SIX-YEAR FISCAL PROGRAM

2020 – 2025

Municipality of Anchorage

Ethan Berkowitz

Mayor

October 2, 2019

MUNICIPALITY OF ANCHORAGE
Six-Year Fiscal Program
2020 – 2025

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Preface

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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

2020 – 2025

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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

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The content of the Economic Trends and Indicators is graciously provided by the Anchorage Economic Development Corporation (AEDC). The Municipality of Anchorage (MOA) appreciates their contributions to the formulations of this section and the service they provide to the citizens and businesses of the MOA.

Introduction

Last year's 3-Year Forecast headline read: "A growing body of evidence indicates the recession is likely near its bottom and the local economy is poised for recovery." Today's reality no longer supports such optimism.

Significant cuts to the State budget, as they stand now, essentially eliminate any chance of economic recovery and in fact promise to keep the local economy in recession for two to three more years. As we look ahead, while the news is not all bad, sources of renewal in the economy cannot compensate for the damage being done by Alaska's ongoing policy-induced recession.

This 3-Year Forecast describes the expected economic outfall in Anchorage from State budget cuts. The $138 million reduction to the University of Alaska (UA) budget will be particularly damaging in the near and long-term. How UA administrators address a 40 percent budget cut remains to be determined, but major program and staffing reductions will be required. In addition to harmful near-term economic impacts, significant cuts to the university system will stunt Alaska's continuing efforts to build a high-quality, resident workforce. Many Alaskan students and instructors may well seek more secure opportunities elsewhere in the country.

Cuts in Medicaid funding (including loss in federal funds) total over $77 million. The health care sector has been the source of steady employment growth statewide and in Anchorage over the past decade. That growth has already slowed and cuts to Medicaid are likely to result in the first losses in health care employment in more than a decade. Health care and social services account for about 25,000 jobs in Anchorage and $1.4 billion in annual wages.

Anchorage's retail sector continues to suffer, mainly the result of national retailers closing Anchorage outlets. Retail employment declined by 1,100 jobs between 2015 and 2018. Data for the first few months of 2019 show the decline continuing, and with the planned September closure of another large retail outlet (Nordstrom), the decline will persist into late 2019, at least.

On a more positive note, industries most affected by the oil-recession; oil, construction, and professional services, are all at least stable or on the rebound. Supported in part by earthquake repair work, construction employment is up about 9 percent through the first half of the year. Employment in professional and business services through the first half of 2019 is even with last year, which is good news after the loss of more than 3,000 jobs in the sector over the past three years. Oil industry employment in Anchorage is showing a slight uptick.

Another piece of good economic news is the continuing growth in Alaska's visitor industry. Alaska cruise passenger traffic was up 7 percent in 2018 and will be up another 17 percent in 2019, with further growth expected in 2020. A strong visitor industry is contributing to record levels of passenger traffic at ANC.

This forecast articulates AEDC's deep concern that these glimmers of good news will not be enough to shine through the dark economic clouds forming from Alaska's budget gridlock. Meantime, AEDC will continue to offer its best assessment of things to come.

Population

In 2018, Anchorage's population totaled 295,365, down about 2,400 residents (0.8 percent) from the prior year. While there were 4,100 births and 1,700 deaths in 2018, the city experienced a net migration loss of 4,800. An overall loss of approximately 5,700 residents since the peak population of 301,034 in 2013 has brought the Municipality back to 2011 levels. Reduced employment opportunities in Anchorage and elsewhere in Alaska combined with historically low unemployment in the Lower 48 are among the key factors resulting in population decline.

Population trends are directly connected with the strength of the economy and employment opportunities. State budget-induced job losses in 2019 and 2020 will likely result in further population decline. AEDC expects a decline of approximately 1,000 residents (0.3 percent) in 2019, with further decline of 1,500 (0.5 percent) in 2020. These losses will return Anchorage to 2010-era population levels.

If some of the Governor's FY2020 vetoes are restored, these population losses could be moderated. If the budget stands, with more than half a billion dollars in FY2020 cuts, and further cuts are made in FY2021, the declines in the coming three years will be greater. Based largely on a high level of uncertainty, this forecast assumes no change in population in 2021 and 2022.

Here are several population change-related details:

- A shrinking labor force in Anchorage may be signaling further population decline in 2019. Through the first five months of this year, the size of the local labor force is down 1.6 percent from the same period in 2018 (a decline of 2,400 workers). Between 2013 and 2018, a total labor force decline of 6,500 workers parallels the total population decline of about 5,700 over the same period.

- Most population change in Anchorage is related to movement into and out of the state. Over the past five years, an annual average of about 20,000 people left Anchorage for the Lower 48 while 16,000 non-Alaskans became residents of Anchorage. Anchorage's net outmigration to the Lower 48 totaled about 20,000 residents over the five-year period. National unemployment rates below 4 percent reflect a strong and attractive job market.

- Relocation between the Mat-Su Valley and Anchorage (in both directions) accounts for roughly a third of Alaska's intrastate migration in any given year. Between 2014 and 2018, at least 15,000 Anchorage residents moved to the Mat-Su Valley while 9,200 Mat-Su Valley residents moved to Anchorage. This movement represents a five-year low for Anchorage residents leaving for the Mat-Su Valley and a five-year high for Mat-Su Valley residents moving to Anchorage.

- Several factors may be driving that loss to Mat-Su. Housing cost and availability is likely a factor. Another may be employment opportunities in the borough. Mat-Su has added 2,250 jobs over the past five years (mainly in health care and the visitor industry) while Anchorage as lost about 5,600. It is worth noting how important Anchorage is in supporting the Mat-Su economy. The Mat-Su economy provides about 23,650 jobs, yet 44,000 Mat-Su residents are employed. Some residents are employed in shift work on

the North Slope or Alaska mines, but the vast majority of Mat-Su residents not working in the borough are employed in Anchorage.

- While the total population of Anchorage has declined in recent years, population change at the neighborhood level has varied. Between 2013 and 2018:

  - The Core Downtown area's population declined by 407 people (nearly 40 percent); Spenard and Midtown lost 386 and 425 people respectively, a 10 percent decline for each.

  - The Ptarmigan area expanded by 800 people (13 percent), while the population of Lower Hillside grew by 600 (8 percent) and Muldoon by 220 (4 percent).

- Anchorage's population is getting older. In the past five years, the age 65+ cohort has increased from 26,150 (9 percent of the population) to 32,892 people (11 percent). By 2030 these older residents are projected to account for 17 percent of the population. The aging population will increase demand for healthcare, senior housing, and other senior services.

Anchorage Population, 2007-2022
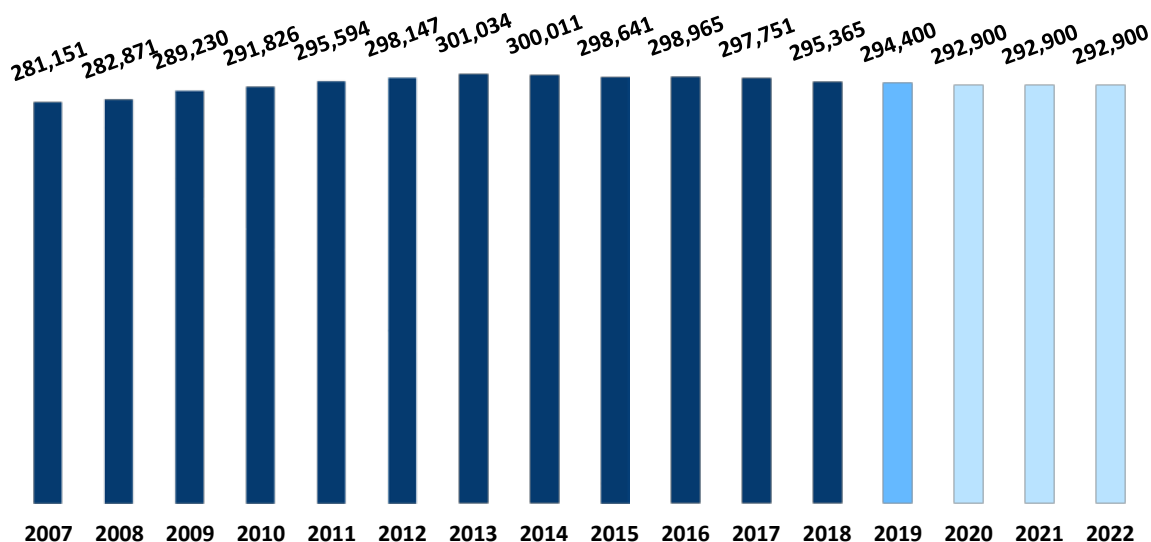
Source: Alaska Department of Labor and Workforce Development (2007-2018); McDowell Group Estimates (2019-2022).

Employment

Anchorage employment declined for the third consecutive year in 2018, averaging 150,137 jobs, 900 (0.6 percent) fewer than in 2017. Since hitting a record employment peak in 2013, Anchorage has shed a total of 5,600 jobs (a 3.6 percent decline).

Although the economy has shown signs of improvement since late 2018, weakness persists in some sectors and State of Alaska budget cuts will most likely derail any potential recovery. If the vetoes stand, State budget cuts will cost Alaska 4,700 jobs in total, including all multiplier effects. Perhaps 40 percent of those cuts will be in Anchorage. Anchorage will quickly lose hundreds of jobs, mainly at the University of Alaska Anchorage (one of Anchorage's largest employers) but also in health care and other sectors. Expected employment growth in the oil &

gas, construction, and leisure & hospitality sectors is not likely to overcome State-budget driven declines. A spike in local spending associated with an increased PFD would be welcome in the retail sector, but few long-term jobs would be created.

Absent some restoration of the $600 million in state budget cuts, AEDC anticipates the Anchorage economy will remain in recession in 2019 and see a net loss about 700 jobs compared to 2018. Anchorage employment through the first half of 2019 is about equal to the same period in 2019, signaling what would otherwise be the start of anticipated economic recovery. However, employment losses in the second half of the year will push 2019 overall into negative territory (down 700). Greater losses – around 1,000 jobs – would be expected in calendar year 2020, as FY2020 budget cuts take full effect. State fiscal policy could make matters better or worse in 2020 and beyond. Assuming no further cuts from the State's FY2021 budget, Anchorage employment losses will moderate by 2021, when a decline of about 200 jobs is forecast. We see stability at best in 2022, with no net change in employment, again with the critical caveat about future state budgets.

AEDC's employment forecast reflects the net effect of a mix of positive and negative forces in the local economy, as outlined below.

- Anchorage's shrinking resident labor force is evidently presenting significant challenges for local employers. Anecdotal evidence suggests that many employers are having difficulty filling open positions. The phenomenon is not unique to Anchorage. Economic recession coupled with an aging workforce is creating a mismatch between the resident labor supply and labor demand. Increasing reliance on non-resident workers is the likely result.

- Construction employment in Anchorage has trended lower since the early 2000s. This sector was among the hardest hit by the recession, with job losses of 14 percent between 2015 and 2017. However, the sector expanded to 7,500 jobs in 2018, an increase of 300 (4.1 percent) from 2017, and early data for 2019 shows growth, supported by increased oil & gas, defense, and earthquake-repair activity.

- The oil & gas sector lost jobs in 2018 for the fourth year in a row, declining by 100 (4.4 percent) to 2,500 total jobs. However, this was the smallest annual loss since the sector began trimming jobs after oil prices fell drastically in 2014. Preliminary data for 2019 is favorable for the sector, with year-over-year gains of 100 to 200 jobs.

- Healthcare employment continued its sustained growth through most of 2018, adding 200 jobs (0.9 percent) for total employment of 29,900. However, this was the smallest increase in more than 15 years. While outpatient services and hospital jobs expanded in 2018, employment in nursing and residential care weakened. Monthly employment for the first five months of 2019 has been flat compared to 2018. Reductions in Medicaid spending by the State of Alaska will negatively impact this sector.

- In 2018, the professional and business services sector accounted for 17,200 jobs, 200 fewer jobs (2.3 percent) than 2017 and the sixth consecutive year of losses. This sector—which includes accountants, engineers, lawyers, and architects, among other professionals—has lost 3,000 jobs (15 percent) from the peak in 2013. Two-thirds of

Alaska's employment in this sector occurs in Anchorage. Early data for 2019 indicate losses are continuing, but at a slowing rate.

- Retail employment totaled 17,000 in 2018, down 500 jobs (3.0 percent) from 2017. With the closure of Sam's Club, Toys "R" Us, and Sears, among others, the sector has shed 1,100 jobs (6.1 percent) since a peak in 2015. The closure of Nordstrom in 2019 will affect about 170 employees, though losses will be moderated by expansion at the Midtown Mall and steady occupancy rates at Tikahtnu Commons, 5th Avenue Mall, and Dimond Center. Preliminary data for 2019 indicates continuing job loss through the first five months of the year.

- Government employment in Anchorage is at a 21-year low. In 2018, government accounted for 27,500 jobs, down 400 (1.5 percent) from 2017. State government accounts for 36 percent of the total while local and federal government account for 34 and 30 percent, respectively. Budget cuts will continue to shrink State of Alaska employment, including at the University of Alaska Anchorage. UAA accounts for about 3,100 regular and temporary jobs. Preliminary data indicates government sector losses are continuing at all levels into 2019, though hiring for the 2020 Census should soon spur federal employment.

- The Anchorage leisure and hospitality sector returned to record employment in 2018, after a slight decline in 2017, with the addition of 100 jobs (0.8 percent). About 85 percent of the sector's 17,400 jobs are in accommodations and food services; the remaining 15 percent are at fitness centers, theaters, and a variety of other entertainment and recreational sites. Early data for 2019 shows a slight increase in leisure and hospitality employment. Growth in Alaska's visitor industry bodes well for this segment of Anchorage's economy.

Anchorage Average Employment and Permanent Fund Dividend Amount, 2007-2022
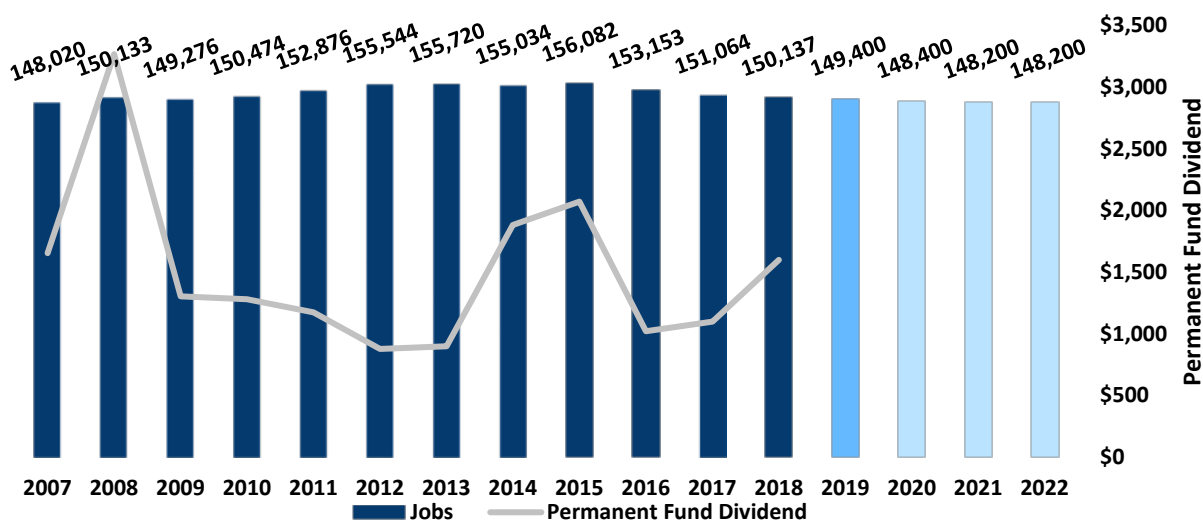
Note: The 2008 figure includes a $1,200 "Energy Rebate" which was proposed by the Palin Administration and approved by the Legislature.
Source: Alaska Department of Revenue (PFD; 2007-2018); Alaska Department of Labor and Workforce Development (2007-2018); McDowell Group Estimates (2019-2022).

Personal Income

Alaska resident total personal income grew by 4.1 percent between 2017 and 2018. Although data specific to Anchorage has not yet been released, personal income in the Municipality generally follows statewide trends. Anchorage residents accounted for about 43 percent of total personal income in Alaska in 2017.

AEDC anticipates total personal income in Anchorage will grow by about 2 percent in 2019, essentially keeping pace with inflation but not growing in real dollar terms. We expect some growth in investment income this year softened by slower growth in wage earnings. In 2020 a slower rate of growth is anticipated, about 1.5 percent, then back to 2 percent through 2022, though with significant uncertainty. The Permanent Fund Dividend (PFD) is a wild card in these forecasts. For each $1,000 paid out in the form of a PFD, there is a 1.3 percent increase in total personal income in Anchorage in the year of the pay-out. However, while a large PFD may provide an infusion of personal income, its short-term benefits from an economy-wide perspective will not compensate for the permanent salary and benefit reductions caused by significant State budget reductions.

- In 2017 (the most recent data available), Anchorage residents had a total of $18.7 billion in personal income. Personal income falls into three general categories:

    o   Salaries and benefits (including proprietors' income): $12.2 billion in 2017

    o   Investment income (including dividends, interest and rents): $3.7 billion

    o   Personal transfers receipts: $2.8 billion (includes the PFD)

- Anchorage residents will receive about $400 million if the 2019 PFD is $1,600 (equal to the 2018 dividend) or roughly $760 million with a $3,000 PFD.

- The net outflow of income – that is, wages earned by non-residents in Anchorage minus wages earned by Anchorage residents working outside of the municipality – was over a billion dollars for the first time in 2017. In 2017, the most recent data available, $587 million in earnings accrued to Anchorage residents working outside the Municipality.   An example of this type of worker is the Anchorage resident working on the North Slope. In the same year, non-Anchorage residents earned $1,593 million while working in Anchorage. Examples of this category include construction workers, traveling physicians and nurses, or seasonal tour operators. As Anchorage's resident labor force continues to shrink, nonresident workers will capture a growing share of the wages generated in the local economy unless this trend can be slowed. The Anchorage resident labor force has 6,500 fewer workers than it did five years ago.

Anchorage Personal Income ($Billion), 2007-2022
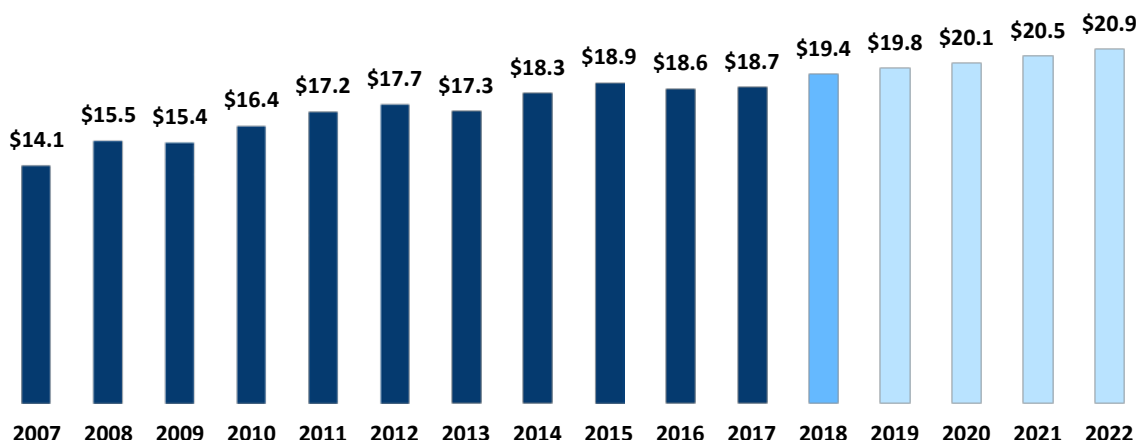
Source: Bureau of Economic Analysis (2006-2017); McDowell Group Estimates (2018-2021).

Anchorage International Airport Passenger and Freight Volume

The Ted Stevens Anchorage International Airport (ANC) handles more passengers than all other airports in the state combined and is the 5th busiest airport in the world based on cargo volume. The airport is an important driver of local economic activity. Operations at ANC support about 22,000 jobs, or about 1 in 10 jobs in the local economy.

Located less than 10 hours by air from most of the industrialized world, ANC's geographic advantage will continue to support operations at the airport. To strengthen its competitive position in global trade, ANC significantly reduced landing fees in 2019. Further, the North/South Runway Renewal Project will provide needed capacity for the next generation of aircraft.

ANC's strategic location continues to attract private sector interest. Planning is underway for two projects that would add more than a million square feet of cargo handling facilities worth nearly a half billion dollars.

Air Passengers

AEDC expects 2019 passenger volume of 5.73 million, exceeding the 2018 record by 1.5 percent. Strong visitor industry activity in the state will support passenger volume growth of about 1.5 percent annually through 2022.

- Passenger volume totaled 5.65 million passengers in 2018, a 3.3 percent increase from 2017. This figure included about 2.8 million passengers that deplaned and an equal number that enplaned. About 50,000 passengers were recorded in transit.

- Through May of this year, passenger volume is up 1.4 percent from the same period in 2018.

- June through August are the busiest time of year for passenger travel. In 2018, this three-month period (a quarter of the year) accounted for 37 percent of total volume. February is typically the slowest month of the year.

- Sun Country, Allegiant Air, United Airlines, and other air carriers have started flying into Anchorage or expanded existing ANC operations. Airport officials anticipate adding gate capacity to handle increased passenger volume.

ANC Air Passenger Volume (Million Passengers), 2007-2022
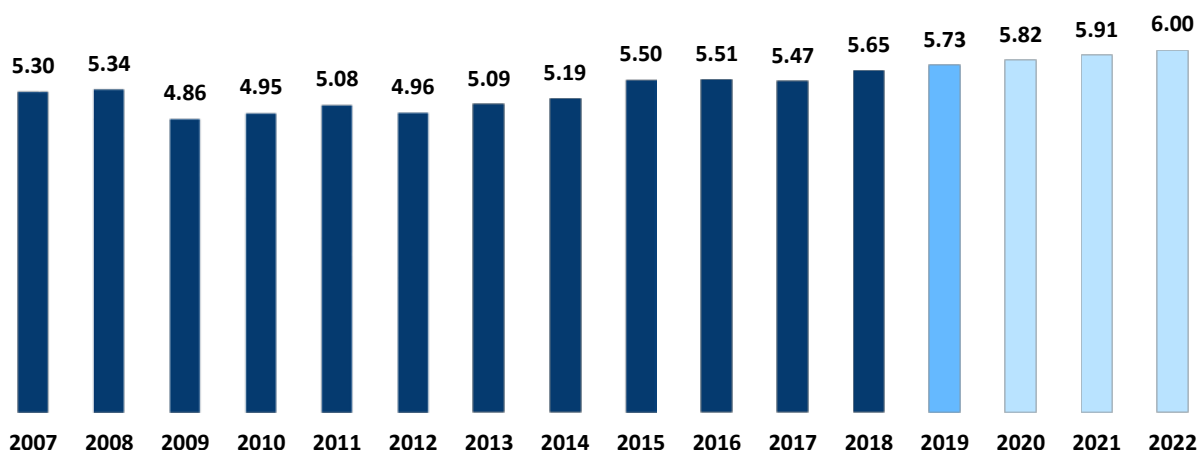
Source: State of Alaska Department of Transportation & Public Facilities (2007-2018); McDowell Group Estimates (2019-2022)

Air Freight Volumes

After strong growth the previous two years, AEDC expects air cargo volumes to retreat slightly in 2019, down about 2.0 percent from 2018. While ecommerce growth and the airport's strategic location will support activity, trade disputes and softening global economic growth could impact volume. Absent an escalation in trade disagreements or national recession, AEDC expects steady growth of around 1.0 percent annually between 2019 and 2022.

- Cargo volume expanded to 3.08 million tons in 2018, a 2.3 percent increase from the prior year. Most of this volume comes from cargo destined for markets outside Anchorage.

- Through May of this year, cargo volume is 2.2 percent lower than the same period in 2018. While the total number of airplane landings is roughly flat, the average plane is carrying about 2.0 percent less cargo.

- Global trade disputes have the potential to impact ANC activity. Approximately one in four cargo planes that land at ANC originate in China.

- The Asia to North America air corridor is the busiest on the globe and about 80 percent of all planes traveling it stop at ANC.

- Airport operations resumed just 15 minutes after the 7.1 magnitude earthquake in November 2018.

ANC Air Cargo Volume (Million Tons), 2007-2022

Year	Value
2007	3.10
2008	2.60
2009	2.20
2010	2.80
2011	2.80
2012	2.70
2013	2.70
2014	2.75
2015	2.92
2016	2.81
2017	3.01
2018	3.08
2019	3.02
2020	3.05
2021	3.08
2022	3.11

Source: State of Alaska Department of Transportation & Public Facilities (2007-2018); McDowell Group Estimates (2019-2022)

Port of Alaska Freight Volume
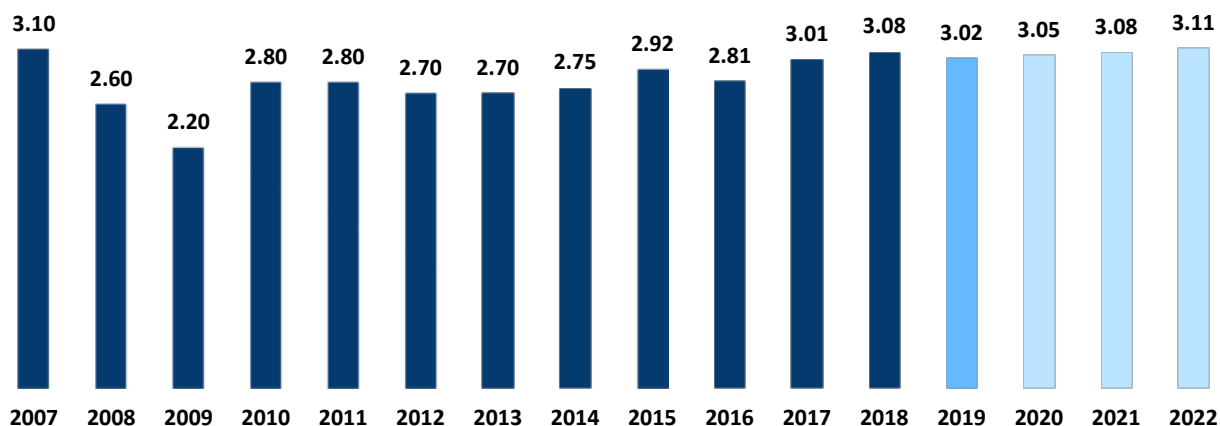
The Port of Alaska (POA) is the state's most efficient and important marine inbound freight infrastructure asset. Petroleum products, consumer goods, and cement handled by the port are distributed to every region in Alaska.

Although AEDC anticipates a 2.0 percent increase in volume for 2019, near-term job losses in Anchorage and a declining population could weigh on demand for consumer goods. Fuel volume will remain strong and potentially grow with airport demand. As a result of the prolonged recession, AEDC is revising the port's medium-term growth rate lower: from 1.0 percent per year to 0.5 percent between 2020 and 2022. The port is expected to exceed four million tons in annual freight and fuel movement by 2021, the first time since 2011.

- In 2018, 3.95 million tons of cargo was handled by POA, a 13 percent increase from 2017. Nearly all growth came from the petroleum category, which expanded 23 percent and contributed 56 percent to the total. Vans, flats, and container volume totaled 41 percent of 2018 volume with slight growth of 2.4 percent from the prior year. All other categories (mainly cement) accounted for about three percent of the total with growth flat relative to 2017.

- Through the first five months of 2019, volume at the port totaled 1.55 million tons, a pace 2.0 percent ahead of 2018. Vans, flats, and container volume is nearly nine percent higher year-to-date while the petroleum category is roughly flat.

- The Port anticipates 10 cruise ships, four dry-bulk (cement) freighters, and about 25 petroleum tankers will call on POA in 2019, a level similar to 2018.

- POA handles between one half to two-thirds of all jet fuel sold to airlines at the Ted Stevens Anchorage International Airport (ANC). With airport volume regularly exceeding 600 million gallons of jet fuel annually, ANC is dependent on efficient POA operations. The Port handles all jet fuel used by Joint Base Elmendorf-Richardson.

- Modernization efforts at the port are underway, as much of the infrastructure is well past its useful life. The initial phase of the construction effort began in 2018, with in-water dock construction targeted by the city administration to begin in 2020. However, funding for the complete modernization program has not yet been fully secured.

- Mining development elsewhere in Alaska may within the next decade spur cargo movement through POA. For example, Trilogy Metal's Upper Kobuk Minerals Project in northwest Alaska includes plans to ship mineral concentrates from the mine to POA via truck and rail.

Port of Alaska Volume (Million Tons), 2007-2022
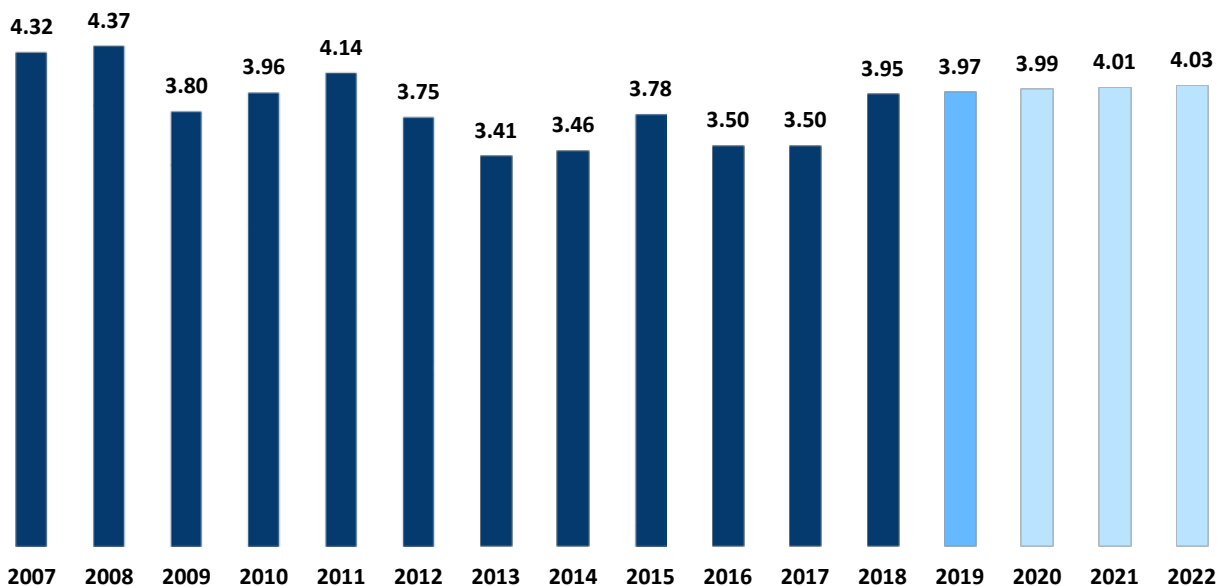
Source: Municipality of Anchorage, Port of Alaska (2006-2017); McDowell Group Estimates (2018-2021).

Building Permit Values

In 2019, AEDC expects Anchorage building permit values will total nearly $385 million, a level slightly above 2018. This would mark the end of four consecutive years of decline. However, renewed uncertainty about the direction of the economy could pause or slow a return to growth. For this reason, AEDC is revising the long-term growth rate lower, from 5 percent annually to 4 percent.

- In 2018, building permit values totaled $379 million, an 8.2 percent decline from 2017 and the lowest level in at least 12 years.

- Commercial projects typically account for the largest share of total permit value. In 2018, the category accounted for $220 million or 57 percent of the total. Through May of this year, this category is slightly behind 2018. The following projects are currently underway:

  - A $5.0 million project at Safeway; $3.7 million for a new Planet Fitness located in the Midtown Mall; and $8.0 million of investment by the Cook Inlet Tribal Council.

  - Tesoro's improvements at the Port of Alaska worth $5.8 million, and Providence Health & Service's pharmacy build-out and parking garage projects totaling $4.4 million.

  - Renovations for several hotels, including $2.4 million for the Downtown Marriott.
  - Longer-term prospects include significant potential investment at the airport, including a hotel and several cargo handling facilities.

- Residential construction permits contributed $132 million to the total value; an amount roughly equal to 2017. Early data for 2019 indicates the category is ahead of recent years. Through the first five months of 2019, residential building permits are up 18 percent from the previous year. Most residential permit values come from new construction of single and multi-family buildings. Activity associated with additions or alterations to existing residential housing is also included.

- In 2018, the government category of building permit values fell to a 16-plus year low with a total of $35 million, a decline from 2017's value of $46 million. The previous five-year average was around $75 million annually. Early data for 2019 indicate values continue to trend lower. However, government projects are underway throughout the city including improvements to area schools and upgrades to Municipality of Anchorage infrastructure.

Anchorage Building Permit Values
($Million), 2007-2022

Source: Municipality of Anchorage (2007-2018); McDowell Group Estimates (2019-2022).
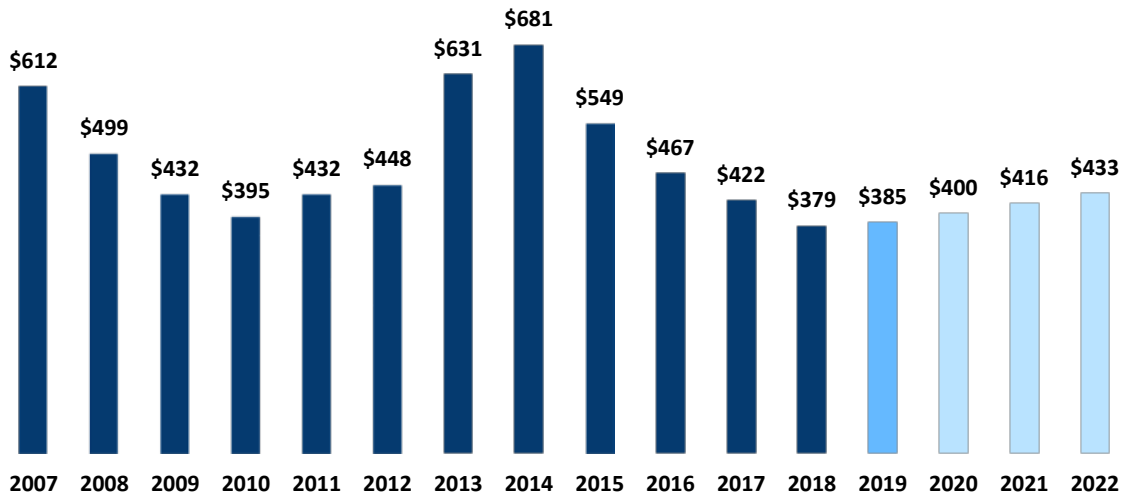
Anchorage Building Permit Values by Type, 2018

■ **Commercial**   ■ **Residential**   ■ **Government**
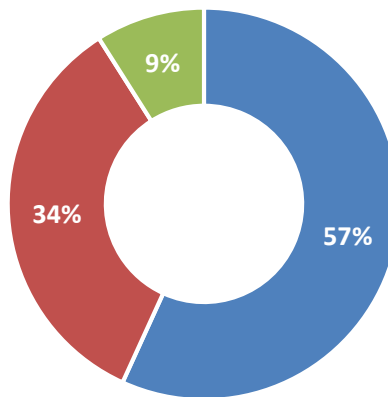
Source: Municipality of Anchorage.

Average Single-Family Home Sales

Average single-family home prices in Anchorage increased slightly (2.2 percent) to $373,000 in 2018. However, market weakness in the first part of 2019, resulting from the November 2018 earthquake, is expected to be amplified by general economic uncertainty stemming from State of

Alaska budget cuts. AEDC expects single-family home prices to return to levels similar to the 2015-2017 period.

- Comparing the first quarter of 2019 with the same period in 2018, loan origination activity for single-family residences fell roughly 25 percent (401 to 297). It's likely the November 2018 earthquake slowed markets as buyers were wary of damaged homes.

- Foreclosures remain at low levels across the city. In the first quarter of 2019, 52 mortgages in Anchorage were foreclosed, a figure lower than the five-year quarterly average of 62.
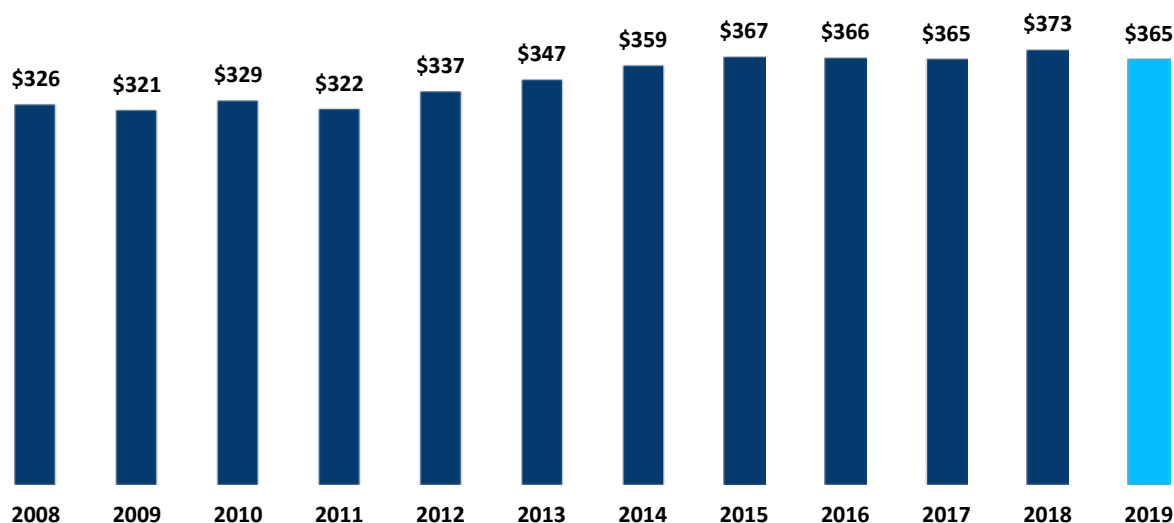
- After several years of historic lows, mortgage rates in Alaska are at an 8-year high. Average rates climbed from about 4.0 percent in 2017 to 4.5 percent in 2018. Mortgage rates averaged 4.6 percent in the first quarter of 2019.

Anchorage Average Single-family Home Sales Price ($1,000), 2007-2019

This representation is based in whole or in part on data supplied by, and to the Subscribers of Alaska Multiple Listing Service, Inc. (AK MLS). Information contained herein is deemed reliable but not guaranteed. Data maintained by AK MLS is for its own use and may not reflect all real estate activity in the market.
Source: Alaska Multiple Listing Service, Inc. (2008-2018); McDowell Group Estimates, (2019).

New Housing Units

Based on data through the first five months of the year, AEDC anticipates Anchorage will add about 450 housing units in 2019. While this level of activity represents improvement from 2018, it remains at a historically low level.

- In 2018, Anchorage added 436 housing units, roughly 100 units fewer than 2017. Multi-family homes accounted for 221 of these units while single-family homes contributed 193 units. 22 mobile homes were added in 2018.

- At the neighborhood level, Anchorage's housing stock has experienced notable change between the 2008-12 and 2013-17 periods. Some areas have expanded, including 16 percent growth in the Fort Richardson Census Area, as well as near 10 percent growth in the Dimond and Girdwood areas. Among the areas which have seen a decline in housing units, a 12 percent decline in Northeast Muldoon and 10 percent reduction in the Downtown Core are the most significant.

- In 2017, the Mat-Su Borough added a record 1,005 units. While the pace slowed to 813 in 2018, the region is adding housing at a rate double Anchorage's.

Anchorage New Housing Units, 2010-2019

Year	Units
2010	465
2011	466
2012	550
2013	595
2014	894
2015	850
2016	423
2017	532
2018	436
2019	450
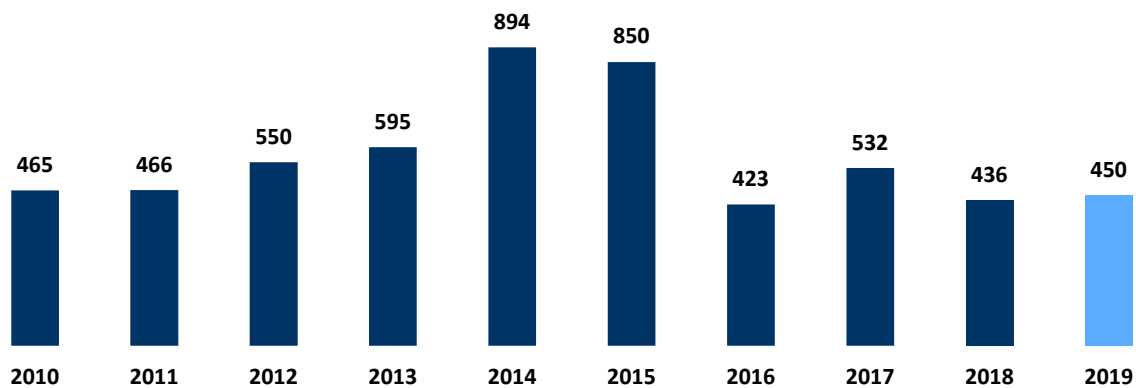
Source: Alaska Department of Labor and Workforce Development (2010-2018); McDowell Group Estimate (2019).

Mat-Su Borough New Housing Units, 2010-2018

Year	Units
2010	750
2011	777
2012	729
2013	778
2014	988
2015	906
2016	929
2017	1005
2018	813
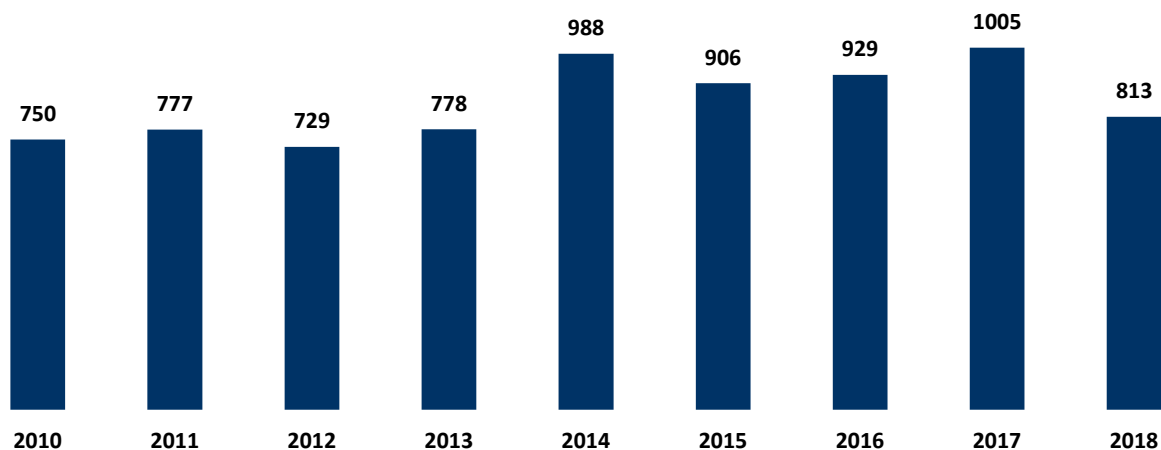
Source: Alaska Department of Labor and Workforce Development (2010-2018)

Visitor Industry

The visitor industry is one of the few bright spots in Anchorage's economy. The number of visitors to the community has been growing for several consecutive years, largely attributable to the strong growth in cruise passenger volume. Visitor-related tax revenues showed healthy increases in 2018, with continued growth expected for 2019.

- In the first three quarters of 2018, Anchorage bed tax revenue increased by 5.7 percent over the same period in 2018 (data for fourth quarter 2018 is not yet available). This growth follows a 3.8 percent increase between 2017 and 2018.
- Anchorage car and rental RV tax revenues increased by 7.8 percent to $6.7 million in 2018, on the heels of 3.2 percent growth in 2017.

- Domestic enplanements at Ted Stevens Anchorage International Airport were up 3.9 percent in summer 2018, reflecting the strong cross-gulf cruise market (see below). International enplanements were down by less than 1 percent.

- Statewide cruise traffic was up by 7.3 percent in 2018. Cross-gulf traffic (passengers embarking or disembarking at Whittier or Seward) showed particularly strong growth, rising 22.9 percent. (Virtually all cross-gulf passengers transit Anchorage either before or after their cruise.)

- Visit Anchorage reports the convention and meeting market was down in 2018, from 535 events in 2017 to 427 events in 2018. Associated spending is estimated to have fallen from $116 million to $94 million. However, the decline was due in part to 2017 being a near-record convention year.

- In 2019, statewide cruise volume is projected to increase by 16.5 percent, including an increase of 15.3 percent in cross-gulf volume. Next year (2020) is projected to show a growth of 5.8 percent in statewide volume, including 2.6 percent in cross-gulf volume.

- Other preliminary indicators for the 2019 visitor season are mostly positive:
  - Visit Anchorage reports a strong start to the year in terms of hotel performance. According to STR, hotel occupancy is up by 10 percent January through May; ADR (Average Daily Rate) is up by 14 percent, and RevPar (Revenue Per Available Room) is up by 25 percent.

  - First quarter 2019 car/RV rental tax revenues (the latest available) showed no change from 2018; however, first quarter represents only about one-tenth of the annual total.

  - Anchorage airport enplanements are up by 1.1 percent in the January through May period.

o   Bed tax data for first quarter 2019 is not yet available.

o   Visit Anchorage estimates that 2019 will be "a good year" for conventions, with a significant number of national and international groups on the schedule.

Anchorage Bed Tax and Car/RV Rental Tax ($Million),2013-2019
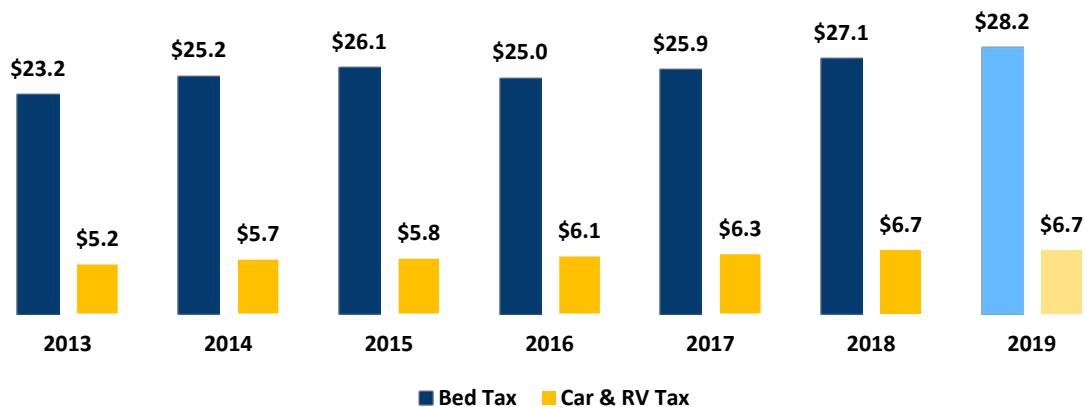
Source: Municipality of Anchorage (2013-2018); McDowell Group Estimates (2019).

Oil Prices

AEDC expects Alaska North Slope (ANS) oil prices to follow a gradual decline indicated by most public and private industry forecasts through 2022. In 2018, a barrel of ANS crude oil sold for an average of $71. Through mid-July of this year, prices have averaged $67 per barrel.

- Although employment in oil and gas is unlikely to return to pre-recession levels in the near-term, robust activity on the North Slope is an encouraging sign of optimism among producers:

  o   ConocoPhillips began production at Greater Moose's Tooth 1, which will ramp up to roughly 25,000 barrels per day in coming months. The company's recent exploration season was the most ambitious in over a decade.

  o   Hilcorp's Moose Pad will produce over 20,000 barrels per day when fully operational. Production at the development came online in April 2019.

  o   Though the date of first production is unclear, the Liberty Project has potential to add more than 60,000 barrels per day to the Trans Alaska Pipeline System (TAPS). The project continues to gain the approximately 60 federal, state, and local permits needed for production to begin.

  o   Oil Search's Pikka Unit is expected to produce up to 120,000 barrels per day with first production expected in 2022.

- o Cook Inlet continues to see exploration and development activity focused primarily on natural gas production. Hilcorp, Furie, BlueCrest Alaska, and Glacier Oil & Gas are among the companies pursuing opportunities in the region.

- Oil markets are being driven by near-term expectations about global economic growth and availability of supply.

  - o Global crude oil supply has been tightened by production cuts from Organization of the Petroleum Exporting Countries (OPEC) along with outages in Venezuela and Iran. However, strong output from the U.S. is making up the difference.

  - o The Organization for Economic Co-operation and Development (OECD) anticipates global economic growth will slow to 3.2 percent in 2019, a rate below the previous two years. The International Monetary Fund (IMF) recently revised lower its outlook for economic growth in 2019 and 2020.

- The U.S. Energy Information Administration expects an average Brent Crude price (ANS' closest comparable in global markets) of $67 per barrel in the second half of 2019 and remain at that level in 2020. Banks including Morgan Stanley have lowered expectations for near-term oil prices, and futures markets also implies decline in the next few years.

- The State of Alaska expects North Slope oil production to average 530,000 barrels per day in the current fiscal year before declining to approximately 491,000 barrels per day by fiscal year 2022. Production is anticipated to rebound to above 500,000 barrels per day in the late-2020s as several key projects come online.

Alaska North Slope Crude Oil
(Average Price Per Barrel), 2007-2022

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
$71	$98	$61	$79	$110	$111	$108	$98	$52	$43	$54	$71	$68	$67	$66	$65
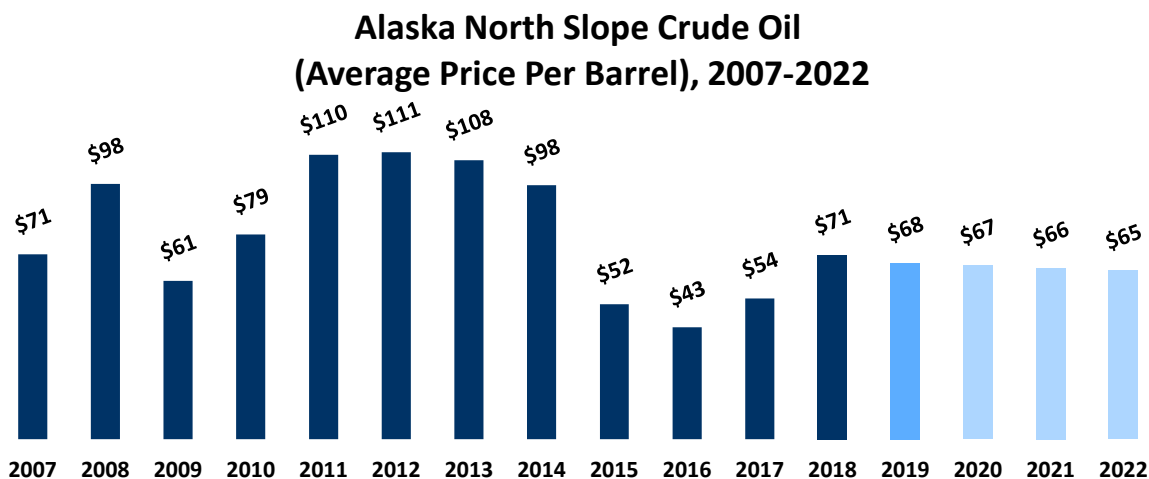
Source: Alaska Department of Revenue (2007-2018); Alaska Department of Revenue, Energy Information Administration, International Energy Agency, Chicago Board Options Exchange, Morgan Stanley (2019-2022).

Alaska North Slope Crude Oil Production
(Thousands of Barrels per Day), FY2007-2022
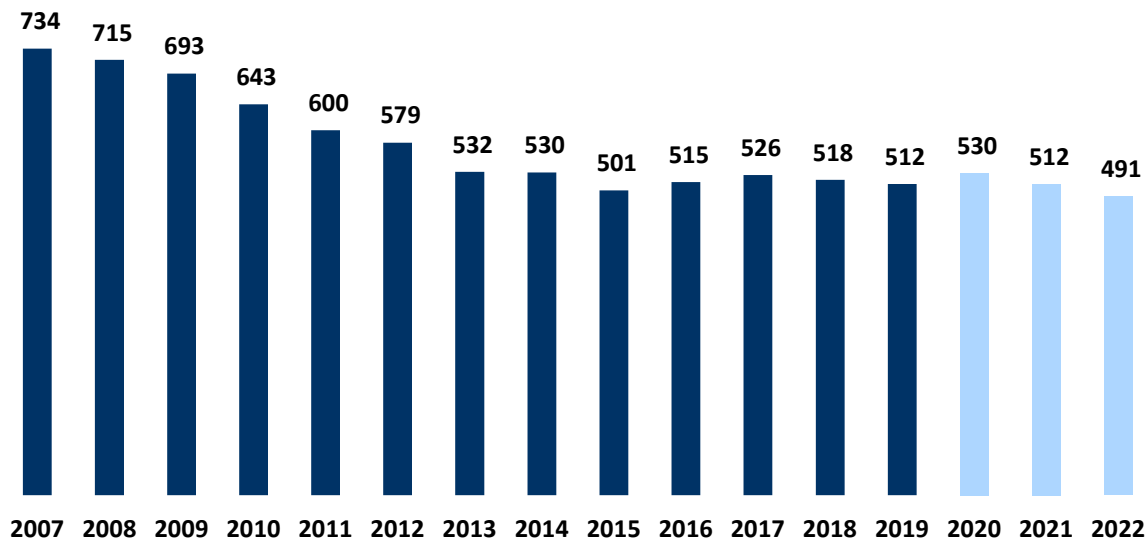
Source: Alaska Department of Revenue.

Looking Ahead

Anchorage has been buffeted by powerful external global market forces in recent years which, combined with a years-long inability to develop a state fiscal policy, cost the local economy 5,900 jobs. Just as the economy is showing signs of recovery, state agency budget cuts are expected to eliminate another 4,700 Alaska jobs, including 2,000 in Anchorage, over the next few years.

Anchorage rode through a recession caused by a sharp and sustained drop in oil prices. Alaska industry has largely adjusted to a new oil price reality and is emerging on a leaner, more efficient trajectory. Now we are on the verge of a policy-driven continuation of the ongoing recession.
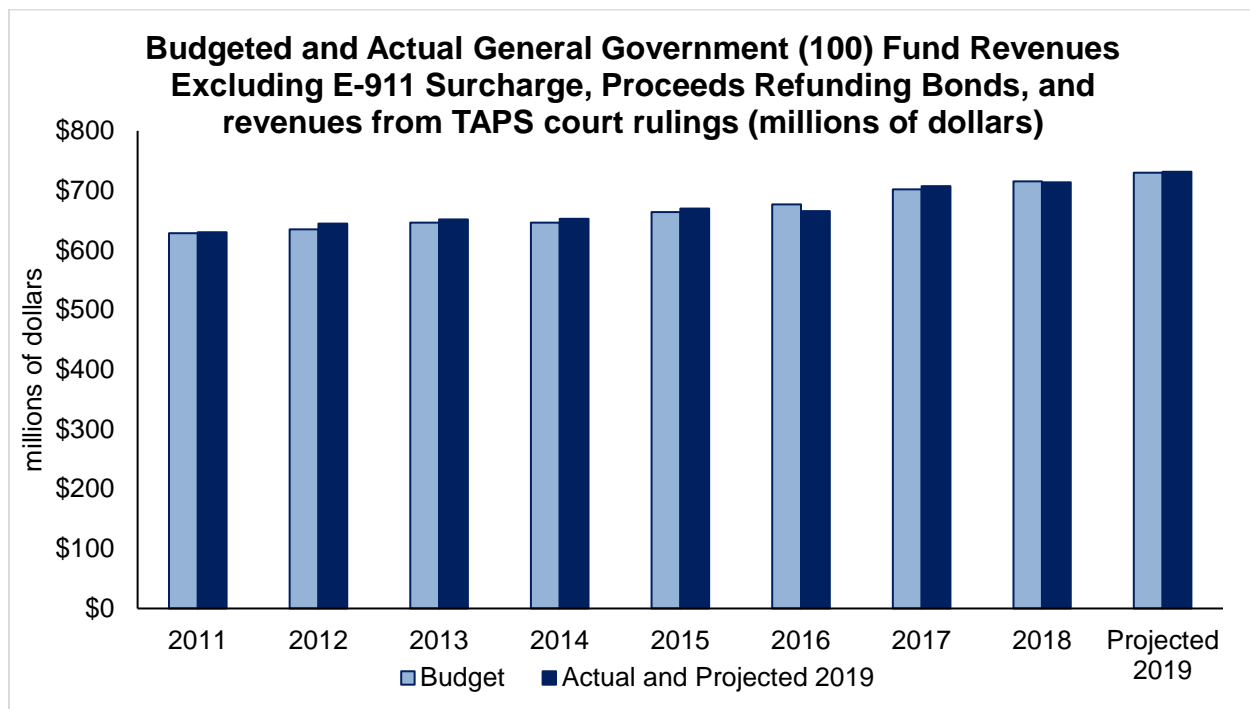
We remain optimistic about the long-term outlook for Anchorage. But that optimism is based on the ability of our community to rally to overcome the challenges we face. We can no longer rely solely on others to solve our problems. Our economy is diverse, including the military, transportation, health care, tourism, education, professional services, and other important sectors. The strength of this economic diversity will ultimately prevail. Admittedly, it is difficult to see much beyond the immediate economic shock created by state budget cuts. In the absence of any form of long-term fiscal plan, we can probably expect further budget turmoil next year and some additional spending cuts.

Whether Anchorage's economy has the resilience to overcome those cuts and return to growth sooner than the next three years remains to be seen. AEDC is hopeful that we can reemerge from recession within this 3-year outlook period. If the state can create some degree of fiscal certainty and sustainability that will be an important step. In the meantime, Anchorage as a community must begin to take steps to do what we can to take more control of our city's future, and AEDC will continue to work to make Anchorage a great place to live, work, and play.

3. Historical Financial Trends

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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 five years. This trend is evidence of the Municipal Treasurer's commitment to estimate, track, and benchmark important revenue sources.

Budgeted and Actual General Government (100) Fund Revenues Excluding E-911 Surcharge, Proceeds Refunding Bonds, and revenues from TAPS court rulings (millions of dollars)

Source: MOA Treasury Division

Long-term Trends in Major Categories of General Government Revenues

A review of long-term revenue trends and drivers will assist policy makers and citizens when considering potential changes in the revenue structure of Anchorage. The narrative and graphs in this section review the long-term trends of general government revenues over the past twenty-one years from 1998 through 2019. The review is based on the six major categories of revenues listed below. Each category is affected by a different policy decisions, economic conditions, legal requirements, staffing, consumer decisions, and other factors.

1. **Determined by Mill Rate and Taxable Value**: Property Taxes, Municipal Enterprise Service Assessment (MUSA) payments, and Municipal Utility Service Assessment (MESA) payments are determined by the mill rate multiplied by taxable value of property or utility/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 Assembly sets the mill rate each year as part of the budget approval process.

2. **Determined by Resident Consumption:** Revenue from taxes on tobacco, motor vehicles, marijuana, motor fuel, aircraft, and Municipal service fees are determined
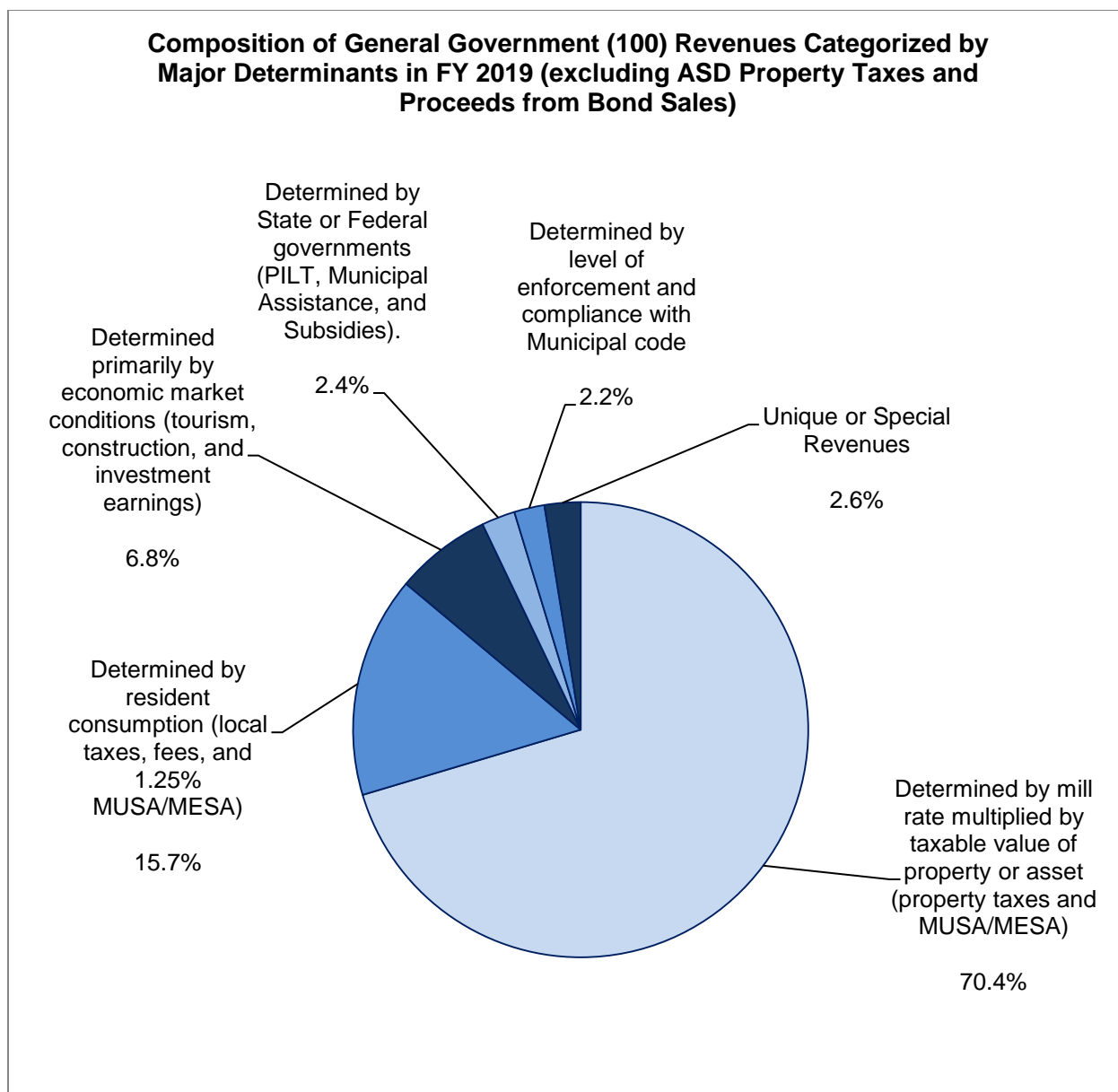
primarily by city residents' choices about their ownership and use of these products and services. Also included in this category are revenues from the Utility Revenue Distribution and 1.25 percent MUSA/MESA payments. These payments are specific percentages of gross revenues of the utilities, which are determined mostly by 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:** State Municipal Assistance, Federal Build America Bond Subsidies, State fisheries taxes, State liquor license fees, State Traffic Signal Reimbursements, State and Federal Payments in Lieu of Taxes (PILT), and other intergovernmental revenues 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

About 70 percent of general government revenues are determined each year by multiplying the mill rate by the taxable value of property or assets. Revenues based on resident consumption contribute the next largest share (about 16 percent). About 7 percent of revenues are determined by economic market conditions. Another 2 percent are 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 are 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.

Composition of General Government (100) Revenues Categorized by Major Determinants in FY 2019 (excluding ASD Property Taxes and Proceeds from Bond Sales)

Determined by State or Federal governments (PILT, Municipal Assistance, and Subsidies).

2.4%

Determined by level of enforcement and compliance with Municipal code

2.2%

Determined primarily by economic market conditions (tourism, construction, and investment earnings)

6.8%

Unique or Special Revenues

2.6%

Determined by resident consumption (local taxes, fees, and 1.25% MUSA/MESA)

15.7%

Determined by mill rate multiplied by taxable value of property or asset (property taxes and MUSA/MESA)

70.4%

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 twenty-one years. Revenues determined by the mill rate and taxable value of property or utility assets have contributed between 60 percent to 70 percent of general government revenues each year over the last twenty-one 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 motor vehicles and the enactment of new taxes such as the marijuana retail sales tax and the motor fuel excise tax. Revenues driven by economic conditions in tourism, investment, and construction markets have contributed a relatively stable share since about 2006. The unusual increase in total revenues in 2006 followed by a decrease in 2007 was because some State 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 2015 primarily because the Utility Revenue Distribution and 1.25% MUSA payment for ML&P were lower due to a ruling by the Regulatory Commission of Alaska.

Composition of General Government (100) Fund Revenues excluding ASD Property Taxes, Bond Sale Proceeds, E-911 Surcharge, and TAPS rulings (millions of dollars)

Legend:
- Unique or Special Revenues Such as Property Sales, Claims and Judgements, and Miscellaneous Revenues, but excluding Bond Sale Proceeds
- Determined by Level of Law Enforcement, level of compliance, and resources available to collect
- Determined by actions of other government jurisdictions
- Primarily Affected by Economic Conditions
- Determined by Resident Consumption of Products or Services
- Determined primarily by mill rate each year but also changes in assessed value
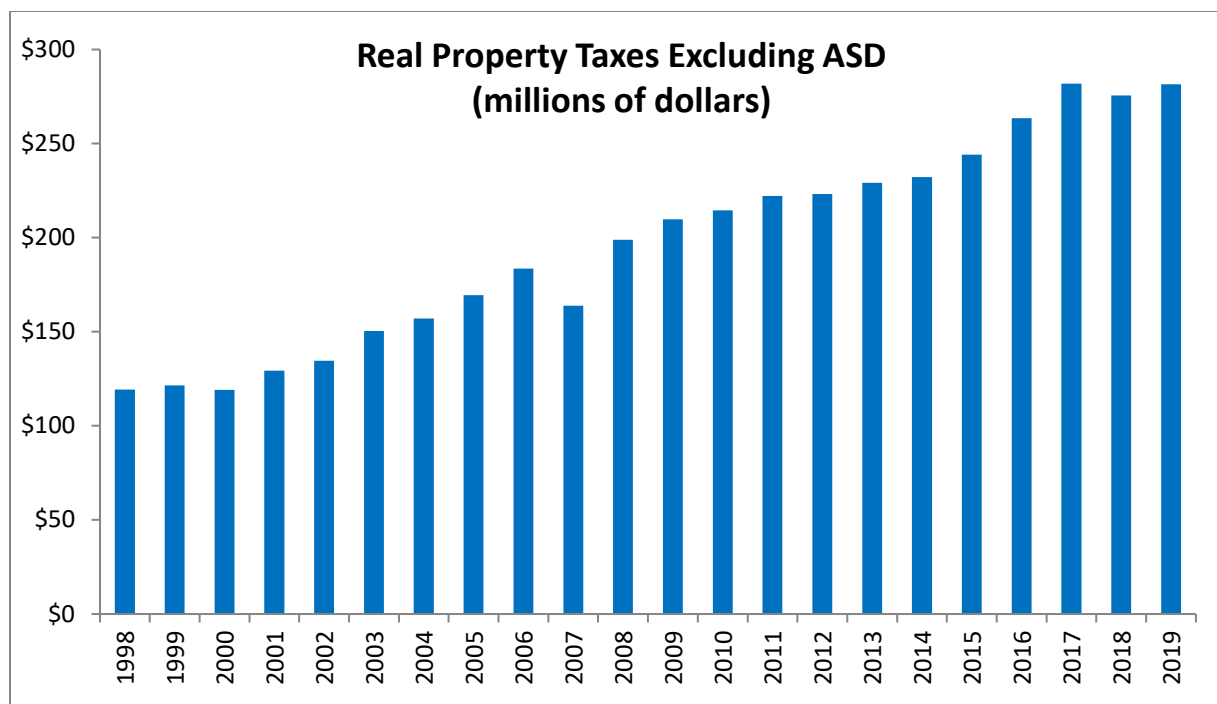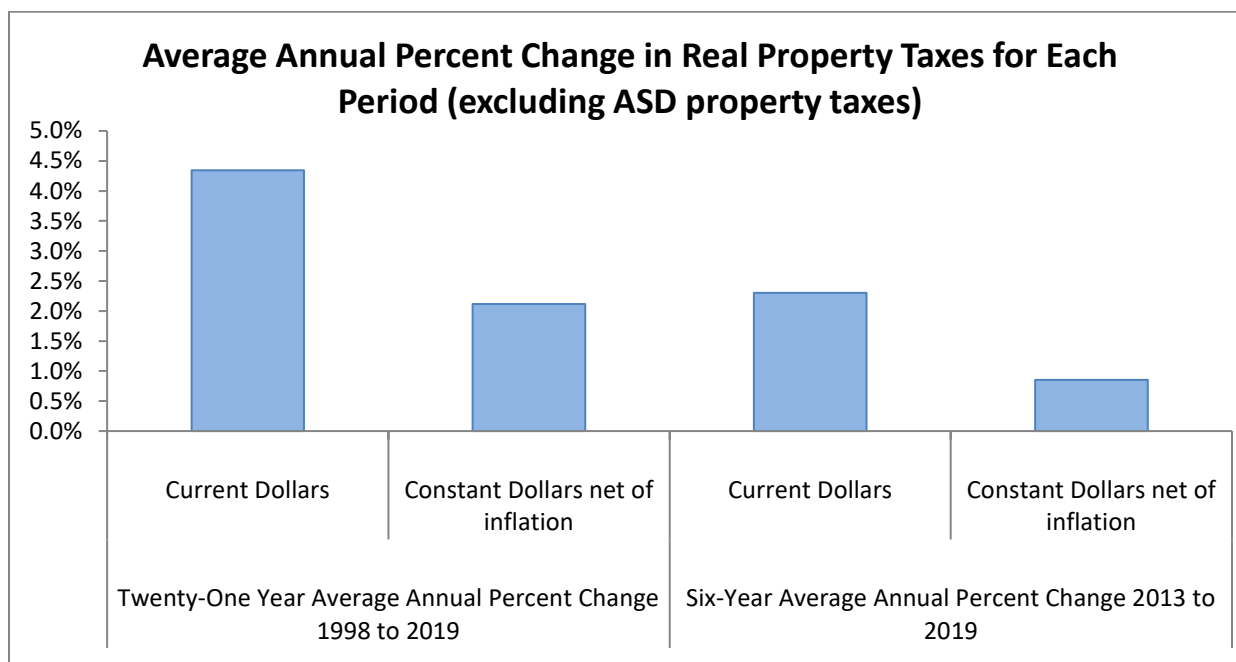
Source: MOA Treasury Division

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 real property taxes 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 2019.
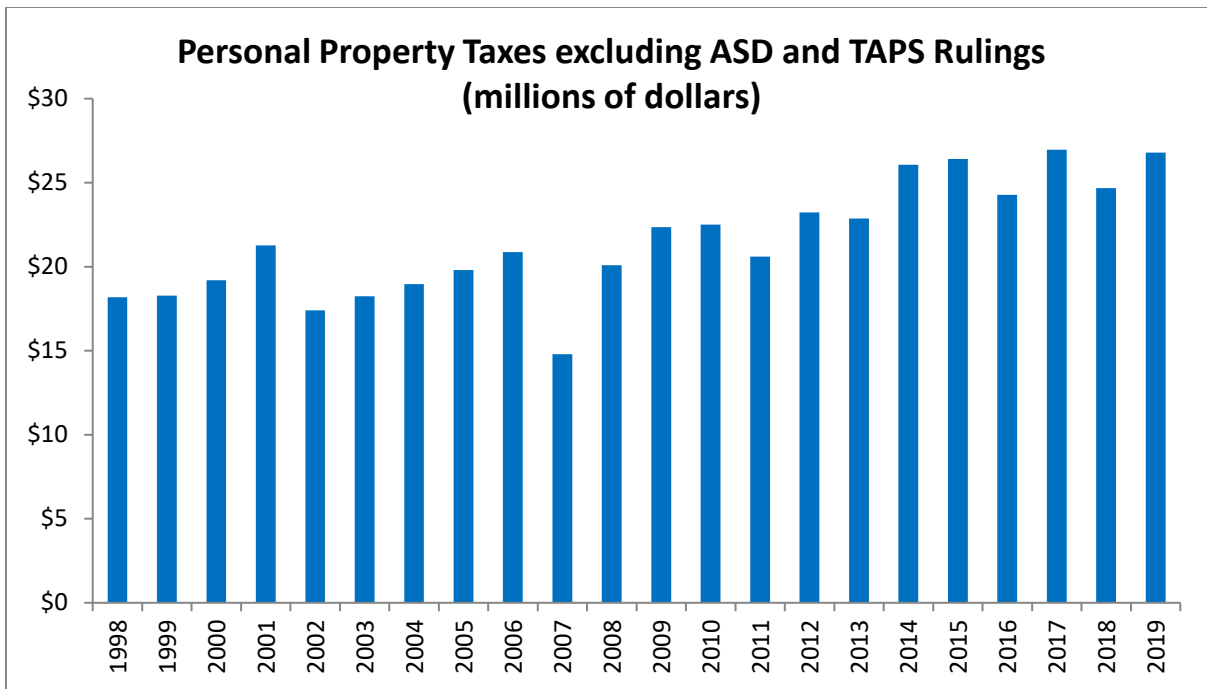
Real Property Taxes Excluding ASD (millions of dollars)

Source: MOA Treasury Division

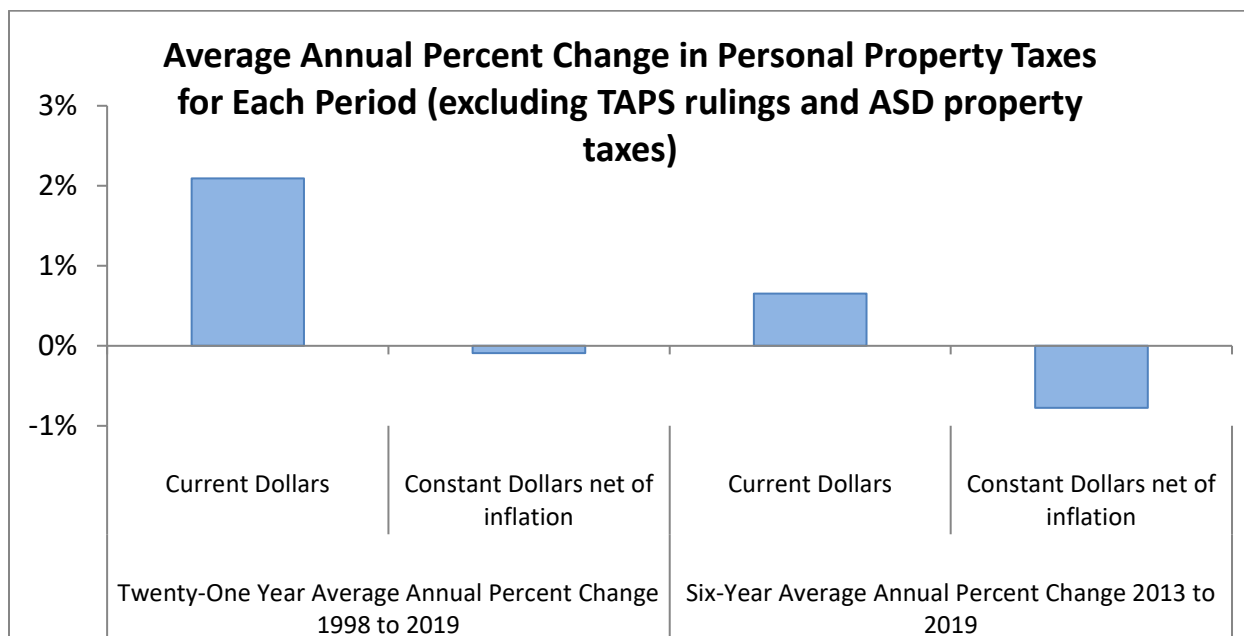## Average Annual Percent Change in Real Property Taxes for Each Period (excluding ASD property taxes)

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 a slower average annual rate than 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.
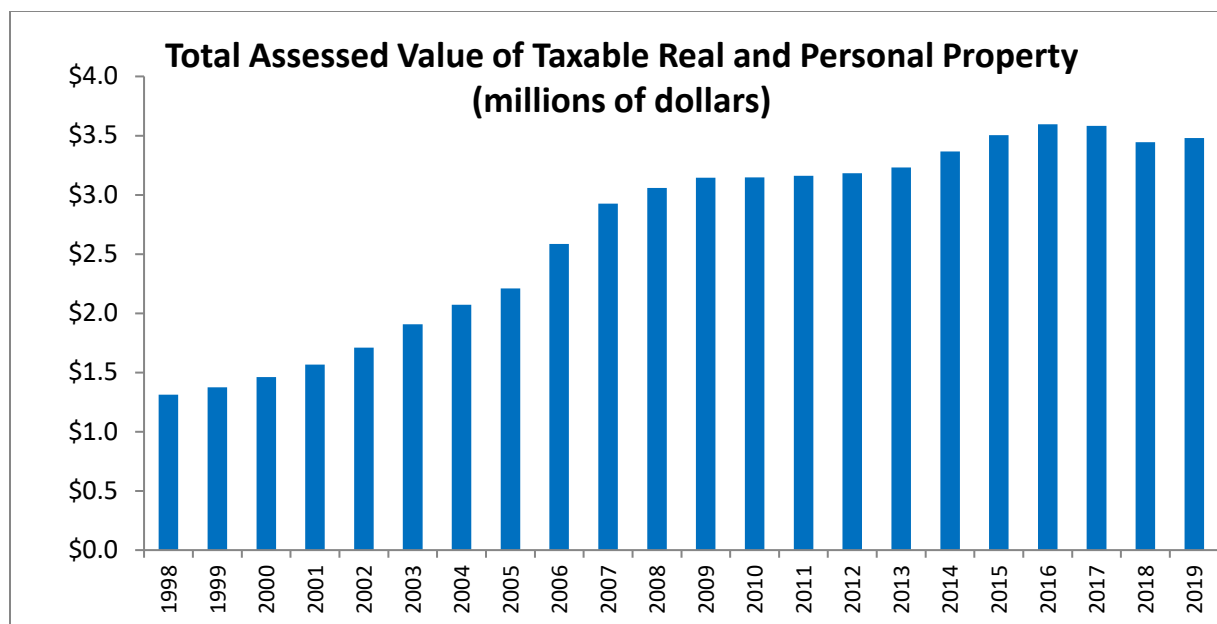
**Personal Property Taxes excluding ASD and TAPS Rulings
(millions of dollars)**

Source: MOA Treasury Division

**Average Annual Percent Change in Personal Property Taxes
for Each Period (excluding TAPS rulings and ASD property
taxes)**

| Current Dollars | Constant Dollars net of inflation | Current Dollars | Constant Dollars net of inflation |

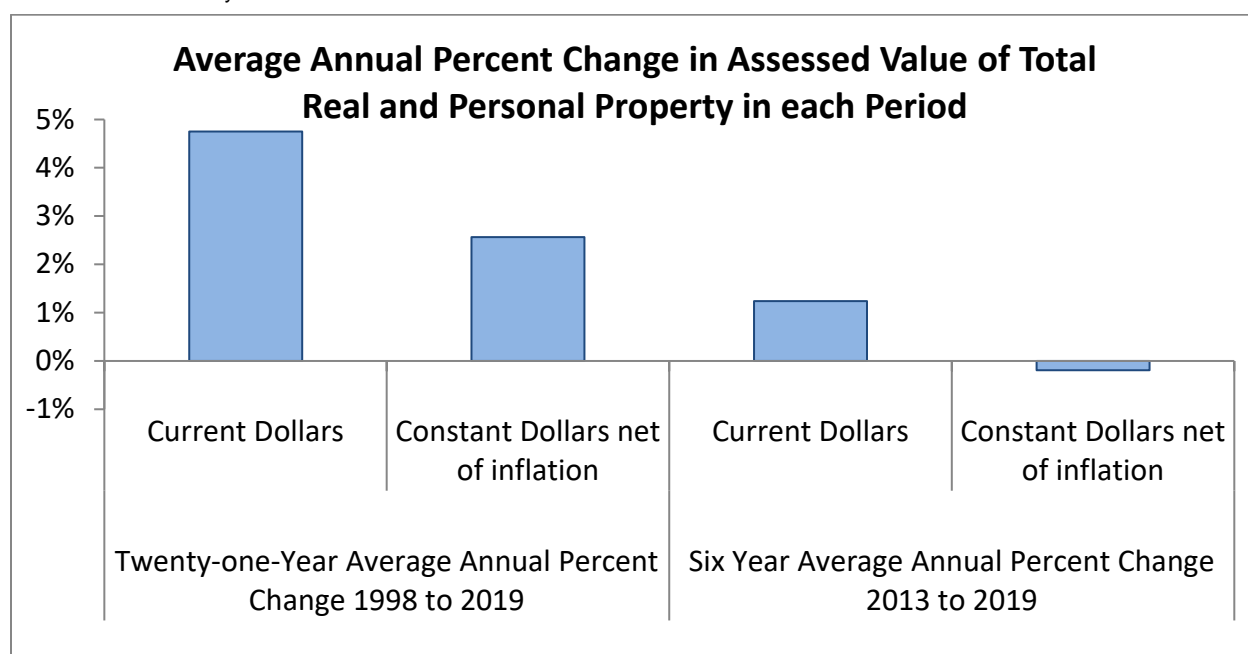| Twenty-One Year Average Annual Percent Change 1998 to 2019 | | Six-Year Average Annual Percent Change 2013 to 2019 | |

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 would result in a lower mill rate. For the same level of revenues, a decrease in assessed taxable property value would result 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 but then declined in 2017 and 2018. The current projection of taxable value in FY 2019 is slightly above the taxable value in FY 2018.

Total Assessed Value of Taxable Real and Personal Property (millions of dollars)

Source: MOA Treasury Division

Average Annual Percent Change in Assessed Value of Total Real and Personal Property in each Period
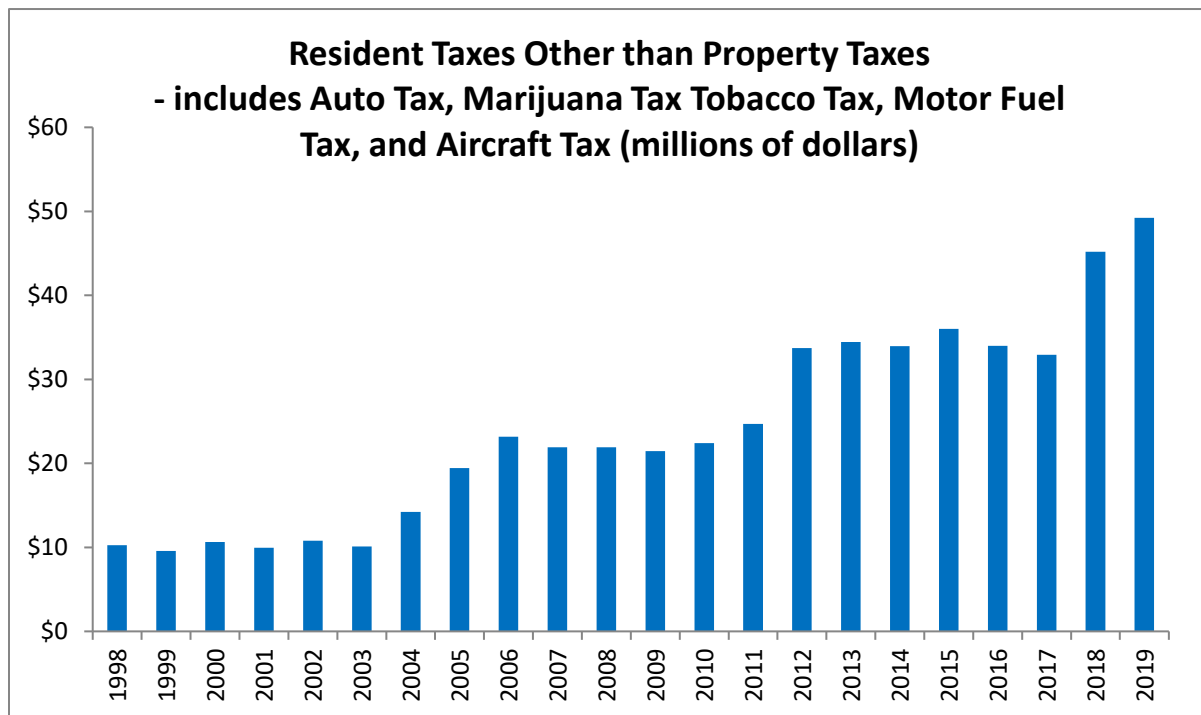
Source: MOA Treasury Division

Revenues Determined Primarily by Resident Consumption

These revenues include fees paid by residents for municipal services and facility rentals. It also includes residents' payments of tobacco taxes, motor vehicle registration taxes, motor fuel taxes, marijuana sales taxes, and aircraft registration taxes. This category of revenues contributes about 16 percent of the total general government (100 Fund) revenues, excluding ASD property taxes.
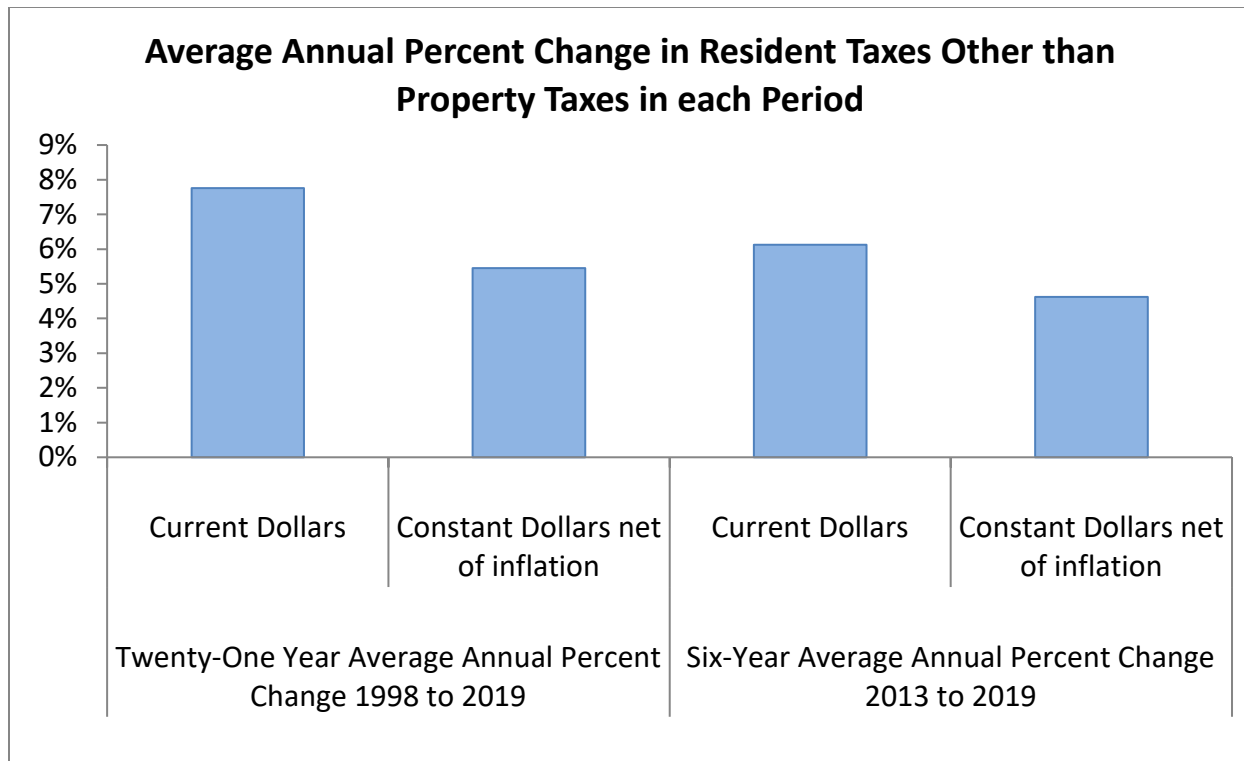
Resident taxes, including motor vehicle registration tax, tobacco tax, marijuana sales tax, motor fuel tax, and aircraft tax are paid primarily by residents of the Municipality. These revenues are affected by changes in the tax rate and consumer choices. Motor vehicle registration tax revenues are also 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. There was an unusual one-time decrease in tobacco tax revenues in 2017 due to the unexpected closure of Sam's Club in December 2017. The increase in the motor vehicle registration tax rates in 2012 and the increase in the tobacco tax rate in late 2004 and 2011 led to substantial increases in these revenues beginning in those years. There were large increases in resident tax revenues in 2018 and 2019 as the legal retail marijuana market expanded and the motor fuel excise tax was implemented.
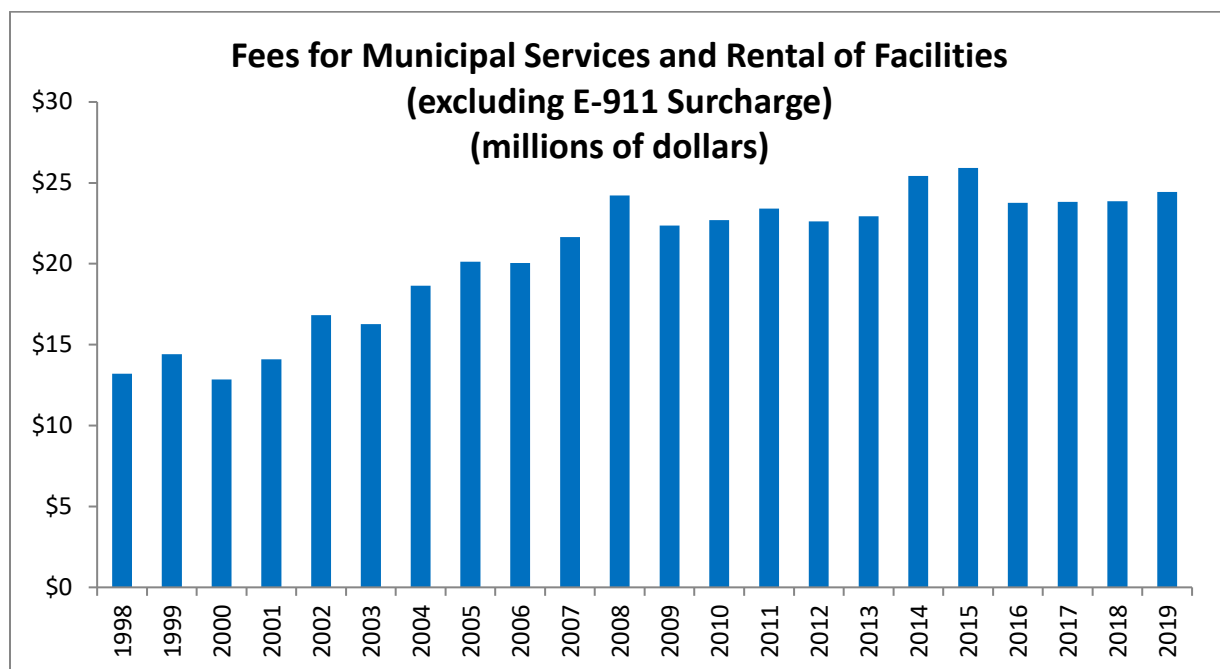

Resident Taxes Other than Property Taxes - includes Auto Tax, Marijuana Tax Tobacco Tax, Motor Fuel Tax, and Aircraft Tax (millions of dollars)

Source: MOA Treasury Division

Average Annual Percent Change in Resident Taxes Other than Property Taxes in each Period

Current Dollars	Constant Dollars net of inflation
Twenty-One Year Average Annual Percent Change 1998 to 2019	

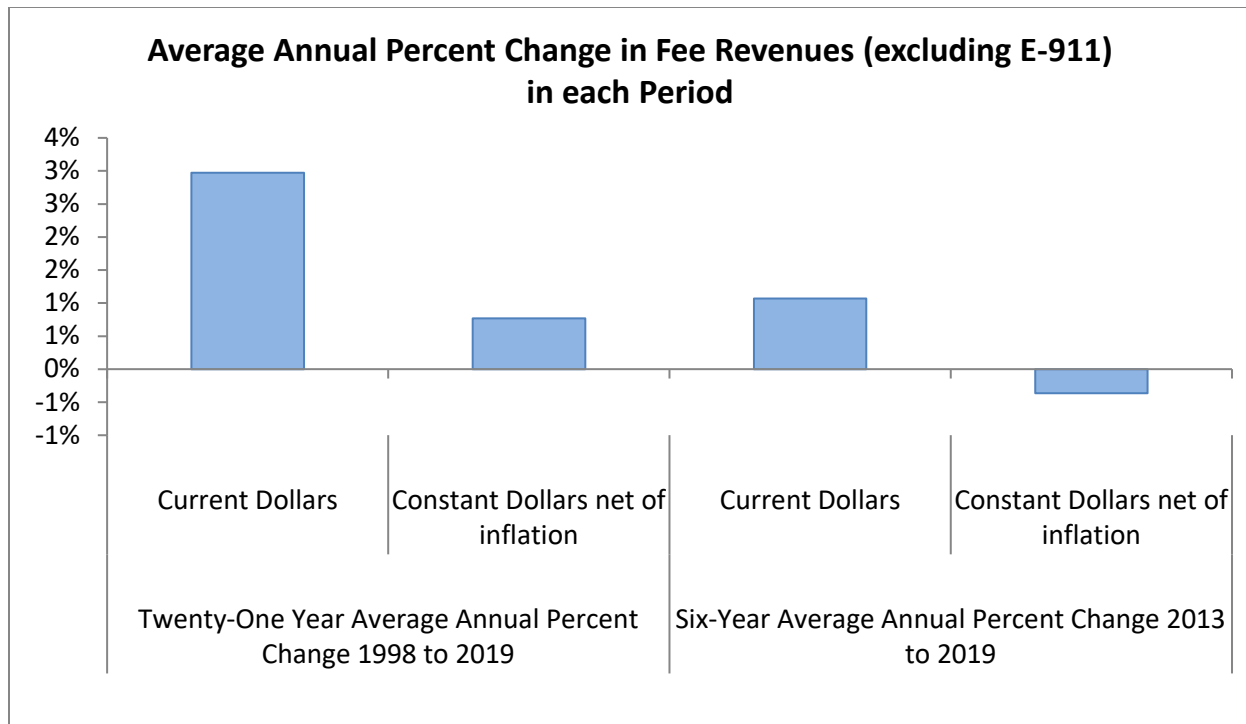|	
Current Dollars	Constant Dollars net of inflation
Six-Year Average Annual Percent Change 2013 to 2019	

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 average annual rate than the long term trend.

Fees for Municipal Services and Rental of Facilities (excluding E-911 Surcharge) (millions of dollars)

Source: MOA Treasury Division

Average Annual Percent Change in Fee Revenues (excluding E-911) in each Period

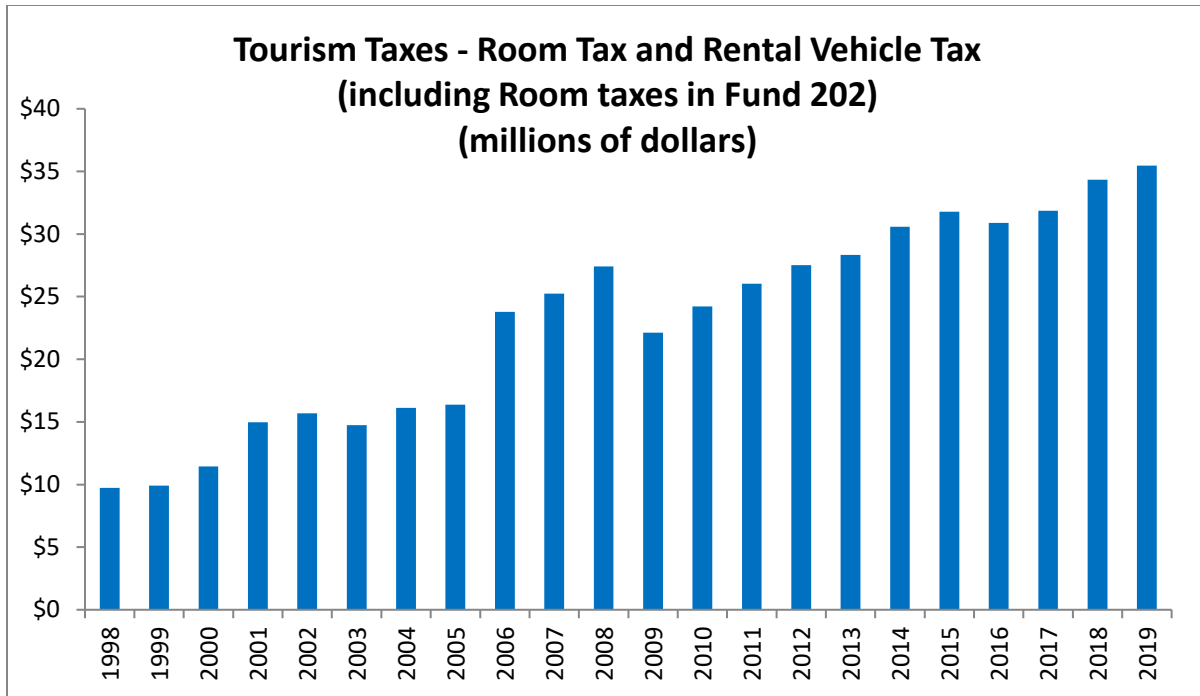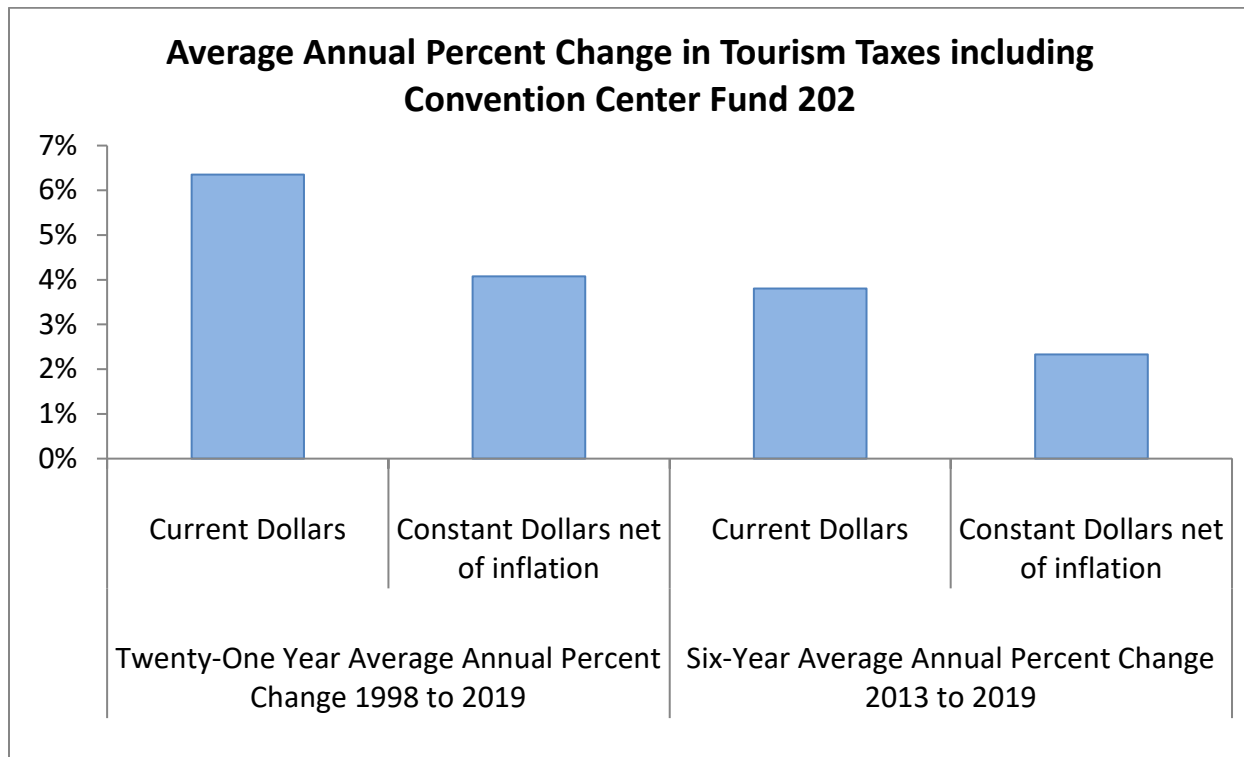Source: MOA Treasury Division

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 7 percent of total general government (series 100 Funds) revenues, excluding ASD property taxes.

Tourism-related revenues from the room tax and the rental vehicle tax 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 have gradually recovered over the last ten years due to increases in the prices charged for hotel rooms and continued growth in the number of visitors to Anchorage.
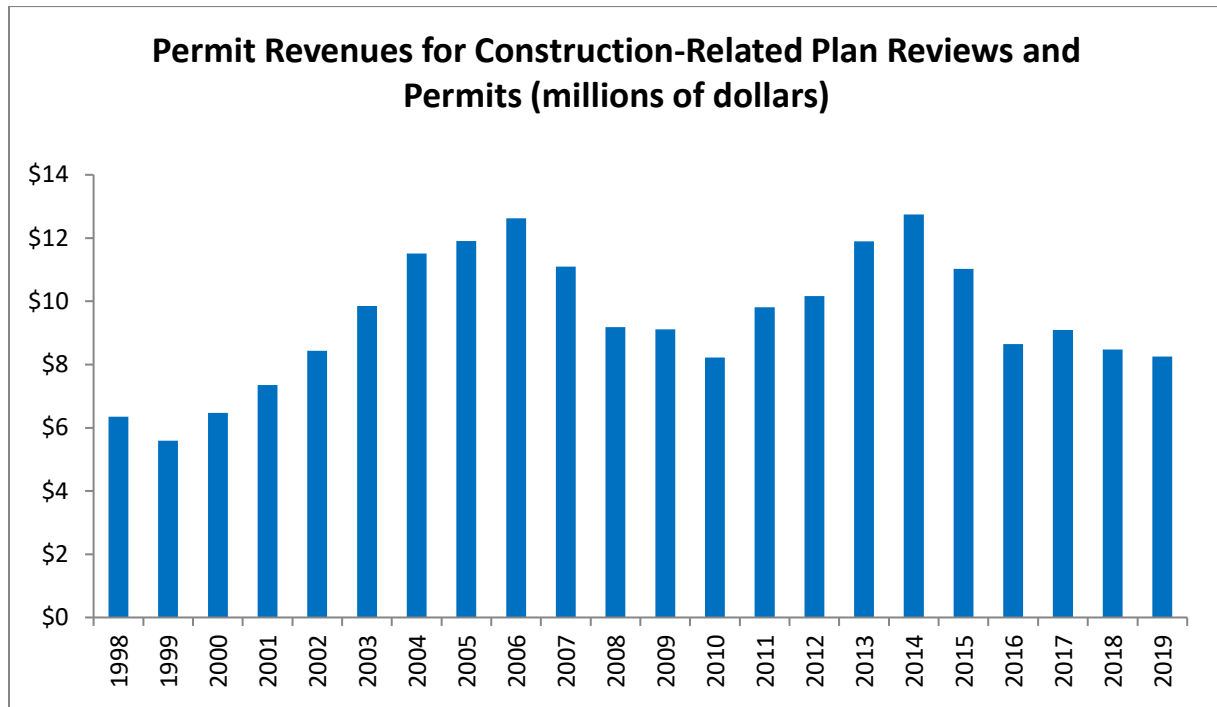
**Tourism Taxes - Room Tax and Rental Vehicle Tax
(including Room taxes in Fund 202)
(millions of dollars)**

Source: MOA Treasury Division

**Average Annual Percent Change in Tourism Taxes including
Convention Center Fund 202**

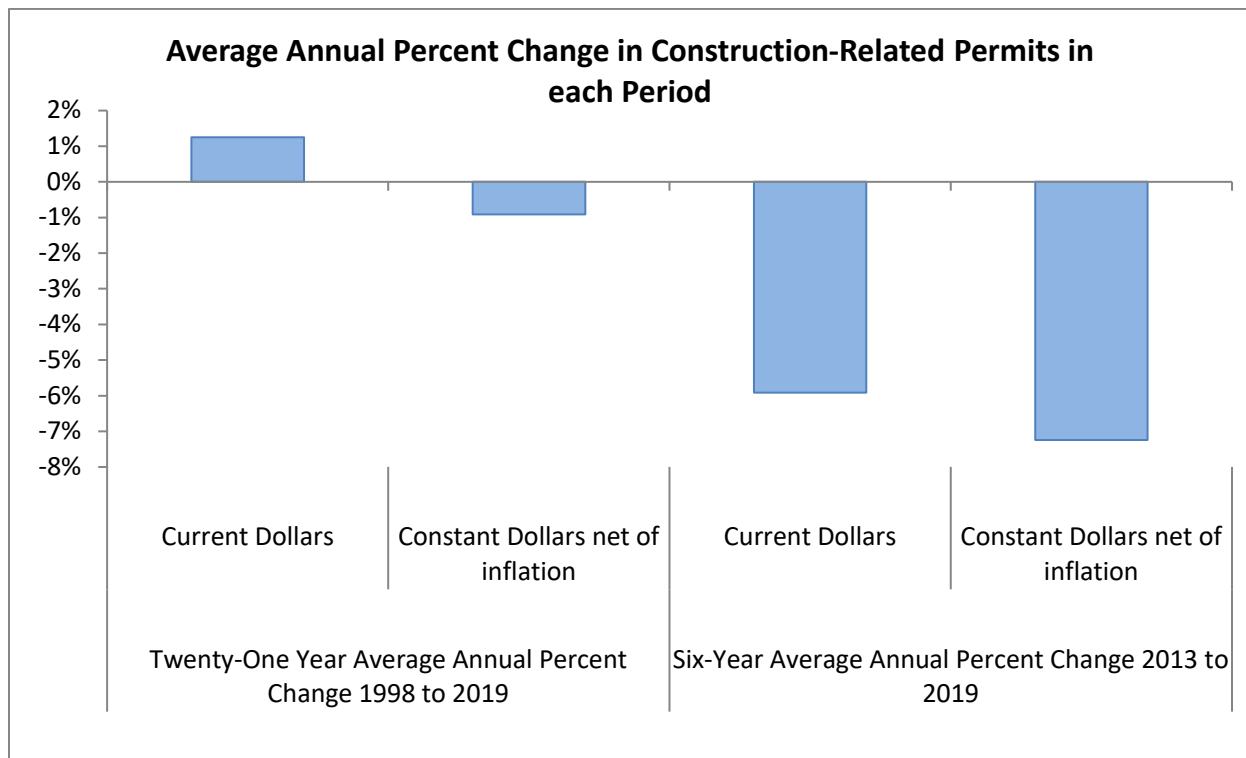| Current Dollars	Constant Dollars net of inflation	Current Dollars	Constant Dollars net of inflation
Twenty-One Year Average Annual Percent Change 1998 to 2019		Six-Year Average Annual Percent Change 2013 to 2019	

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. Building permit fee revenues declined in 2015 and 2016 but increased in 2017. Revenues have declined in 2018 and are projected to be slightly lower in 2019.
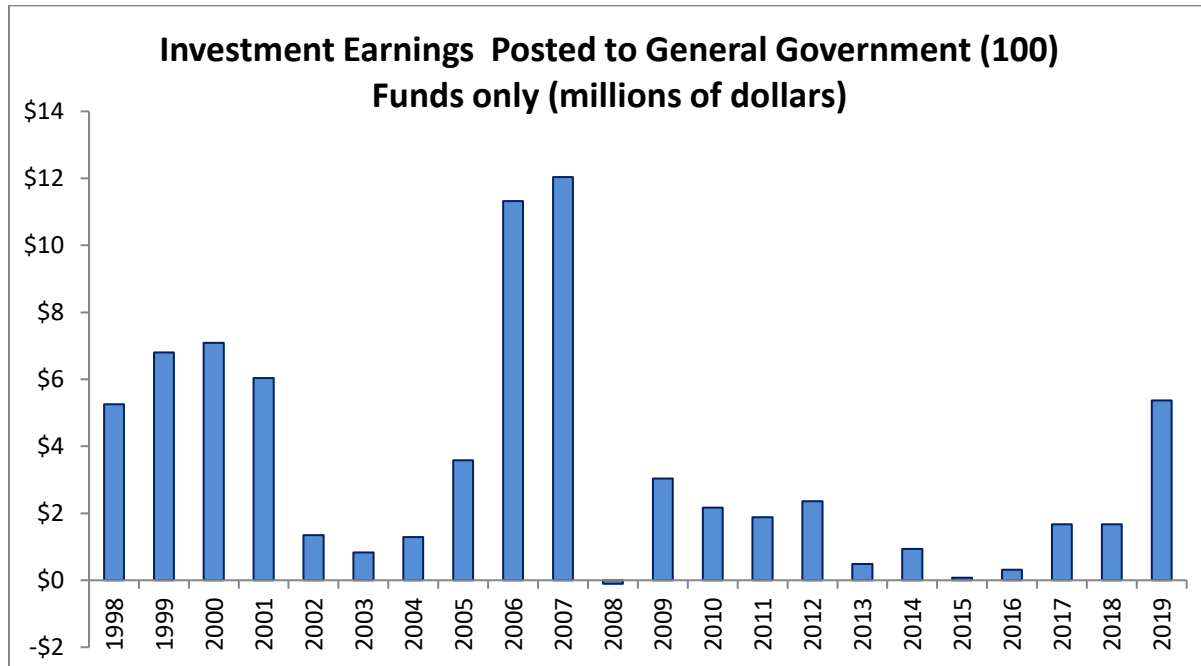
Permit Revenues for Construction-Related Plan Reviews and Permits (millions of dollars)

Source: MOA Treasury Division

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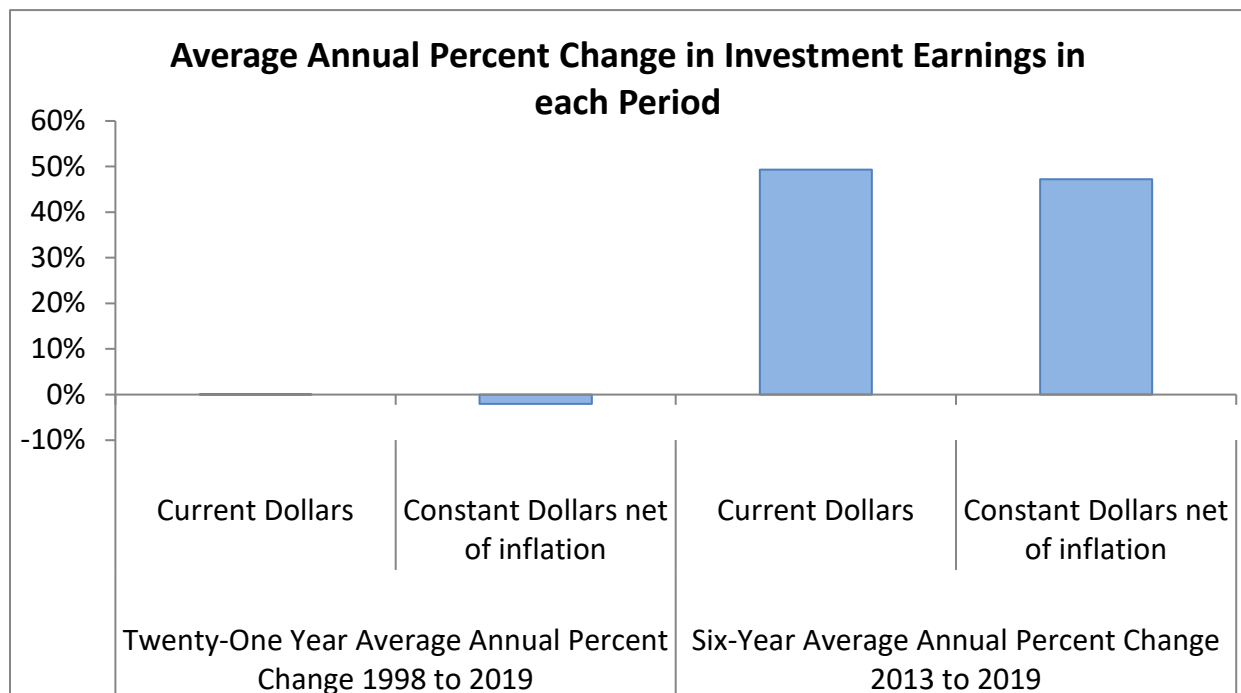

Source: MOA Treasury Division

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 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. FY 2019 investment earnings posted to the general government (100) funds are currently projected to be higher than recent years.
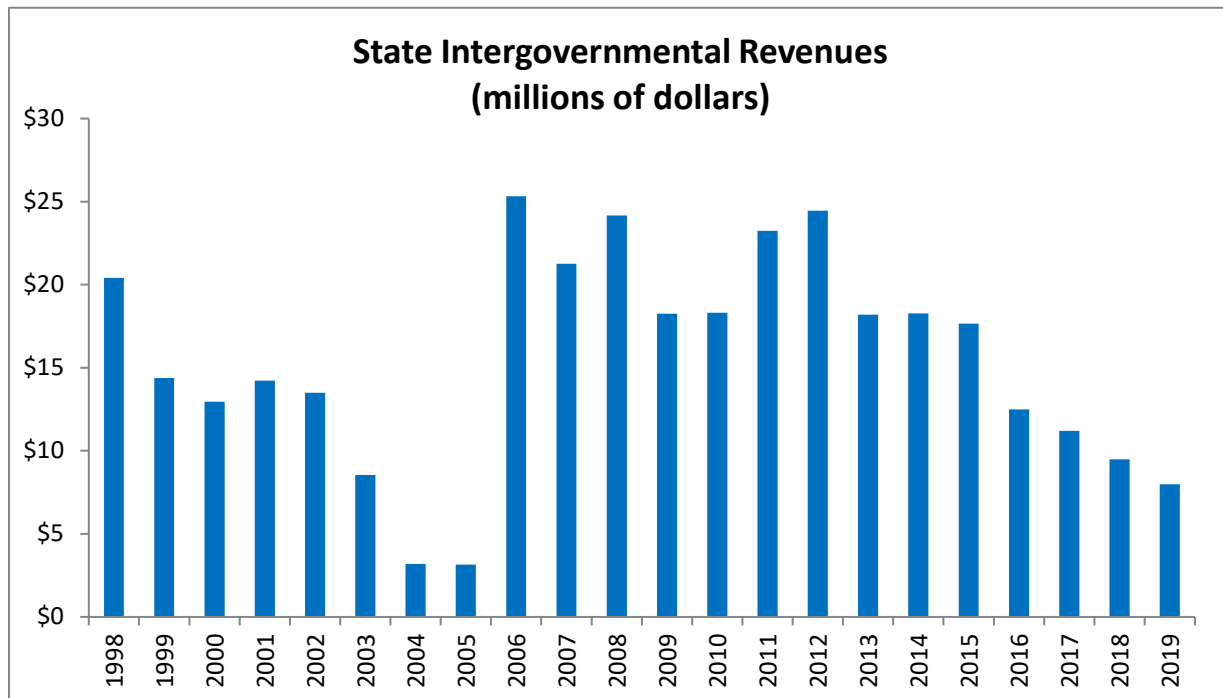
Investment Earnings Posted to General Government (100) Funds only (millions of dollars)

Source: MOA Treasury Division

Average Annual Percent Change in Investment Earnings in each Period

Current Dollars	Constant Dollars net of inflation	Current Dollars	Constant Dollars net of inflation
Twenty-One Year Average Annual Percent Change 1998 to 2019		Six-Year Average Annual Percent Change 2013 to 2019	

Source: MOA Treasury Division

Average Annual Percent Change in State Intergovernmental Revenues in each Period

| Twenty-One Year Average Annual Percent Change 1998 to 2019		Six-Year Average Annual Percent Change 2013 to 2019	
Current Dollars	Constant Dollars net of inflation	Current Dollars	Constant Dollars net of inflation

Source: MOA Treasury Division

Expenditures

The graph below depicts the actual expenditure trends from 1998 to 2018 for Anchorage's general government. 2019 is projected, based on 2019 Revised Budget and Supplementals through August 2019.

Recent increased investment in public safety, support to the SAP project, obligations and commitments, and labor contracts have caused increases to expenditures. As the State of Alaska reduces funding for necessary services and agencies in our community, the Municipality has stepped in to help address and mitigate the effects of an opioid epidemic, underfunded law enforcement agencies, and a debilitated public mental health care system.


1998 - 2019 Expenditures
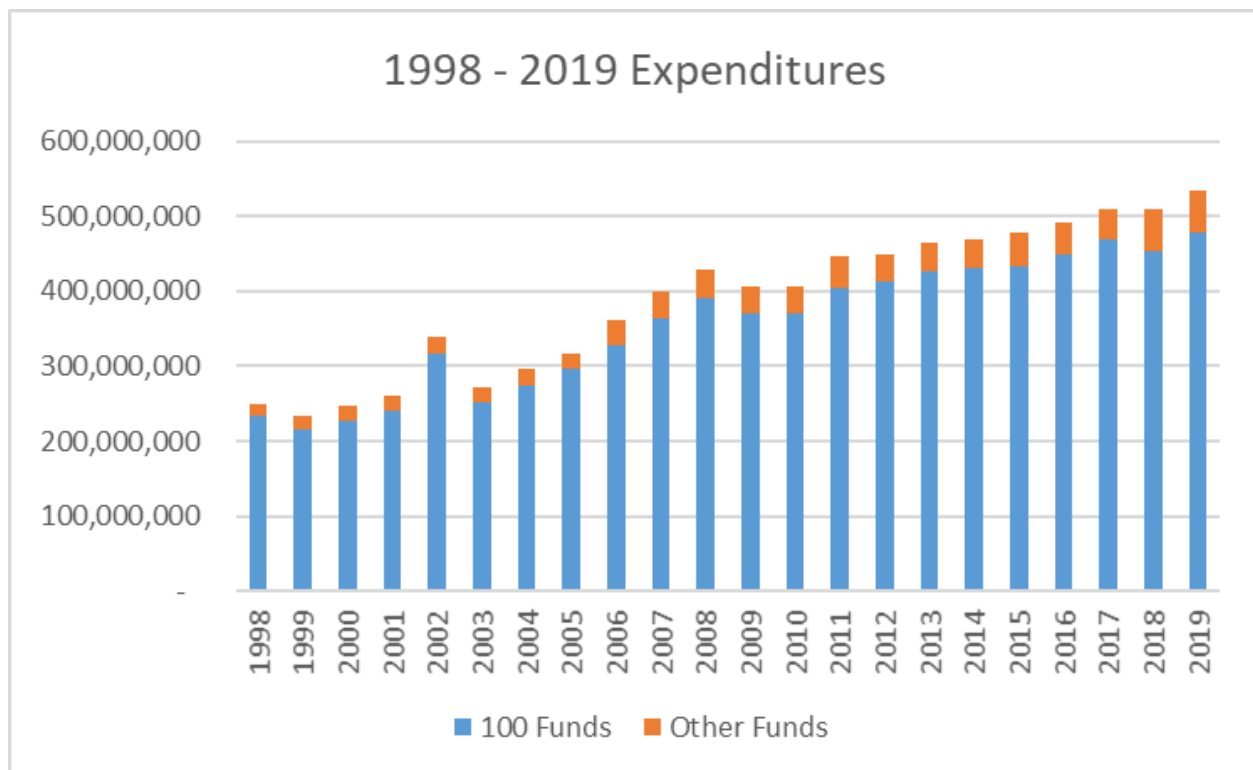
4. Fund Balance

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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 2013.
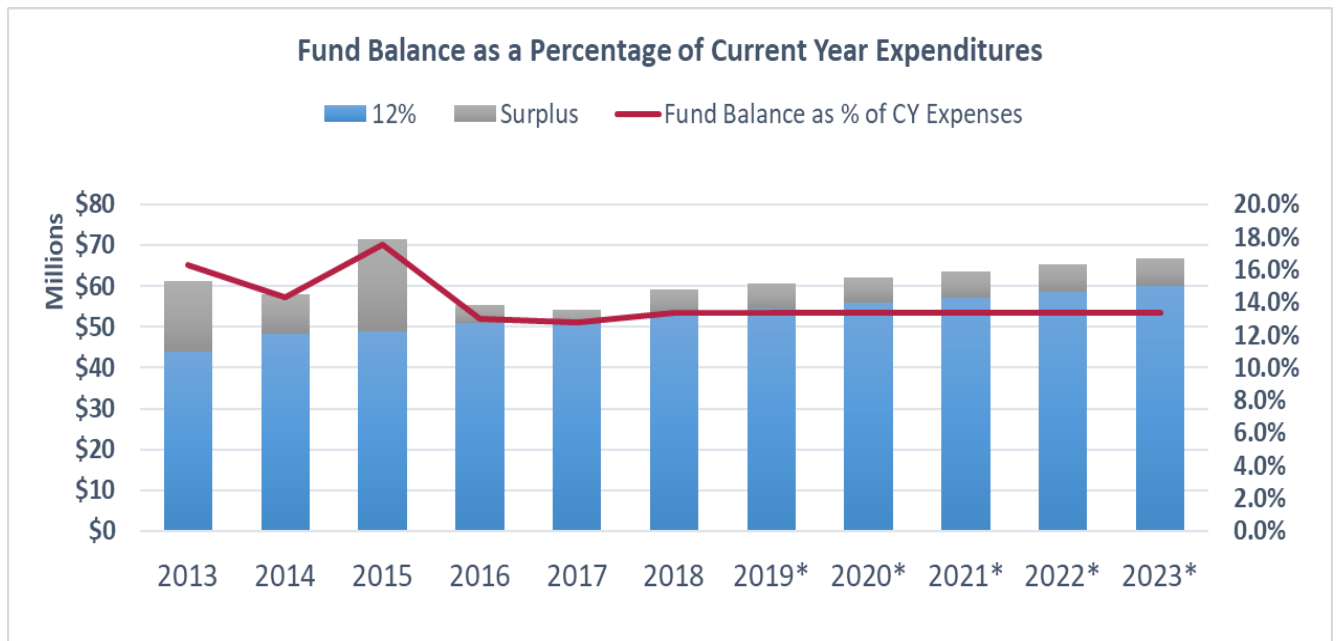
Municipality's General Obligation Bond Rating

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 September 3, 2019 rating review of the Municipality they commented on the Municipality's:

- Exceptional resilience to typical stresses,
- Solid expenditure flexibility, and
- Moderate long-term liability burden balanced against a somewhat constrained revenue raising flexibility.

They also commented about their revenue framework assessment. "Fitch expects revenue growth in line with inflation over time, but the municipality may experience some near-term weakness due to economic conditions. Anchorage's tax limitations generate revenue stability, but policymakers' independent legal ability to raise revenues is moderate relative to typical cyclical revenue declines."

Standard & Poor's (S&P)

S&P currently rates the Municipality AAA with a Stable Outlook. In their most recent rating summary dated August 28, 2019, S&P's analyst noted the following regarding Anchorage:

- Very strong economy,
- Very strong management,
- Strong budgetary flexibility,
- Very strong liquidity,
- Adequate debt and contingent liability position, and
- Strong institutional framework score.

Fund Balance Policy Discussion and Update

The Mayor and senior staff understand that a strong 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 be 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 the 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.

5. Capital Projects

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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 Administration 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 2020 Proposed General Government CIP projects on maintenance, operation, and personnel costs:

2020 - 2025 Capital Improvement Program
Operations & Maintenance Estimate
(In Thousands)

Department	2020	2021	2022	2023	2024	2025	Total
Information Technology	650	1,184	1,174	1,156	1,134	957	6,255
Library	-	193	193	693	693	693	2,465
Maintenance & Operations	77	117	151	154	157	157	813
Parks & Recreation	202	178	172	160	124	-	836
Project Management & Engineering	223	224	224	224	240	240	1,375
Traffic	35	35	35	35	35	35	210
Total	1,187	1,931	1,949	2,422	2,383	2,082	11,954

6. 6-Year Projection Model

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SIX-YEAR FISCAL PROGRAM
GENERAL GOVERNMENT OPERATING BUDGET
PROJECTIONS OF FUNDING SOURCES & USES ($ Thousands)
2020 to 2025

	Total Budget	Proposed Budget	Projections								
Funding Sources	2019	2020	2021		2022		2023		2024		2025
Federal Revenues	884	252	252	0%	252	0%	252	0%	252	0%	252	0%
State Revenues	9,217	7,683	7,683	0%	7,683	0%	7,683	0%	7,683	0%	7,683	0%
Local Revenues	184,131	188,525	188,187	0%	189,518	1%	190,110	0%	190,337	0%	190,749	0%
Property Taxes	250,102	256,511	260,513	2%	268,373	3%	276,954	3%	287,721	4%	298,949	4%
Property Taxes - GO Bond Debt	56,474	54,088	56,969	5%	58,335	2%	49,516	-15%	45,968	-7%	47,691	4%
New Revenues			(1,426)	100%	(806)	-43%	(226)	-72%	(46)	-80%	364	-886%
Fund Balance Applied	2,831	(315)	2,000	-735%	2,040	2%	2,081	2%	2,122	2%	2,165	2%
IGCs Outside General Gvt.	31,302	32,431	33,370	3%	34,030	2%	34,701	2%	35,384	2%	36,061	2%
Total Funding Sources	534,942	539,176	547,548		559,425		561,071		569,422		583,915	
Change from prior year	3.6%	0.8%	1.6%		2.2%		0.3%		1.5%		2.5%	
Funding Uses											
Salaries and Benefits	291,336	301,124	307,139	2.0%	313,373	2.0%	319,836	2.1%	326,602	2.1%	333,623	2.1%
Debt Service	60,088	57,338	58,432	1.9%	59,524	1.9%	50,410	-15.3%	46,568	-7.6%	48,024	3.1%
Depr/Amort	9,936	10,288	10,906	6.0%	10,906	0.0%	10,906	0.0%	10,906	0.0%	10,829	-0.7%
Other	173,582	170,425	174,239	2.2%	178,049	2.2%	181,538	2.0%	185,359	2.1%	188,998	2.0%
Program Changes			-	100.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Total Funding Uses	534,942	539,176	550,716		561,853		562,691		569,435		581,475	
Change from prior year	5.0%	0.8%	2.1%		2.0%		0.1%		1.2%		2.1%	
Revenues Over/(Under) Expenditu	-	-	(3,168)		(2,428)		(1,620)		(13)		2,440	

2019 Total Budget
Includes 2019 Revised Budget and supplemental appropriations through August 2018

Projections - Overall Assumptions 2020-2025
Population - slight declines in 2019 and 2020 then flat through 2022 (per AEDC), then flat thereafter
CPI - 2% in 2020 and thereafter

Funding Sources
State Revs - Revenue sharing stable at $4.6 (amount budgeted in 2020) in 2021 and beyond
Local Revs - Majority of revenues are flat from 2020
Property Taxes - Tax to the Cap all years, uses projected Population and CPI as growth
Property Taxes - Assumes O&M at same rate as 2020 Proposed
New Revenues - Utility/Enterprise MUSA/MESA and dividends per 2020 Proposed documents

Funding Uses
Salaries and Benefits - Work hours flat from 2020
Salaries and Benefits - Current contract changes then last approved rate change thereafter, except IAFF at 1.2% ongoing
Salaries and Benefits - Medical at 6% increase per year
Salaries and Benefits - Does not include any impact for Cadillac Tax that may go into effect in 2022
Salaries and Benefits - Assumes non-calculated flat from 2020
Debt Service - This debt service does not include the potential refunding in the future
Other (includes leases, contracts, utilities, etc.) - Increasing by CPI
Does not show impact of Stormwater Utility
Does not show impact of ML&P sale, with the exception of MOA Trust Fund Contribution