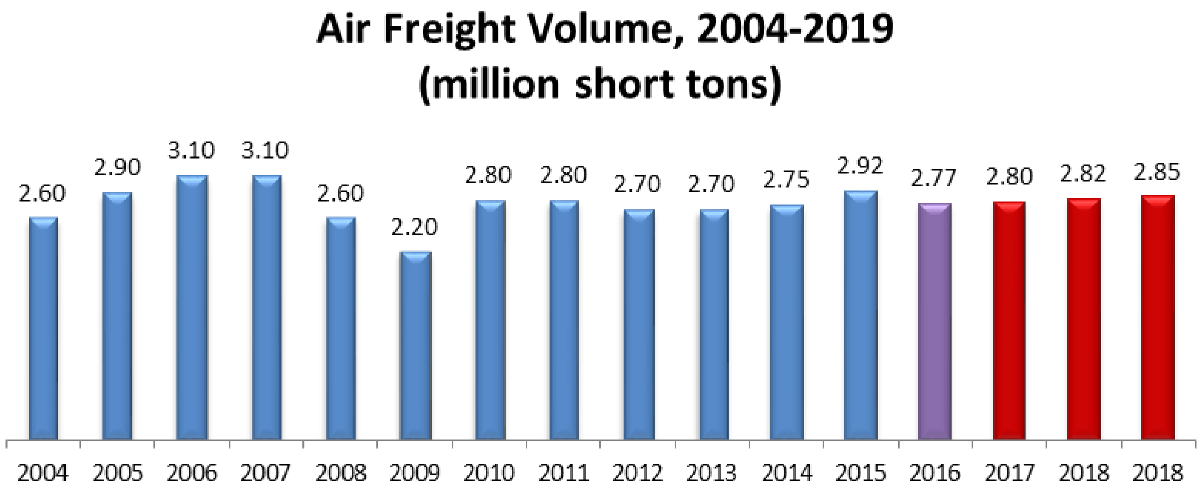
Strategically located within 9.5 hours of most major international markets in Asia and Europe, ANC is regularly among the top five global airports in terms of air freight tonnage. Freight volume (including enplaned, deplaned and transiting cargo) of 2.9 million tons in 2015 represented a nine-year high, and a 6.0 percent increase over 2014. In 2015, 75 percent of all cargo moving through ANC was transiting on planes landing in Anchorage to refuel. Freight loaded onto planes accounted for 13 percent and freight unloaded totaled nearly 12 percent.

The primary factor driving the growth spike observed in 2015 was a longshoreman labor strike on the West Coast which caused disruptions in marine supply chains. ANC benefited as time-sensitive shipments were temporarily transported by air to avoid these disruptions.

In 2015, the average cargo plane transiting ANC held 76.7 tons of freight, above the previous five-year average of 72.7 tons. Larger aircraft replacing lower-capacity planes explain this increase.

While a relatively strong domestic economy will continue to support air cargo volumes, slowing international growth may dampen air cargo growth. The World Bank recently revised its forecasted 2016 global economic growth to 2.4 percent, a 0.5 percent reduction from its previous forecast. China's forecasted 6.7 percent annual growth is a notable departure from the nearly 10 percent annual average growth experienced in the previous decade.

Absent West Coast port disruptions, AEDC anticipates freight volumes to return to a "normal" level in 2016, down 5.0 percent compared to 2015. Annual growth of 1.0 percent is anticipated through 2019.



Source: Ted Stevens Anchorage International Airport, 2003-2014. McDowell Group estimate (2015) and forecast (2016-2018). Provided by AEDC

Port of Anchorage Freight Volume

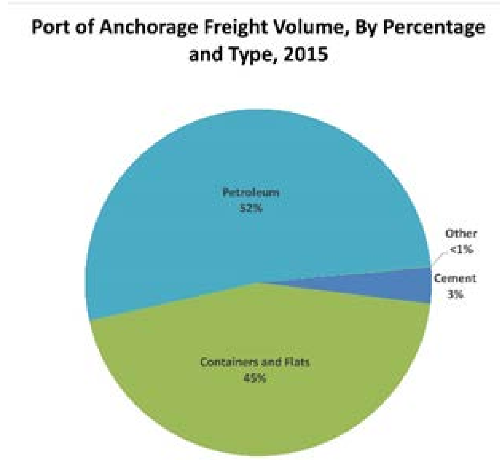
The Port of Anchorage (POA) handled 3.8 million tons of cargo in 2015, an increase of 9.3 percent over 2014. The primary driver of this increase was petroleum products delivered by ship – a category that nearly tripled to 1.6 million tons and accounted for 42 percent of all volume. Freight delivered in vans, flats and containers remained the largest category at 45 percent (1.7 million tons). Volume in this category declined by 7.0 percent (130,000 tons) from 2014 to 2015. Cement, other petroleum and other freight totaled approximately 500,000 tons.

Petroleum shipments are playing an increased role at the port, driven by reductions in refining activity within the state. Major developments include the closure of Flint Hill's North Pole refinery in 2014, which provided much of ANC's jet fuel, and maintenance on Tesoro's Kenai refinery in 2015. While just four tankers called in 2013, 32 tankers called in 2015. There were eight cruise vessel port calls in Anchorage in 2015, the same as in 2014.

Private investment at the port has helped increase the capacity of the port and diversify products entering the facility. Alaska Basic Industries has tripled its cement storage capacity with the addition of a 40,000-ton storage dome. Delta Western's 360,000-barrel storage facility will allow transshipment of methanol to the North Slope, a product never before moved in significant quantities at POA.

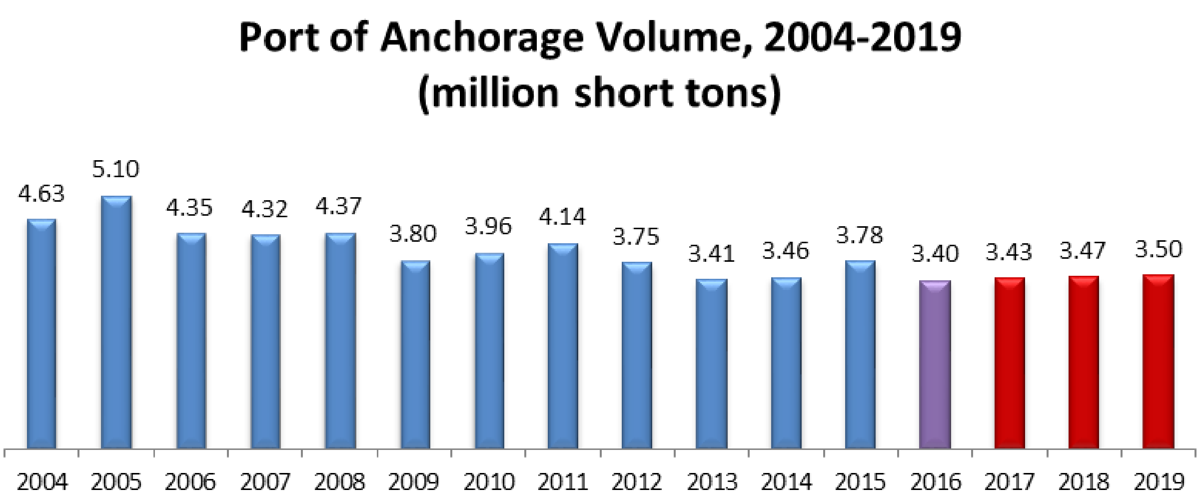
Total POA volume through May of 2016 is 5.0 percent (74,000 tons) lower than the same period in 2015, with most of the reduction resulting from less petroleum delivered by ships to the port; however, port officials anticipate a year-end volume similar to 2015. Tesoro's pipeline from their Kenai refinery is back in service following a six-week maintenance outage in 2015; and 30 oil tanker calls are expected in 2016.

According to commercial shippers and other industry contacts, the best indicators of port volume are construction activity, the unemployment rate and population levels statewide and in Anchorage. The Institute of Social and Economic Research is forecasting an 18 percent reduction in construction spending across Alaska in 2016, which will reduce the amount of construction supplies entering POA.[1] At the same time, increases in unemployment and slowing population growth in Southcentral could result in less consumer spending and lower in-bound freight volumes.



Source: Port of Anchorage, 2016

Following strong growth in 2015, AEDC expects POA activity in 2016 to fall approximately 10 percent to 2013 levels. As indicated by factors outlined in the employment section, a return to job growth will increase port volume, with modest growth of 1.0 percent annually expected for 2017 through 2019.



Source: Port of Anchorage, 2014. McDowell Group estimates (2015) and forecast (2016-2018).

Building Permit Values

Building permit values are an indicator of commercial, residential and government (not including federal) building construction projects likely to take place in the near future. This data is used as a proxy for near-term building activity with the understanding that not all permitted projects are completed. Year-to-year fluctuations in permit data can be significant, with increases or decreases of 20 percent or more not uncommon.

[1] http://www.iser.uaa.alaska.edu/Publications/2016_01 - 2016ConstructionForecast.pdf

In 2015, building permit values totaled $549 million, a 19 percent reduction from 2014 but a 6.2 percent increase over the average of the previous five years. Total permit values in 2014 were the highest since 2007.

Residential permit activity was $175 million and represented 32 percent of the 2015 total. Including single-family homes, duplexes and renovations and additions, this category fell 10 percent from 2014 but was 17 percent higher than the average of the previous five years.

Permitting of commercial projects such as new office buildings, store renovations and residential buildings with more than two housing units were 53 percent of the total or $289 million in 2015. This represents a decrease of 25 percent compared to 2014 but is only 4.8 percent below the average of the previous five years.

Government-related construction permits accounted for 16 percent of all activity or $85 million, a decrease of 15 percent from 2014 but 34 percent above the previous five-year average. Government-related building permits through the first quarter of 2016 totaled $109 million, a slight reduction compared to the same period in 2015 ($121 million).

Anchorage Residential Housing Market Indicators, 2014 and 2015

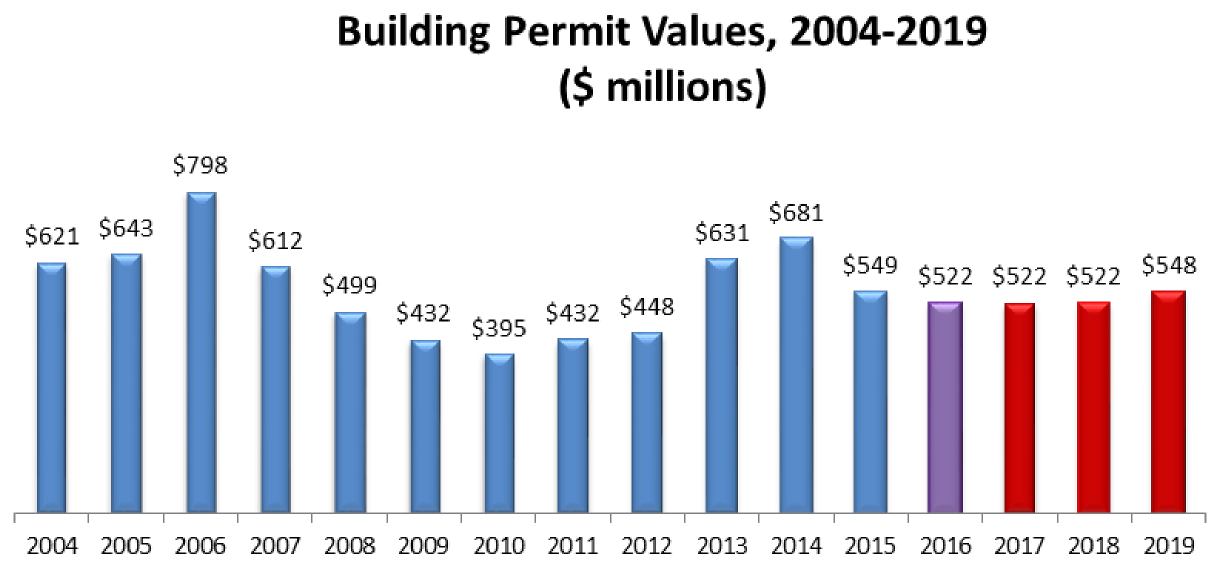
Category	2014	2015
Average Monthly Rent	$1,250	$1,255
Vacancy Rate	3.20%	3.90%
Average Single-Family Home	$360,965	$371,423
Average Mortgage Rate	4.19%	3.87%

Source: AKDOL, AHFC

Between 2014 and 2015, single-family home prices in Anchorage increased approximately 2.9 percent, a rate slightly higher than the average change over the previous five years. The inflation-adjusted average price of a home increased from $263,000 in 2000, to $371,000 in 2015, an average increase of 2.4 percent per year.

Building permit activity through the end of May of 2016 is higher than the same period last year, a result of several large projects including a $41 million, 202-unit patient-housing facility near the Alaska Native Medical Center and $52 million Southcentral Foundation dental clinic. School renovations slated for 2016 include projects at Turnagain and Gladys Wood elementary schools worth a combined $23.7 million. Other publicly funded projects include the $4 million Fire Station 41 in Girdwood and a $2.9 million wastewater facility for the Municipality of Anchorage. The $5.5 million Alaska Pacific University medical office building, $3.4 million Ben Boeke ice arena and $19.7 million Staybridges Inn & Suites located in midtown Anchorage also are anticipated for 2016. Cook Inlet Housing Authority is scheduled to begin construction of a $4.6 million 33-unit, mixed apartment and retail building on the corner of Spenard Road and 36th Avenue in July of 2016.

Driven by reduced public and private spending, AEDC anticipates building permit values to fall 5.0 percent in 2016, before flattening in 2017 and 2018. Slight growth of 5.0 percent is expected in 2019, as economic conditions improve.



Source: Municipality of Anchorage, 2003-2014. McDowell Group estimate (2015) and forecast (2016-2018).
Provided by AEDC

Visitor Industry

A record number of out-of-state visitors traveled to Alaska in summer 2015, representing a 7.3 percent increase from summer 2014 (from 1.7 million in 2014, to 1.8 million visitors), according to the Alaska Visitor Statistics Program.[2] Every major transportation market experienced growth, including a 12.7 percent increase in air visitors; a 3.3 percent increase in cruise ship passengers; and a 13.9 percent increase in highway/ferry visitors.

The 2014-15 fall/winter visitor season (October through April) was up by 5.1 percent compared to the previous fall/winter, from 273,000 to 286,800 visitors. Statewide data is not yet available for the 2015-16 fall/winter season. Although only 14.7 percent of Alaska's out-of-state visitors arrive during the fall/winter season, 73 percent of these visitors travel to Anchorage (compared to 50 percent in summer).

Anchorage had very positive indicators for the summer of 2015. Outbound domestic enplanements (airplane passengers exiting Alaska from ANC on domestic flights) increased by 10 percent, from 838,000 to 921,000.

International enplanements at ANC were up by 4.3 percent between summer 2014 and summer 2015, from 19,800 to 20,600. The two biggest international carriers, Condor and Iceland Air, were up by 5.1 and 8.0 percent, respectively; however, it is important to understand these figures do not reflect Anchorage's overall international visitor market. Most of Alaska's international visitors travel to Alaska by domestic, rather than international, air.

Bed tax revenues showed a strong increase for the second year in a row: up 5.9 percent in summer 2015 (following an 8.0 percent increase in 2014). RV tax revenues showed a particularly strong increase at 16 percent. The only tax indicator showing no growth was rental vehicle taxes, which were flat between summer 2014 and summer 2015.

Anchorage-specific indicators for the fall/winter season of 2014-15 include a 5.6 percent increase in outbound domestic enplanements. There were no international enplanements at ANC in fall/winter 2014-15.

[2] Unless otherwise noted, all figures in this section are from the Alaska Visitor Statistics Program VI, conducted by McDowell Group, Inc. for the Alaska Department of Commerce, Community, and Economic Development, Division of Economic Development.

More recently, Anchorage bed tax revenues for fall/winter were down by 1.8 percent (from 2014-15 to 2015-16). Vehicle rental tax revenues were up by 2.4 percent over the same period. In addition, Visit Anchorage reports that 2015-16 convention attendance was up by 6.5 percent over 2014-15.

The cruise visitor segment of Anchorage's visitor market is likely to fall short of last season in terms of cruise visitor traffic to Anchorage. While statewide cruise traffic will be up by 2.0 percent in 2016, cross-gulf traffic (ships calling at Whittier or Seward) is projected to be down by 3.0 percent, equating to a loss of roughly 10,000 visitors (virtually all cross-gulf passengers visit Anchorage). In terms of direct port calls, Anchorage will receive nine port calls from the *MS Maasdam*, a Holland America ship with a capacity of 1,250 passengers, equivalent to the direct port call volume of 2015.

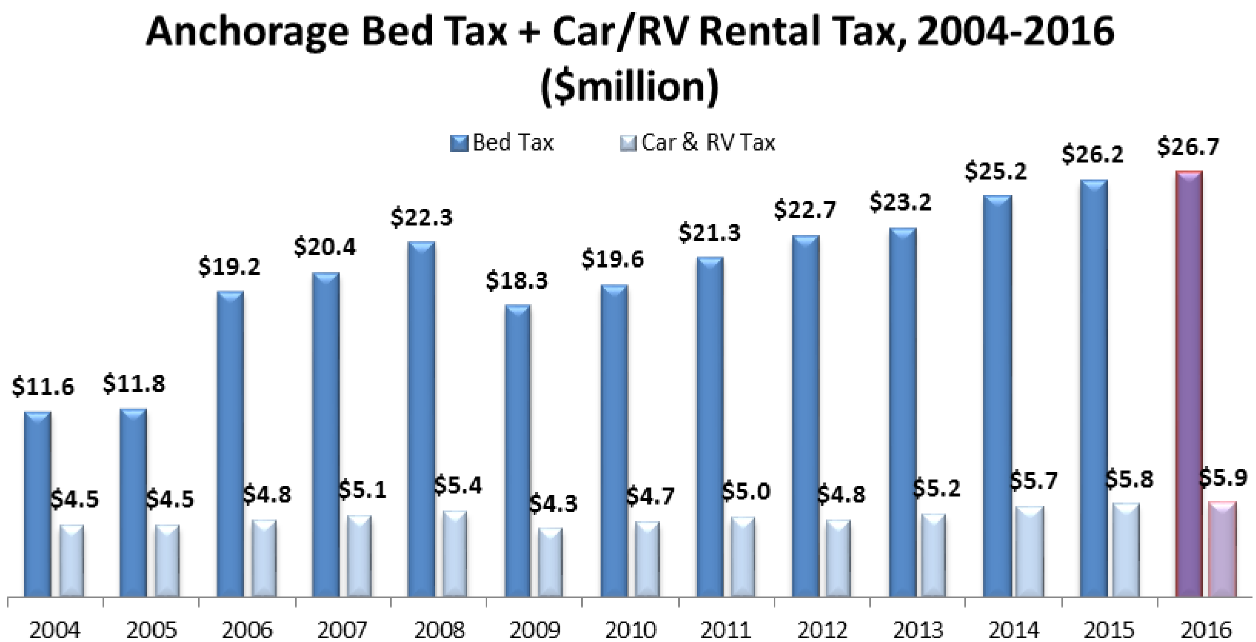
Visit Anchorage representatives report a slow start to the summer 2016 season in terms of independent visitors, with lodging businesses recording flat or slightly decreased volume for May/June; however, the July/August period is anticipated to rebound, with bookings strong in the second half of the summer season.

In terms of the upcoming fall/winter season, a downturn in business travel is expected due to decreased oil and gas activity, as well as restricted State of Alaska travel. Convention business is likewise projected to be down, by about 12 percent, in part because the large Alaska Federation of Natives conference will rotate to Fairbanks (from Anchorage) in fall 2016. Looking ahead to summer 2017, statewide cruise passenger volume is expected to grow by approximately 1.0 percent. There are early indications that Southcentral and Anchorage specifically could benefit from that growth, with one major cruise line that moves passengers through Anchorage looking to add a week to its 2017 season.

The U.S. Travel Association's most recent forecast predicts a modest 1.5 percent increase in domestic person trips in 2017, and another 1.7 percent for 2018.[3] Overseas travel is forecasted to grow at a faster rate: 4.6 percent in 2017, and 5.3 percent in 2018.

While AEDC does not forecast visitor industry volume, with current visitor activity, new room inventory and room rates, AEDC anticipates steady growth in both bed tax and car/RV rental tax revenues in 2016 (estimated at 2.0 percent).

[3] "U.S. Travel Outlook" April 2016, U.S. Travel Association, www.ustravel.org



Source: Municipality of Anchorage, 2003-2014. McDowell Group estimate (2015).

Oil Prices

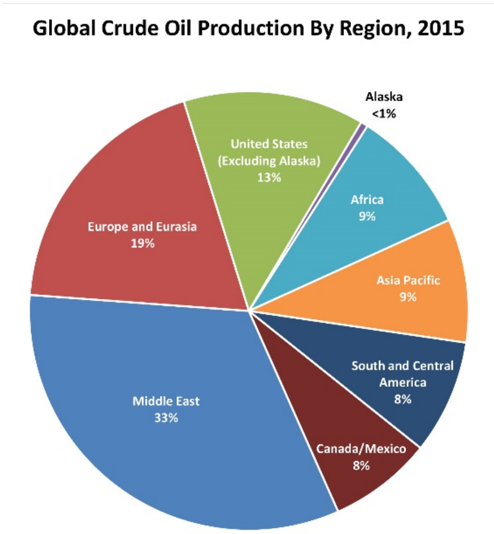
Following a precipitous decline in oil prices, which began in the summer of 2014 and bottomed out in early 2016 at less than $30 per barrel, oil prices recovered to approximately $50 by mid-June. Of all markets and industries affecting Anchorage and Alaska, global crude oil market conditions are the most important to our economy.

While the recent decline in prices is notable, it is not unprecedented. Since 1970, oil prices have fluctuated significantly over short periods of time.[4] The 1970s saw a more than a 240 percent increase over two years, oil declined approximately 50 percent in 1986, and prices increased 50 percent in 2000. Today's oil prices are about 50 percent below the 2014 peak.

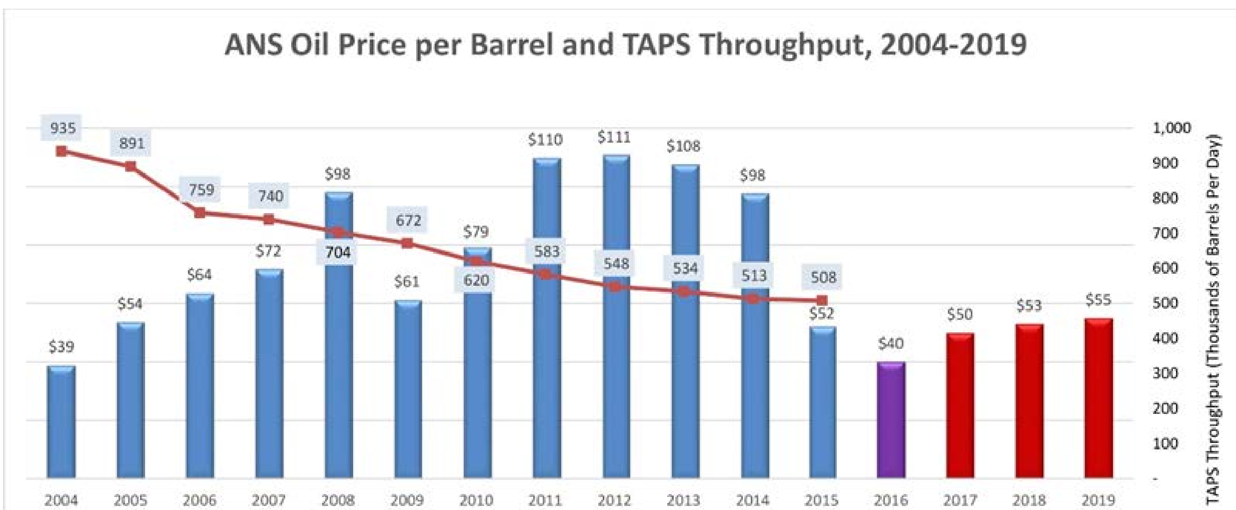
In 2015, 186 million barrels of oil flowed through the Trans Alaska Pipeline System, averaging 508,000 barrels per day. While this was the lowest amount since the pipeline was put into production, total volume declined only 1.0 percent compared to 2014, a much slower decline than the five-year average rate of 5.1 percent.

Recognizing the inherent uncertainty in forecasting oil prices, AEDC relies on a variety of forecasts from public sources, including from the Energy Information Administration, World Bank and State of Alaska. These forecasts see corrective market forces at play, contributing to slow price growth in the near-term. Based on these forecasts, AEDC anticipates prices will average about $40 per barrel in 2016, approximately $50 per barrel in 2017, then slowly trend up to approximately $55 per barrel by 2019.

[4] BP Statistical Review of World Energy, 2016.



Source: British Petroleum Statistical Review of the World; Energy Information Administration.



Source: Alyeska Pipeline Service Company, 2004-2015; State of Alaska, Department of Revenue, 2004-2015; McDowell Group forecast, 2016-2019, based on averages of Energy Information Administration, World Banks and State of Alaska forecasts.
Provided by AEDC

Challenges Ahead

Halfway through 2016, it is evident Anchorage has entered the economic downturn forecasted for this year. Employment is trending down in key, oil revenue-dependent sectors. Growth elsewhere in the economy is offsetting some of the decline, with the net effect a modest employment downturn of less than 1.0 percent.

Clearly the economic fallout of the sharp decline in oil prices is yet to fully materialize. The direct, indirect and induced “multiplier effects” of a loss of over $3 billion in annual state spending, and a billion less oil industry spending will take time to ripple through the economy.

While further decline might reasonably be expected in 2017, we can remind ourselves that we are much better equipped to navigate rough water than in our past. Our economy is more resilient and much better diversified than in the 1986-88 recessionary period, when Anchorage lost 12,400 jobs, or about 10 percent of total employment. That period saw population and employment at the state-level decline by 5,000 residents (0.9 percent) and 19,000 wage and salary jobs (7.3 percent), respectively. Today, low unemployment rates, strong demand for housing, a healthy banking sector and strength elsewhere in the economy promise to keep Alaska clear of the damage inflicted on the economy when oil temporarily dropped to $9 per barrel 30 years ago.

To be sure, uncertainty continues to rule, whether in the halls of the Alaska State Capitol or in the global economy. Investment in Alaska will continue to be constrained until our fiscal house is in order and we have a sustainable revenue structure in place. The recent "Brexit" vote added a dose of uncertainty to the Eurozone economy, with few analysts expecting anything but down side results. China continues to underperform as a market for natural resources. A strong U.S. dollar is making Alaska products less attractive – relative to competitors - in the international marketplace.

Looking ahead, key issues include:

- The value of capital projects in the construction "pipeline" from state government sources will continue to dwindle as the state capital budget drops to a level necessary to maintain federal matching funds, mainly for highway construction.
- Timing of gasline development remains elusive as we await word on moving the project to the billion dollar-plus front-end engineering and design phase.
- JBER force reductions, while postponed for the time being, remain a possibility. Nearly 2,700 soldiers and civilian employees, and a total military-related population of 5,000, are at stake. The military presence in Anchorage is critical with more than 11,600 active duty members and 18,200 dependents living in the city, according to ADOLWD.
- A lower PFD will reduce disposable income available to Alaskans; however, it is important to note that the Governor's $1,000 dividend cap, while significantly lower than what would be paid out in the absence of the cap, is above or on par with the dividend paid out in previous years, including 2012 ($878) and 2013 ($900).

As we look for signs of strength and durability in the economy, we note:

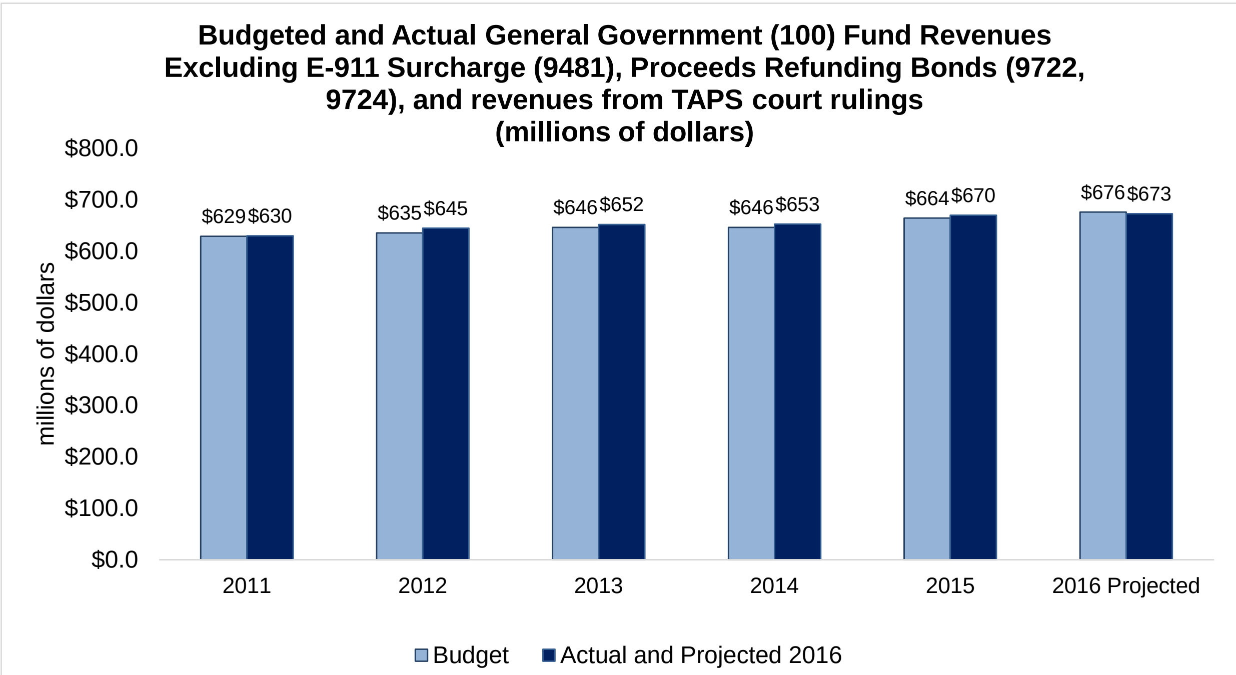
- Unemployment remains low at 5.3 percent in May 2016. While up slightly from May a year ago, that rate is level with the five-year average of 5.3 percent.
- Modest oil and gas investment activity continues in the state with some exploration and development work occurring in Cook Inlet and on the North Slope.
- The Health Care sector remains a source of employment growth and investment. The sector has added 2,000 jobs over the past five years.
- Alaska's Visitor Industry is a source of stability and growth, with total regional employment of nearly 20,000.
- Federal Government employment has stabilized; in fact, after many years of steady decline, growth in Federal employment is evident in the latest available data.

In last year's 3-Year Outlook, AEDC laid out a spectrum of possibilities for the Anchorage economy, all depending on expectations about oil prices, state spending, gas line development and the impact of military force reductions. AEDC suggested the community should expect some decline in those sectors most closely tied to State government spending and oil industry spending, but also expect resiliency and underlying strength in other sectors, preventing significant downturn in the economy overall. That remains AEDC's message today.

3. Historical Financial Trends

Revenues

Revenues have modestly increased over the past six years. The Municipal Treasury Division regularly monitors and forecasts revenues so that the Administration can maintain a balanced budget. As illustrated in the graph below, General Government revenues have met or slightly exceeded budget estimated during the last four years. This trend is evidence of the Municipal Treasurer's commitment to conservatively estimate, track and benchmark important revenue sources.



Source: MOA Treasury Division

Long-term Trends in Major Categories of General Government Revenues

A review of long-term revenue trends and the 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 (series 100 funds) revenues over the past eighteen years, from 1998 through 2016, the following narrative and graphs shown below identify six major determinant categories that affect changes in revenues over time, as follows:

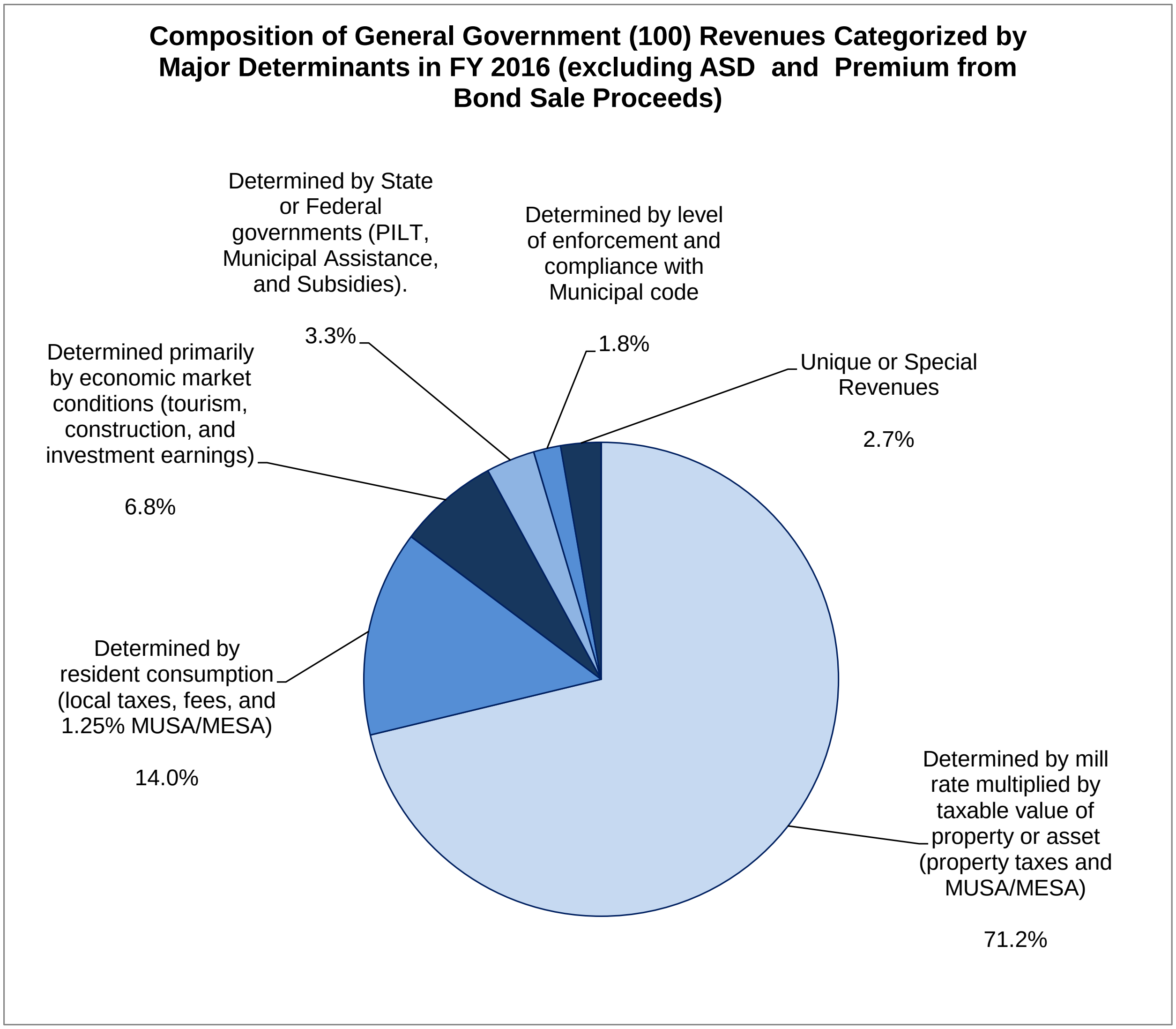
1. **Determined by Mill Rate and Taxable Value**: Property Taxes and Municipal Enterprise Service Assessment (MUSA) and Municipal Utility Service Assessment (MESA) payments are determined by the mill rate multiplied by taxable value of real and personal property or utilities enterprise net plant value. 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 enterprise balance sheets. The mill rate is set by the Assembly each year.

2. **Determined by Resident Consumption:** Revenue from taxes on tobacco, motor vehicles, marijuana, aircraft and Municipal service fees are determined by city residents' choices about their use of these products and services. Also included in this category are the Utility Revenue Distribution and 1.25 percent MUSA revenue. These payments are specific percentages of gross revenues of the utilities, which are derived from local residents' choices about consuming utility services.
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 Payments in Lieu of Taxes (PILT) are determined by decisions and actions of the State of Federal governments.
5. **Determined by Level of Compliance and Enforcement of Municipal Code (Code):** Revenues from collections of delinquent taxes, as well all types of fines, penalties and interest paid on delinquent taxes, are determined by the level of Code compliance and enforcement and collection efforts.
6. **Unique or Special Revenues:** Contributions from the MOA Trust Fund, lease revenue, land and property sales, private PILT payments, claims and judgments, miscellaneous revenues, and other special types of revenue are specified in contracts, by court rulings, or special provisions in the Code.

Summary of All Categories of Revenues

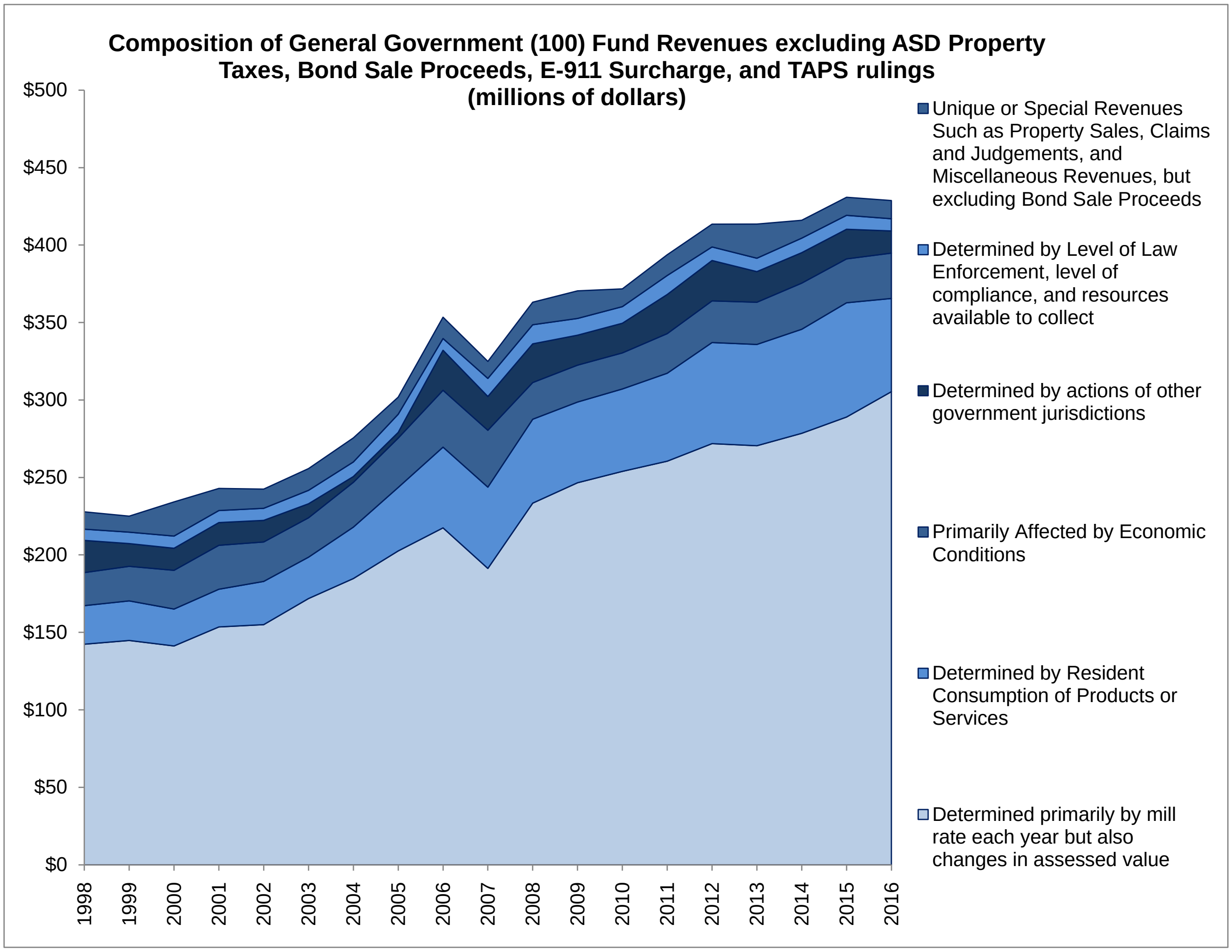
The largest share of general government revenues is determined each year by multiplying the mill rate by taxable value of property or assets. Consumption revenues contribute to the next largest share (14 percent). About 7 percent of revenues are determined by economic market conditions. Another 3 percent is determined by the actions of State or Federal governments. About 2 percent of revenues are driven by compliance and enforcement of Municipal Code. The remaining 3 percent is determined by a variety of unique or special factors.

The summary pie chart below from the MOA Treasury Division shows the composition of general government revenues. It excludes the property tax revenues transferred to the Anchorage School District (ASD) and proceeds from bond sales.



Source: MOA Treasury Division

The summary chart below from the MOA Treasury Division shows the changing composition of revenues for each of the major categories over the last seventeen years. Revenues determined by the mill rate and taxable value of property or value of utility assets have contributed between 60 percent to 65 percent of general government revenues each year over the last eighteen years (these percentages exclude ASD property taxes, revenues from Trans-Alaska Pipeline System (TAPS) rulings), and E-911 Surcharge revenues. 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 tourism, investment, and construction markets have contributed a relatively stable share since about 2006. The usual 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. Total general government (100) fund revenues in 2016 are projected to be slightly lower than in 2015 primarily because the Utility Revenue Distribution and 1.25% MUSA payment for ML&P are lower than last year due to a ruling by the Regulatory Commission of Alaska.

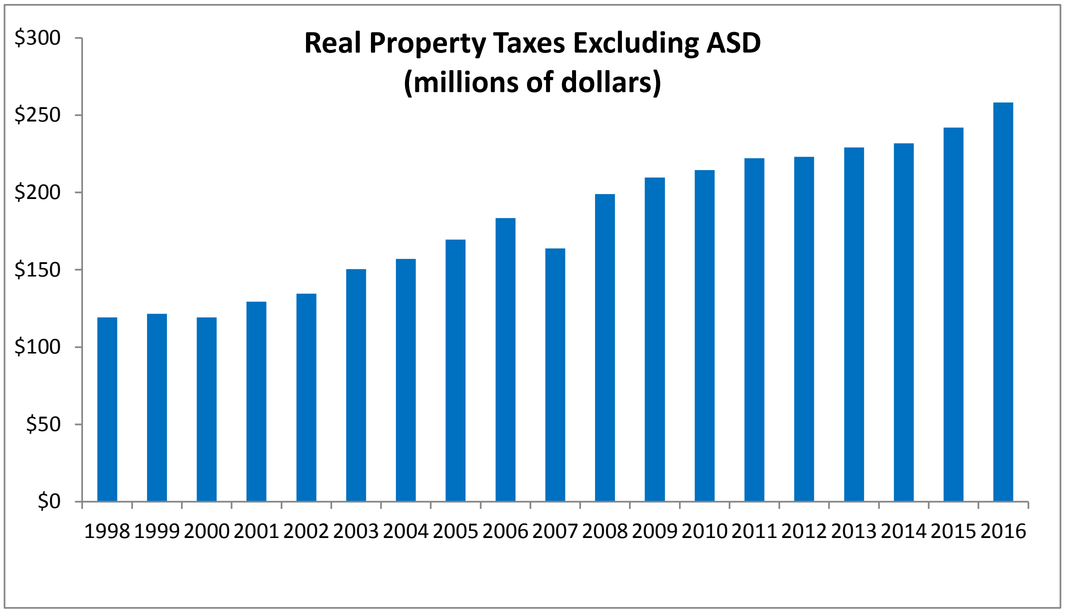


Source: MOA Treasury Division

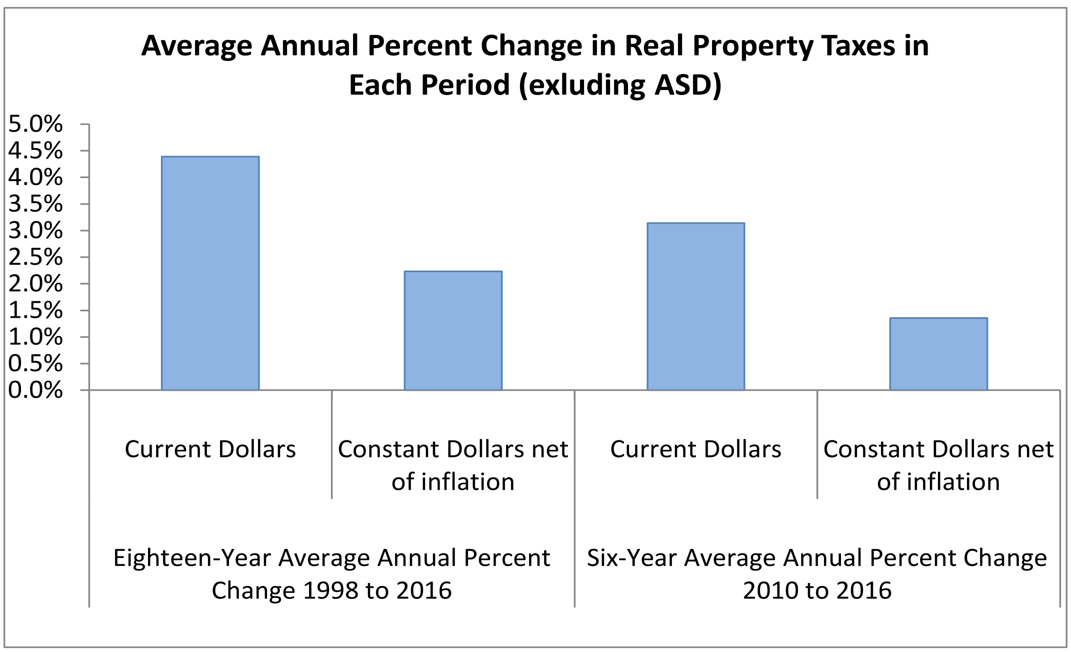
Key Revenue Determinant Categories

Revenues Determined Primarily by the Mill Rate and Taxable Value

Real property tax revenues are the largest component of this category. The amount of these 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 six years, real property tax revenues have increased at a slower average annual rate than the long-term historical trend from 1998 to 2009.



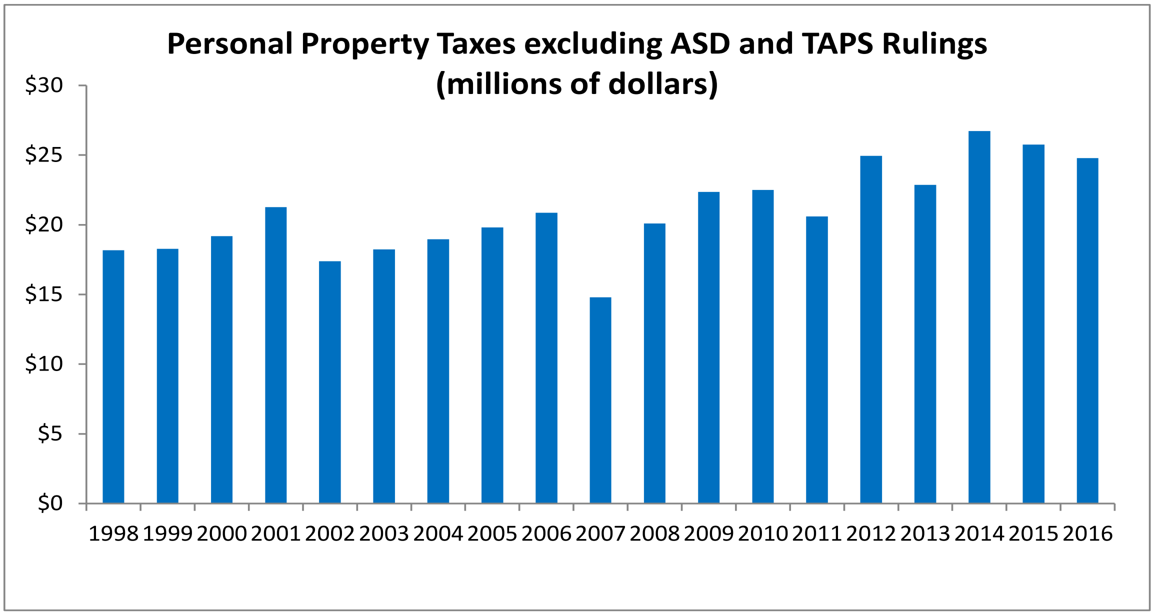
Source: MOA Treasury Division



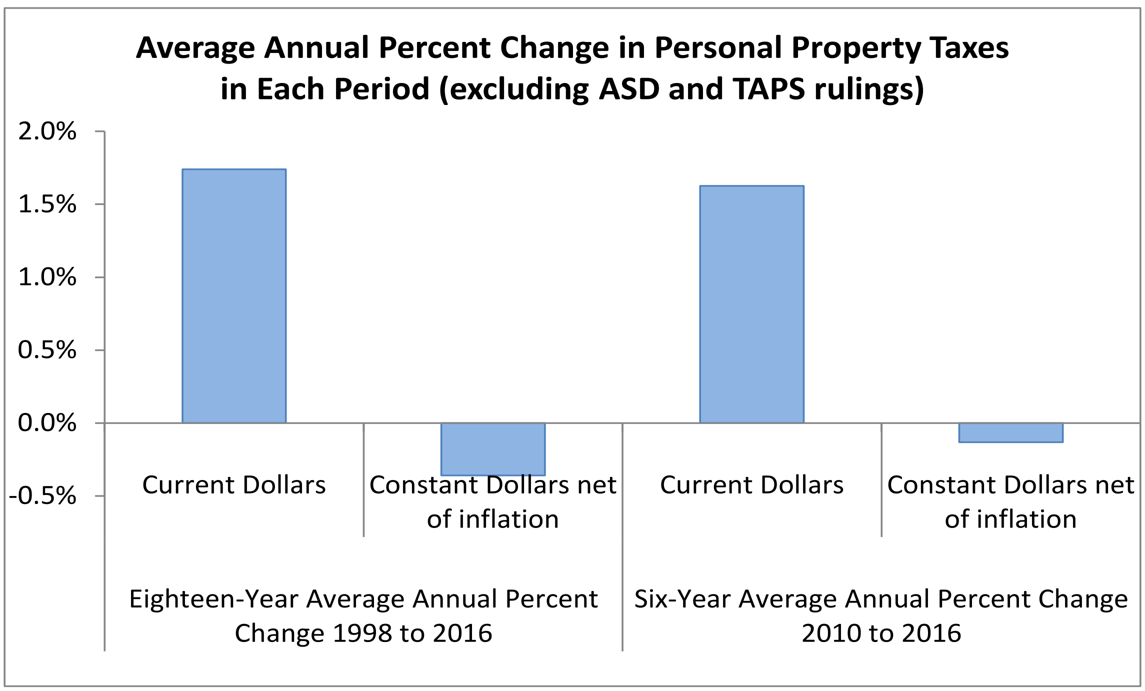
Source: MOA Treasury Division

Personal property tax revenues are variable year to year due to changes in the mill rate and changes in the assessed values of business personal property, state and oil and gas property, and mobile homes. Over the last six years, personal property tax revenues have grown at about the same rate as the long-term trend. The charts below exclude ASD property taxes, the one-time special revenues from the lower court rulings regarding the value of the Trans-Alaska Pipeline in 2010, 2012, and 2013, and the State

Assessor's change to the taxable value of State oil and gas properties in 2014. The court rulings required payments of personal property taxes on State oil and gas properties owned by Alyeska Pipeline.

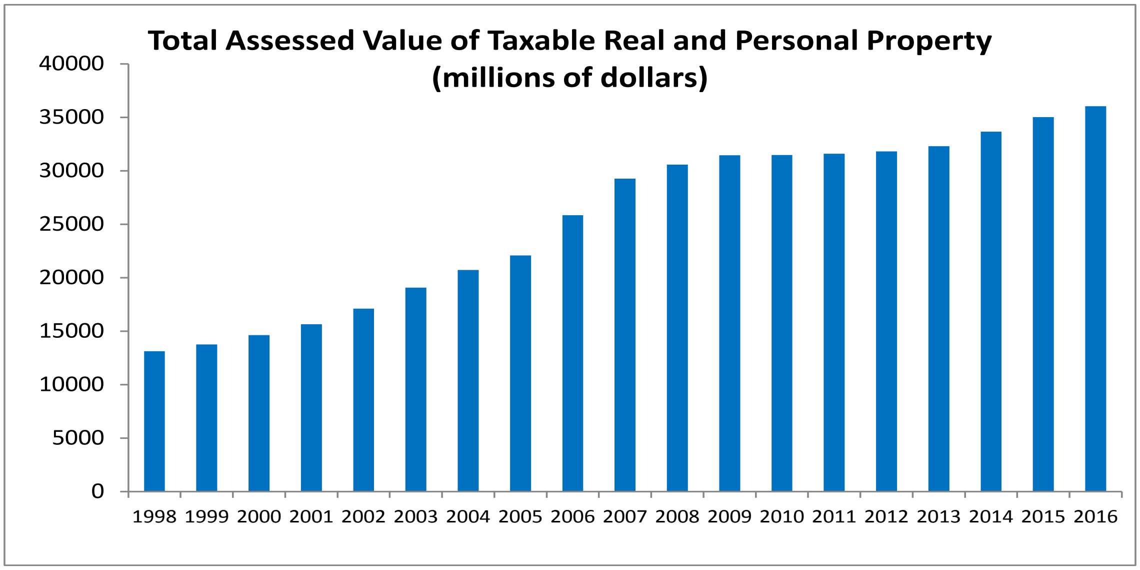


Source: MOA Treasury Division

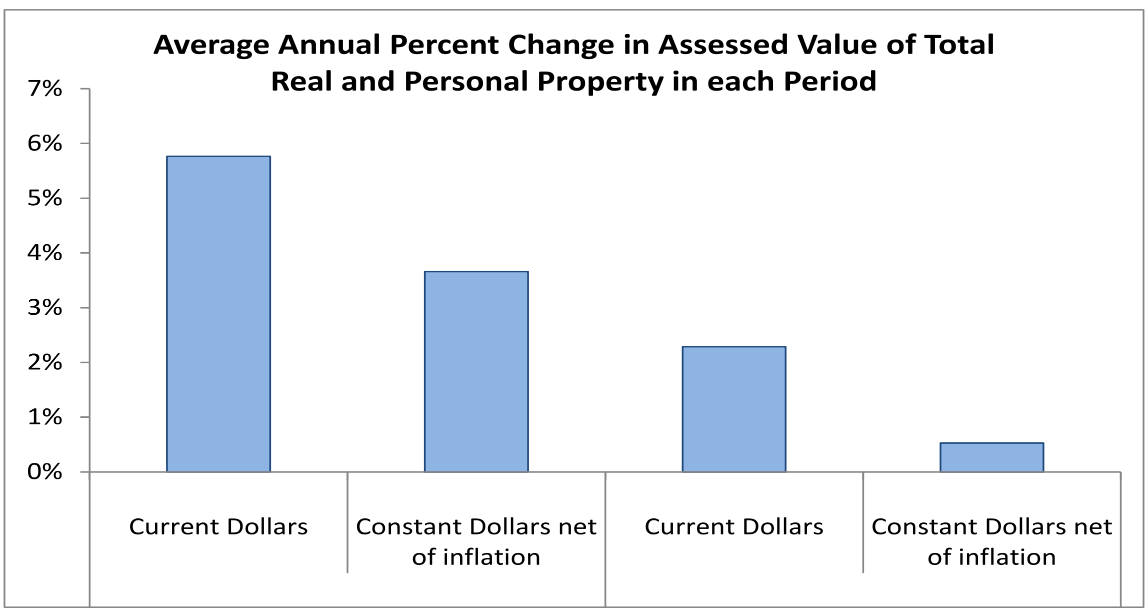


Source: MOA Treasury Division

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 will result 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 remained relatively stable compared to previous years. Taxable value increased in FY 2014 and FY 2015. Property Appraisal currently projects an increase in total taxable property value in FY 2016.



Source: MOA Treasury Division

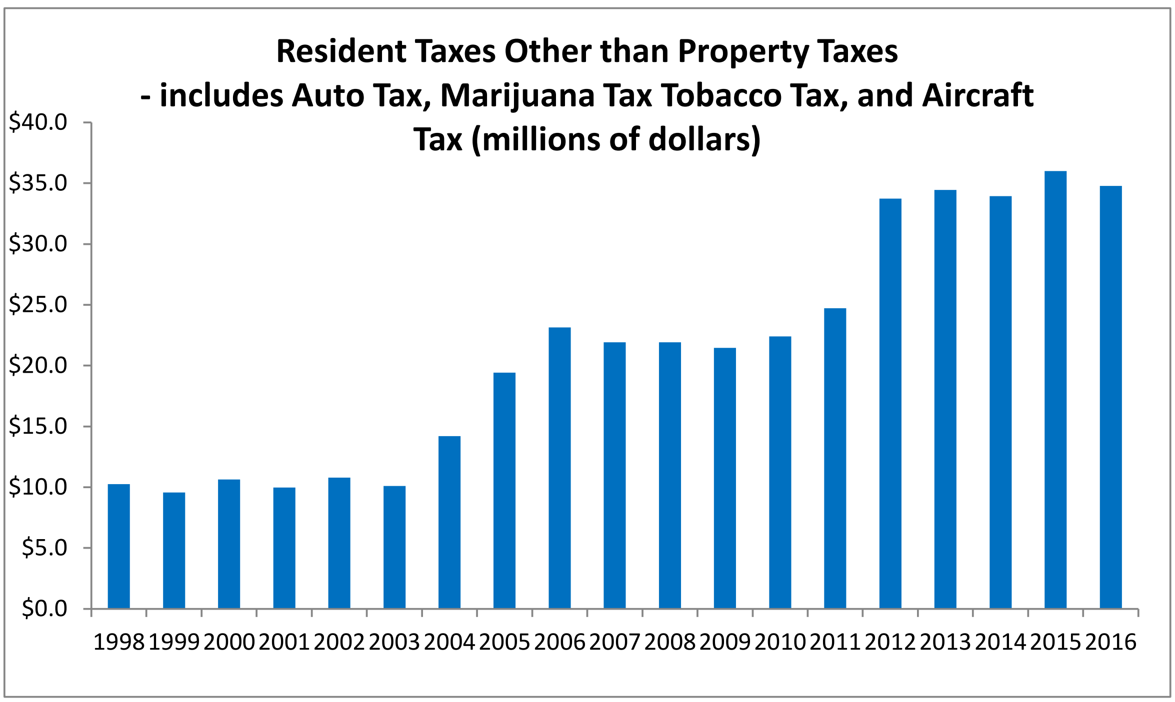


Source: MOA Treasury Division

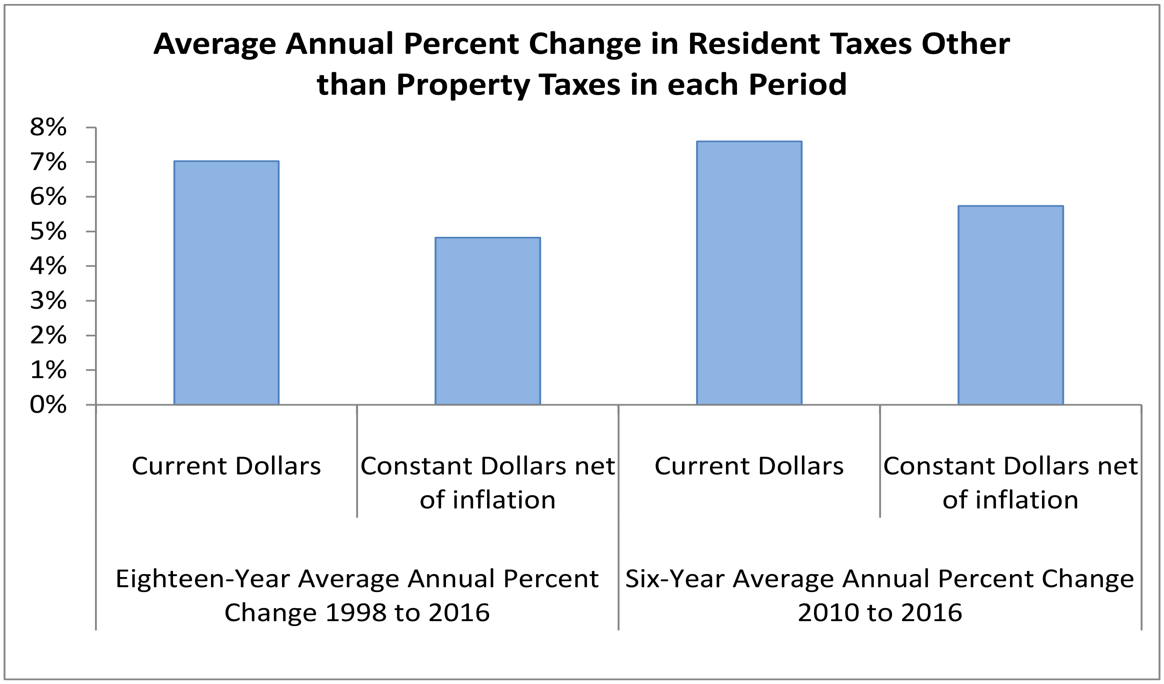
Revenues Determined Primarily by Resident Consumption

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 about 17 percent of the total general government (100 Fund) revenues, excluding ASD property taxes.

Resident taxes, including motor vehicle registration tax, tobacco tax, marijuana sales tax, and aircraft tax are paid primarily by residents of the Municipality. These 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 population over 65, because seniors are eligible to receive an exemption from the registration tax for one vehicle. Tobacco tax revenues are affected by the long-term decline in per capita use of tobacco, substitution to e-cigarettes, and the annual CPI adjustment to the cigarette tax rate. There was an unusual $1.1M increase in tobacco taxes in 2015 because of a one-time restitution payment due to a court ruling against cigarette smugglers. Increases in the motor 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. Marijuana sales tax revenues in FT 2016 are currently expected to be low since there could be only a few months of legal sales near the end of the year, but these revenues are expected to increase in FT 2017 when Marijuana is sold all year.

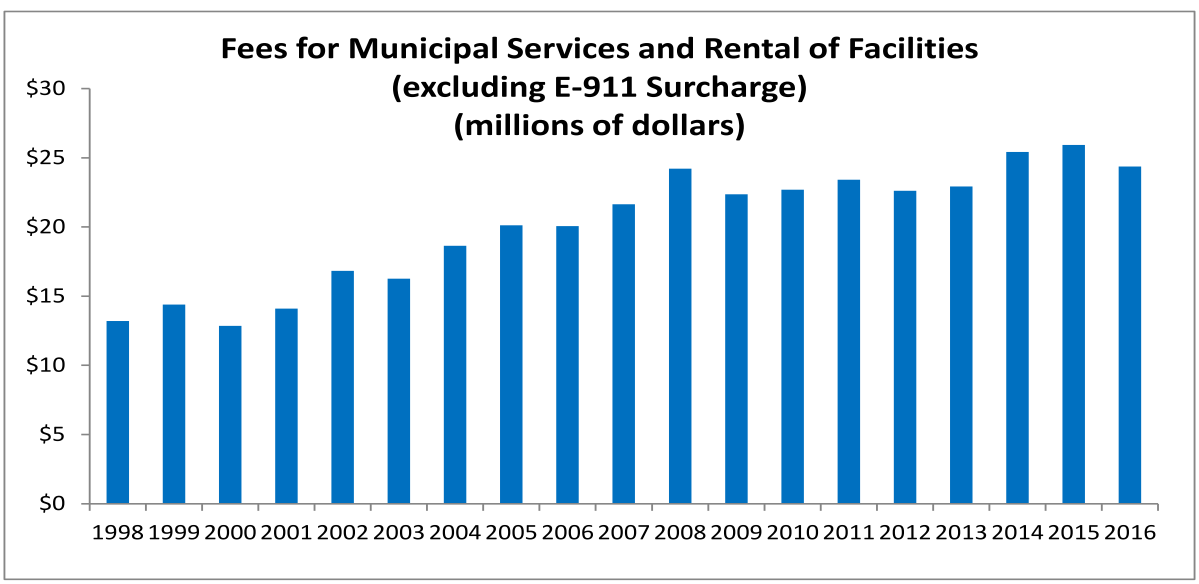


Source: MOA Treasury Division

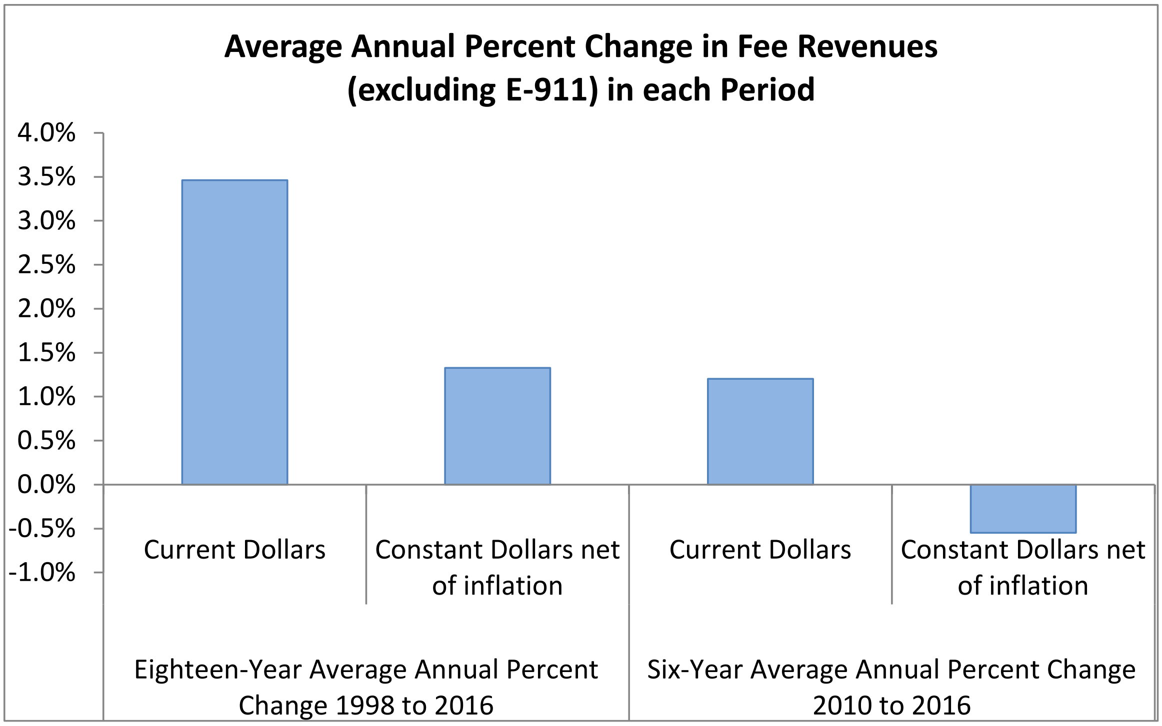


Source: MOA Treasury Division

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 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 to use. Since 2009, fee revenues have increased at a slower annual rate than previous years. The projected decline in fee revenues in 2016 is mostly due to lower ambulance service fees. These fees are lower because of fewer spice-related EMS transports and because more EMS charges are reimbursed through Medicaid, which pays a lower contractual rate for EMS services.



Source: MOA Treasury Division

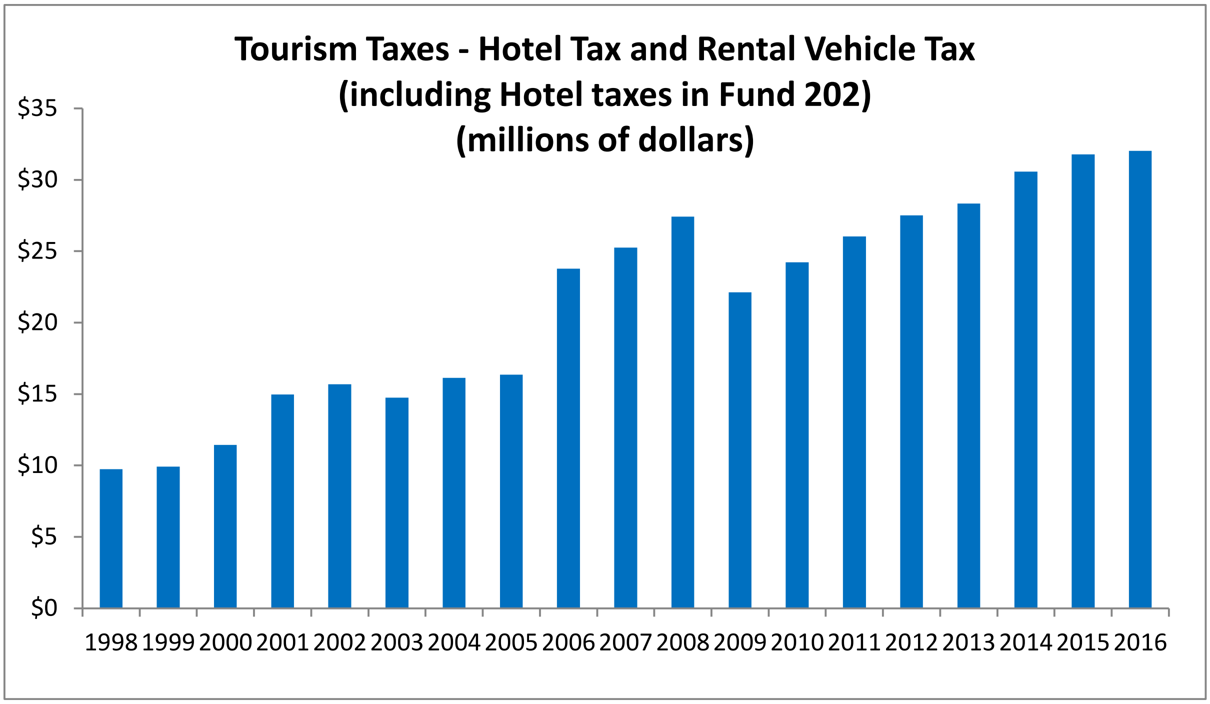


Source: MOA Treasury Division

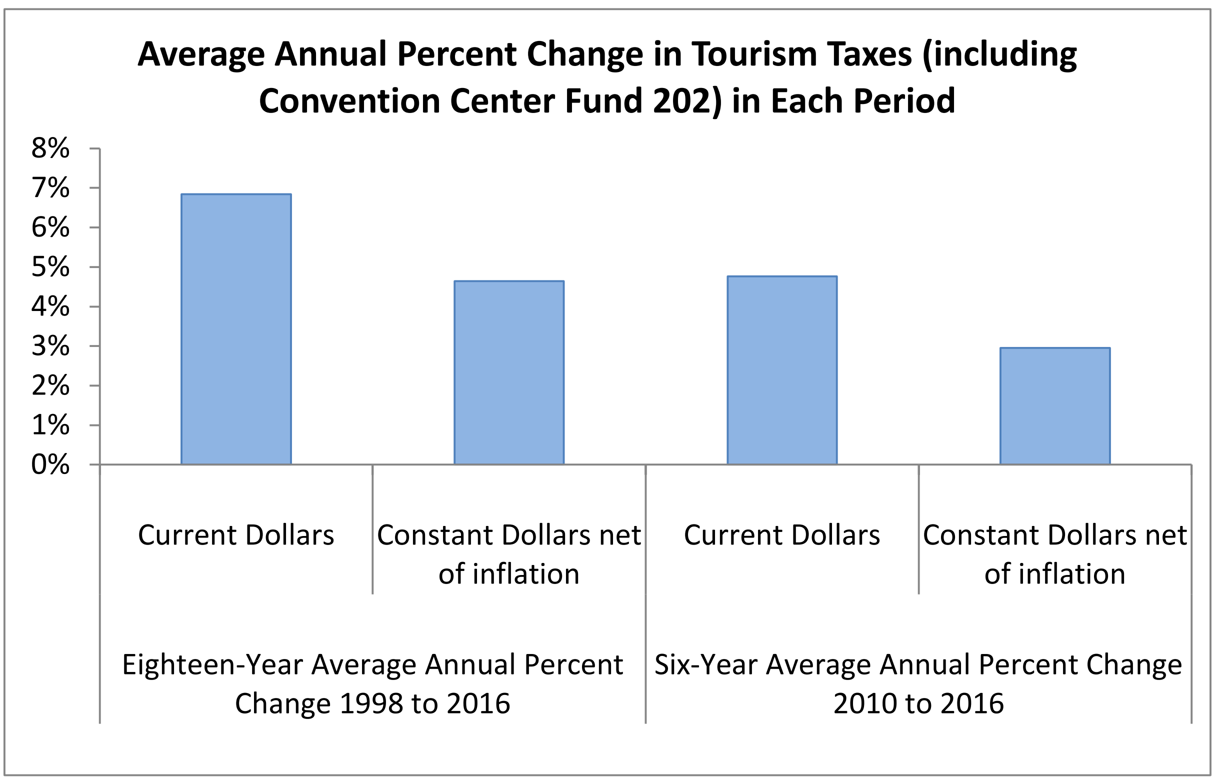
Revenues Determined Primarily by Economic Market Conditions

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 affected by changes in tax rates or permit fees specified in code. These revenues contribute about 7 percent of total general government (series 100 Funds) 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, how long they stay, and the price they pay for a hotel room or rental vehicle. Tourism taxes increased substantially in 2006 due to a tax rate increases, then decreased in 2009 due to the national recession. Tourism taxes gradually recovered the last seven years due to price increases for room rentals at Anchorage hotels and continued growth in the number of visitors coming to Anchorage.

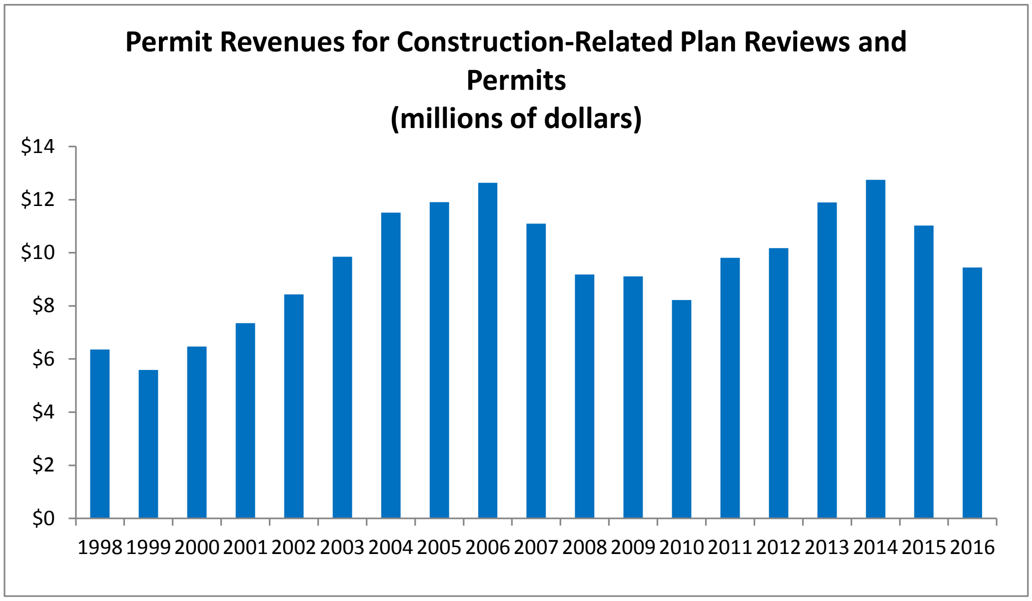


Source: MOA Treasury Division

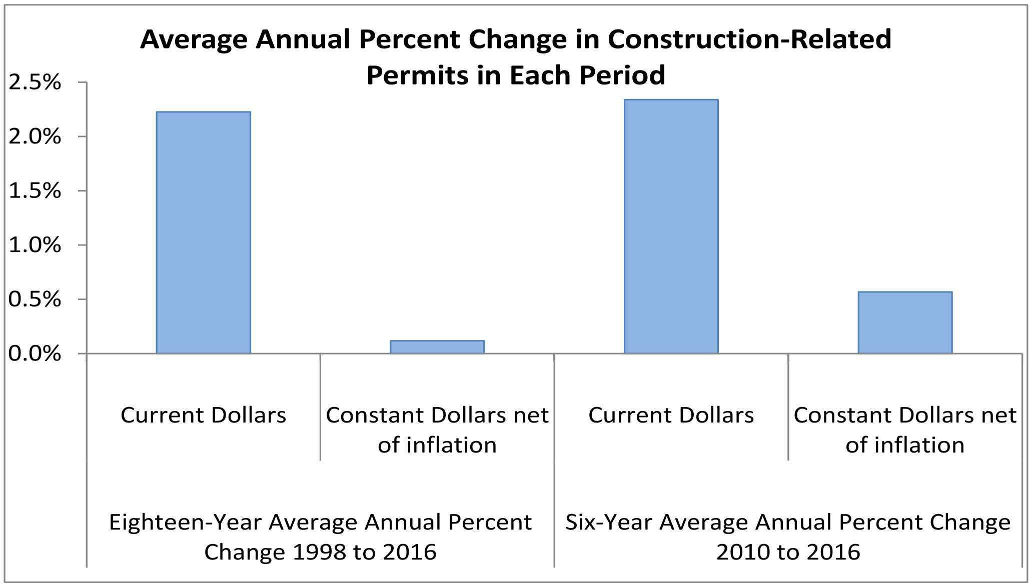


Source: MOA Treasury Division

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 type of construction (residential or commercial), the level of Municipal resources and personnel available to process permits, changes in Code requirements for various permits, and the amount of the fee paid for each type of permit. Revenues increased from 2010 through 2014, but they declined in 2015 and are projected to decline in 2016.

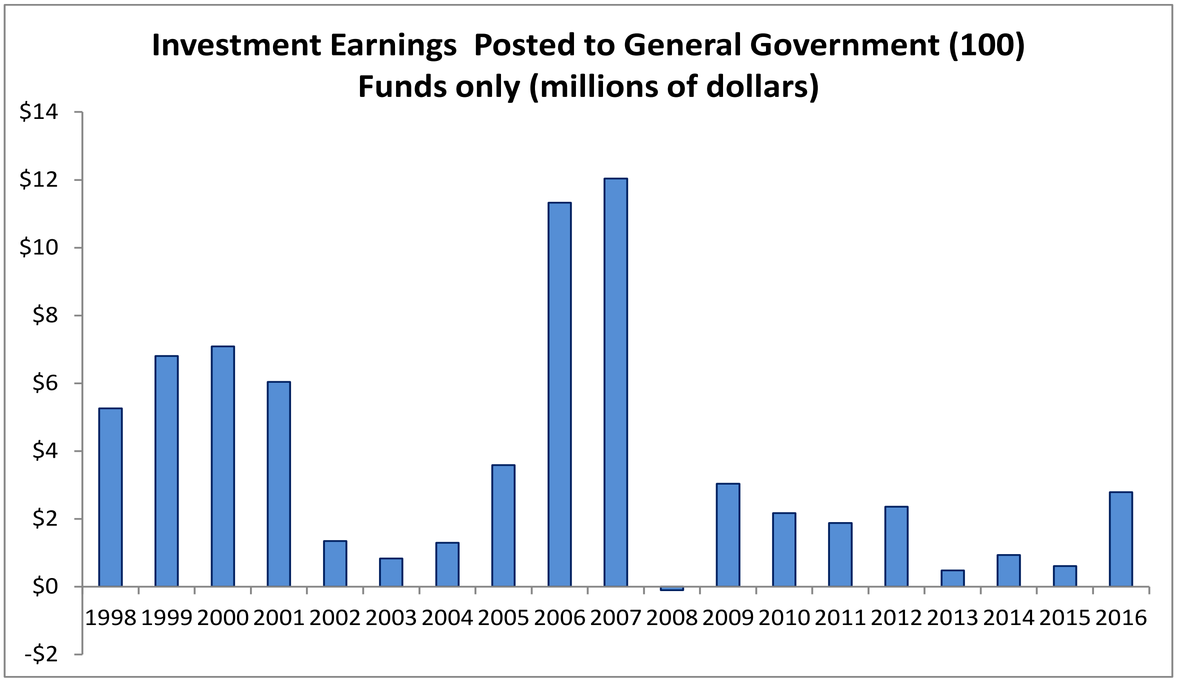


Source: MOA Treasury Division

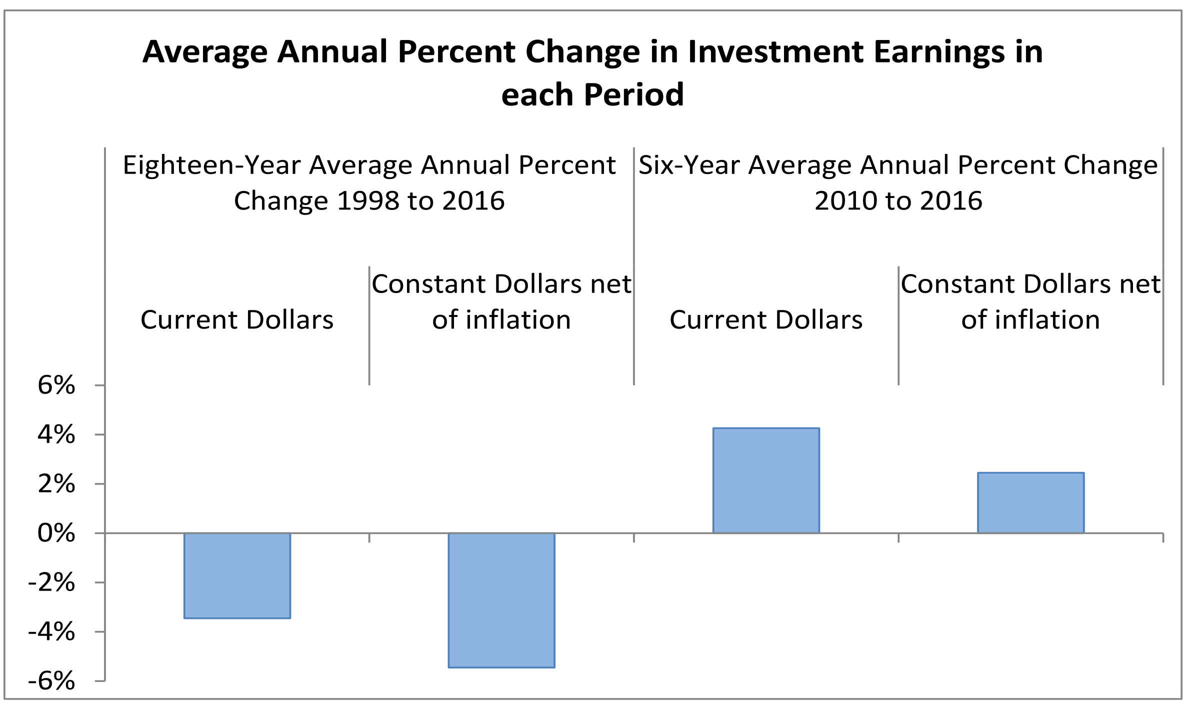


Source: MOA Treasury Division

Investment earnings from the Municipal Cash Pool, 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 Municipal Funds are invested.



Source: MOA Treasury Division

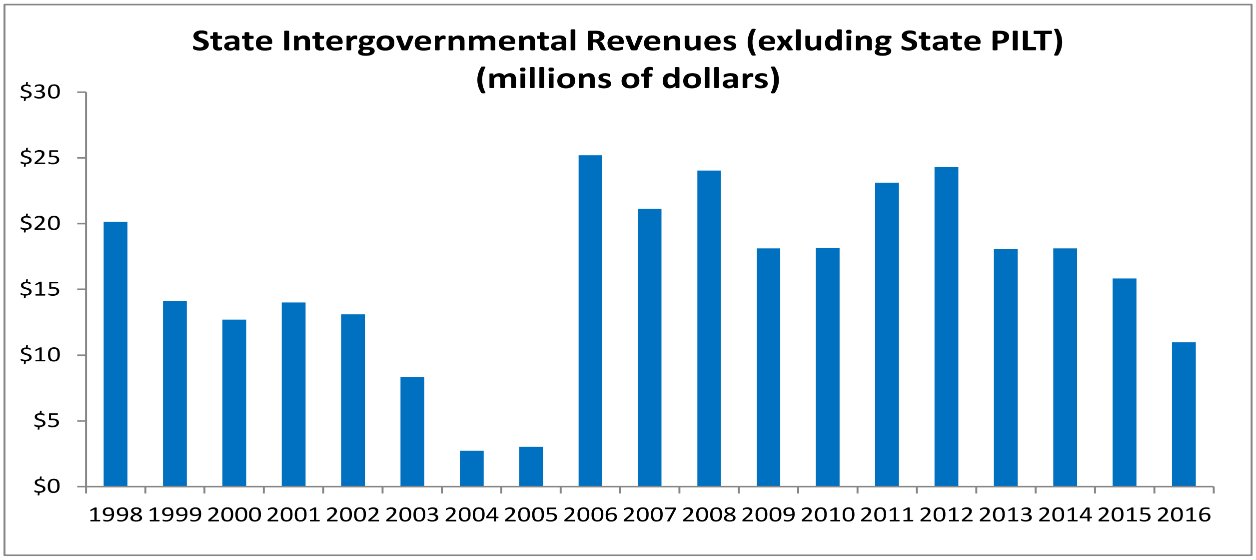


Source: MOA Treasury Division

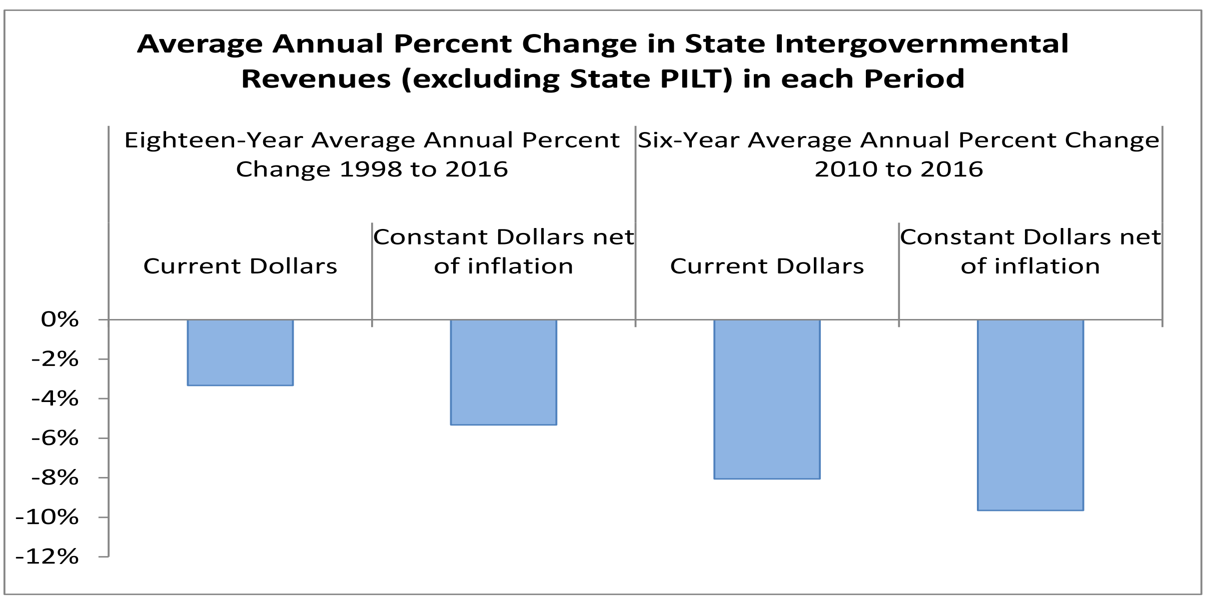
Revenues Determined by Actions of Other Governments

This category includes all State and Federal intergovernmental revenues and State and Federal PILT payments. These revenues contribute about 4 percent of total general government (100) fund revenues.

State Intergovernmental Revenues: Most of the revenues in this category are from the State of Alaska's Municipal Revenue Sharing. The Municipality also receives revenues from the Fisheries Tax, Liquor Licenses, Traffic Signal Reimbursement, and Alaska Housing Finance Corporate PILT payment from the State. These total State Intergovernmental revenues increased substantially in 2006 with higher Municipal Revenue Sharing. Since then, annual State revenues to the Municipality have consistently declined the last two years.



Source: MOA Treasury Division



Source: MOA Treasury Division

MOA Bond Rating

The Municipality currently enjoys the benefits of being a highly rated governmental entity by two rating agencies. The Municipality is rated AAA by Standard & Poor's (S&P) and AA+ by Fitch Ratings. The assignment of these ratings result in a lower 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.

Standard & Poor's

Standard & Poor's (S&P) increased the Municipality's general obligation rating to AAA, highest rating possible by S&P in October 2013. In August 2012, the Municipality's Mayor CFO, along with representatives of the Municipality's financial advisor, First Southwest Company, met in San Francisco with S&P rating analysts. Based upon that comprehensive review of the Municipality's finances, management and the state of Anchorage's economy including Anchorage's relationship to the entire State of Alaska, S&P raised the general obligation rating of the Municipality from AA to AA+.

In S&P's most recent review in October of 2015, the rating analysts noted a general State of Alaska decline in oil revenues and, due to a diminished financial climate, affirmed the AAA rating but reduced the outlook from Stable to Negative

Fitch Ratings

Fitch Ratings' most recent report in October, 2015 affirmed the Municipality's AA+ Rating and Stable Outlook, citing various inherent credit strengths that figured prominently in the rating review process.

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 percent of prior year revenues to 10 percent of current year revenues. The Assembly approved elimination of the Operating Emergency Reserve of 2.55 percent and replacing it with a Working Capital Reserve in a range of 2.00-3.00 percent of current year's revenues in the five major funds. In August 2014, the Municipality changed the Fund Balance calculation methodology from a "percent of current year revenues" to a "percent of current year expenditures." This methodology more closely matches the fund balance calculation methodology used by Fitch and S&P.

4. Capital Projects

Capital Projects requests from federal, state, and local sources will focus on roads, parks, municipal facilities upgrades, public transportation, and public safety.

With low oil prices reducing the amount of state funds available to improve local and state owned facilities and infrastructure, Anchorage must invest in its roads, parks and facilities.

In 2016 and 2015, state capital funding in Anchorage was $0 dollars, down from $80 million in 2014 The Municipality of Anchorage can continue to expect decreasing availability of funding support from outside sources so other local funding sources will need to be considered, with the objective of maintaining positive bond ratings. Bond funds will be used as leverage for matching non-local dollars where reasonable. The Administration will continue to seek favorable debt refunding opportunities to decrease future debt service obligations.

The Mayor will invest in our community, existing infrastructure, and focus on improvements that promote development in our economy. The following chart shows the estimates of the effect of the 2017 Proposed General Government CIP projects on maintenance, operation, and personnel costs:

2017 - 2022 Capital Improvement Program
Operations & Maintenance Estimate

(In Thousands)

Department	2017	2018	2019	2020	2021	2022	Total
Fire	2,310	2,310	2,310	2,310	2,310	2,310	13,860
Library	-	545	749	-	-	-	1,294
Maintenance & Operations	-	30	152	185	204	206	777
Parks & Recreation	316	316	316	316	316	316	1,896
Total	**2,626**	**3,201**	**3,527**	**2,811**	**2,830**	**2,832**	**17,827**

SIX-YEAR FISCAL PROGRAM
PROJECTIONS OF FUNDING SOURCES & USES ($ Thousands)
2017 to 2022

	Total Budget	Proposed Budget	Projections									
Funding Sources	2016	2017	2018		2019		2020		2021		2022	
Federal Revenues	830	844	830	-2%	792	-5%	751	-5%	707	-6%	708	0%
State Revenues	12,341	7,611	7,617	0%	7,648	0%	7,680	0%	7,712	0%	7,745	0%
Local Revenues	152,927	157,268	158,276	1%	159,268	1%	160,285	1%	161,327	1%	162,393	1%
Property Taxes	229,566	234,562	240,307	2%	246,172	2%	252,901	3%	261,511	3%	272,506	4%
Property Taxes - GO Bond Debt Se	55,015	54,879	58,747	7%	62,562	6%	64,806	4%	57,652	-11%	56,608	-2%
New Revenues			3,044	100%	3,194	5%	3,359	5%	3,534	5%	3,694	5%
Fund Balance Applied	9,334	9,743	2,000	-79%	2,052	3%	2,105	3%	2,160	3%	2,216	3%
IGCs Outside General Gvt.	36,731	37,440	39,574	6%	40,572	3%	41,755	3%	42,806	3%	43,885	3%
Total Funding Sources	496,745	502,347	510,395		522,260		533,642		537,408		549,755	
Change from prior year	4.4%	1.1%	1.6%		2.3%		2.2%		0.7%		2.3%	
Funding Uses												
Salaries and Benefits	273,396	282,094	292,346	3.6%	298,687	2.2%	304,893	2.1%	311,584	2.2%	318,493	2.2%
Debt Service	56,655	56,774	58,890	3.7%	62,650	6.4%	64,843	3.5%	57,659	-11.1%	56,615	-1.8%
Depr/Amort	1,205	4,762	9,061	90.3%	9,061	0.0%	9,645	6.4%	9,645	0.0%	9,645	0.0%
Other	165,490	158,715	163,830	3.2%	168,170	2.6%	172,628	2.7%	177,169	2.6%	181,715	2.6%
Total Funding Uses	496,745	502,347	524,128		538,568		552,010		556,058		566,468	
Change from prior year	4.1%	1.1%	4.3%		2.8%		2.5%		0.7%		1.9%	
Revenues Over/(Under) Expenditures	(0)	0	(13,732)		(16,308)		(18,367)		(18,649)		(16,713)	

Projections - Overall Assumptions 2018-2022

Population - declining in 2017, same level in 2018, increase in 2019 (per AEDC), increasing by same 0.2% in 2020 and 2021.
CPI - 2.3% in 2017 and 2.6% annual growth thereafter (per CMS.gov projection).

Funding Sources

Federal Revs - down due to reduced BABS subsidy on build America bonds.
State Revs - Revenue sharing stable at $4.5M in 2018 and beyond.
Local Revs - Increasing by 1% per year.
Property Taxes - Tax to the Cap all years, construction at same level in 2017 and 2018 and growth in 2019 (per AEDC)
Property Taxes - Assumes O&M at same rate ad 2017 Proposed.
New Revenues - AWU dividend ~$3M in '18 per 8-Year Fiscal Plan

Funding Uses

Salaries and Benefits - current contract increases then 1.5%
Salaries and Benefits - Medical per CMS.gov projection.
Salaries and Benefits - Does not include any impact for Cadillac Tax that will go into effect in 2020.
Debt Service - assumes current principal pay down each year
Other - Increasing by CPI.