SIX-YEAR FISCAL PROGRAM

2018 – 2023

Municipality of Anchorage

Ethan Berkowitz

Mayor

October 2, 2017

MUNICIPALITY OF ANCHORAGE

Six-Year Fiscal Program
2018 – 2023

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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, 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

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Six-Year Fiscal Program

2018 – 2023

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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

Halfway through 2017 it is evident that Anchorage's economy, as measured by total employment, continues to retreat from its 2015 peak. The latest available estimates place Anchorage employment down about 3 percent over the past two years, with the professional and business services, oil & gas, construction, and state government sectors continuing to bear the brunt of local job losses.

While the near-term employment picture remains troubling, there is little evidence of significant weakness in the real estate market, where communities often feel the most pain from recession. Housing prices are stable and the foreclosure rate is below national averages. In addition, while inching upward, unemployment rates in Anchorage remain at reasonable levels. Further, the most recent labor force data sets actually show that more Anchorage residents are employed in 2017 than in 2016.

It is clear that Anchorage has experienced a significant economic downturn and that further trouble probably lies ahead. There is evidence, however, that the worst may be over. Oil industry employment in Anchorage appears to have stabilized with no change over the first five months of 2017 compared to the same period in 2016. Additionally, the latest available data indicates year-over-year employment losses in other sectors are moderating.

In considering the condition of Anchorage's economy, a broad, long-term perspective is important. Reasonable observers have noted that the 2010 to 2015 run-up in employment was a bubble in the Anchorage economy driven largely by high oil prices and related capital spending. Now the economy is moving toward a new normal where oil money doesn't flow as freely and economic growth is driven by a more balanced set of engines.

In the meantime, the importance of a long-term State fiscal plan along with consistent and competitive tax policy cannot be overstated. This is critical to oil industry investment and to other business development in Alaska as well. Uncertainty around what the future may hold for corporate and consumer taxes in Alaska is keeping investment dollars on the sidelines. With the right fiscal policy our 61 elected individuals at work in the capitol have the ability—to a large degree—to spur investor confidence and turn the economy around.

Each year the Anchorage Economic Development Corporation (AEDC) offers the community its near-term perspective on the Anchorage economy. Relying on a variety of data sources and interviews with key industry representatives, the outlook considers population, employment, personal income, air passenger and cargo volumes, Port of Anchorage volume, building permit values, single-family home prices, new housing units, bed tax, car/RV tax revenue, and oil prices.

Population

The next official population estimate for Anchorage won't be released until early 2018. Until then, declining total employment accompanied by an increase in the housing vacancy rate suggests some population decline can be expected in 2017. A relatively healthy national economy (with the U.S. unemployment rate at its lowest since 2001), coupled with recession in Alaska will result in some population decline in Anchorage. The latest data sets indicate net out-migration is occurring, but natural increase (more births than deaths) has offset the outflow. In 2016, Anchorage experienced a slight uptick in population of 0.1 percent while employment fell by 1.9 percent.

AEDC anticipates Anchorage's population count for 2017 will come in at around 297,500. Some additional loss is anticipated for 2018 (down another 1,000 residents), before leveling off in 2019 and 2020, as the local economy finds a more solid footing.

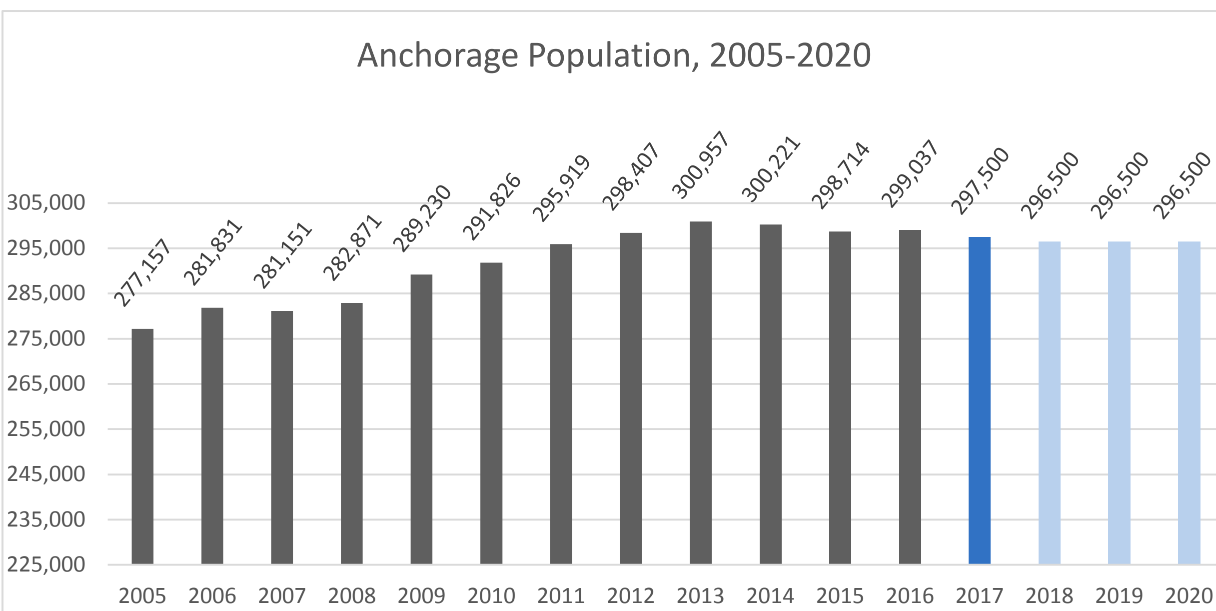
Other population-related trends include:

- Between 2015 and 2016, change in Anchorage's population included 4,572 births, 1,673 deaths, and net out-migration of 2,578 residents.

- Between 2010 and 2015 an annual average of 25,608 individuals migrated into Anchorage and 27,629 residents migrated out. The cohort most likely to migrate into and out of Anchorage was between 25 and 29 years of age. For every resident over 60 that moves into Anchorage an average of 2.3 residents of the same age moved from the city.

- The Mat-Su Valley continued to exhibit strong population growth in 2016, increasing 2.6 percent or 2,646 residents over 2015. During this time, at least 1,889 Mat-Su residents moved into Anchorage and 3,196 Anchorage residents moved to the Mat-Su.

- Consistent with state and national trends, Anchorage's population is aging. The current average age for residents is slightly more than 34 years of age. The average age of an Anchorage resident expected to rise to 36 by 2025. Comparatively, the average age of an Anchorage resident in 1980 was 26.



Source: Alaska Department of Labor and Workforce Development (2005-2016), McDowell Group estimates (2017-2020).

Employment

As noted in AEDC's January jobs forecast, continuing weakness is expected in the construction, professional services, oil & gas, retail sectors and state government. These declines will be partially offset by growth in the healthcare and leisure & hospitality sectors. Altogether, the Anchorage economy is expected to shed another 2,100 jobs in 2017, a 1.4 percent decline from 2016. Looking ahead, AEDC expects additional losses of 700 jobs (0.5 percent) in 2018, with employment stabilizing in 2019. A return to growth is anticipated in 2020 with a slight gain of 700 jobs (0.5 percent).

- In 2016, average wage and salary employment in Anchorage fell to 153,079, a loss of about 3,000 jobs (1.9 percent) from 2015.

- Through the first five months of 2017, Anchorage employment is down 1.8 percent over the same period in 2016, indicating year-over-year losses are continuing into this year. However, AEDC expects the loss to moderate in the second half of the year.

- The oil industry responded quickly to the precipitous oil price decline with job cuts. In 2016, oil & gas sector employment in Anchorage fell to an annual average of 2,900, a decline of 850 jobs (22 percent) from 2015. Preliminary data for the first half of 2017 indicate employment in this sector has stabilized. While employment stability in Alaska's oil & gas industry would be good news, we are missing out on the national industry turnaround. In mid-July about 950 oil and gas drilling rigs across the United States were active, more than double the count from last year. Over this period, active rigs in Alaska declined from seven to six.

- Though direct employment is down, the oil and gas industry remains an integral part of the local economy, accounting for more than 28,000 jobs, including all direct, indirect, and induced effects (but not counting state spending of oil tax revenues).

- Construction employment in 2016 averaged 7,400 jobs, approximately 900 fewer than 2015 (11 percent). Reduced residential construction, State capital projects, and oil & gas-related construction will hold down construction employment in the near-term. While federal defense and highway infrastructure funding is likely to remain stable or increase somewhat, it will not fully offset other losses in this sector. Data through the first half of 2017 show continued employment declines in this sector. AEDC expects construction employment to bottom in 2018.

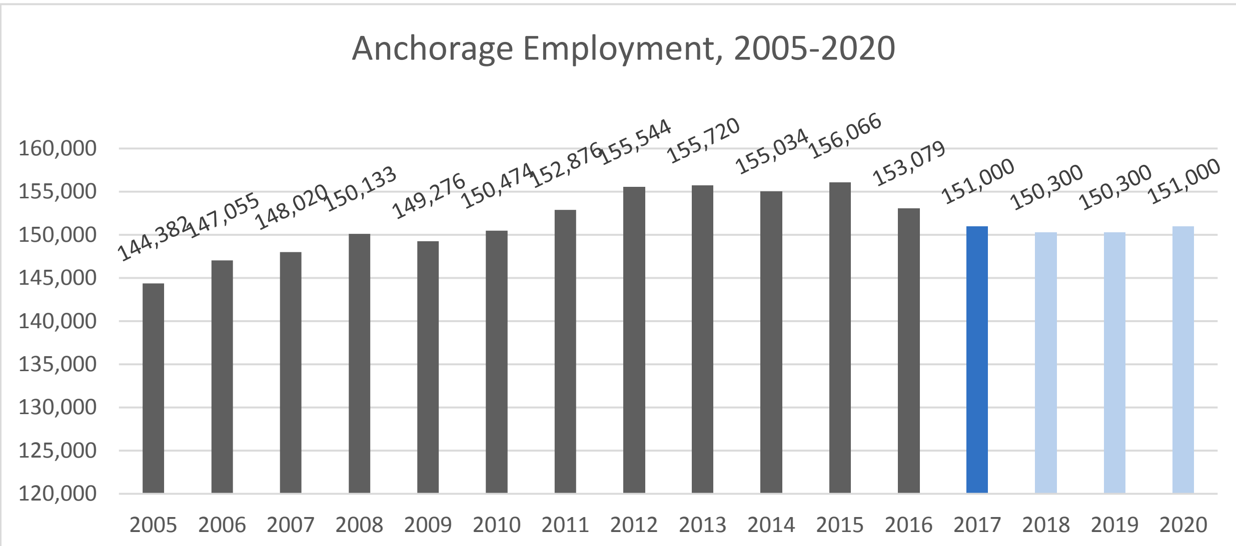
- Professional and business services accounted for about 18,200 jobs in 2016, 1,500 fewer (7.5 percent) than in 2015. This sector has given back much of the substantial oil revenue-generated gains experienced over the 2010 to 2015 period. Preliminary 2017 data show job losses are slowing, suggesting this sector may be approaching a more sustainable level of employment.

- In 2016, healthcare employment in Anchorage averaged nearly 19,900, 800 more jobs (4.0 percent) than 2015. Data for the first half of 2017 show growth in this sector is continuing. While changes to the Affordable Care Act, particularly in Medicaid funding, create uncertainty, AEDC expects this sector to remain a source of growth.

- State government employment in Anchorage declined by 400 jobs (3.8 percent) in 2016 to about 10,200 jobs. Data for the first five months of 2017 indicate State employment continues to decline slowly, with operating budget cuts bringing further declines.

- Anchorage's retail sector employment softened slightly in 2016, losing 300 jobs (1.4 percent) and ending the year with an average of 17,800 jobs. Preliminary 2017 data indicate further employment losses compared to the same period in 2016, as the sector continues to be challenged by reduced consumer spending. It is worth noting that some changes in Anchorage retail employment are the result of national retailers' shifting corporate strategies, and not connected with local business conditions. In any case, the higher-than-average median wages and household incomes in Anchorage continue to attract the attention of national chains. Marshals and Duluth Trading Company are expected to open stores in Anchorage in 2017.

- The leisure and hospitality sector—including hotels, restaurants, and bars—averaged 17,400 jobs in 2016, up 200 (1.2 percent) from 2015. Strong visitor activity has sustained this sector, offsetting reduced business and government spending on travel. Preliminary data for the first half of 2017 indicate some continuing growth in the sector.



Source: Alaska Department of Labor and Workforce Development (2005-2016), McDowell Group estimates (2017-2020).

Personal Income

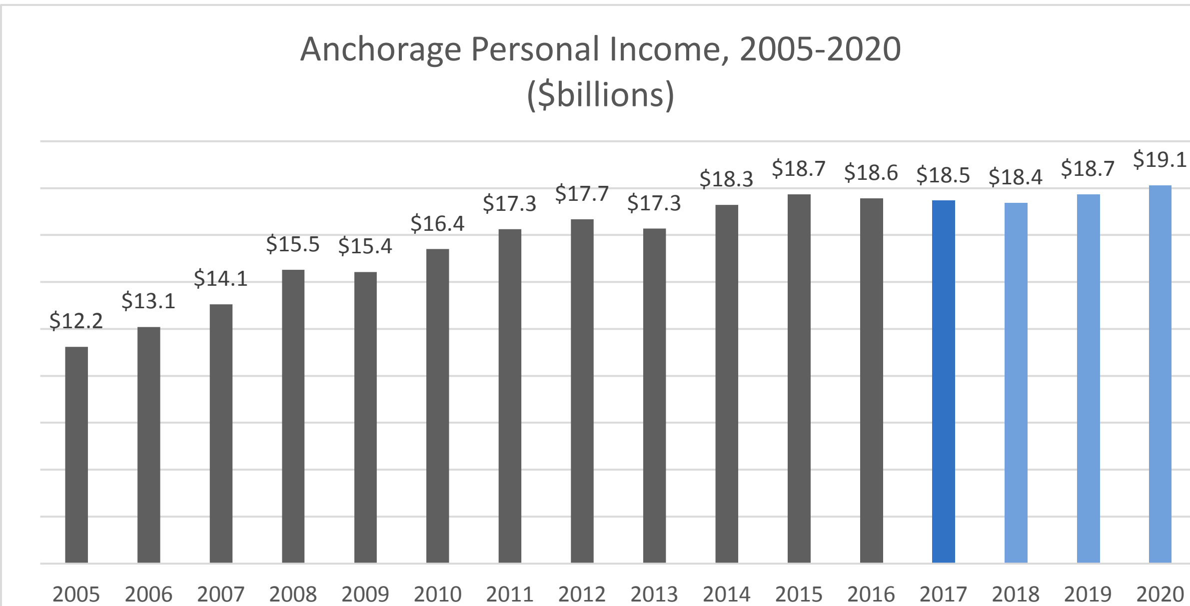
In 2016, total Alaska personal income declined by about 1 percent, according to the Bureau of Economic Analysis. Though Anchorage specific data is not yet available, the city likely experienced a similar decline. Total Anchorage area wages fell 3.8 percent in 2016 versus 2015 and the 2016 PFD that was about half the 2015 dividend.
Some additional decline (0.5 percent) in personal income is expected in 2017, as total wages continue to trend down (thought the 2017 PFD should be at about the 2016 level). Personal income in 2018 is expected show a similar decline as 2017, with slow growth (2 percent) returning in 2019 and 2020.

- In 2015 (the most recent data available), Anchorage residents generated $18.7 billion in personal income (the sum of wages and benefits, investment income, and government transfers).

- Wages and benefits (including proprietor income) of $12.8 billion accounted for 68 percent of the total. Investment income (including dividends, interest, and rents) equaled

$3.2 billion (17 percent of the total) and government transfers (including Social Security, veterans' and unemployment benefits, among others) accounted for $2.7 billion (14 percent of the total).

- From 2005 to 2015, personal income of Anchorage residents increased by an annual average of 4.4 percent. Over the same period, total Alaska personal income growth averaged 4.9 percent and the national average was 3.9 percent.
- The annual Permanent Fund Dividend payment is typically one of the largest government transfers Anchorage residents receive each year. In 2016, the $1,022 payment was worth nearly $300 million to residents.



Source: Bureau of Economic Analysis, (2005-2015), McDowell Group estimates (2016-2020).

Anchorage International Airport Passenger and Freight Volume

The Ted Stevens Anchorage International Airport (ANC) is a critical component of the Anchorage economy. When last measured (in 2012) the airport was responsible for 16,000 Anchorage area jobs. Located less than 9.5 hours from most of the industrialized world, the airport is regularly in the top ten global airports in terms of landed air freight. In addition, each year millions of passengers move through the facility, departing to or arriving from international, domestic, and intrastate destinations. Airport operations support significant economic activity within Anchorage and are an important indicator of visitor industry activity and business and consumer confidence.

Air Passenger Volumes

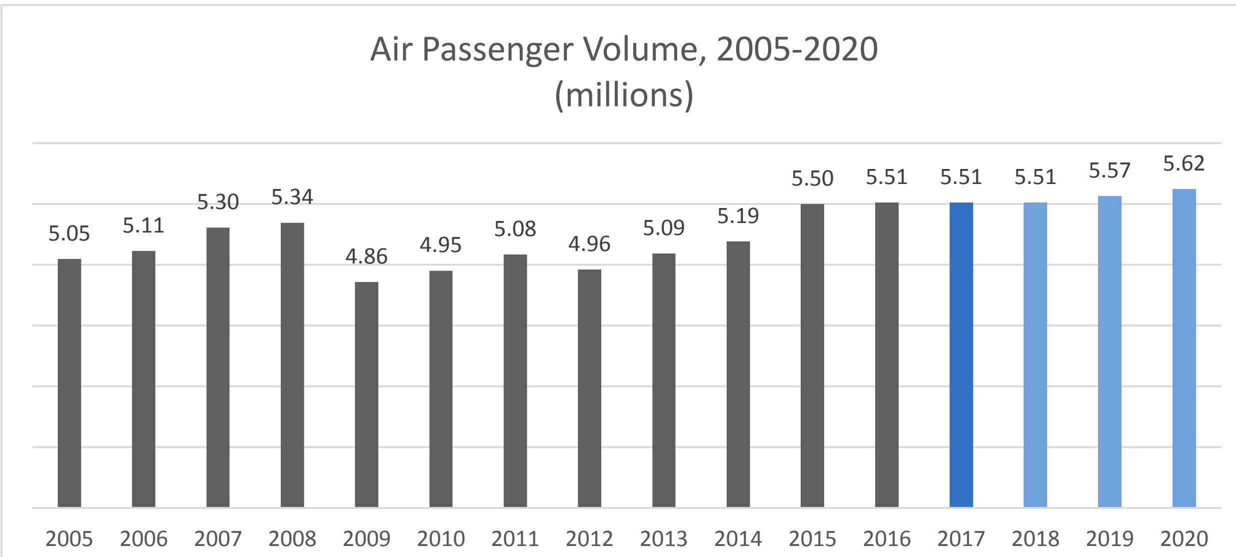
AEDC anticipates 2017 passenger volumes to end the year at a level similar to 2016. No change is anticipated for 2018, and slight growth (1.0 percent) is expected for 2019 and 2020. While a stable visitor industry will support passenger volumes, reduced oil & gas, state government, and resident leisure travel may limit growth.

- A record-breaking 5.5 million passengers enplaned, deplaned, or transited ANC in 2016, a level slightly higher than 2015. Approximately 2.7 million passengers enplaned and deplaned and a small amount (~23K) of passengers transited the airport.

- June, July, and August are the busiest months of the year for passenger volume, typically doubling the volume of February, the slowest month of the year.

- In the first five months of 2017, ConocoPhillips flight services flew 43,417 passengers from Anchorage to the North Slope, a decline of 11 percent over the same period in 2016.

- For the first five months of 2017, ANC observed passenger traffic of 1.9 million, an amount nearly identical to the same period in 2016.



Source: State of Alaska Department of Transportation (2005-2016), McDowell Group estimates (2017-2020).

Air Freight Volumes

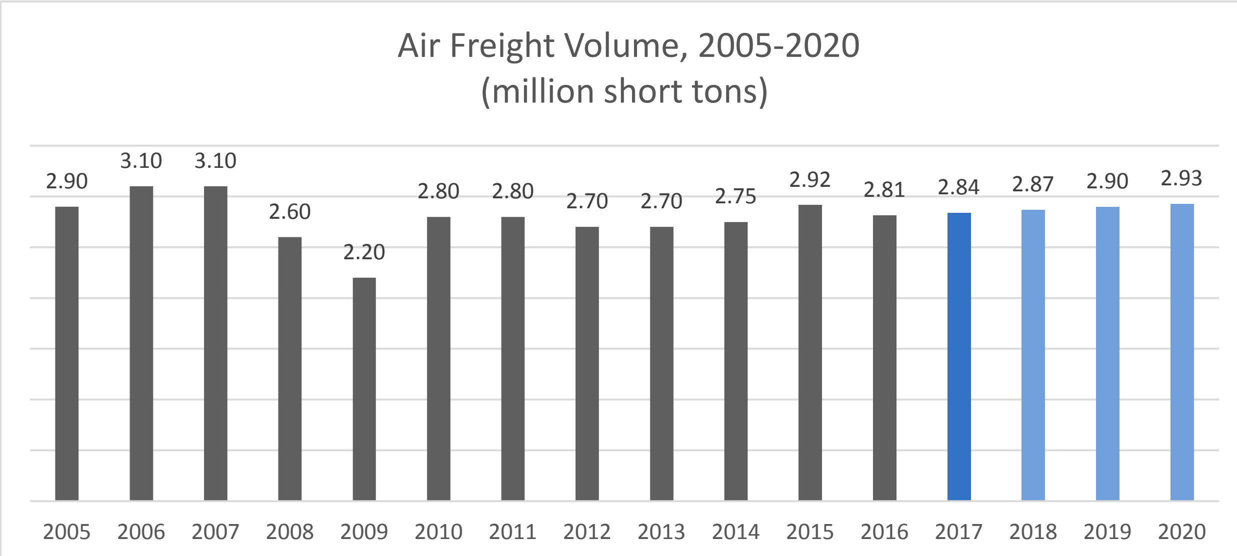
Supported by a strong domestic and global economy, AEDC anticipates air freight volumes in 2017 to be slightly greater (1.0 percent) than 2016. Absent significant global economic shocks, annual growth of 1.0 percent is anticipated through 2020.

- In 2016, ANC air freight (including enplaned, deplaned, and transit cargo) totaled 2.81 million tons, a 3.5 percent decline from 2015.

- Transited air cargo—the largest component of total tonnage—accounting for 2.12 million tons in 2016, or 75 percent of the total. Enplaned freight accounted for 360,000 tons (or 13 percent of the total) and deplaned freight contributed 335,000 tons (or 12 percent of the total).

- Data for the first five months of 2017 indicate total freight tonnage is up 5.0 percent over the same period in 2016. The transited category grew 6.6 percent and deplaned freight expanded 2.4 percent. Enplaned freight was down 1.5 percent.

- A strong domestic economy and improving global economic growth will support air cargo traffic through Anchorage. The World Bank is forecasting annual global economic growth of 2.7 percent for 2017 and 2.9 percent through 2019.



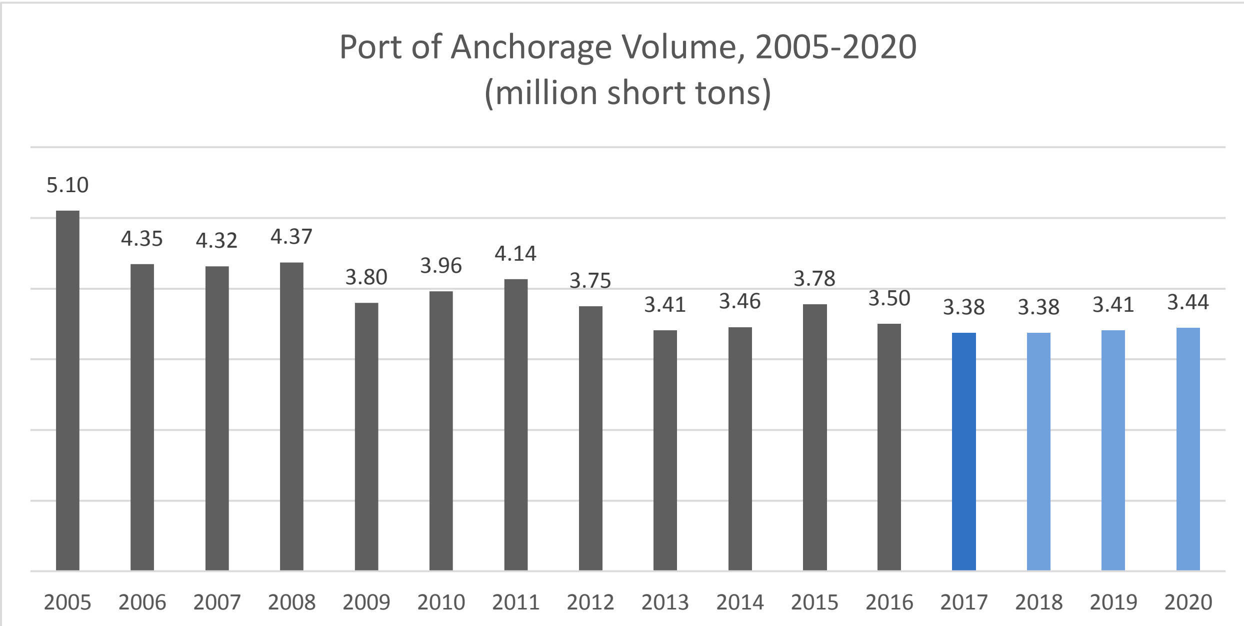
Source: State of Alaska Department of Transportation (2005-2016), McDowell Group estimates (2017-2020).

Port of Anchorage Freight Volume

Due primarily to reduced consumer spending, AEDC anticipates a decline (3.5 percent) in freight volume moving through the Port of Anchorage (POA) in 2017, then leveling off in 2018. Slight growth (1.0 percent) is anticipated in 2019 and 2020 as the economy stabilizes and consumer confidence returns.

- In 2016, tonnage through the Port of Anchorage declined by 7.3 percent against 2015, from 3.78 million tons to 3.50 million tons. Vans, flats, and container volume fell 5.8 percent and petroleum volume slipped 9.0 percent.
- While declining year over year, petroleum volume in 2015 was an outlier, boosted by maintenance work at Tesoro's Kenai refinery which shifted shipments to the port via barge instead of the Kenai-Anchorage pipeline.
- In 2016, petroleum composed 51 percent of total tonnage. Vans, flats, and containers accounted for 45 percent and cement totaled three percent. All other cargo composed less than one percent.
- For the first half of 2017 total volume at the port was lower than the same period last year. Like 2016, 32 tankers and 4 cement vessels are expected to call on the port in 2017.
- Imported jet fuel has become a significant source of POA petroleum tonnage. Looking ahead, the demand for jet fuel will be a function of flight operations by the military and ANC, offset in part by use of more fuel-efficient planes. A decade ago, about 900 million gallons of jet fuel was used annually at ANC; approximately 600 million gallons were used in 2016.

- Factors contributing to the decline in cargo volume include reduced construction activity, declining household spending, and a generally lower level of economic activity throughout the Railbelt region.



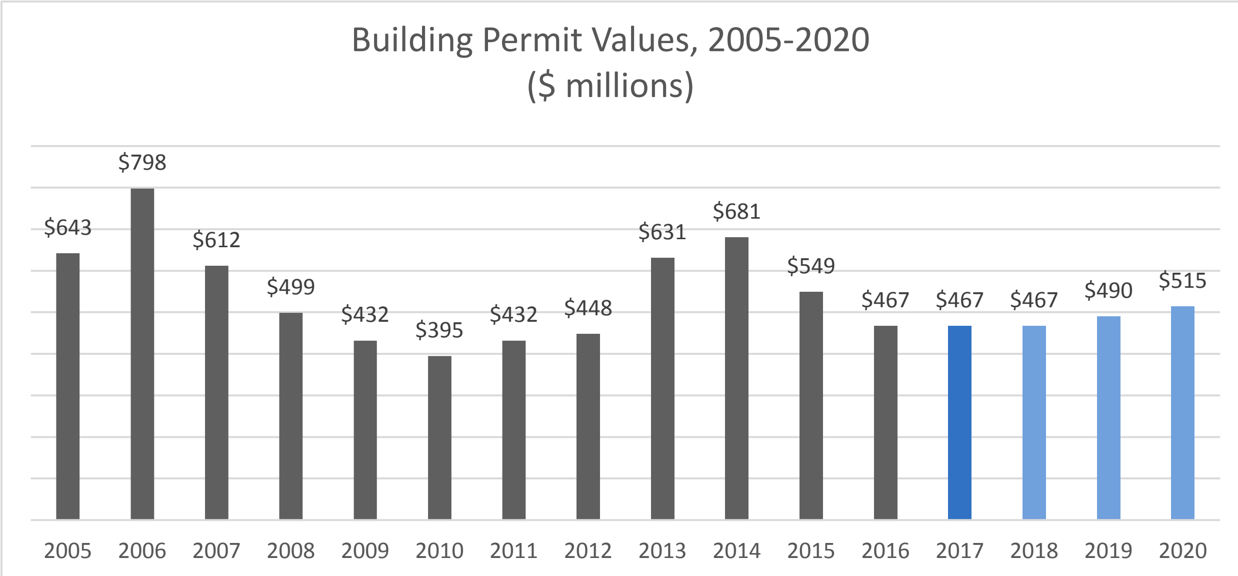
Source: Port of Anchorage (2005-2016), McDowell Group estimates (2017-2020).

Building Permit Values

Total building permit values in Anchorage have declined in each of the past two years. AEDC expects total values to be flat in 2017. Values should hold steady through 2018, with growth returning in 2019 and 2020, at about 5 percent annually, as investor confidence improves.

- Compared to 2015, total Anchorage building permit values fell by 15 percent in 2016, from $549 million to $467 million. Building permit data is considered a proxy of near-term construction investment and activity; however, not all permitted projects are actually completed. In 2016:
    - Commercial permit values accounted for $276 million (59 percent of all permit values); this category lost $13 million (4.5 percent) from 2015.
    - Residential permit values totaled $132 million (28 percent of all permits), a reduction of $43 million (25 percent) compared to 2015.
    - Government building permit values totaled $59 million (13 percent of all permits), a reduction of $26 million (31 percent) from 2015.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.

- Several large private sector projects are underway, including investments by Duluth Trading Company ($0.8 million), Hyatt Place Hotel ($16.0 million), ODOM Corporation ($30.1 million), Alaska Airlines ($11.9 million), Baxter Assisted Living ($22.0 million), Eagle Eye Self Storage ($2.6 million), and Dave and Busters ($2.6 million). Public sector and utility projects include work underway at the Dempsey Ice Rink ($5.4 million), West/Romig Library ($8.1 million), and Eklutna Water Treatment Plant ($0.7 million).



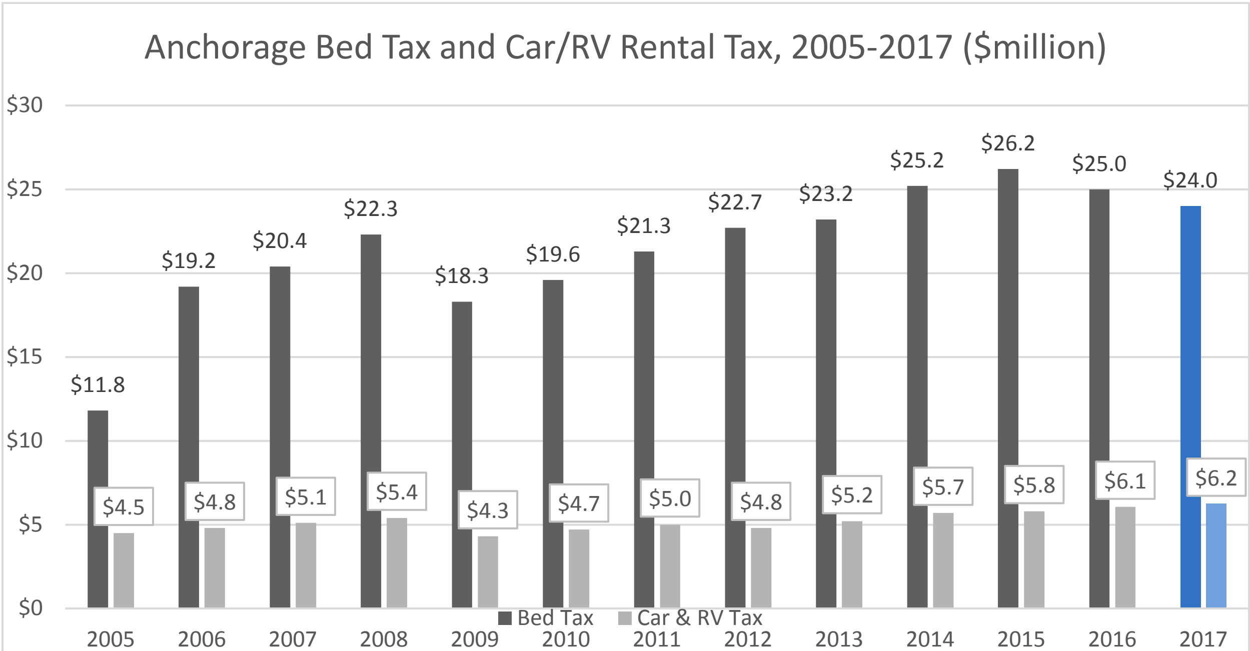
Source: Municipality of Anchorage (2005-2016), McDowell Group estimates (2017-2020).

Visitor Industry

AEDC anticipates the 2017 visitor season to be on par with 2016. A strong non-resident vacation market will again be offset by weak business travel.

- Anchorage bed tax revenue declined 4.3 percent in 2016, from $26.2 million in 2015 to $25.0 million. First quarter 2017 bed tax revenue is down 3.2 percent from first quarter 2016. Much of the decline may be due to reduced room rates, a result of additional capacity and softer demand.
- Car and RV rental-tax revenue grew to nearly $6.1 million in 2016, a 4.4 percent increase from 2015. The car component contributed $4.7 million (78 percent), and the RV category accounted for $1.3 million (22 percent). While car-related rental-tax revenue expanded 19 percent over the last five years, the RV component grew 54 percent. Data for the first quarter of 2017 indicate a 13 percent increase in car and RV rental tax revenue over the same quarter in 2016.
- In the summer of 2016, 1.86 million people visited Alaska, a 4.3 percent increase over 2015. Anchorage visitation totaled 896,000, 48 percent of the Alaska total.
- In summer 2016, about 321,000 visitors arrived in Southcentral Alaska via a cross-gulf cruise, a 2.5 percent decline from the previous year. Nearly all of these passengers come through Anchorage. Based on scheduled itineraries, cross-gulf passenger volume in 2017 is expected to be similar to 2016.
- In 2016, Anchorage hosted nearly 700 conferences, tradeshows, retreats, annual meetings, and other events in the city with estimated attendance of more than 100,000 people. For 2017, a similar level of activity is anticipated, including the Alaska Federation of Natives Convention (3,500 attendees), March Madness Basketball Tournament (1,700 attendees), Oceans North America (1,500 attendees), and First Alaskans Institute Elders/Youth Conference (1,400 attendees).

- There is significant concern that a sharp reduction in State of Alaska spending on marketing will affect visitation to Alaska, especially in the independent visitor market, the source of most of Anchorage's non-resident visitors.



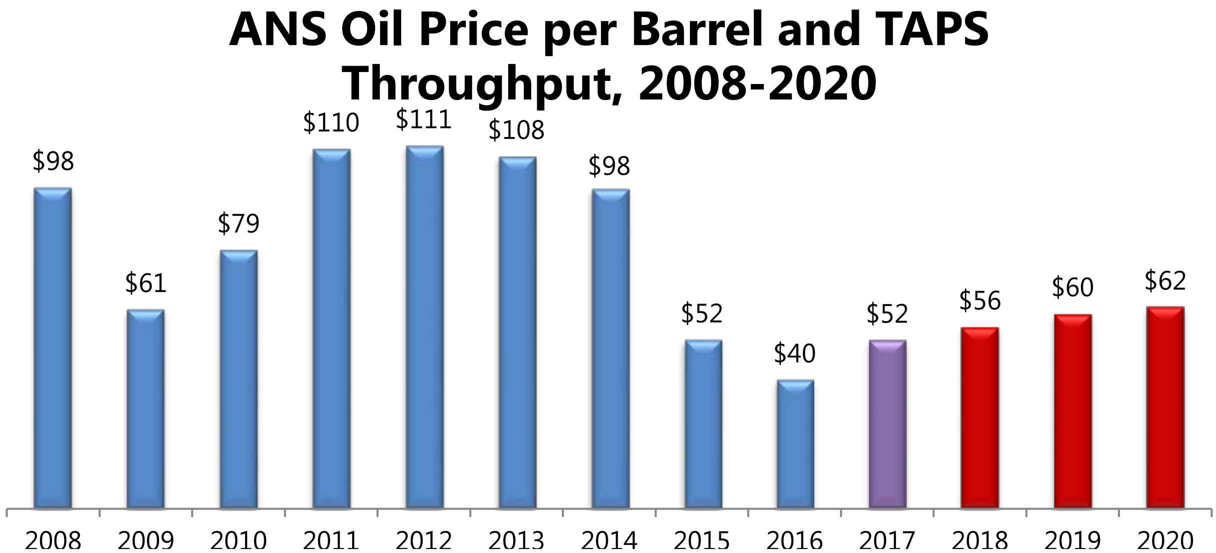
Source: Municipality of Anchorage (2005-2016), McDowell Group estimates (2017).

Oil Prices

Consistent with leading forecasts, AEDC anticipates oil prices will average $52 per barrel in 2017. Slow price growth will support an average price of $56 in 2018 and $60 in 2019. An average price of $62 per barrel is projected for 2020. While price growth is the near-term trend, global conflicts, the pace of economic growth, and supply levels can produce significant, short-term increases or decreases in the price of oil.

- Alaska North Slope oil prices averaged $43 per barrel in 2016, a 17 percent decline from 2015. Prices through the first six months of 2017 have averaged $52 per barrel.
- In 2017, the Trans Alaska Pipeline System is celebrating its 40th year in operation and nearly 18 billion barrels of total throughput. The pipeline averaged 518,000 barrels of throughput per day in 2016, a nearly 2 percent increase from 2015.
- For the first half of 2017, North Slope production averaged 546,000 barrels per day, a 3.6 percent increase over the same period in 2016.
- Though Alaska's oil industry has reduced employment, the sector continues to spend billions of dollars each year on operations, maintenance, and capital projects. Hilcorp Alaska is investing in Cook Inlet and North Slope fields, ConocoPhilips is developing Greater Mooses Tooth 1, and in 2016 BP's capital and operating budget totaled $1.7 billion. Several of the nation's largest new oil fields have been identified in Alaska recently, a reminder that Alaska will maintain its role as a leading energy producing state.

- Forecasts from the State of Alaska, World Bank, Energy Information Administration, JP Morgan, and Goldman Sachs all anticipate prices to slowly trend up in the near-term. Prices above the mid-$60 per barrel mark are unlikely due to domestic fracking-related production which can be increased quickly to take advantage of a higher price.



Source: Alaska Department of Revenue (2008-2016); Averaged Department of Revenue, World Bank, Energy Information Administration forecasts, JP Morgan, Goldman Sachs (2017–2020).
Provided by AEDC

Challenges Ahead

The local economy is in uncharted territory, experiencing what is expected to be three consecutive years of employment decline, after generally steady growth over the previous 20 years. Most uncertain now is the intensity of downstream multiplier effects that could follow losses in sectors most directly affected by declining oil revenue (the oil & gas industry, professional services, construction, and state government). Consumer and investor confidence will have a lot to do with the degree and timing of secondary economic impacts. Yet another year without a fiscal plan for funding state government and critical related enterprises such as the University of Alaska will further weaken that confidence in the future. To the extent that economic recession in Alaska is prolonged by a crisis in confidence, the blame will lie squarely on the absence of long-term State fiscal plan and consistent and competitive tax policy. Investors in all sectors of the Alaska economy, not just the oil industry, need greater clarity on the tools the State will be using to balance its budget over the long term. Absent that, investment dollars will remain in the bank, or go elsewhere.

While the employment picture is not good, we can take solace in several positive aspects in the economy today:

- Residential and commercial real estate values are generally stable.

- Less than one percent of loans extended to Alaska residents and businesses are nonperforming (meaning no payments for 90+ days). In late 1987, more than 17 percent of loans were nonperforming; after the 2008/2009 recession almost 5 percent of loans held this distinction.

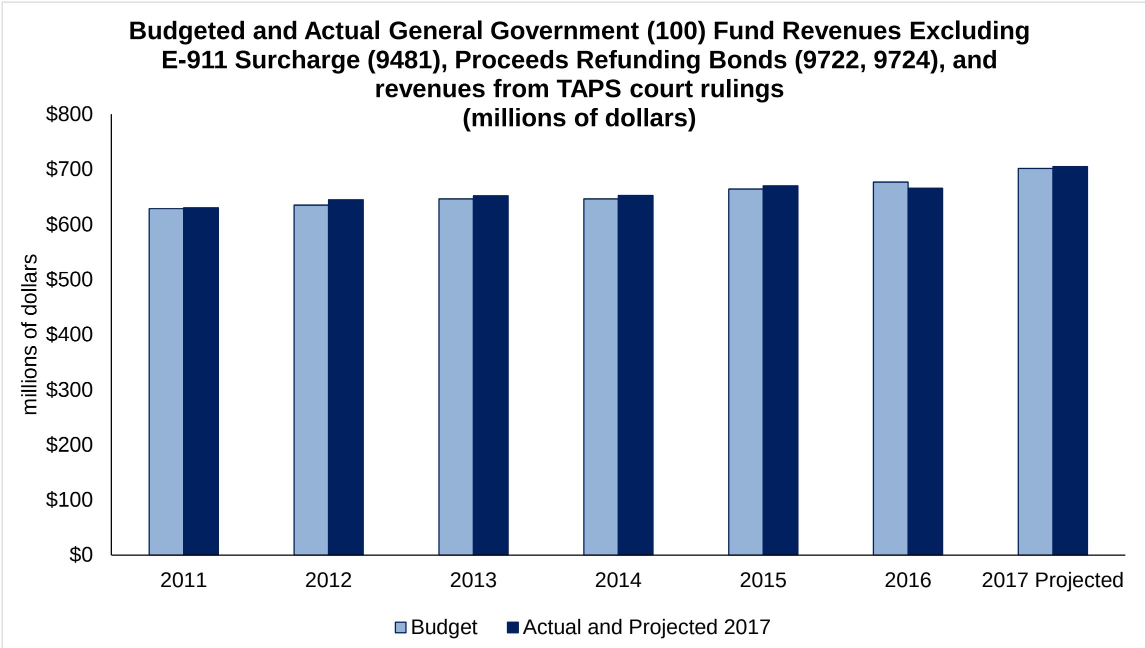
- In the real estate market, Anchorage has the opportunity to tap significant unmet housing demand by meeting the needs of young professional and seniors
- The visitor industry is healthy, with duly-noted concern about the State's sharp drop in funding for marketing programs critical to attracting more independent visitors to Alaska.
- JBER force reductions are off the table, avoiding what may have been a very painful hit to the local economy.
- The health care sector continues along its remarkable long-term growth trajectory.
- The latest available employment data indicates a couple of the sectors hit hard by the oil-revenue related recession may be finding a bottom, with expectation of greater stability going forward.
- Anchorage's economy today is more mature and diversified than ever; certainly more so that in the 80s when a drop in oil prices took a big bite out of the economy. Today, the city has:
    - An older population with greater financial wherewithal to ride out rough times
    - Fewer highly leveraged real estate assets
    - Stronger commercial and residential real estate markets, in general
    - A larger public sector, which is typically slower to reduce employment than private firms, acting as an economic shock absorber.

These are challenging and uncertain economic times for Anchorage and the state overall. At AEDC we will do our best to foresee what lies ahead (with tools such as this 3-year forecast), manage those forces that we can influence, and do our best to plan for circumstances beyond our control.

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 been close to budget 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 2017, 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 State and Federal Payments in Lieu of Taxes (PILT) are determined by decisions and actions of the State or Federal governments.

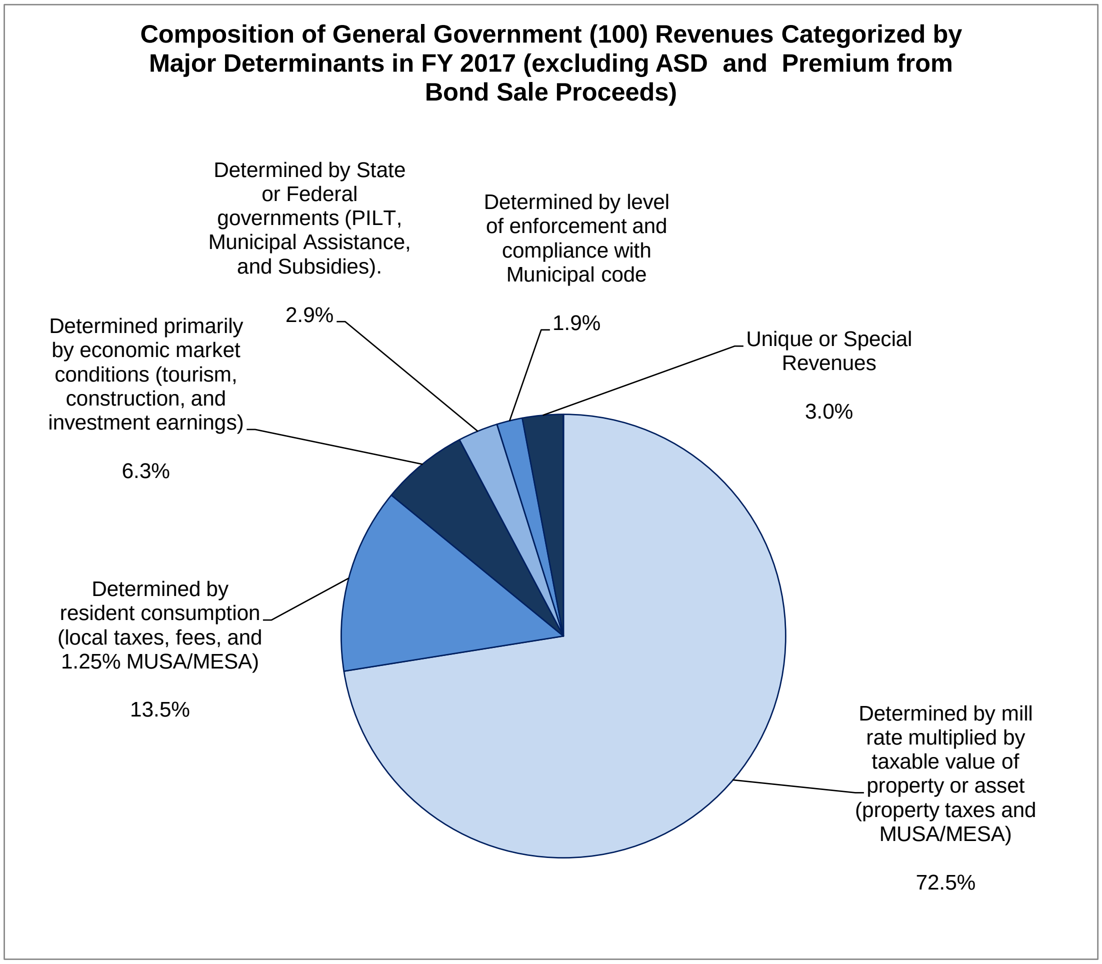
5. **Determined by Level of Compliance and Enforcement of Municipal Code (Code):** Revenues from collections of delinquent taxes, as well all types of fines, penalties and interest paid on delinquent taxes, are determined by the level of Code compliance and enforcement and collection efforts.

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

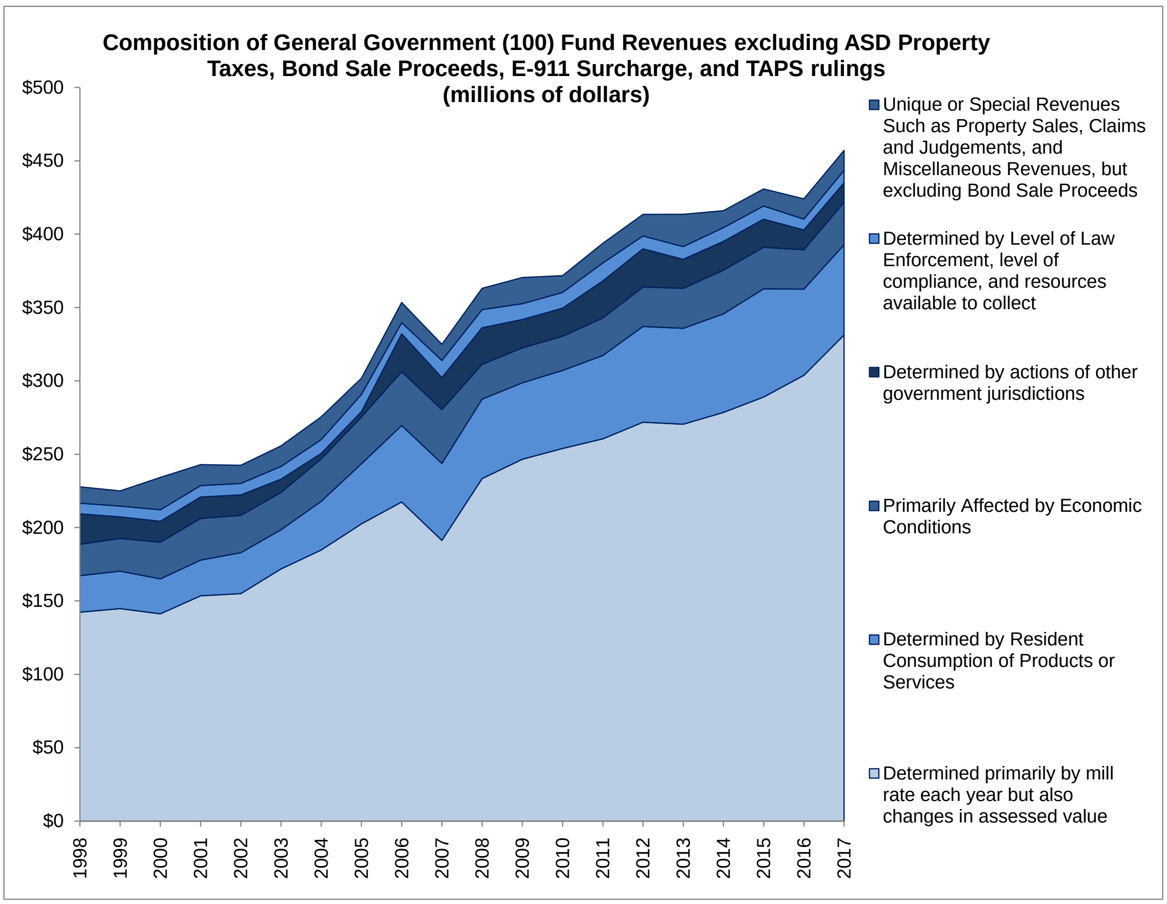
The largest share of general government revenues is determined each year by multiplying the mill rate by taxable value of property or assets. Consumption revenues contribute to the next largest share (14 percent). About 6 percent of revenues are determined by economic market conditions. Another 3 percent 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 nineteen 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 were 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.

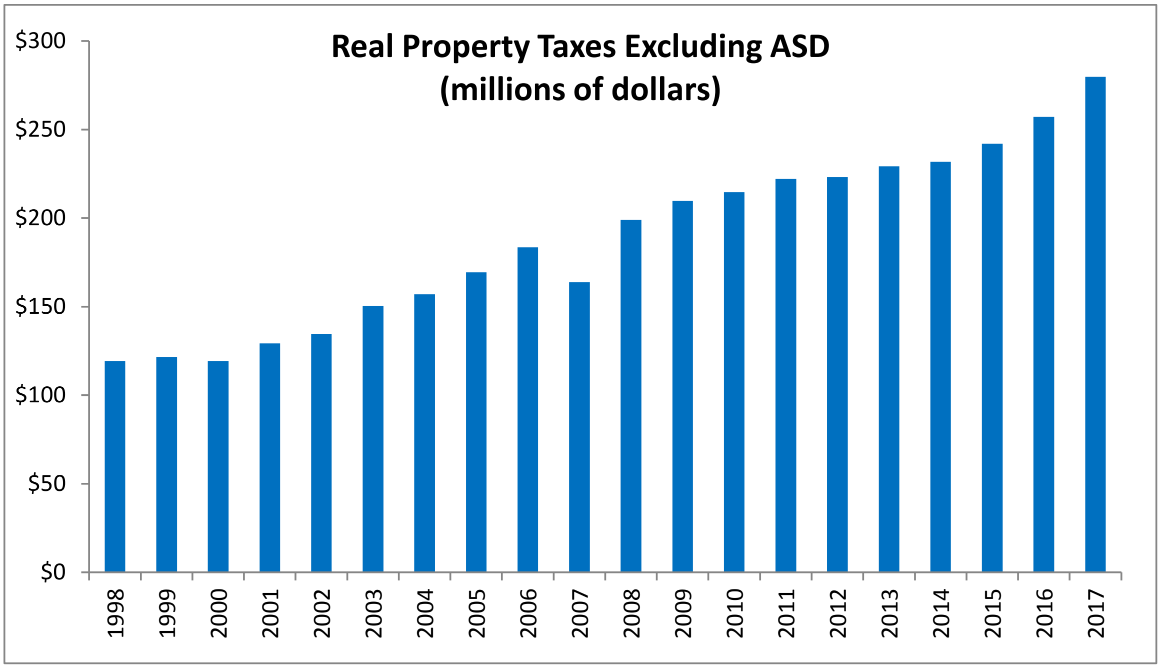


Source: MOA Treasury Division

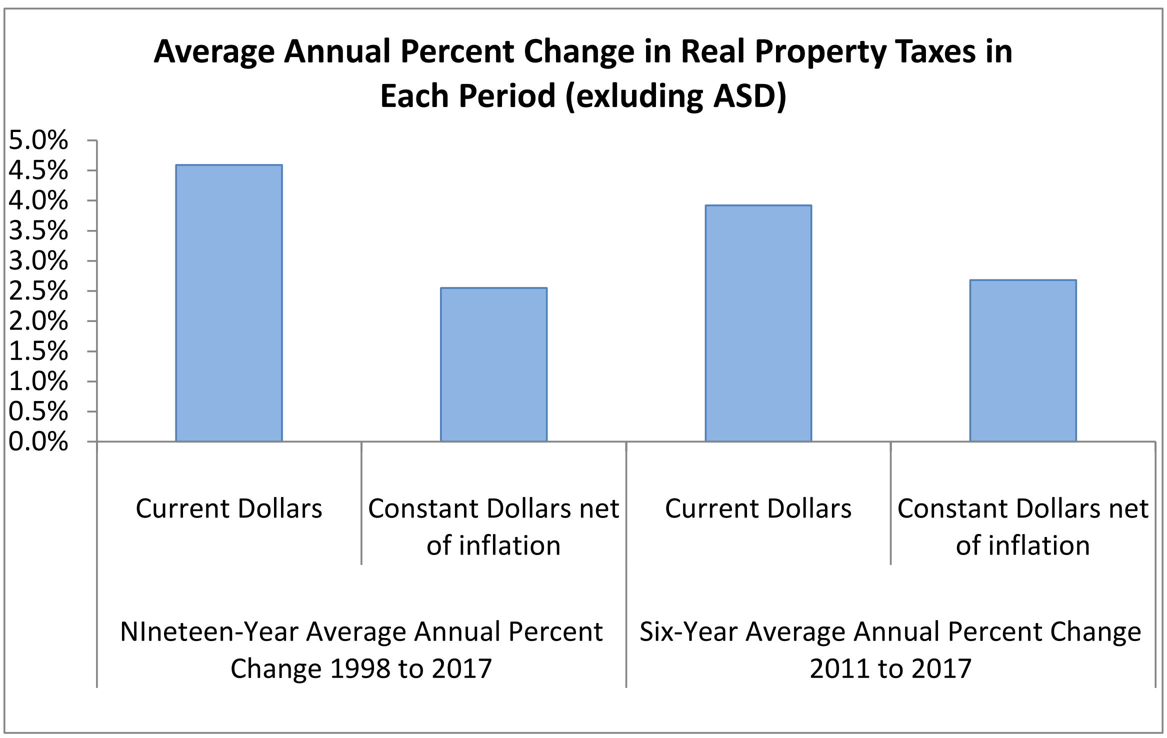
Key Revenue Determinant Categories

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 2017.

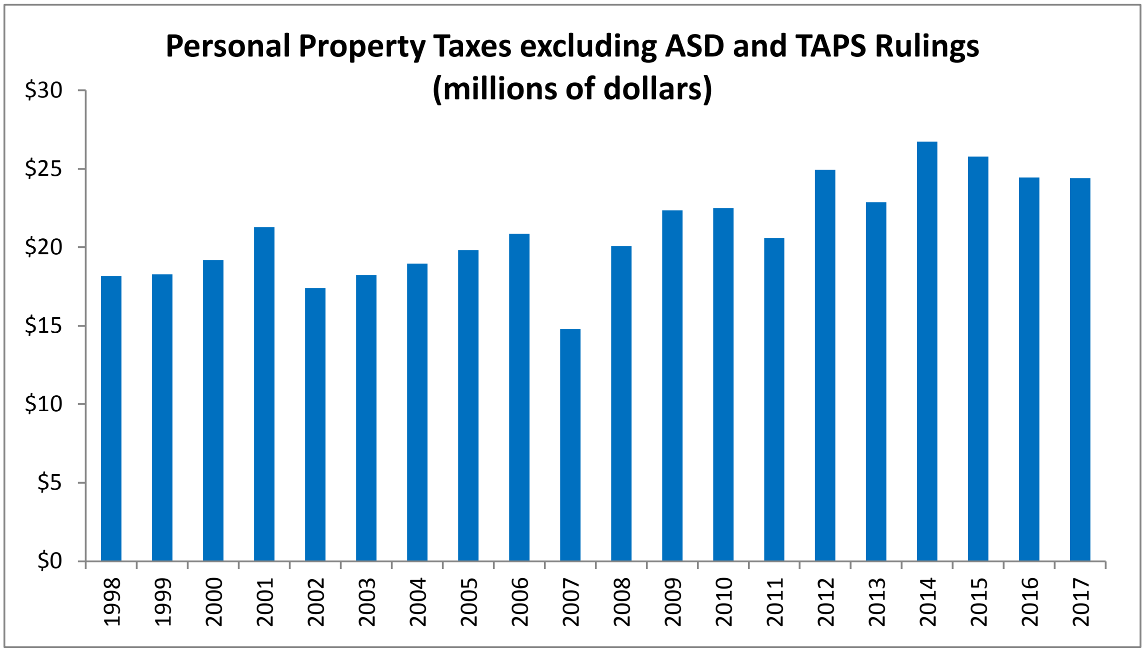


Source: MOA Treasury Division

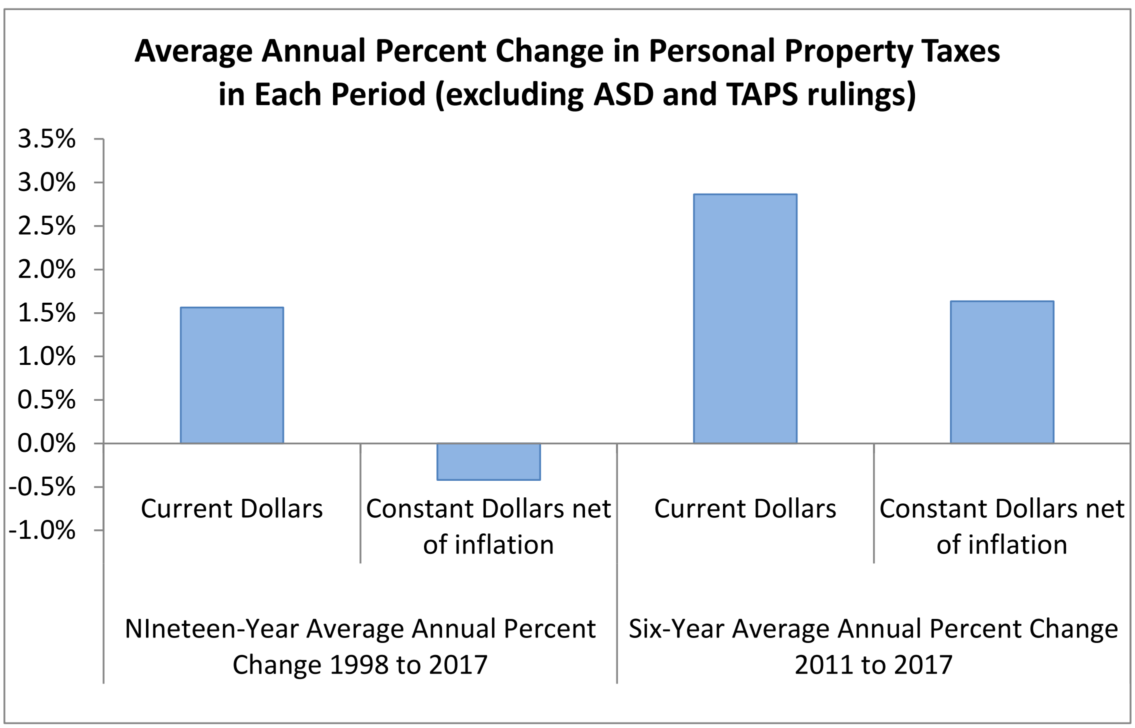


Source: MOA Treasury Division

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 after adjusting for inflation. 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.

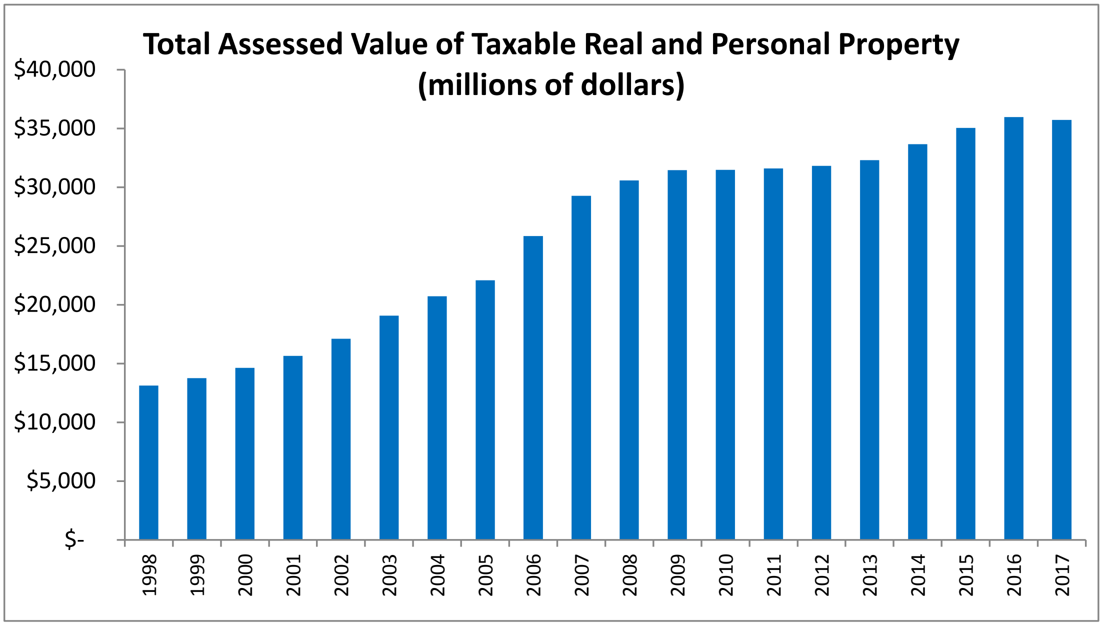


Source: MOA Treasury Division

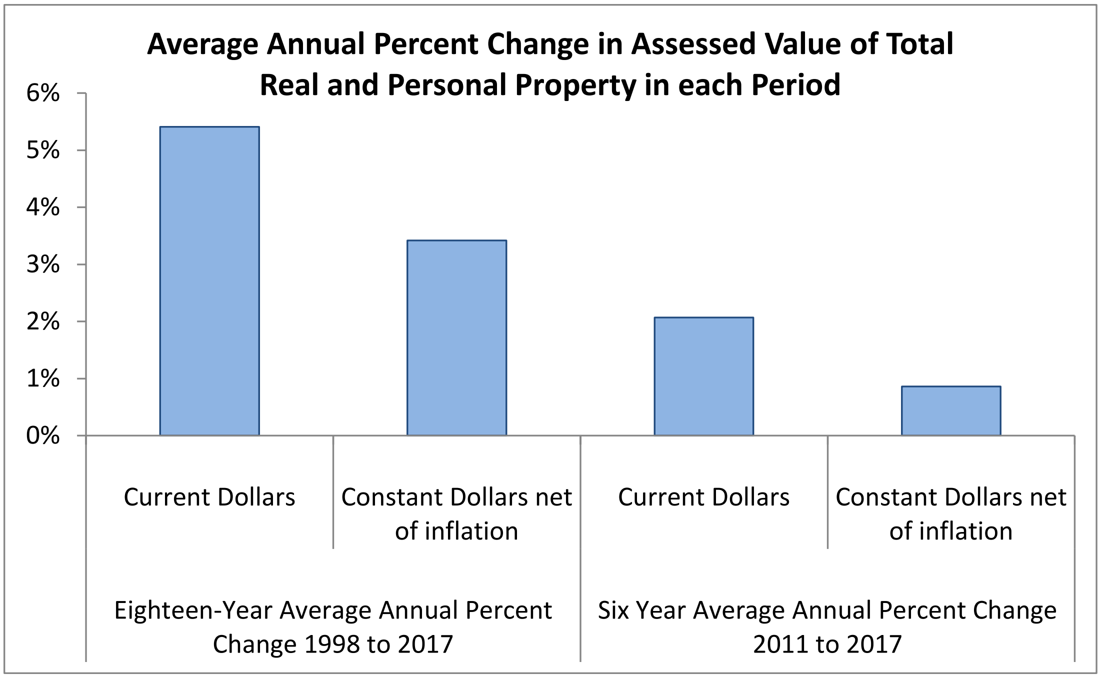


Source: MOA Treasury Division

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, FY 2015 and FY 2016. Property Appraisal currently projects a small decrease in total taxable property value in FY 2017.



Source: MOA Treasury Division

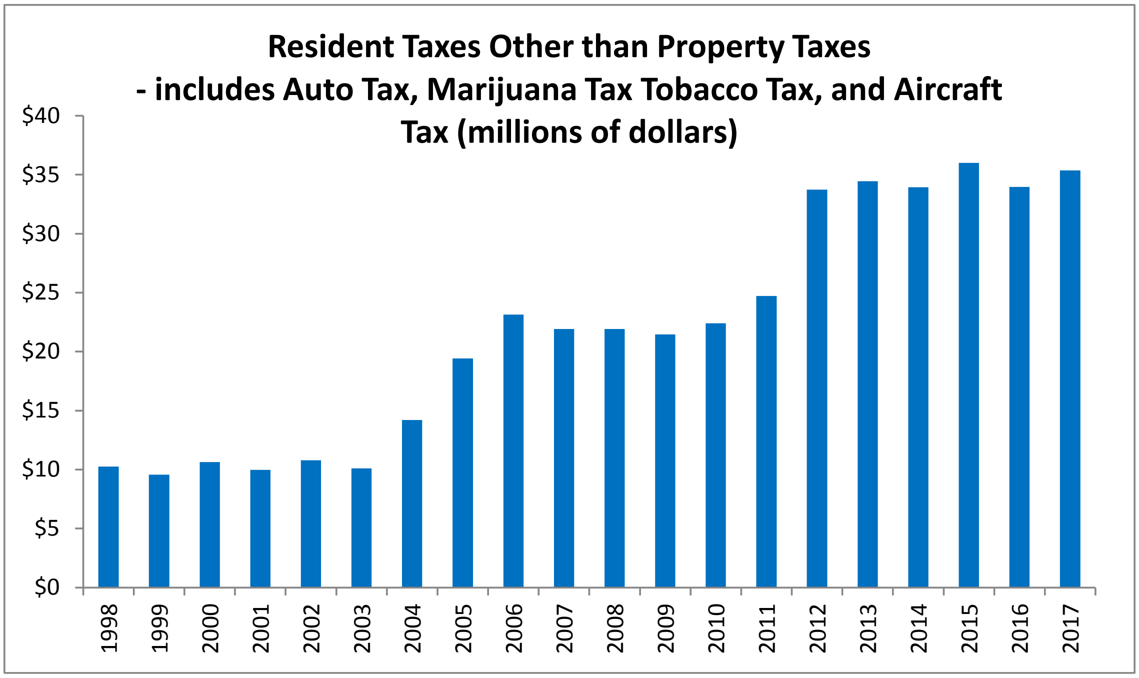


Source: MOA Treasury Division

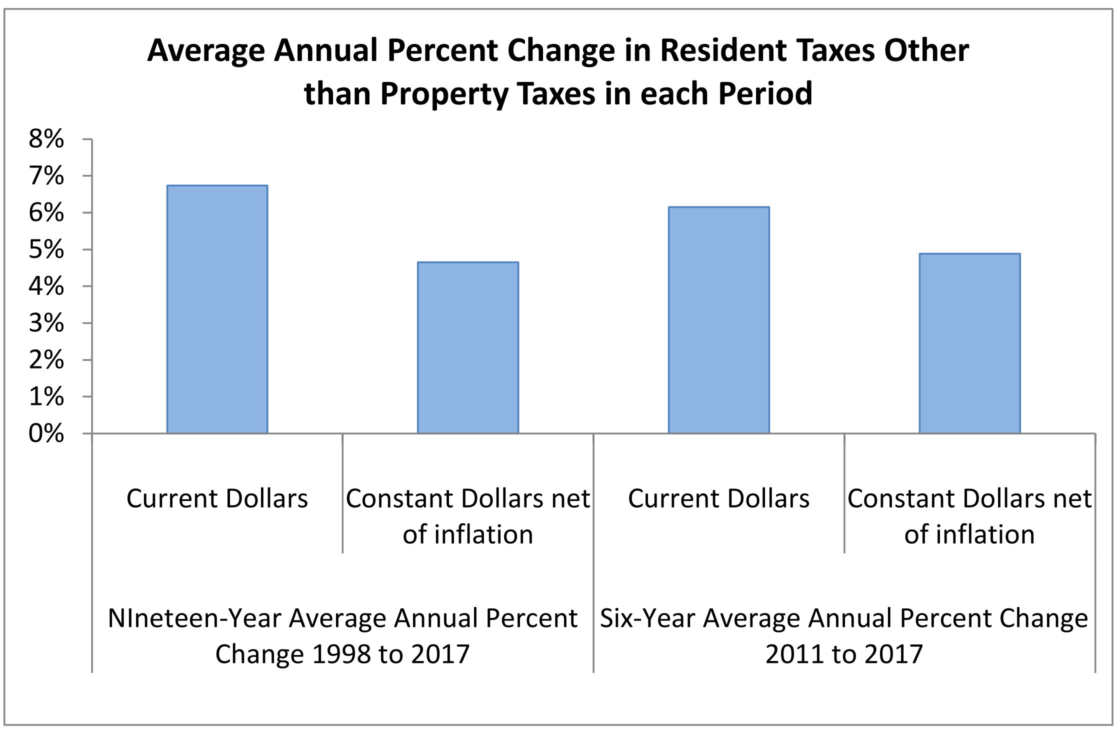
Revenues Determined Primarily by Resident Consumption

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 14 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 FY 2017 are currently projected to be below $2M, but these revenues are expected to increase in FY 2018 as the legal retail marijuana market continues to expand.

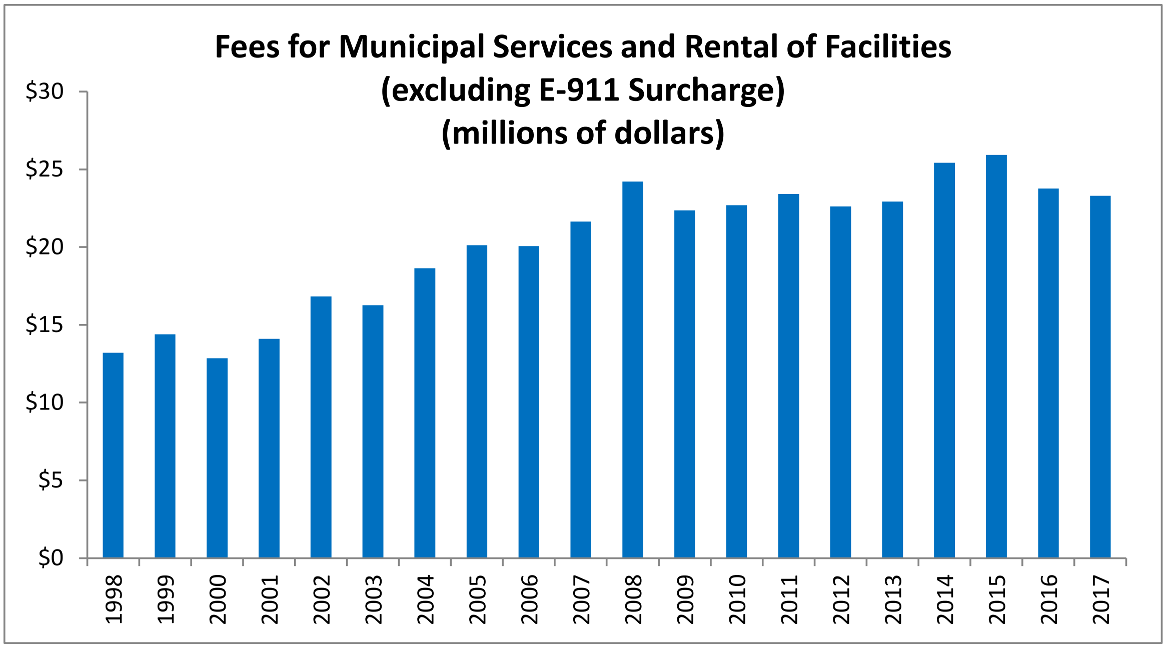


Source: MOA Treasury Division

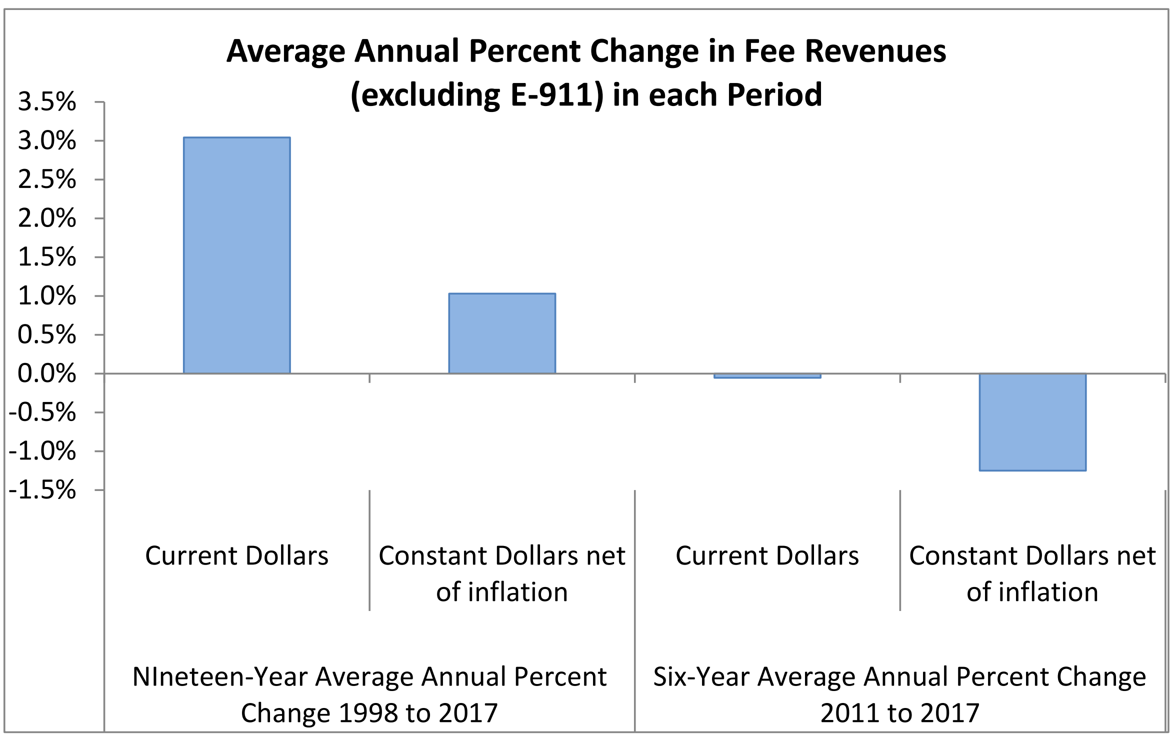


Source: MOA Treasury Division

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.



Source: MOA Treasury Division

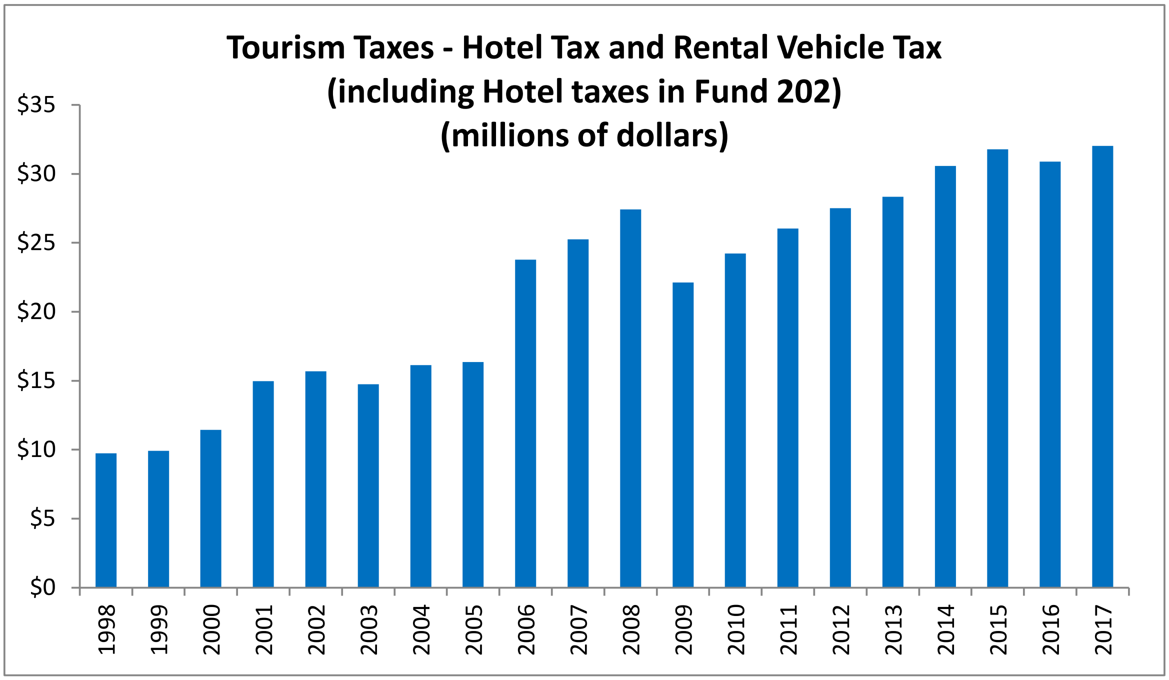


Source: MOA Treasury Division

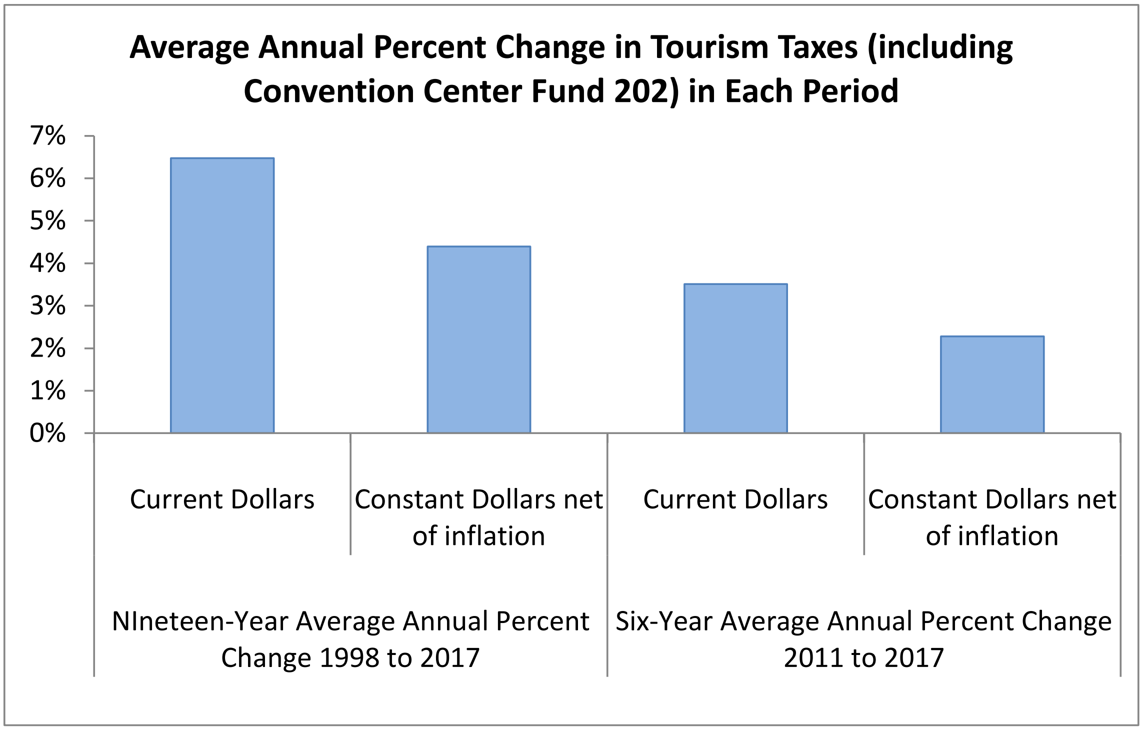
Revenues Determined Primarily by Economic Market Conditions

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 by permit fees specified in code. These revenues contribute about 6 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 increase, then decreased in 2009 due to the national recession. Tourism taxes gradually recovered the last eight years due to price increases for room rentals at Anchorage hotels and continued growth in the number of visitors coming to Anchorage.

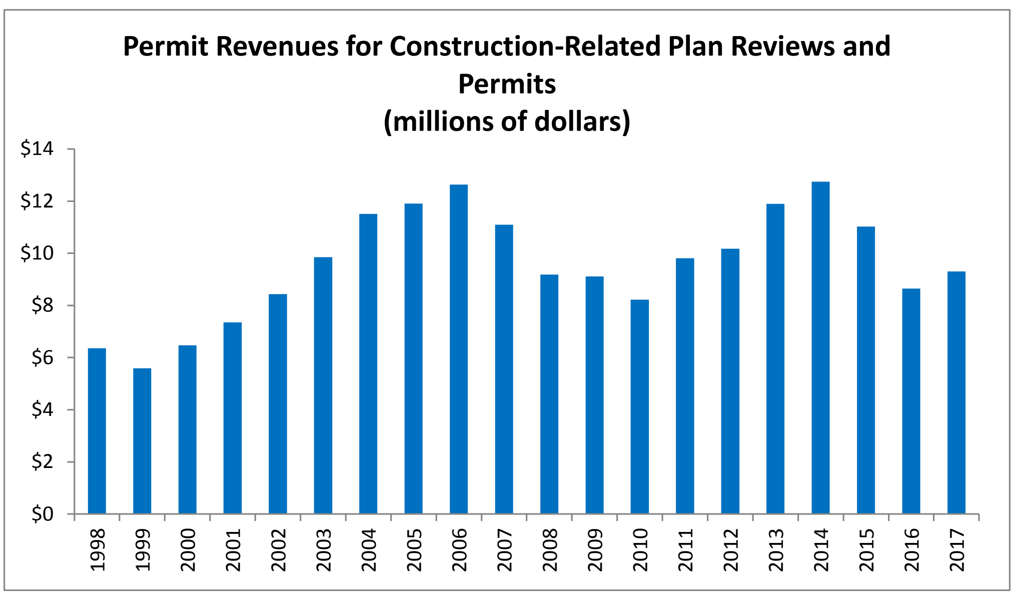


Source: MOA Treasury Division

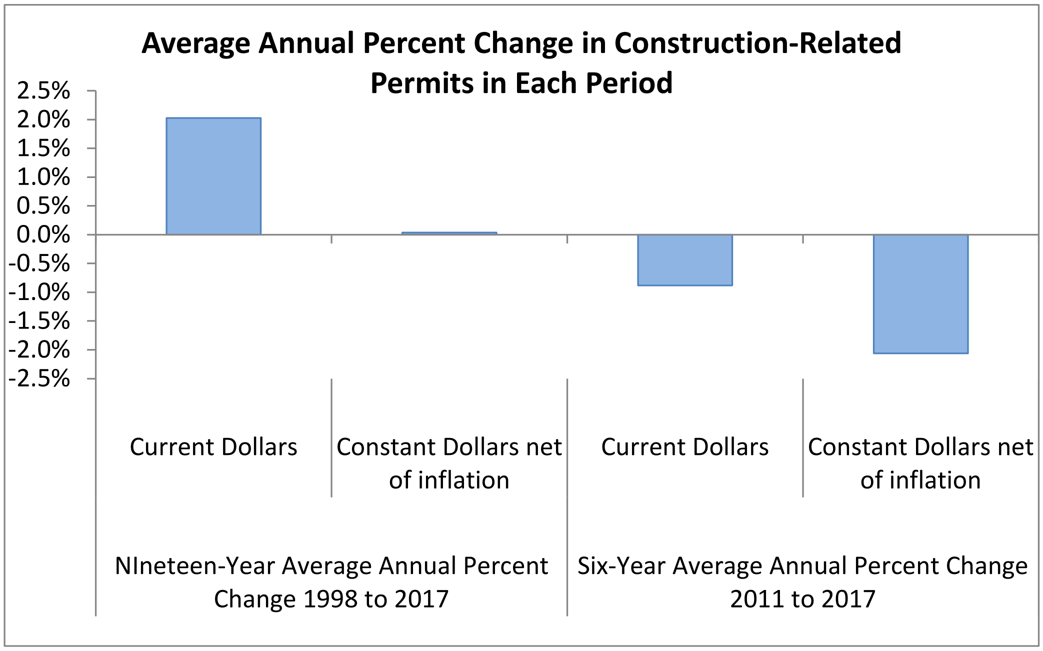


Source: MOA Treasury Division

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/new or renovation), 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 declined in 2015 and 2016 but are projected to increase in 2017.

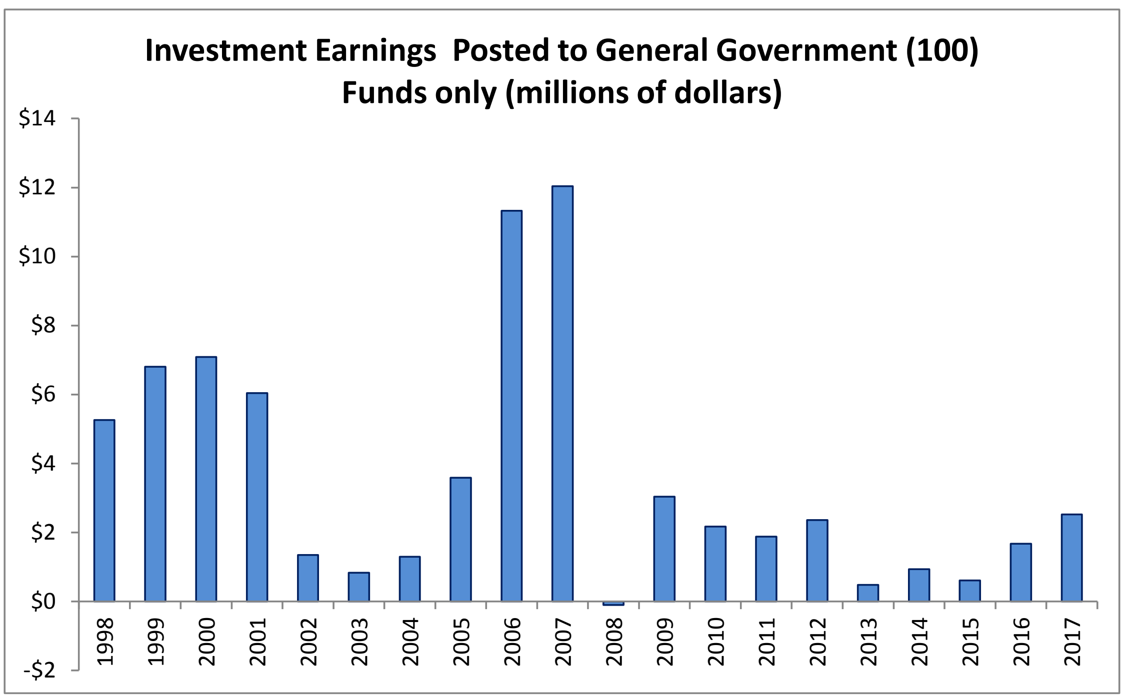


Source: MOA Treasury Division

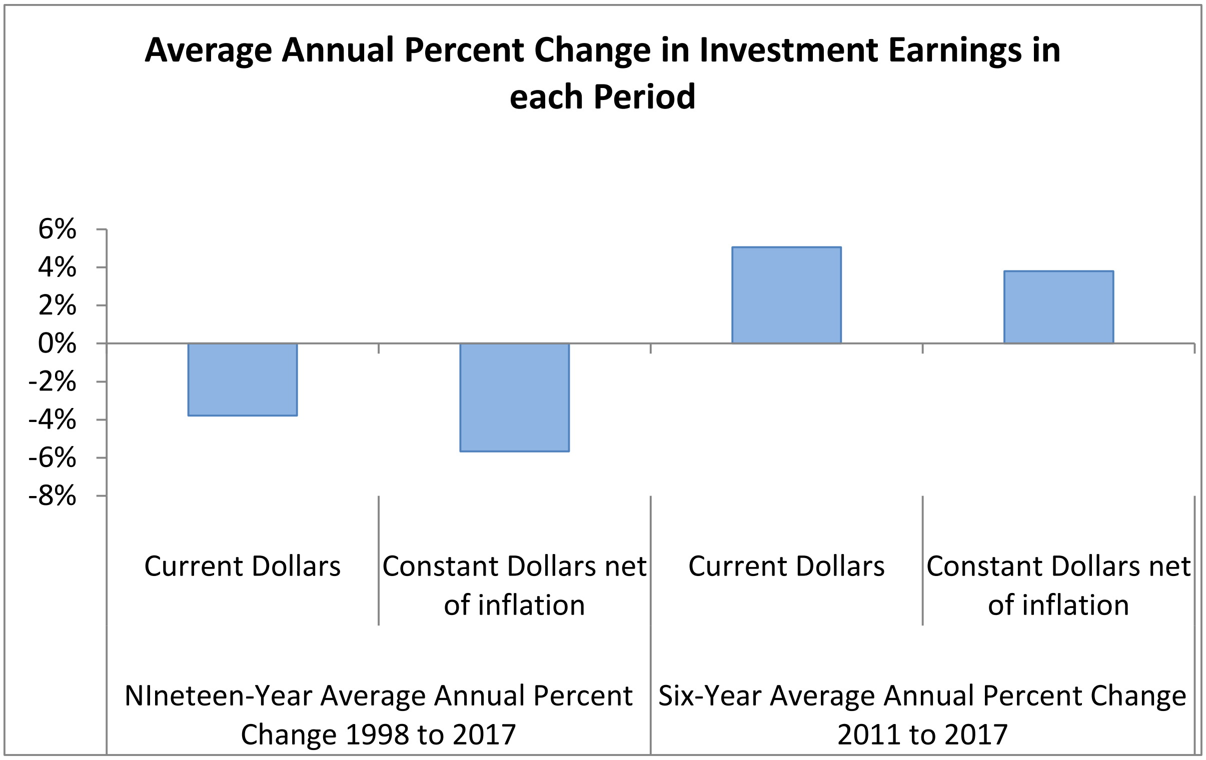


Source: MOA Treasury Division

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

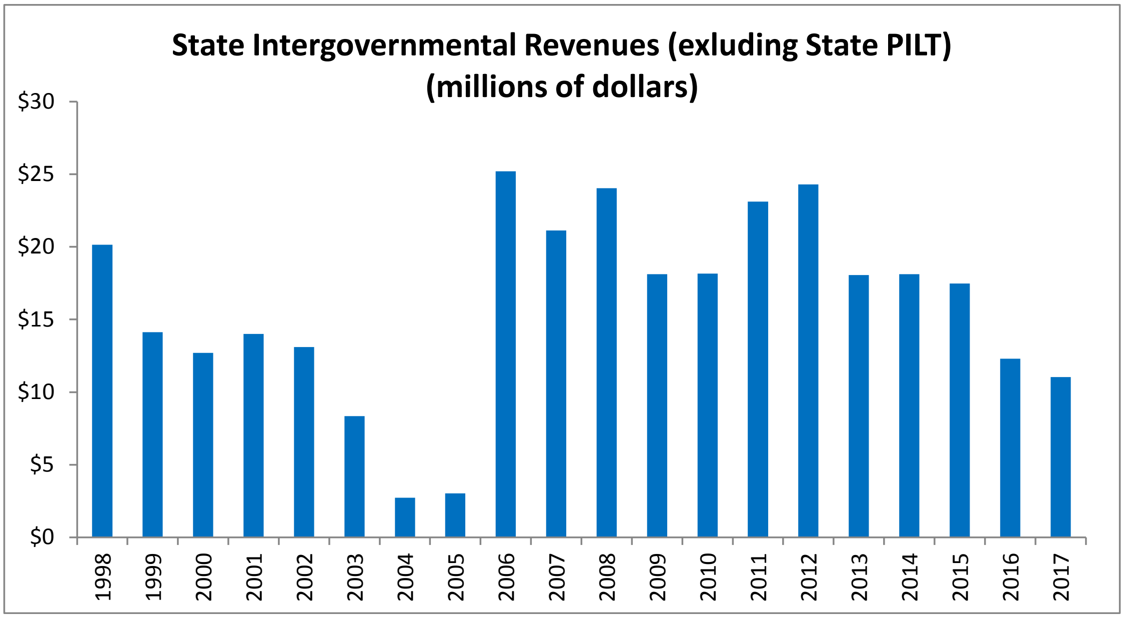


Source: MOA Treasury Division

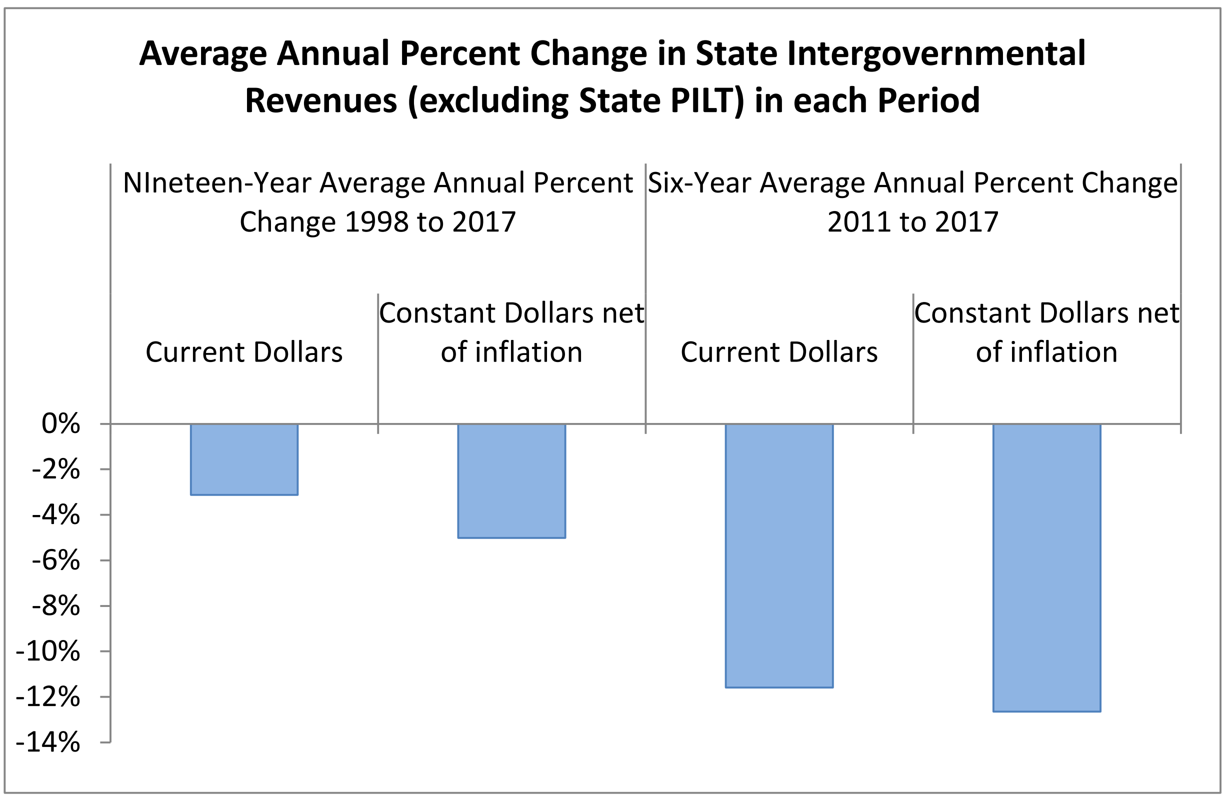
Revenues Determined by Actions of Other Governments

This category includes all State and Federal intergovernmental revenues and State and Federal PILT payments. These revenues contribute about 2 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 declined most years.



Source: MOA Treasury Division



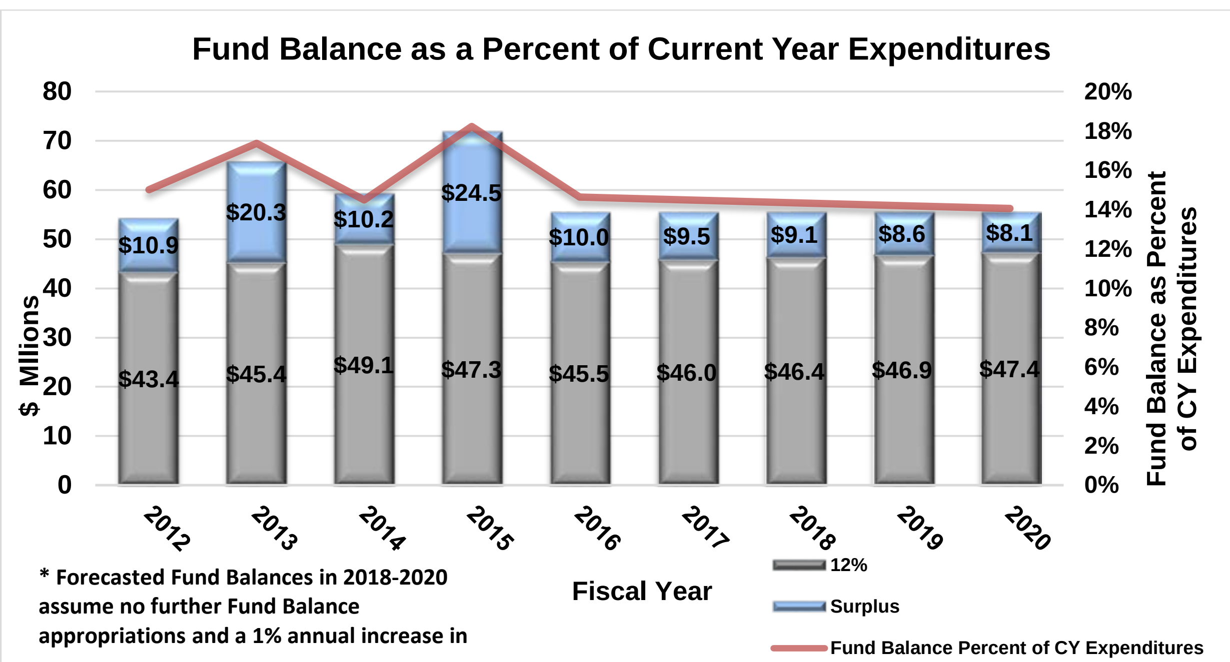
Source: MOA Treasury Division

4. Fund Balance

The Municipality's current Fund Balance Policy is delineated in Assembly Resolution No. 2015-84 and is as follows.

- It is the policy of the Municipality to prepare and manage five major General Government fund budgets so as to maintain unrestricted general fund balance in an amount equal to 10% of current year expenditures as a Bond Rating Designation that will become committed fund balance.
- It is the policy of the Municipality to prepare and manage its Non-major Governmental Operating Funds (Limited Service Areas and Rural Service Areas) budgets so as to maintain an unrestricted fund balance of 8.25% of current year expenditures as a Bond Rating Designation that will become committed fund balance.
- It is the policy of the Municipality to prepare and manage budgets so as to maintain unrestricted fund balances in its five major funds in an amount between 2.0% and 3.0% of current year expenditures as a Working Capital Reserve that will become part of unassigned fund balance.
- Expenditures are defined as total expenditures reported in the CAFR's Statement of Revenues, Expenditures, and Changes in Fund Balance General Fund and shall be reduced by contributions to education, 'On-behalf' payments made on-behalf of the Municipality by the State of Alaska directly to the Public Employees Retirement System (PERS), expenditures in the Police and Fire Retirement Administration Fund 213 and expenditures in the Municipality's Trust Fund 731.

The chart below demonstrates the Municipality has been in excess of its Fund Balance Policy since 2012.



Municipality's General Obligation Bond Rating

The Municipality enjoys the benefits of being a very highly rated government entity by two national rating agencies. The Municipality is currently rated AA+ by Fitch Ratings (Fitch) with a Stable Outlook and AAA by Standard & Poor's (S&P) with a Stable Outlook. The rating agencies have a complex structured rating process for determining an issuers rating. Fitch uses Key Rating Drivers for their assessment methodology and S&P refers to their methodology as a Financial Management Assessment. These processes are comprised of numerous quantitative factors, including a variety of ratios, and qualitative factors that determine a credit score and subsequent rating. Generally speaking, no single factor or ratio determines an issuers rating.

Primary credit factors include:

- Economic strength of the local economy,
- Financial strength of the credit,
- Management and Governance and
- Debt profile.

In determining a rating the agencies compare the Municipality with other issuers with similar characteristics. The importance of these peer comparisons and additional disclosure of their rating process has been a critical aspect for the rating agencies in the wake of the Great Recession of 2008 as the rating agencies faced increased scrutiny over the appropriateness and accuracy of their ratings.

Fitch Ratings

Fitch currently rates the Municipality AA+ with a Stable Outlook. In their November 8, 2016 rating review of the Municipality they commented on the Municipality's:

- Exceptional resilience to typical stresses,
- Solid expenditure flexibility,
- Low long-term liability burden balanced against limited revenue raising flexibility,
- Solid expenditure flexibility and
- Robust reserves.

They also commented about their revenue framework assessment. "Growth prospects for revenues are solid, but Fitch expects the Municipality to experience modest near-term weakening due to economic conditions. Anchorage's tax limitations generate revenue stability, but policymakers' independent legal ability to raise revenues is limited.

Standard & Poor's (S&P)

S&P currently rates the Municipality AAA with a Stable Outlook. In their most recent rating summary dated November 8, 2016, S&P's analyst noted the following regarding Anchorage:

- Very strong economy,
- Strong financial management,
- Strong financial policies and practices,
- Adequate budgetary performance,
- Very strong budgetary flexibility and
- Very strong liquidity.

In that November 2016 review S&P's analyst noted a 'weak debt and contingent liability profile'. "Total governmental fund debt service is approximately 10.7% of total governmental fund expenditures, and net direct debt is approximately 140% of total governmental fund revenue." They noted a concern of "eroding" support from the State of Alaska for debt service for school district bonds.

Fund Balance Policy Discussion and Update

The Mayor and senior staff have been discussing strengthening the current Fund Balance Policy. They anticipate making a policy change during sometime in the near future. Continued review and update of the Fund Balance Policy is critical with respect to the following concepts:

- Maintain Best Practice & Prudent Management Objectives,
- The Municipality's current policy is out of the criteria range for a AA+/AAA rated issuer,
- Rating Agencies periodically change their rating criteria and 15% continues to ne the minimum level for a AAA rating,
- Rating Agencies are concerned that the State's fiscal challenges will affect the Municipality,
- The Municipality's rating may currently be higher than State of Alaska's rating, however continued downgrades of the State's rating will impact our rating,
- Higher Fund Balances will help mitigate that risk and
- Higher credit ratings means a lower cost of funds, and lower taxes for taxpayers.

In July 2016 the Mayor, CFO and Public Finance Manager visited the Fitch and S&P rating analysts in San Francisco. During the respective presentations on the health and credit of the Municipality the independence of the Municipality from the State of Alaska was emphasized. It was further noted that the State's budgetary problems have little impact on the Municipality since 97% of the Municipality's revenues are derived locally and that the local economy remains solid and strong as the price of oil remains low compared to three years ago. The Mayor commented that he anticipates that the Municipality will strengthen its Fund Balance Policy in the near future.

5. 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 2017, 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 2018 Proposed General Government CIP projects on maintenance, operation, and personnel costs:

2018 - 2023 Capital Improvement Program
Operations & Maintenance Estimate
(In Thousands)

Department	2018	2019	2020	2021	2022	2023	Total
Information Technology	490	1,531	1,345	1,465	1,220	1,067	7,118
Library	-	-	500	500	500	500	2,000
Maintenance & Operations	22	80	122	138	139	-	501
Parks & Recreation	290	271	237	178	35	-	1,011
Total	**802**	**1,882**	**2,204**	**2,281**	**1,894**	**1,567**	**10,630**

6. 6-Year Projection Model