SIX-YEAR FISCAL PROGRAM

2024 – 2029

Municipality of Anchorage

Dave Bronson

Mayor

October 2, 2023

MUNICIPALITY OF ANCHORAGE
Six-Year Fiscal Program
2024 – 2029

Dave Bronson, Mayor

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Courtney Petersen………..Director, Office of Management & Budget
Kent Kohlhase…....…..……………………………Municipal Manager

Preface

In accordance with the Municipal Charter 13.02, the Mayor is required to submit to the Assembly a "six-year program for public services, fiscal policies, and capital improvements of the municipality. The program shall include estimates of the effect of capital improvement projects on maintenance, operation, and personnel costs."

Like all responsible governments, the Municipality of Anchorage must provide its citizens with an acceptable level of critical public services. The purpose of the Six-Year Fiscal Program is to provide a financial plan for review and consideration in response to services required by the public.

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

Detailed demographic and financial information about Anchorage are provided by and 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:

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

Six-Year Fiscal Program

2024 – 2029

Table of Contents

1. 6-Year Outlook

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

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

2. Economic Trends and Indicators

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

Anchorage has long prided itself on the ways we are distinct from other U.S. cities. Beautiful scenery, abundant recreation, the economic hub of Alaska: all these factors contribute to our unique place in the world. While these attributes distinguish us from other cities, we can't escape the global macroeconomic forces impacting the entire nation. High inflation, the Federal Reserve's interest rate increases, geopolitical tensions, foreign manufacturing, and availability of investment capital all factor into Anchorage's near-term economic outlook.

Other factors in our economic forecast are more recognizable as Anchorage-specific or Alaska-specific. In particular, Anchorage's struggle to retain our working-age population will likely constrain employment and economic growth. An important highlight of this forecast is the expectation that Anchorage's total population will start to increase in 2023 after six years of decline. This bodes well for the effort to sustain and attract the working-age population, though demographic realities will dampen this impact. By 2026, the final year in this forecast, most "Baby Boomers" (born between 1946 and 1964) will have aged out of the working-age population. The number of people aged 18 to 64 moving to Anchorage is not expected to make up for this decline.

On a brighter note, after years of significant disruptions, Anchorage's economy is on a new course. Over the next three years, we expect modest growth by most measures. The economy has added jobs back steadily over the last two years of recovery. Yet as of 2022, wage and salary employment remained about 12,500 jobs below the pre-Alaska recession level in 2015. Economic indicators suggest demand for workers may still outstrip the available workforce. Statewide, job openings rose to historically high levels even as the number of unemployed people seeking work declined significantly, leaving Alaska with fewer than one unemployed person for every two job openings by the end of 2022. All of these indicators such that the pace of further job growth in Anchorage may yet be constrained by historically low levels of unemployment and continued decline in our working-age population.

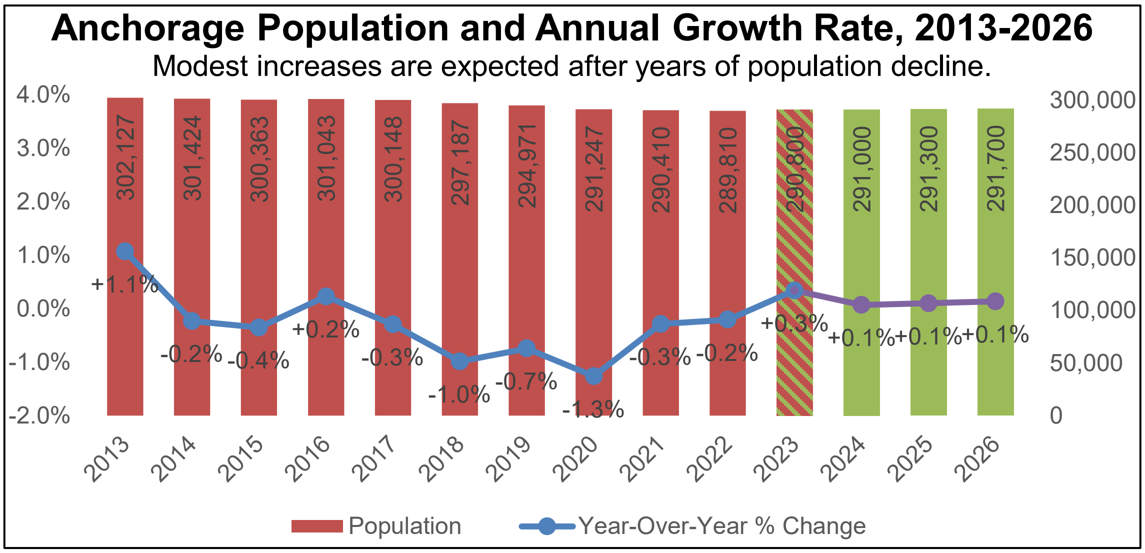
While global macroeconomic factors push and pull on the indicators in this forecast, population and working-age population growth will be central to realizing sustained growth in the Anchorage economy. It is challenging to attract new people to Anchorage; targeted investments in housing, public safety, and redevelopment across the community could further stem the tide of outmigration and attract more people to our city.

Population

After six years of continuous decline, AEDC expects Anchorage to experience population growth of about 1,000 individuals in 2023.

Factors Contributing to the Forecast

- Anchorage is seeing signs of slowing net outmigration as pandemic disruptions on the economy and relocation ease.
- Growth rates in the Mat-Su are slowing, and Mat-Su average housing prices are less competitive compared to Anchorage.
- Work on Alaska's North Slope is expected to bring new residents to Anchorage over the next several years to support new field developments and Pikka production starting in-2026. Developments such as Willow will likely draw new residents to Anchorage later in the decade.
- While birth rates remain low, death rates decreased in 2022 following highs during the pandemic.



Current Trends		
	2021-2022 Change	**2021-2022 % Change**
Total Population	-600	-0.2%
Net Migration	-1,669	-0.6%
Natural Increase	+1,069	+0.4%
Births	+3,570	+1.2%
Deaths	-2,501	-0.9%

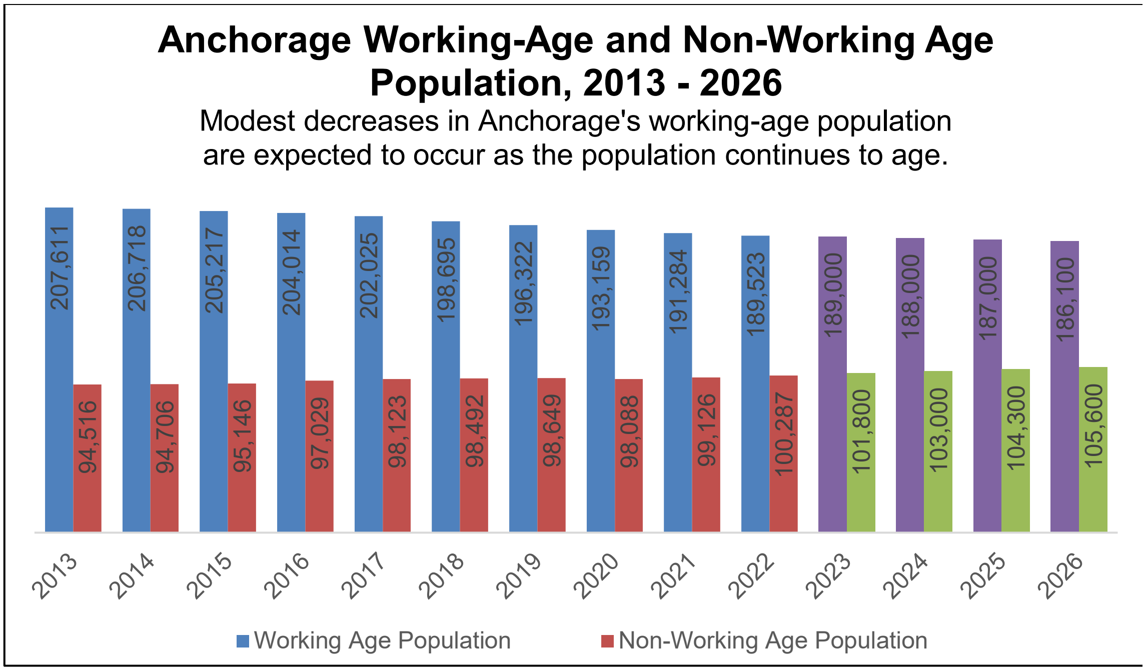
Source: Alaska Department of Labor and Workforce Development (2013-2022); McKinley Research Group estimates (2023-2026)

Working Age Population

The proportion of Anchorage's population that is working age (between 16 and 64 years old) is expected to decline further as the population ages out.

Factors Contributing to the Forecast

- Over the next five years, most residents in the baby boomer generation will age out of the working-age population.
- The number of people moving to Anchorage for new jobs in the oil industry will not outpace the rate of baby boomers aging out of the working-age population.
- Working-age residents represent 65% of Anchorage's total population in 2022, down from 69% in 2013.



Current Trends		
	2021-2022 Change	**2021-2022 % Change**
Total Working-Age Population	-1,761	-0.9%
		2015-2020
Average Annual Working Age Net Migration		-2,908
Average Annual Working Age In-Migration		+14,999
Average Annual Working Age Out-Migration		-17,908

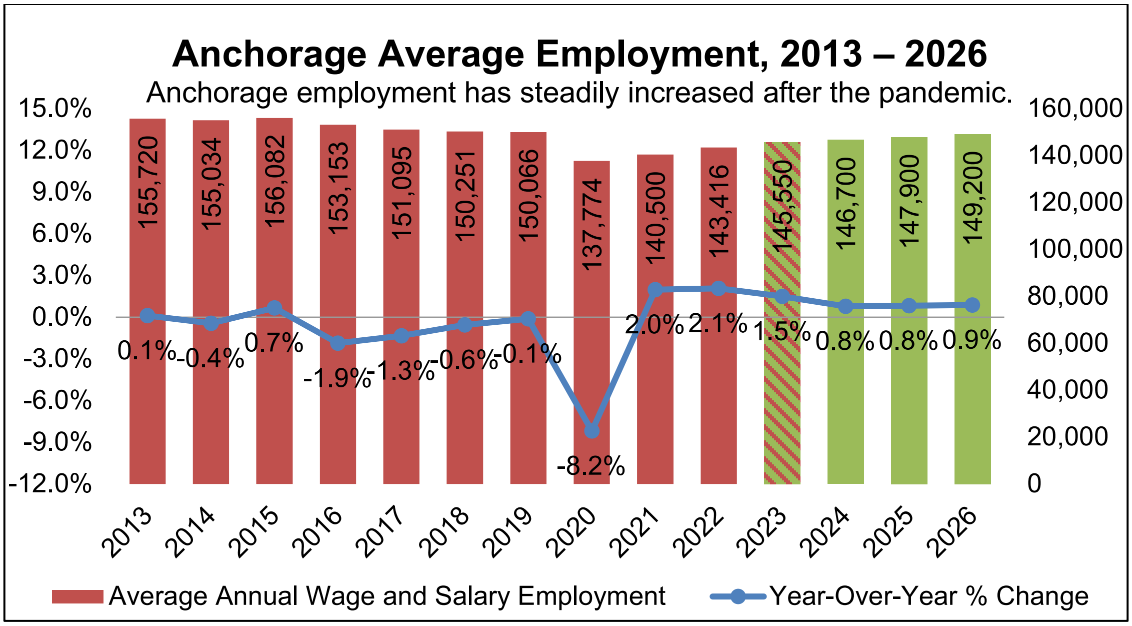
Source: Alaska Department of Labor and Workforce Development (2013-2022); McKinley Research Group estimates (2023-2026)

Employment

Aging and post-pandemic labor force factors will continue to constrain the pace of expected employment growth and recovery in Anchorage.

Factors Contributing to the Forecast

- Work on Alaska’s North Slope will require additional oil and support services employment in Anchorage.
- Professional and business services employment is expected to grow as the flow of Federal infrastructure funding ramps up in the Alaska economy.
- Slow population growth and lower working-age population continue to constrain employment growth.
- Over the last five years, the number of self-employed residents in Anchorage has increased by about 4%. Sole proprietor employment is expected to increase at a faster rate than total employment as more workers participate in the gig economy or otherwise become self-employed in professional services, construction, and other industries.



Note: Sole proprietor employment is not included in average annual employment figures.

Current Trends			
Top 3 Sectors (2021-2022)		**Bottom 3 Sectors (2021-2022)**	
Leisure & Hospitality (+1,845 jobs)		Health Care (-181 jobs)	
Transportation (+1,160 jobs)		Government (-87 jobs)	
Professional & Business Services (+338 jobs)		Mining/Oil & Gas (-80 jobs)	
	Wage & Salary Employment	**Self-Employment**	
2017	151,095	37,841	
2021	140,542	39,263	
2017 – 2021 % Change	-7.0%	+3.8%	
2021 Workforce Residency	**Alaska Residents**		**Non-Alaska Residents**
	Live where they work	**Don’t live where they work**	**Work here, live elsewhere**
Where Anchorage Workers Live	76%	12%	13%
Where Alaska Workers Live	67%	13%	20%

Source: Alaska Department of Labor and Workforce Development (2013-2022); U.S. Bureau of Economic Analysis (2017, 2021), McKinley Research Group estimates (2023-2026)
Note: Rows may not add to 100% due to rounding.

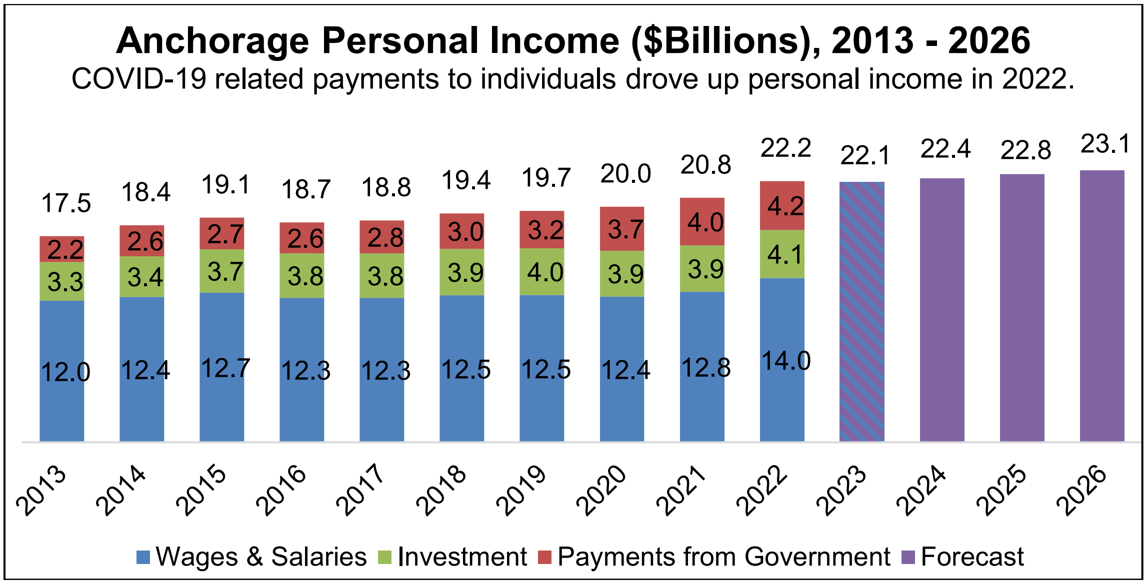
Personal Income

Continued inflationary pressure is expected to outweigh reductions in COVID-19 related support paid to individuals over the last several years, resulting in a small decrease in total personal income in 2023.

Factors Contributing to the Forecast

- Work-related income is expected to increase with continued inflationary pressure.
- Programs providing COVID-19 related relief payments to individuals have ended.
- Permanent Fund Dividends are expected to return to historically normal levels ($1,000 to $1,500).

- Investment and other income are impacted by the Federal Reserve's efforts to curb inflation.



Current Trends			
	2022 ($Billion)	% of 2022 Total	2021- 2022 % Change
Salaries, wages, and proprietors' income (including benefits)	$14.0	63%	+9.1%
Payments from the government (i.e., unemployment insurance, social security, PFD)	$4.2	19%	+2.7%
Investment income	$4.1	18%	+3.9%

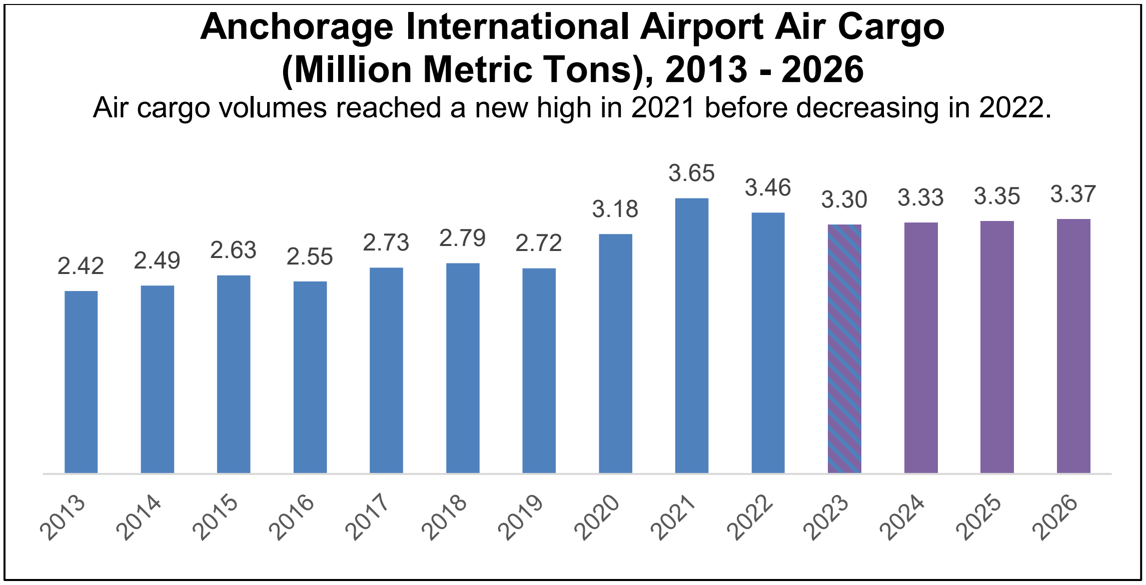
Source: U.S. Bureau of Economic Analysis (2013-2021), McKinley Research Group Estimates (2022 – 2026)

Anchorage Air Cargo

AEDC expects air cargo volumes to stabilize with modest growth as supply chain disruptions continue to ease and inflationary impacts on consumer demand persist.

Factors Contributing to the Forecast

- Supply chain disruptions caused by the COVID-19 pandemic will continue to improve.
- The stability of Chinese manufacturing and production will impact air cargo demand.
- National consumer confidence and resulting demand for goods impacts the volume transiting the Asia-North America route.
- Anchorage International Airport air cargo volumes declined modestly in 2022 following unprecedented increases in 2020 and 2021 driven by global supply chain pressures.



Current Trends			
	2022	**2021-2022 Change**	**2021- 2022 % Change**
Metric tons of air cargo	3.5 M	-192,000	-5%
Cargo landings	53,388	-1,476	-3%
		2022 Rank	
Global airport rank by cargo volume		3rd	

Source: State of Alaska Department of Transportation and Public Facilities (2013 – 2022), McKinley Research Group Estimates (2023 – 2026)

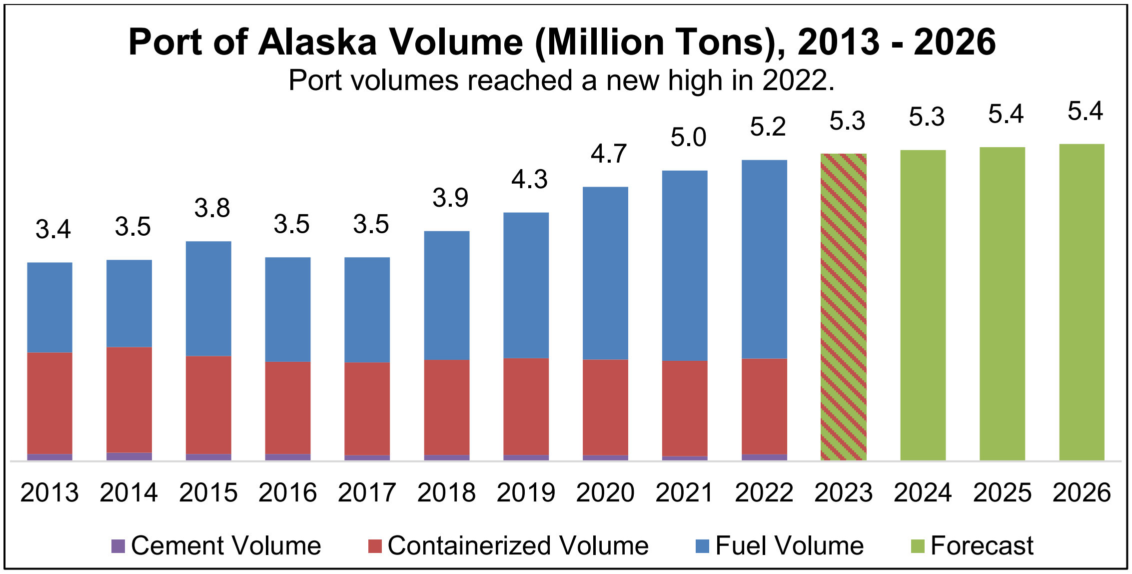
Note: Data are displayed in million metric tons and may appear different from previous forecasts due to this change in units.

Port of Alaska

The Port of Alaska will continue to be an important transportation gateway supporting infrastructure development across the state.

Factors Contributing to the Forecast

- Construction activity and projects across Alaska will drive freight demand higher with new Federal infrastructure funding and oil development on the North Slope.
- Modest growth in operations at the Anchorage International Airport will impact demand for fuel.
- Limited service reductions which impacted container volume in 2023 are not expected to persist.
- Modest population growth in Anchorage will have minimal impacts on overall demand for goods.



Current Trends			
	2022 Tons	**% of 2022 Total**	**2021- 2022 % Change in Volume**
Fuel volume	3.4M	66%	+4.5%
Containerized volume	1.6 M	32%	+0.2%
Cement volume	0.1 M	2%	+34.5%

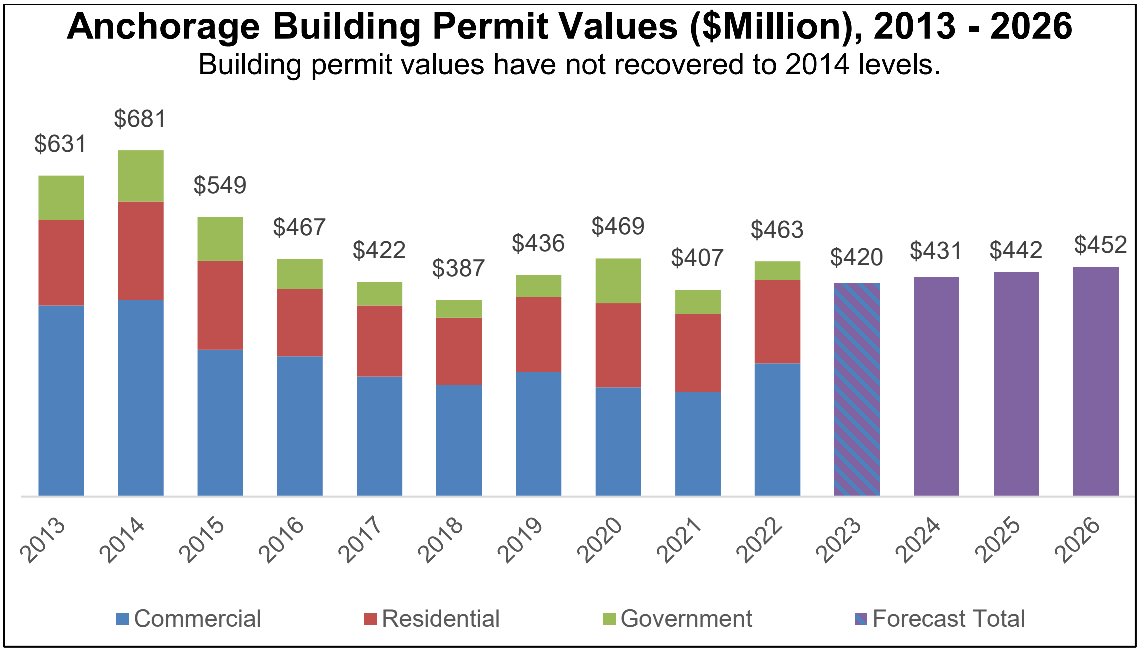
Source: Municipality of Anchorage, Port of Alaska (2013 – 2021), McKinley Research Group Estimates (2023 – 2026)

Building Permit Values

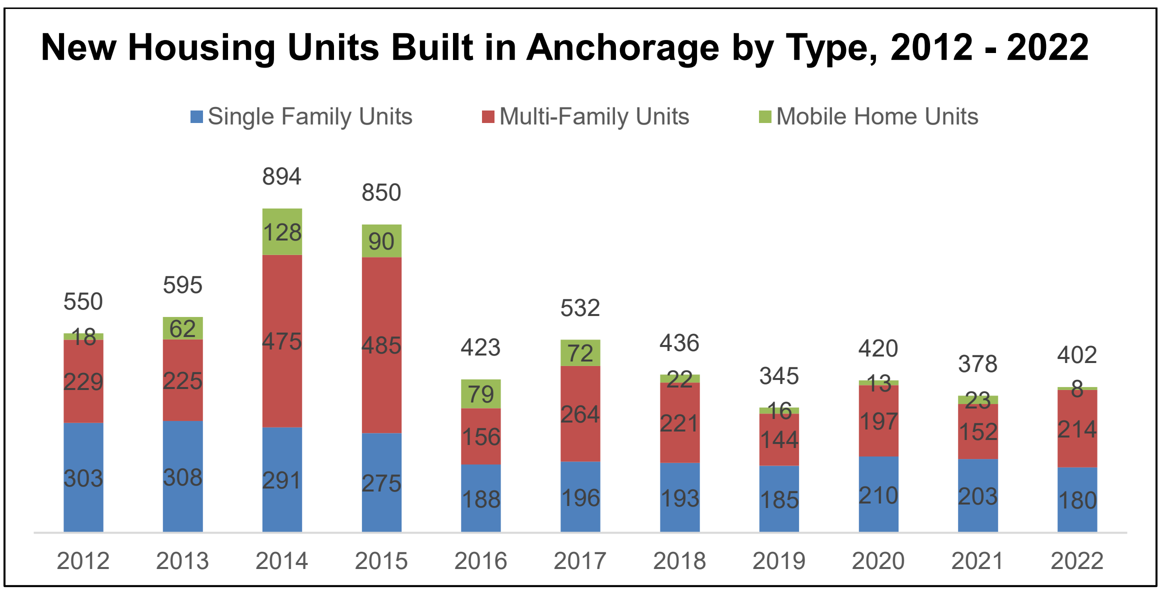
AEDC expected permit values to decline in 2023, with growth rates similar to inflation between 2024 and 2026.

Factors Contributing to the Forecast

- Interest rate increases enacted by the Federal Reserve to combat inflation have put downward pressure on residential construction and remodeling activity.
- Inflationary impacts on material prices persist.
- Several commercial projects in the pipeline will help sustain permit values in the near term.



New Housing Units



Current Trends			
	2022 Permit Value	**% of 2022 Total**	**2021- 2022 % Change**
Commercial activity	$262 M	57%	+27%
Residential activity	$163 M	35%	+6%
Government activity	$37 M	8%	-22%
		YTD (Jan-May) 2023	**YTD (Jan-May) 2022 - 2023 % Change**
Average homes sales price		$465,855	+4%
		2012	**2022**
Anchorage – Mat-Su average home sales price difference		$90,128	$57,907

Source: Municipality of Anchorage (2013 – 2022), Alaska Housing Finance Corporation (2012 – 2022), Alaska Multiple Listing Service (2022 – 2023), McKinley Research Group Estimates (2023 – 2026)

Visitor Industry

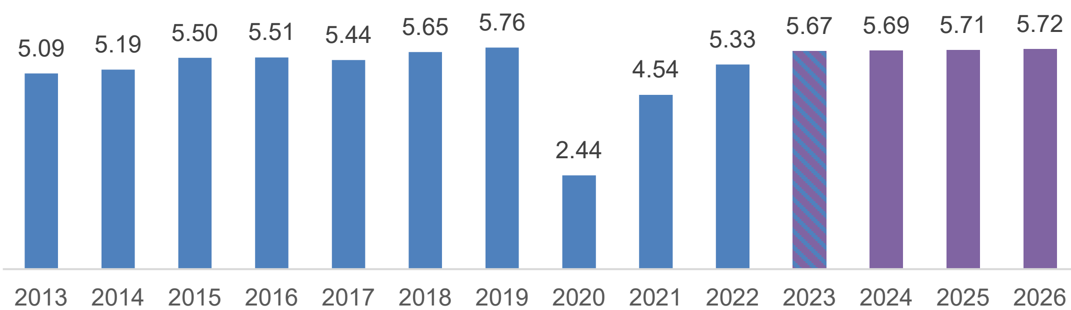
Inflationary pressures may impact demand, interfering with stronger visitor market growth.

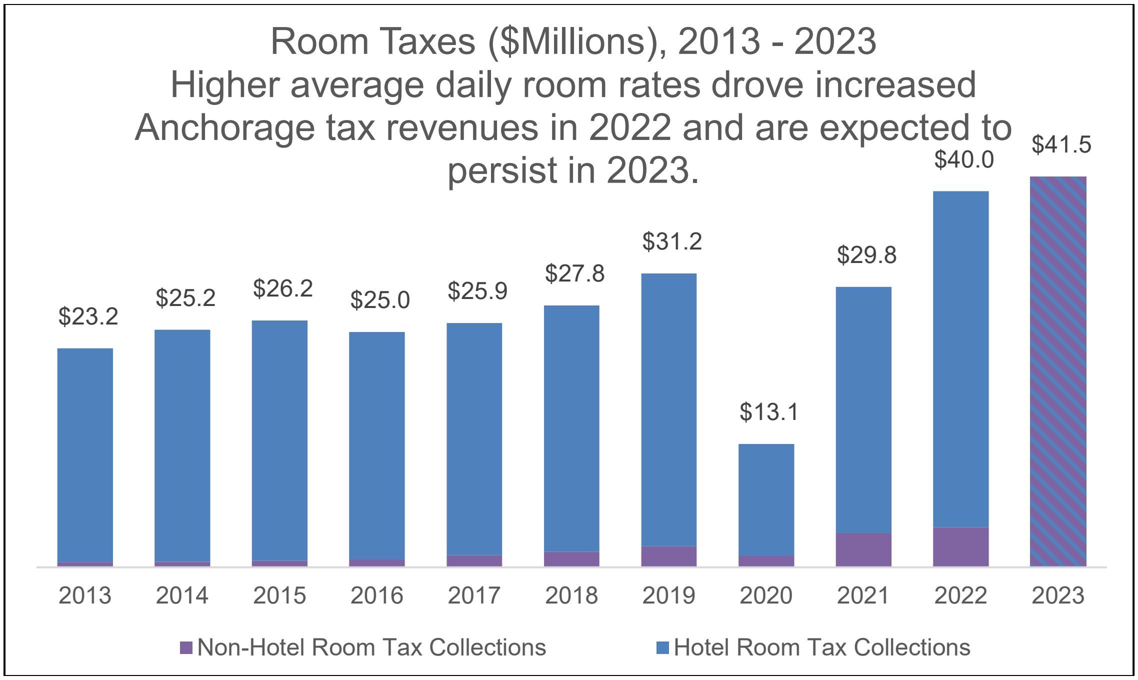
Factors Contributing to the Forecast

- Annual Southcentral cruise ship passenger capacity will grow by 7% (+33,000) in 2023.
- High inflation rates continue to influence travel demand and consumer confidence for all types of visitors.
- Online platforms allowing individuals to rent their property to consumers, such as AirBnB and Turo, have come into municipal compliance in recent years, capturing new tax revenues.
- Air Passenger Volume
- Southcentral Alaska cruise capacity growth will have corresponding impacts on air passenger volumes.
- Plane ticket purchases are impacted by national consumer confidence, fuel prices, and inflationary pressures.
- Room Tax
- Current and announced hotel developments will not impact hotel capacity or room tax collections in 2023. Online platforms, like AirBnB and VRBO, are expected to help meet excess demand.
- Non-hotel collections, such as those from AirBnB and traditional bed and breakfasts, increased significantly, now representing over 10% of total room tax collections.
- Rental Vehicle Tax
- Anchorage rental car companies will continue to rebuild their fleets, seeking the right mix of vehicle types and quantity to meet demand.

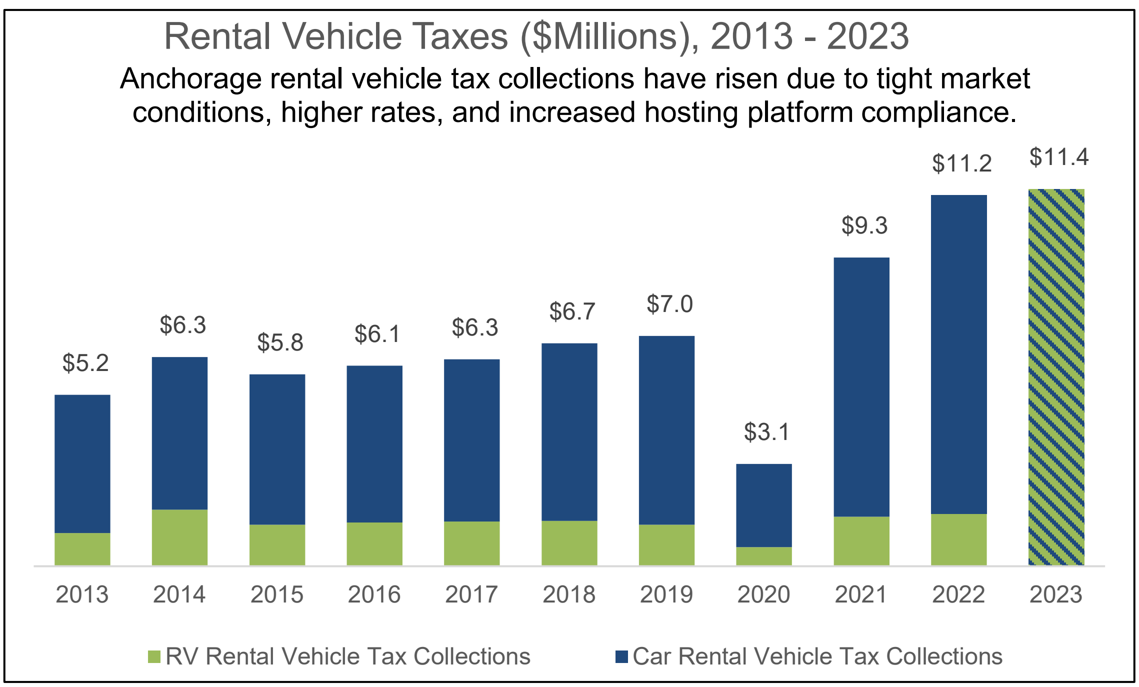
Anchorage International Airport Air Passenger Volume (Million Passengers), 2013 - 2026

Air passenger volumes have not fully recovered from the impacts of the COVID-19 pandemic.





Note: Non-hotel room tax collections include collections from peer-to-peer platforms and other small operators.



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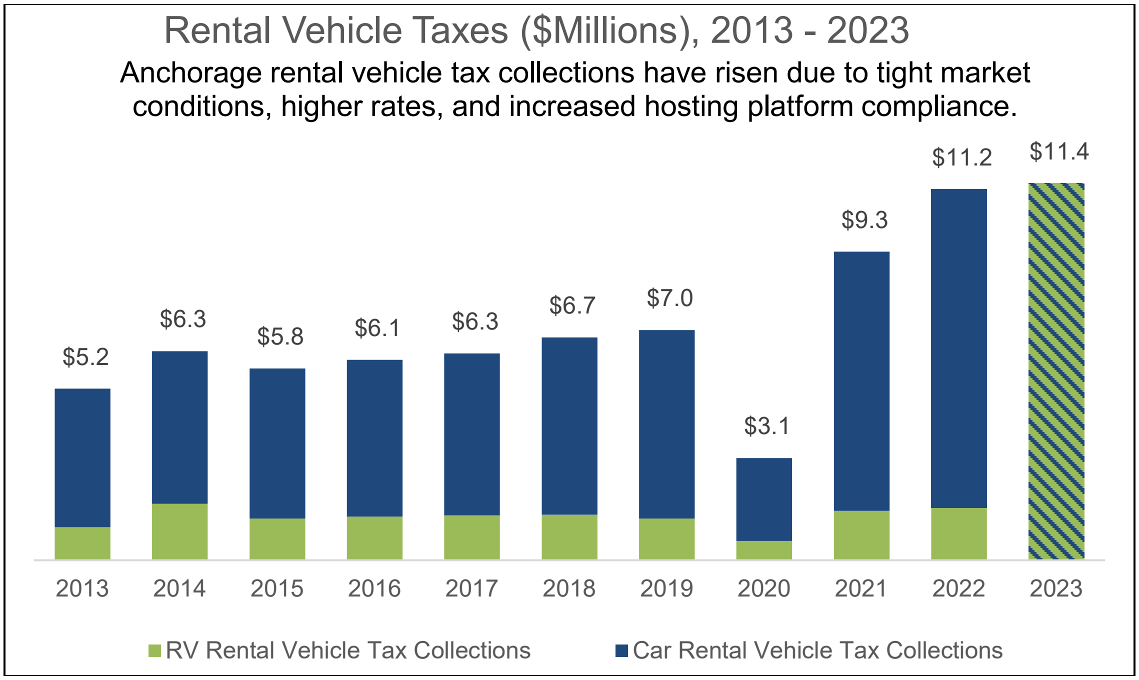


Current Trends		
	2021-2022 Change	**2021- 2022 % Change**
Number of air passengers	+791,000	+17%
	2023	**2022-2023 % Change**
Southcentral cruise ship port calls	300	+4%
Southcentral cruise ship passenger capacity	498,000	+7%
Average daily hotel rates (Jan-April)	$143 per night	+7%
	2021-2022 Change	**2021-2022 % Change**
Room Tax collections	+$10.2 M	+34%
Rental Vehicle Tax collections	+$1.9 M	+20%

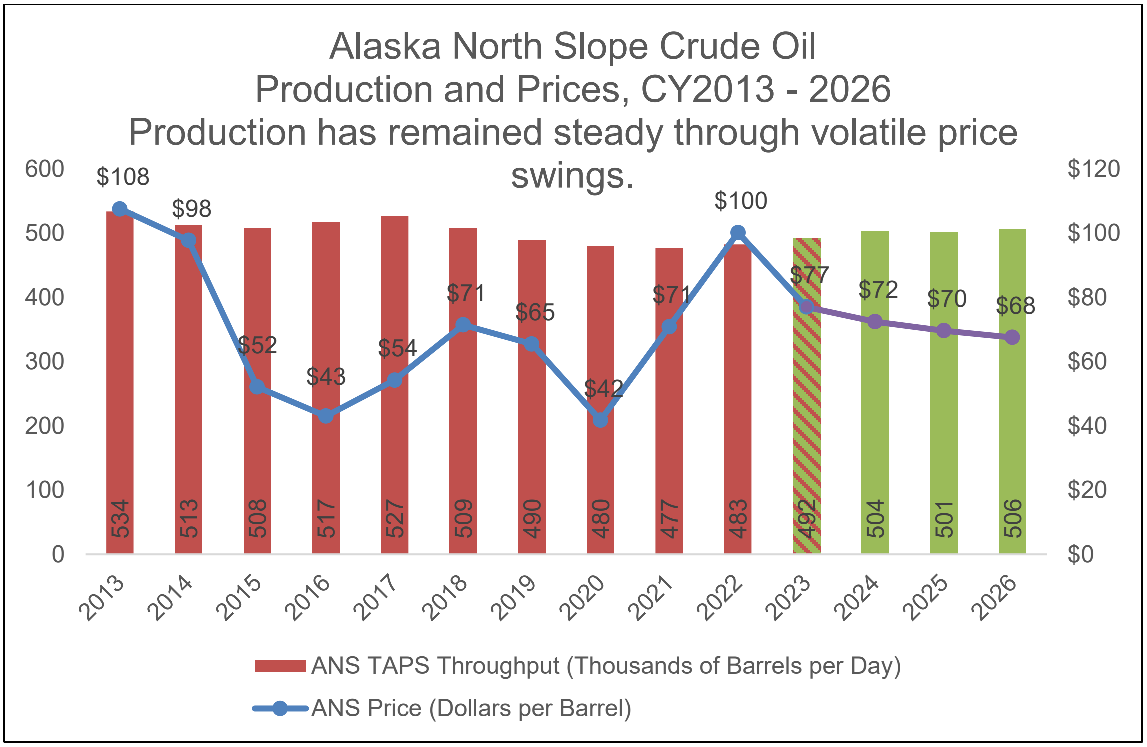
Source: Municipality of Anchorage (2013 – 2022), State of Alaska Department of Transportation and Public Facilities (2013 – 2022), Cruise Line International Association Alaska (2022 – 2023), Visit Anchorage (2022 – 2023), McKinley Research Group Estimates (2023 – 2026)

Oil Industry

Alaska North Slope (ANS) prices are expected to remain well below the 2022 high, with steady declines anticipated through 2026.

Factors Contributing to the Forecast

- Sanctions created a $60 per barrel cap on Russian oil exports, rerouting Russian export volumes from traditional markets.
- Political instability in Russia and the war in Ukraine will continue to impact global pricing.
- In response to declining global oil prices, OPEC and Russia announced production cuts through the end of 2023.
- Large new developments on Alaska's North Slope are expected to ramp up to full production after 2026.



Current Trends		
	YTD (Jan-June), 2023 Average	**YTD (Jan-June), 2022 – 2023 % Change**
ANS oil price/barrel	$79.29	-23%

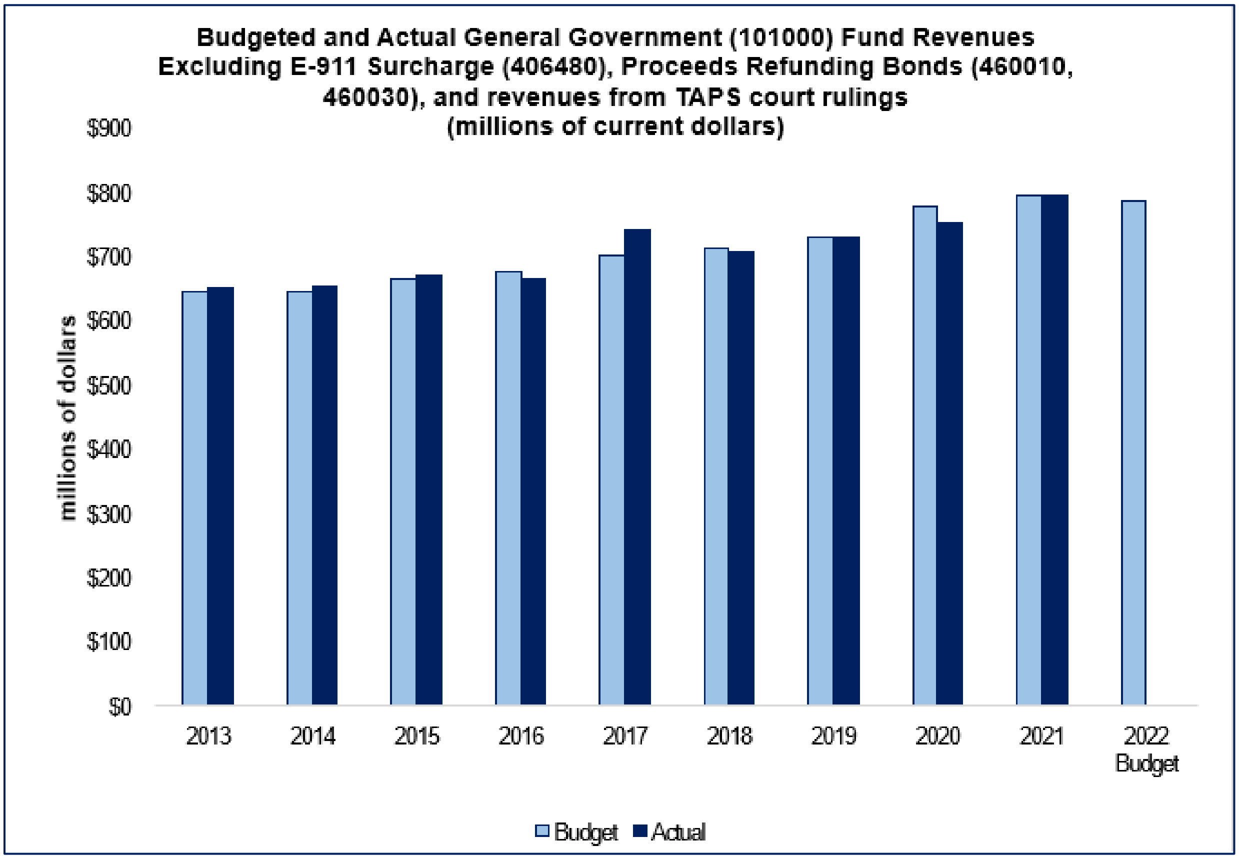
Sources: Alaska Department of Revenue, Energy Information Administration, CME Group, McKinley Research Group calculations

3. Historical Financial Trends

Revenues

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 historically been close to budget projections with variances occurring primarily during significant economic downturn years. The Municipal Treasury Division works to estimate, track, and benchmark important revenue sources.

Overall revenues have increased steadily from 2016 to 2022. Revenues for 2022 are up 4% compared to the same period in 2021 due to the continuing recovery of pandemic effected areas such as tourism and higher than normal CPI adjustments in 2022.



Source: MOA Treasury Division * Excludes Alcohol Tax Special Revenue Fund 206000

Long-term Trends in Major Categories of General Government Revenues

A review of long-term revenue trends and the drivers of those trends assists policy makers and citizens when considering potential changes to 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-two years from 2001 through 2023. The review covers six major categories of revenues listed below. Each category is affected by 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 (MESA) payments, and Municipal Utility Service Assessment

(MUSA) payments are determined by the mill rate multiplied by the 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 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, 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 Utility Revenue Distribution. These payments are specific percentages of gross revenues of the utilities which are determined by local resident's choices about consuming utility services. Alcohol sales tax revenue is not included as it is a separate non-operating fund.

3. **Determined by Economic Market Conditions:** Tourism taxes, construction permit revenues, and investment earnings are determined by economic conditions in tourism, construction, and investment markets.

4. **Determined by State or Federal Government and Private PILT Payers:** State Municipal Assistance, State fisheries taxes, State liquor license fees, State Traffic Signal Reimbursements, Private, State and Federal Payments in Lieu of Taxes (PILT), and other intergovernmental revenues are determined by decisions and actions of the State or Federal government.

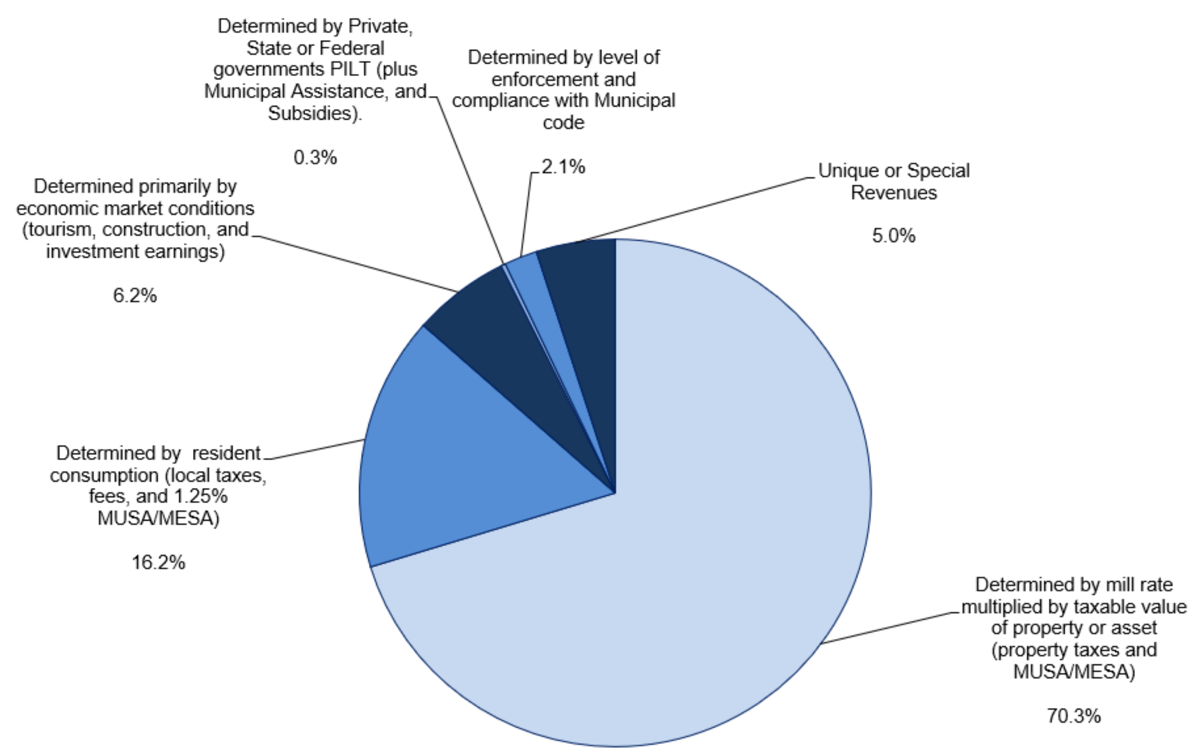
5. **Determined by Level of Compliance and Enforcement of Municipal Code (Code):** Revenues from collections of delinquent taxes, as well all types of fines, penalties and interest paid on delinquent taxes, are determined by the level of Code compliance, enforcement and collection efforts.

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 municipal assets. Revenues based on resident consumption contribute the next largest share (about 16 percent). Approximately 6 percent of revenues are determined by economic market conditions. Another nearly half percent is determined by the actions of State or Federal governments and about 2 percent of revenues are driven by compliance and enforcement of Municipal Code. The remaining 5 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), proceeds from bond sales, and alcohol tax revenues.

Composition of General Government (100) Revenues Categorized by Major Determinants in FY 2022 (excluding ASD and Premium on Bond Sale Proceeds)



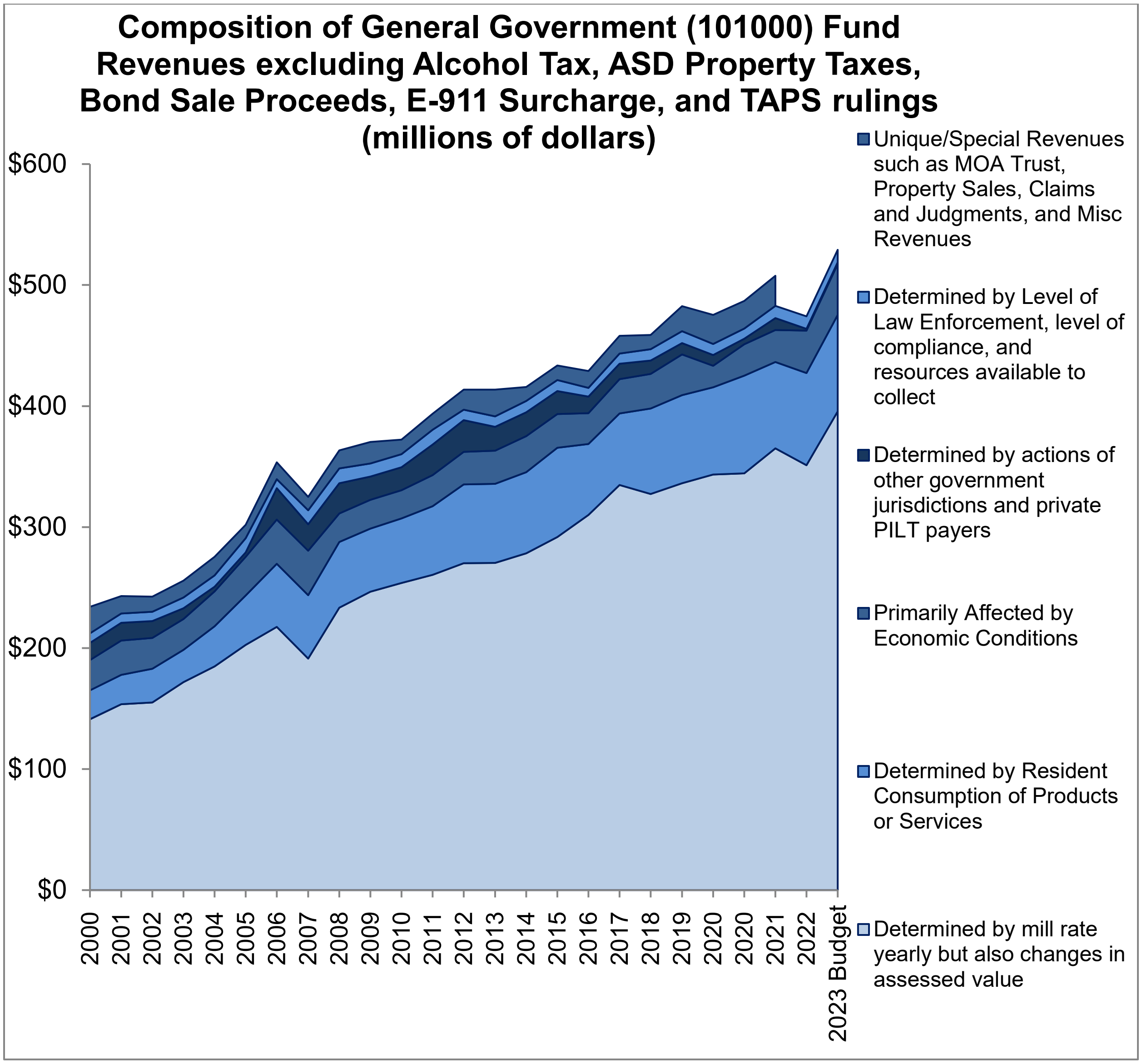
Source: MOA Treasury Division * Excludes Alcohol Tax Special Revenue Fund 206000

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-two years. Revenues determined by the mill rate and taxable value of property or utility assets have historically ranged from 60 percent to 70 percent of general government revenues during this extended time period.

Revenues determined by resident consumption have contributed a growing share of total revenues because of increases in the tax rate on tobacco, motor vehicles, marijuana retail sales tax, and the motor fuel excise tax. Not included is the alcoholic beverage retail sales tax, which is accounted for outside the general government fund 101000.

Prior to the start of COVID-19 in 2020, revenues driven by economic conditions in tourism, investment, and construction markets contributed a relatively stable share of total revenues since 2006. There was an unusual increase in total revenues in 2006 followed by a decrease in

2007 because a portion of 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 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. In 2020, the tourism market was impacted significantly by the COVID-19 pandemic causing revenue for room and motor vehicle rentals to decline.

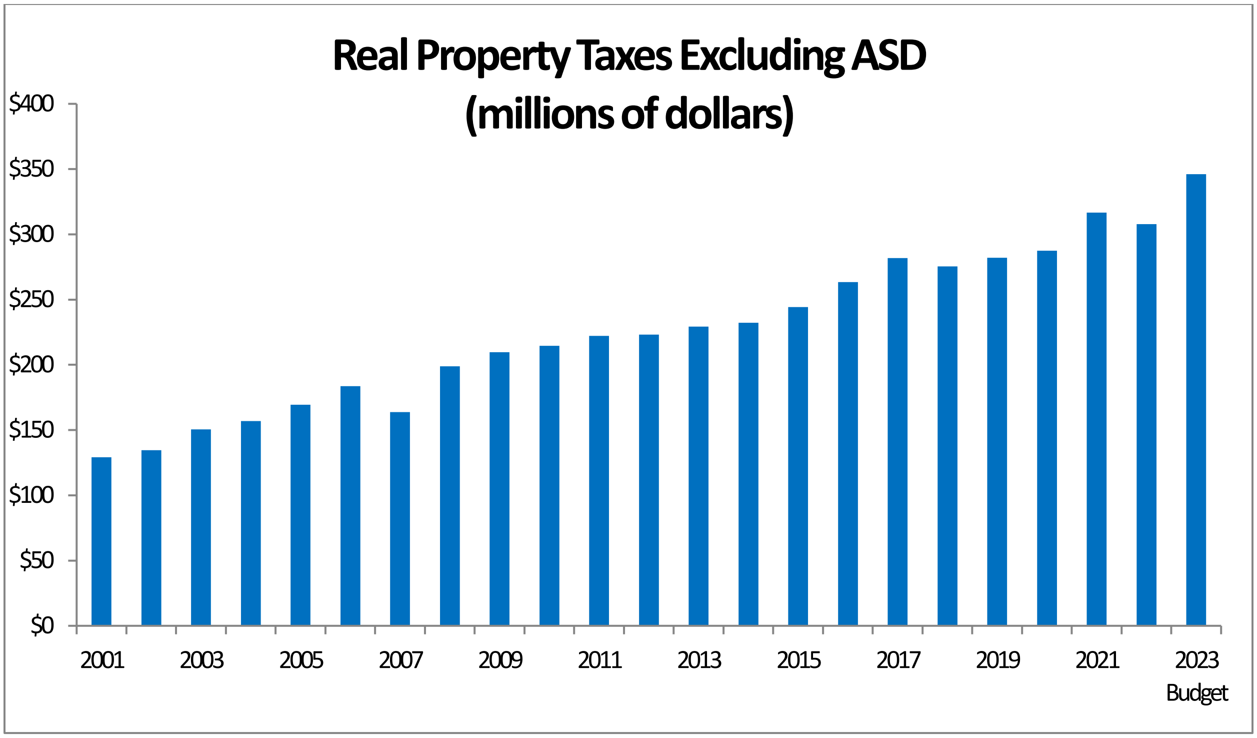


Source: MOA Treasury Division

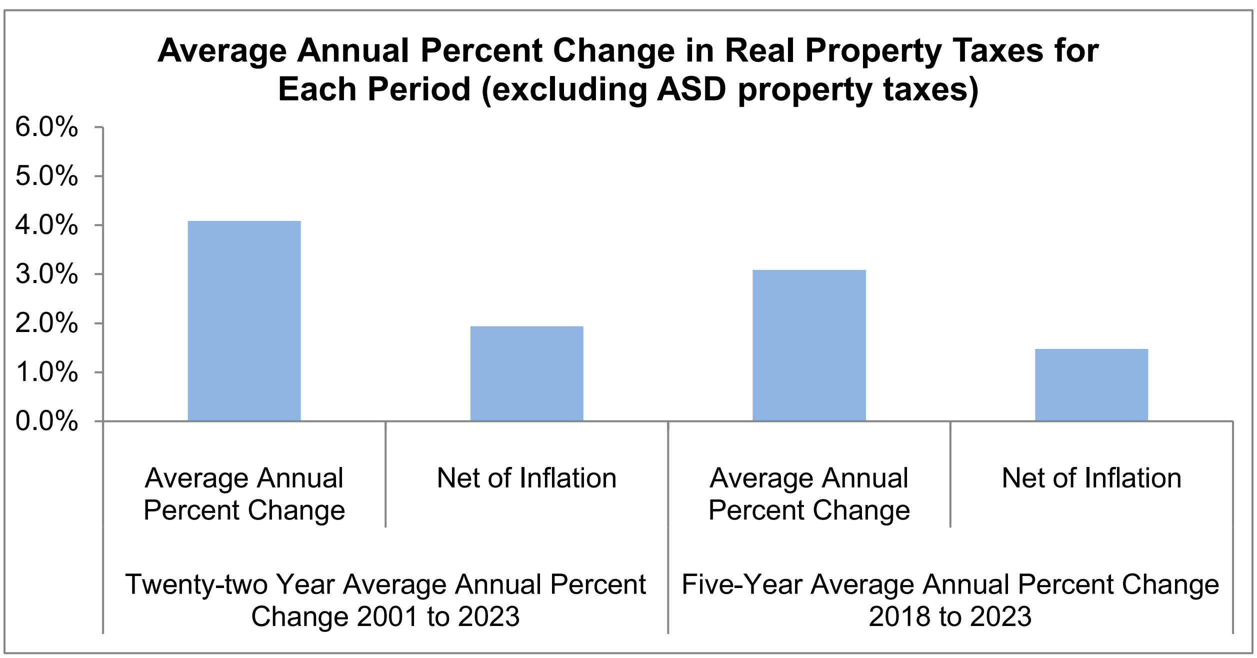
Key Revenue Determinant Categories

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 made by the Administration and the Assembly when the mill rate is set. In recent years, real property tax revenues have returned to the average annual historical trend from 2001 to 2023 after the disruptions of the Covid pandemic.

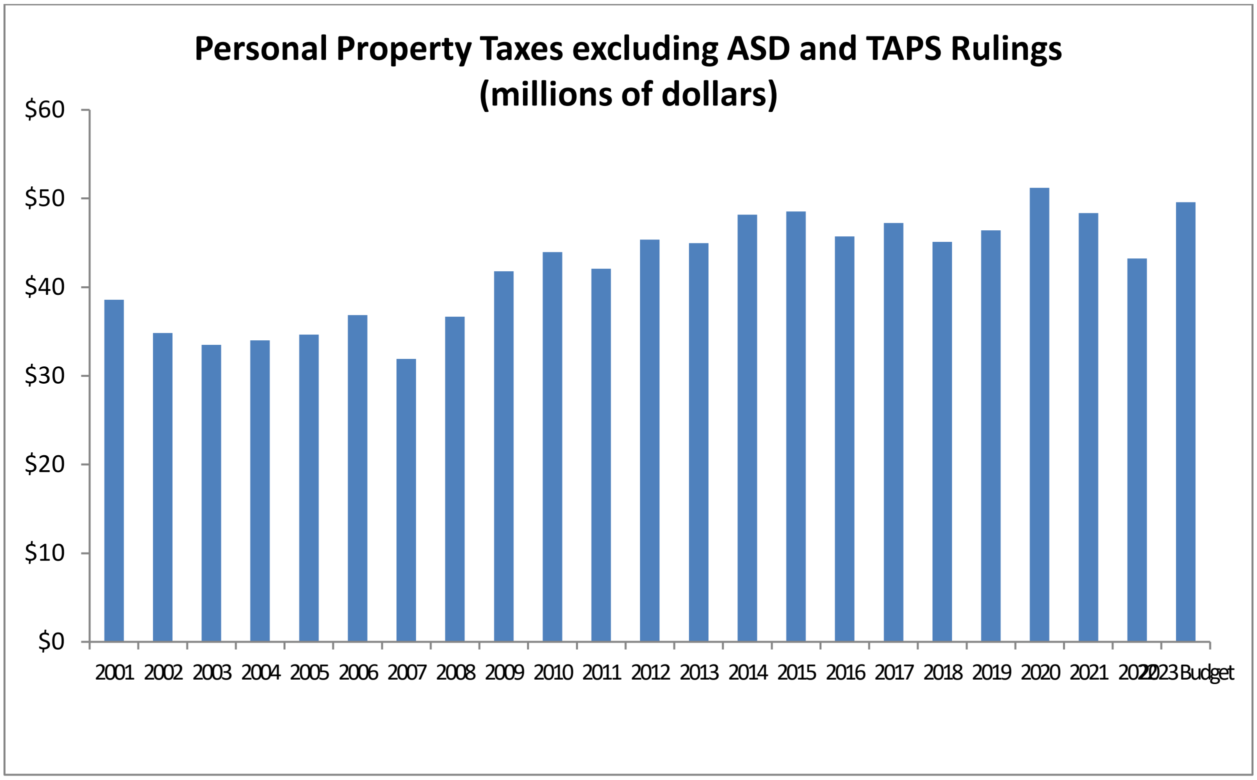


Source: MOA Treasury Division

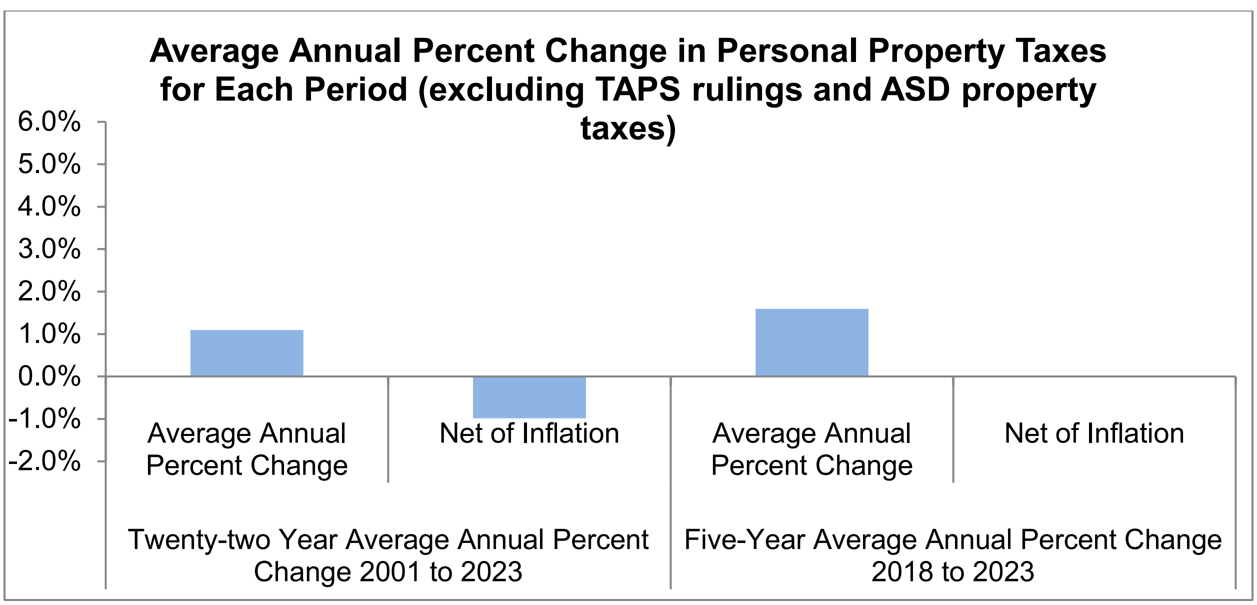


Source: MOA Treasury Division

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 increased modestly, leveling off more recently due to a decline in assessed values. The charts below exclude ASD property taxes and one-time special revenues from the lower court rulings regarding the value of the Trans-Alaska Pipeline in 2010, 2012, 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.

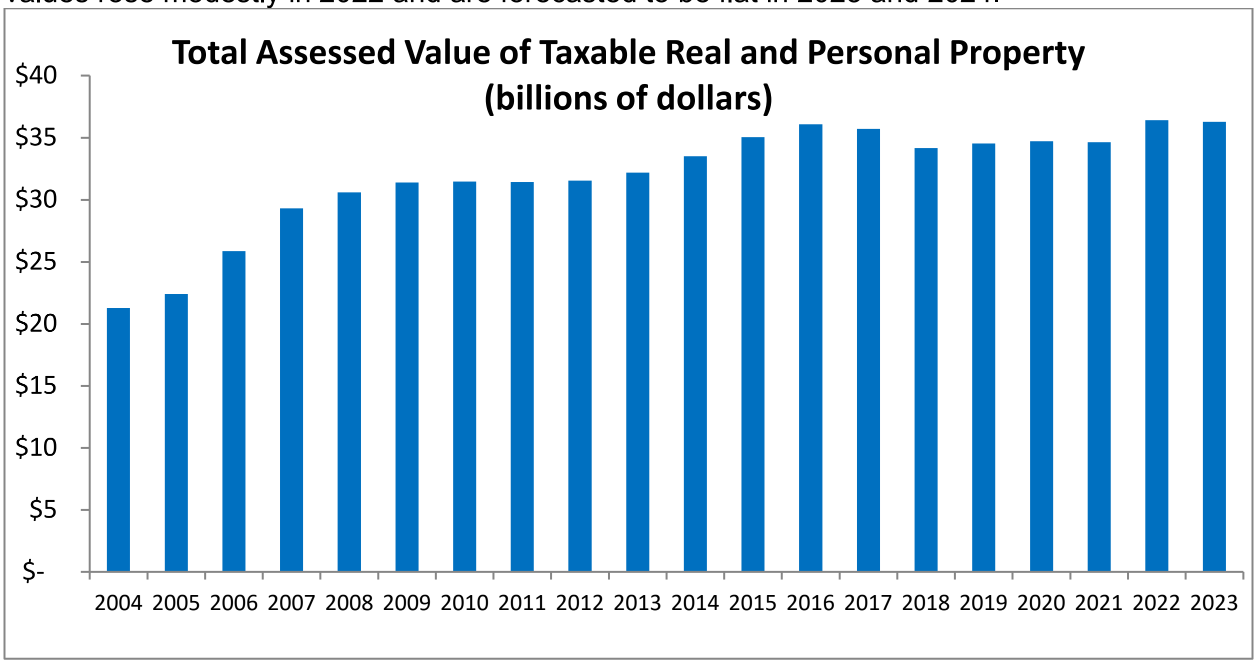


Source: MOA Treasury Division

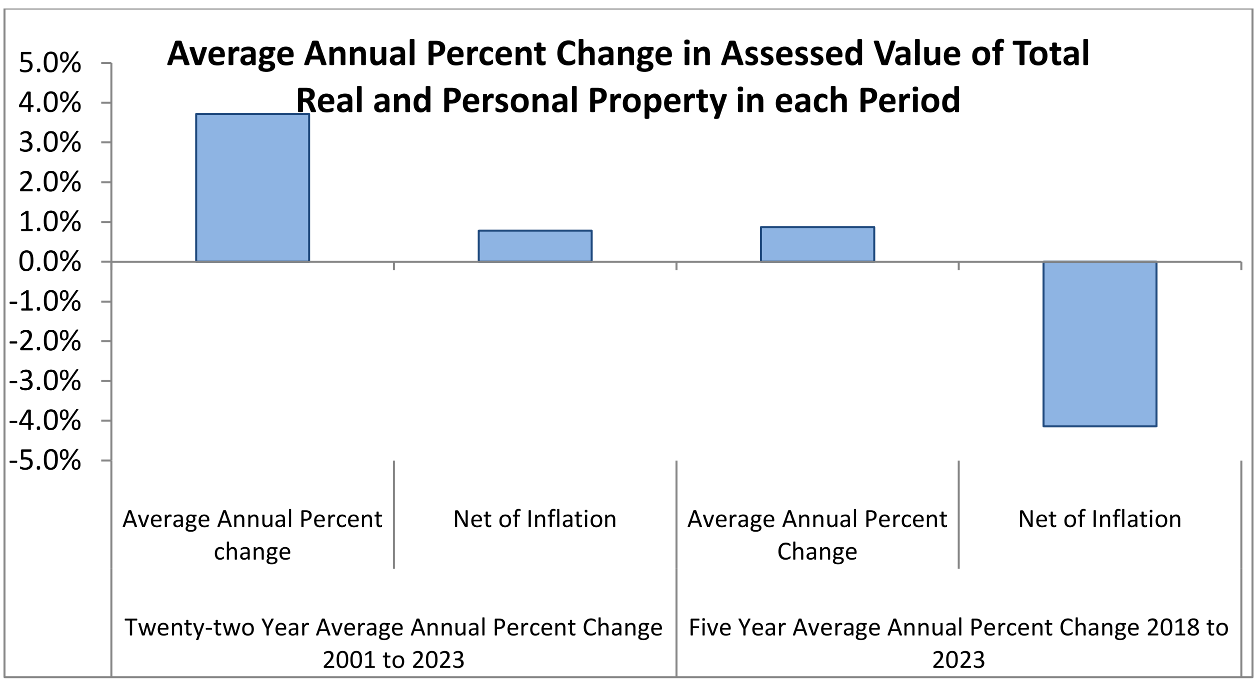


Source: MOA Treasury Division

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 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. Assessed values rose modestly in 2022 and are forecasted to be flat in 2023 and 2024.



Source: MOA Treasury Division



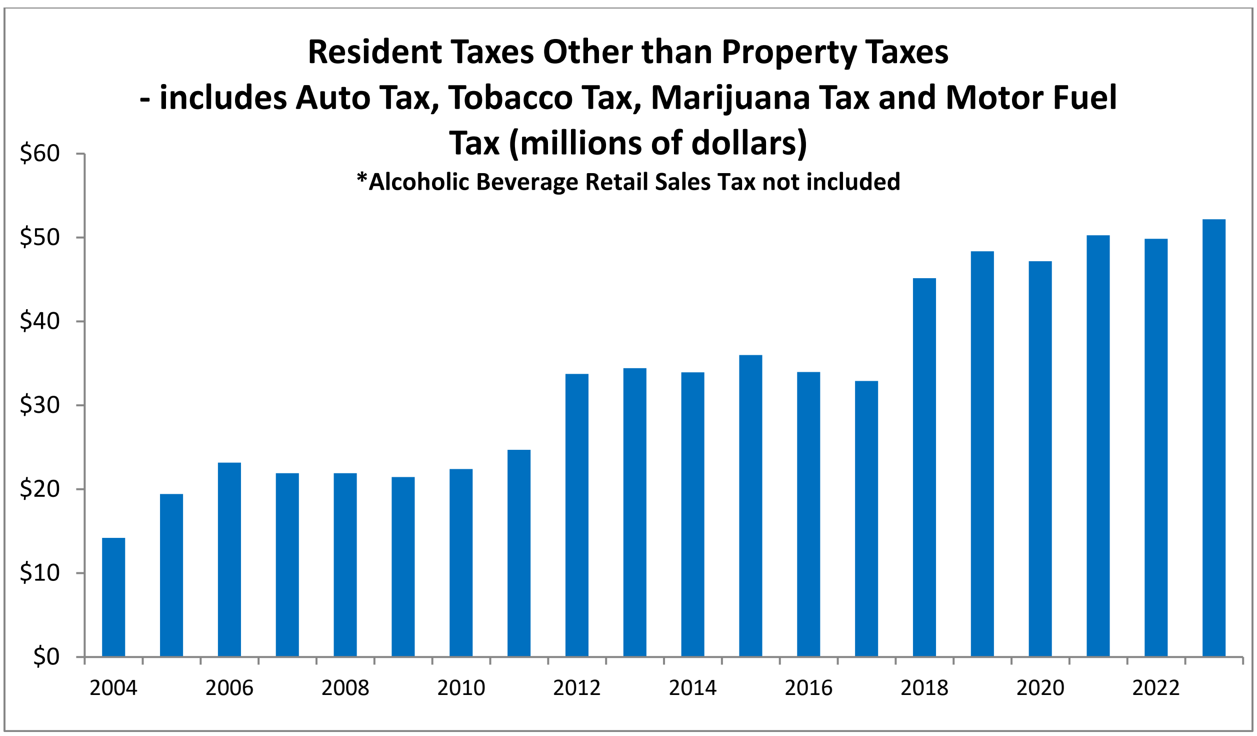
Source: MOA Treasury Division

Revenues Determined Primarily by Resident Consumption

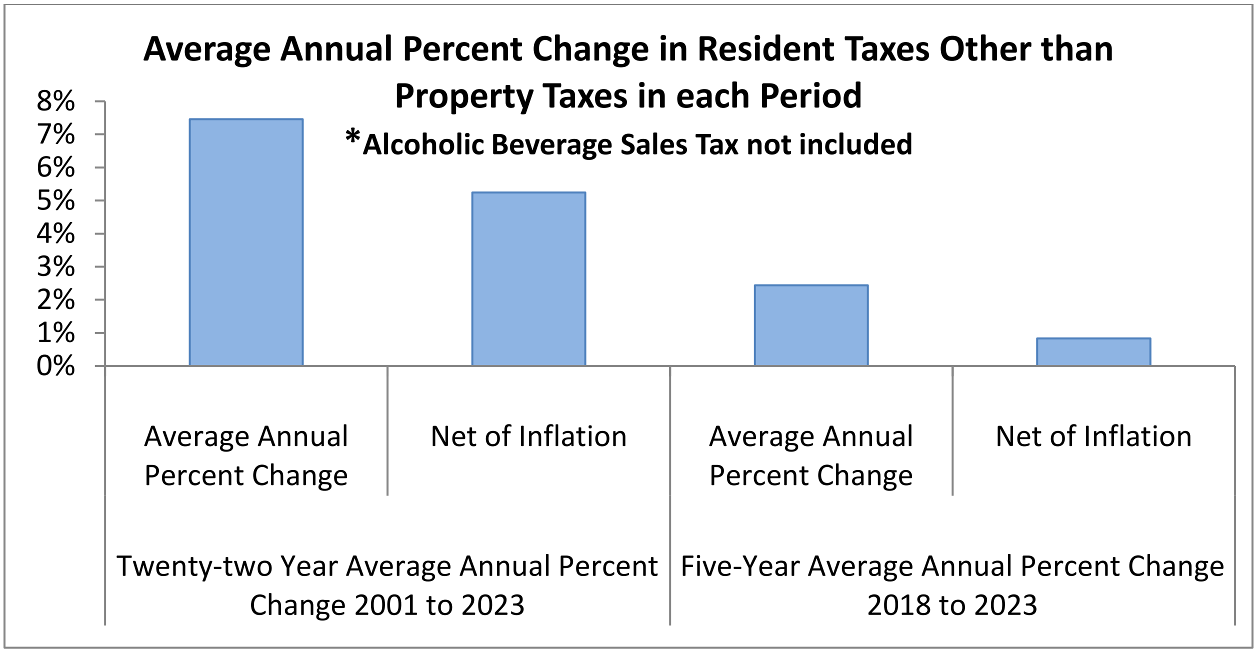
These revenues include fees paid by residents for municipal services and facility rentals. Also included are residents' payments of tobacco taxes, motor vehicle registration taxes, motor fuel taxes, and marijuana sales taxes. This category of revenues contributes approximately 16 percent of the total general government (101000 Fund) revenues, excluding ASD property taxes and alcoholic beverage retail sales taxes (Fund 206000).

Resident taxes, including motor vehicle registration tax, tobacco tax, marijuana sales tax, and motor fuel tax, are paid primarily by residents of the Municipality. These revenues are determined by consumer choices and to a lesser extent, changes in the tax rate. Motor vehicle registration tax revenues are affected by the age distribution of vehicles and the percent of population over 65 as 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, the availability of alternative products, 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. The decrease in tobacco tax revenues in 2017 was due to the unexpected closure of Sam's Club in December. Tobacco tax revenues increased in 2021 because of the additional taxation of vape products. Overall revenues in this category increased substantially because of higher motor vehicle registration tax rates in 2012 and increases in the tobacco tax rate in late 2004 and 2011. Increases in resident tax revenues in 2018 and 2019 were the result of the expansion of the legal retail marijuana market and the implementation of an excise tax on motor fuel. The alcoholic beverage retail sales tax (fund 206000) is not included in these figures.

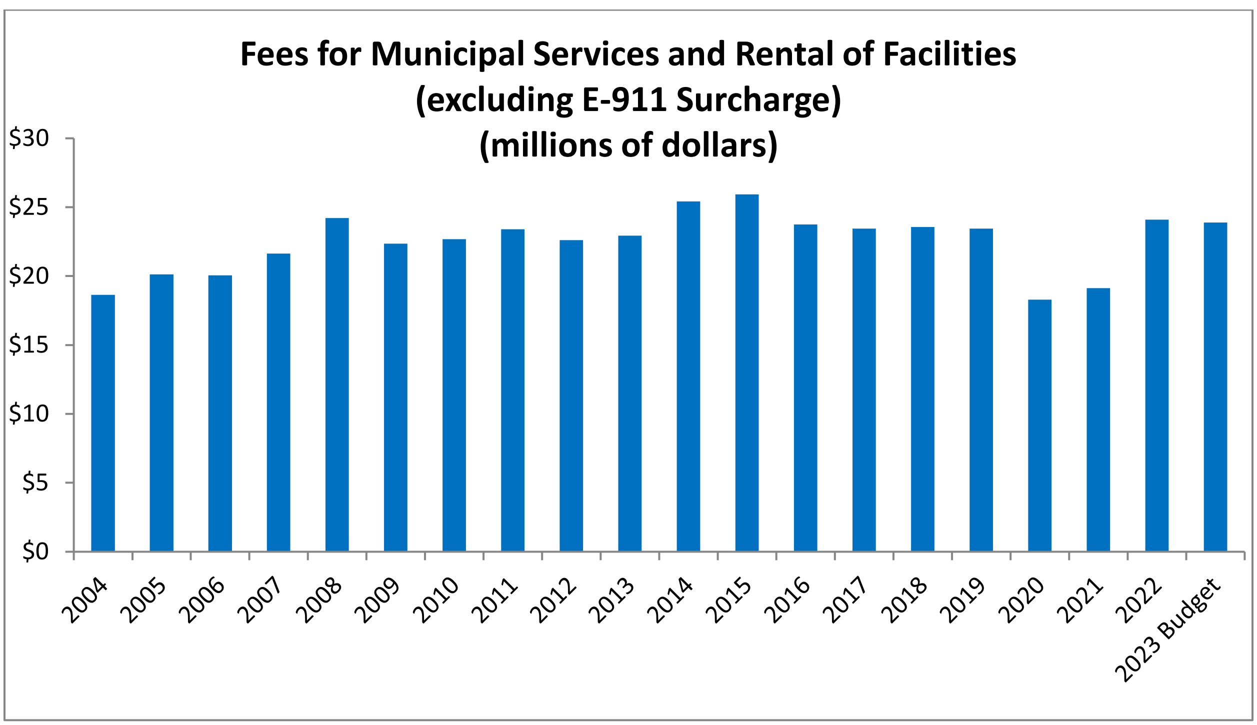


Source: MOA Treasury Division *2021 Reflects Budget Amounts

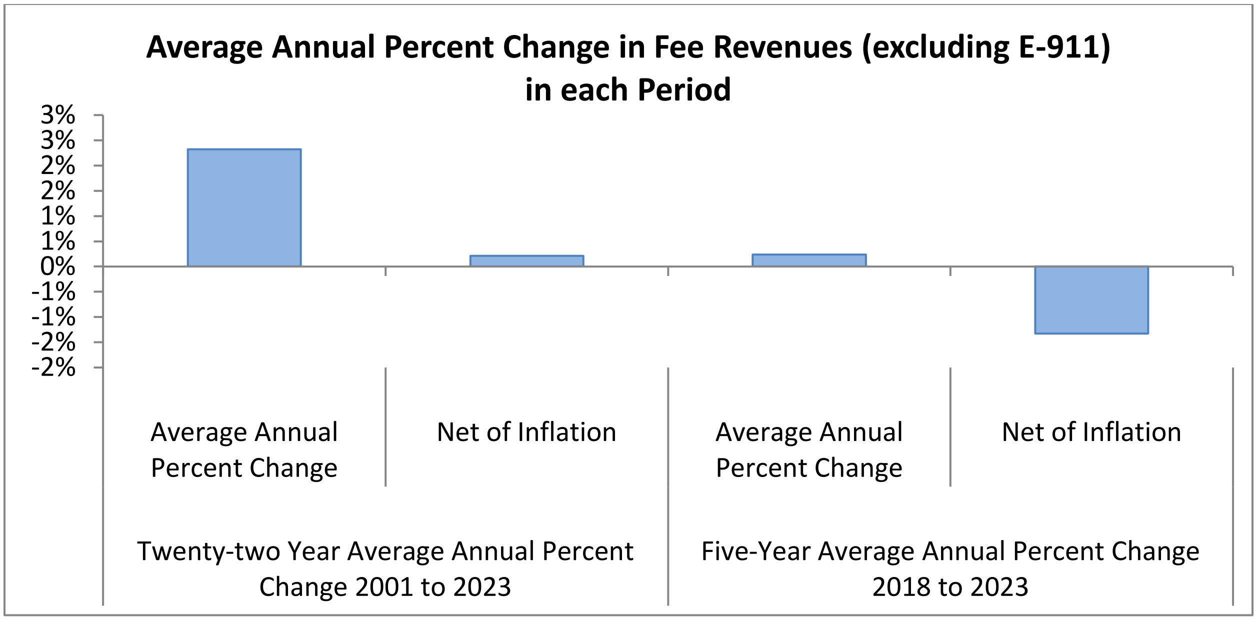


Source: MOA Treasury Division

Fees paid by residents for Municipal services and facility rentals are affected by the amount and types of public services provided by the Municipality, the amount of fees charged for those services, the number of Municipal resources and personnel allocated to provide the service, and extraordinary events such as the COVID-19 pandemic. The amount of these services and rentals that residents use determines the overall level of fees. Since 2009, fee revenues have been flat with the exception of a significant drop in 2020 and 2021 due to the COVID-19 pandemic which affected many facilities' ability to stay open. 2022 results reflect the build-up of demand during that period. 2023 and 2024 fees are forecasted to be flat year over year.



Source: MOA Treasury Division *2021 Reflects Budget Amounts

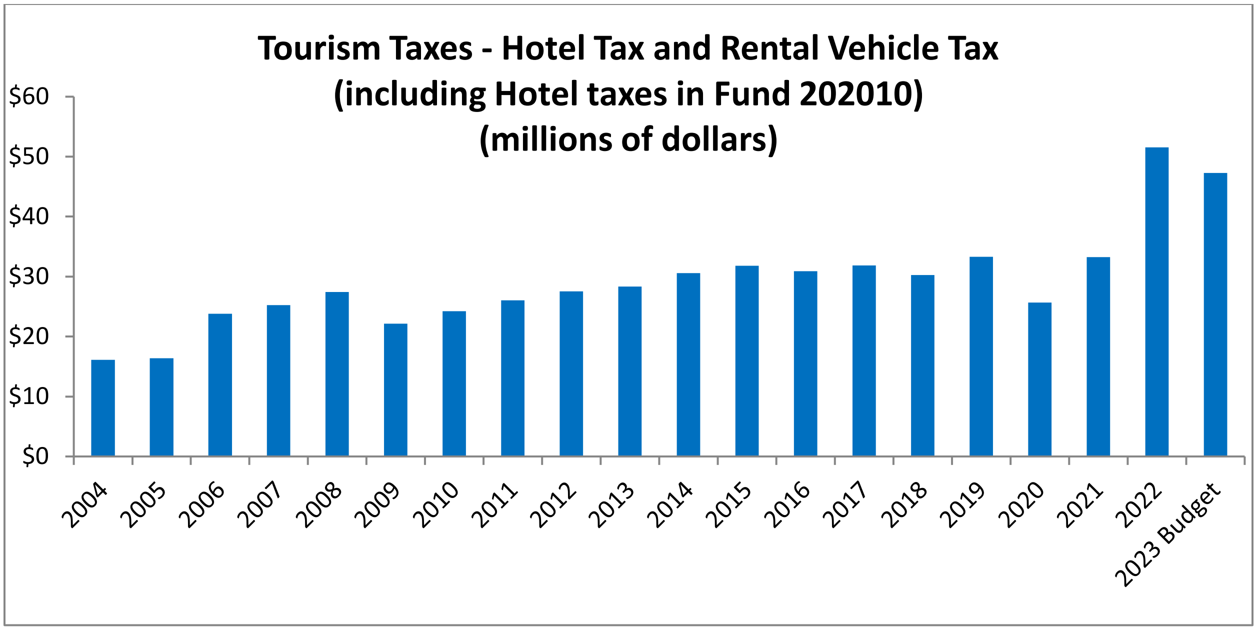


Source: MOA Treasury Division

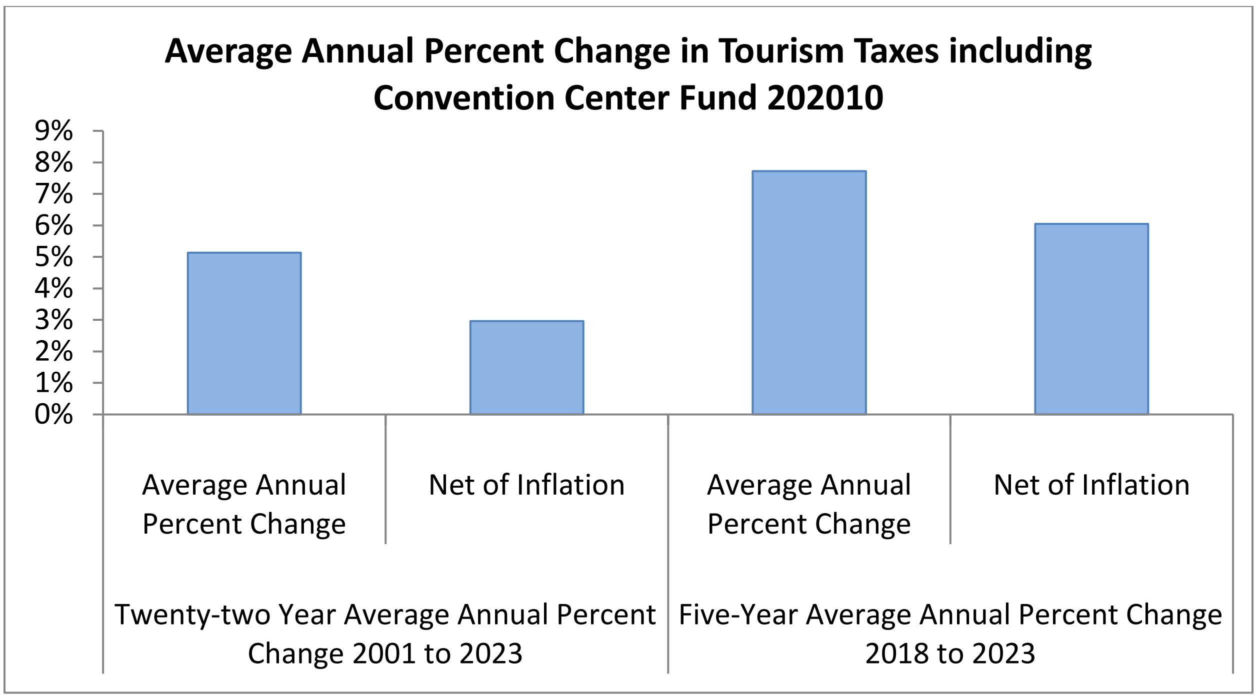
Revenues Determined Primarily by Economic Market Conditions

These revenues include all tourism taxes, construction-related permits, and investment earnings. They are affected by changing economic conditions in tourism, the construction industry, and the investment markets. Longer term, they are affected by changes in tax rates or by changes in permit fees specified in municipal code. These revenues contribute about 6 percent of total general government (series 101000 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 subsequent ten years due to increases in the prices charged for hotel rooms and continued growth in the number of visitors to Anchorage. The significant decline in tourism taxes in 2020 was because of fewer visitors coming to Anchorage during the COVID-19 pandemic. Revenue in 2022 has shown notable increases over 2020 and 2021 due to the post pandemic recovery of the tourism industry and higher than normal seasonal increases in hotel room prices and rental vehicle rates. This trend has continued into 2023 and is forecasted to continue in 2024.

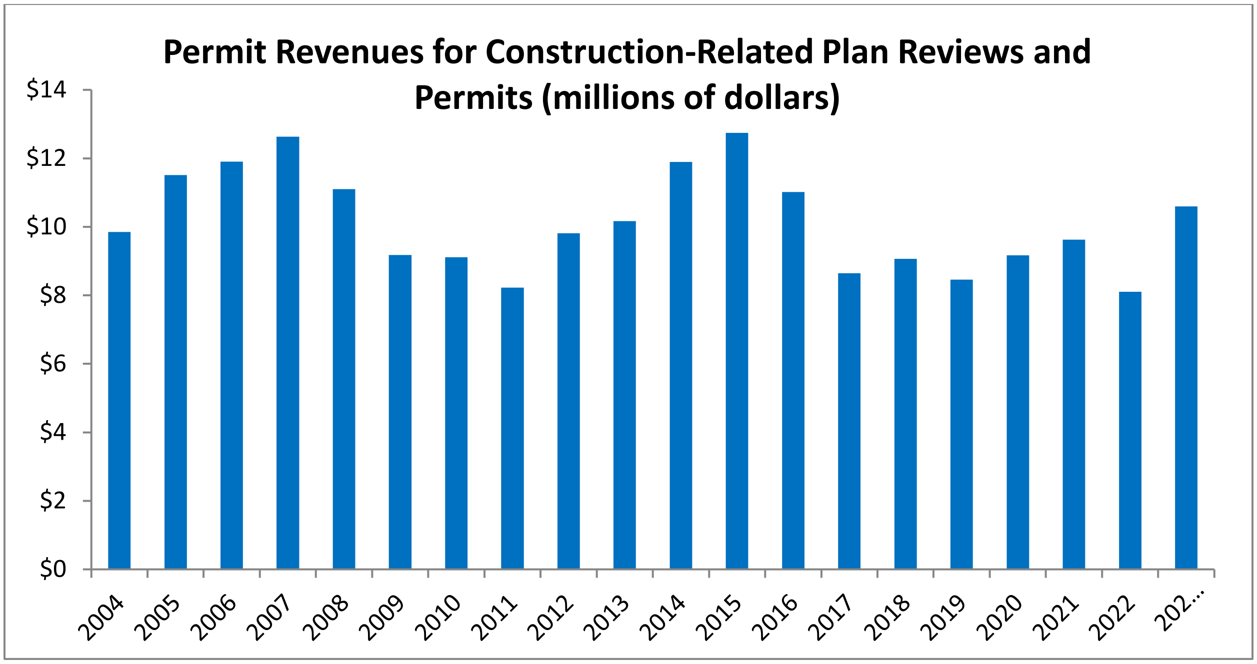


Source: MOA Treasury Division *2022 Reflects Budget Amounts

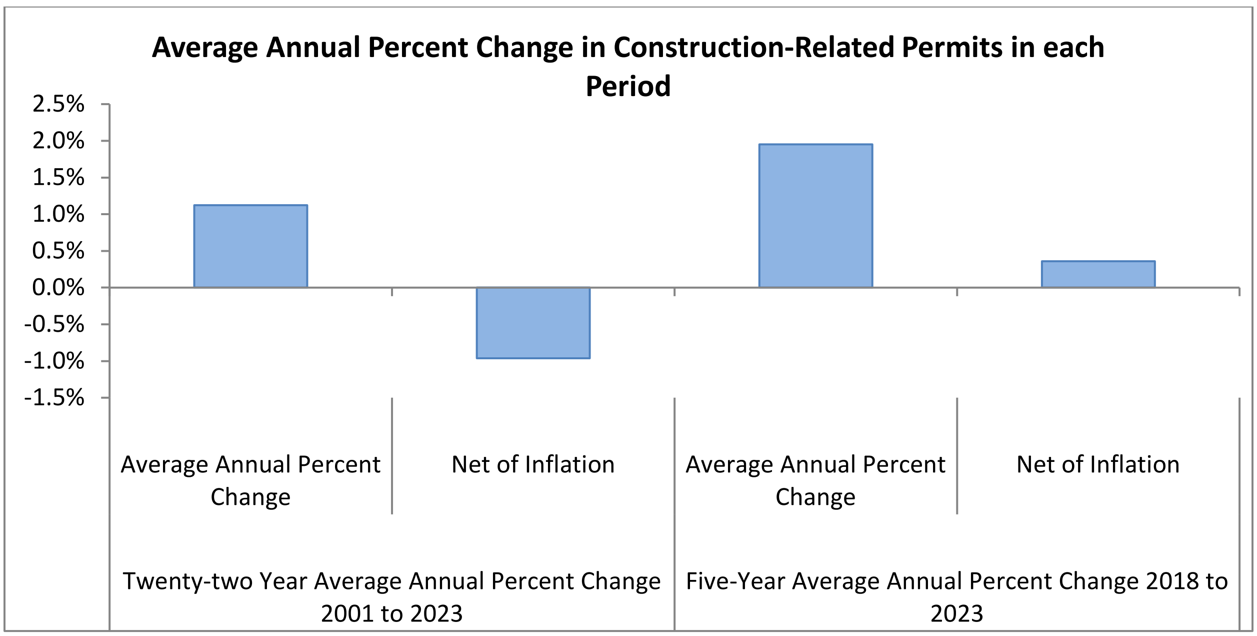


Source: MOA Treasury Division

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 and 2018. Revenues were slightly higher in 2020 but declined in 2021. Revenues are budgeted at a higher level in 2022 through 2024.

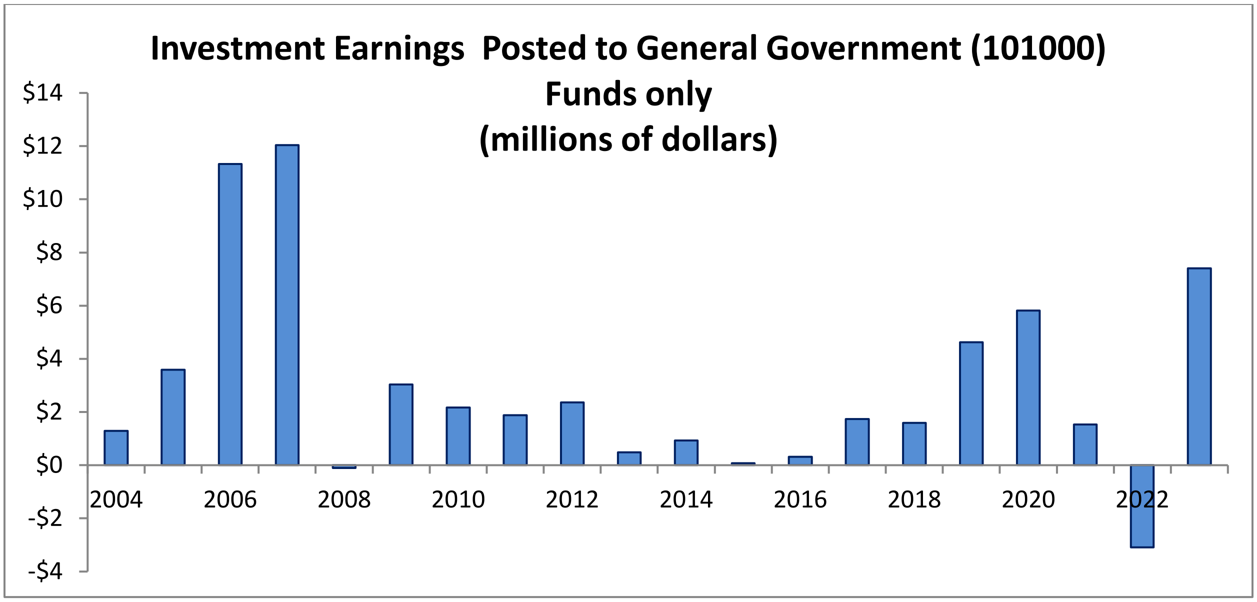


Source: MOA Treasury Division *2021 Reflects Budget Amounts

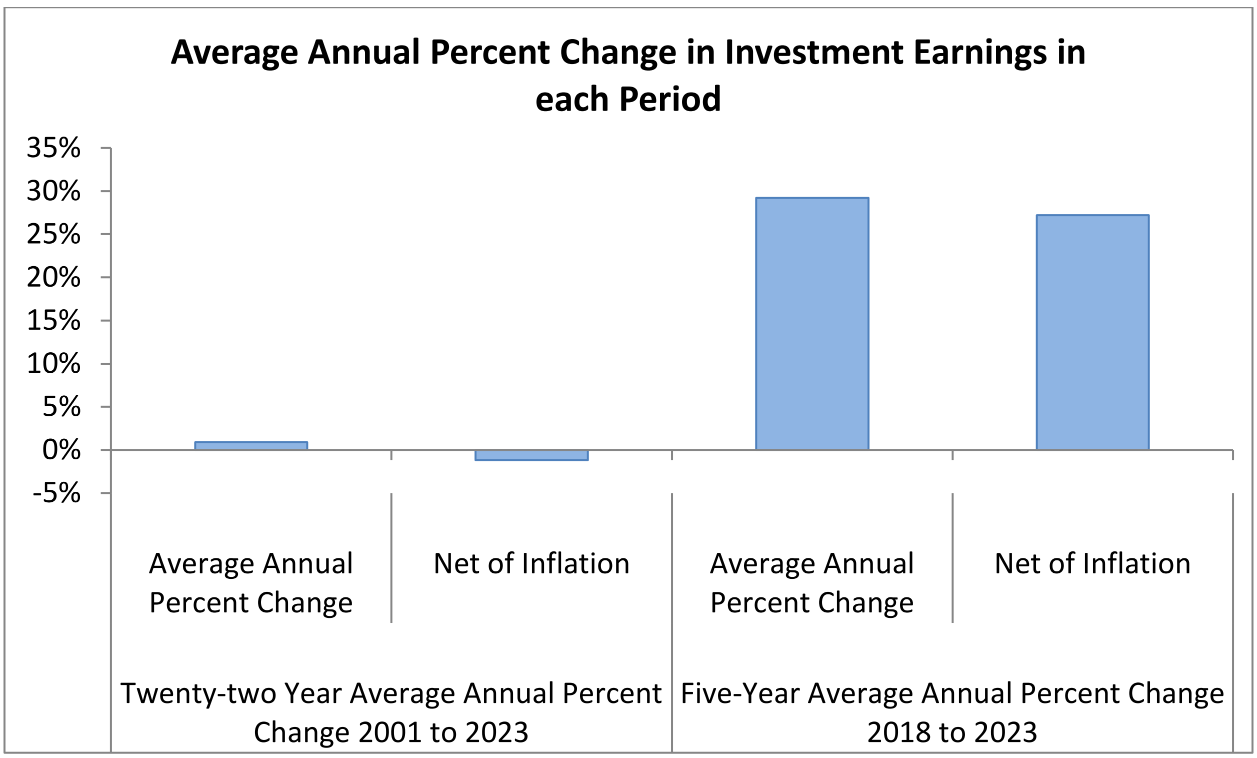


Source: MOA Treasury Division

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. Revenues are also affected by Municipal Code and policies that guide how Municipal Funds are invested. FY 2020 investment earnings posted to the general government (101000) funds were lower than 2019 due to market decreases. Rising interest rates in FY 2021 created unrealized losses in the pool, however recovery is expected beginning in 2023 and 2024 as market valuations adjust to higher interest rates.



Source: MOA Treasury Division *2022 Reflects Budget Amounts



Source: MOA Treasury Division

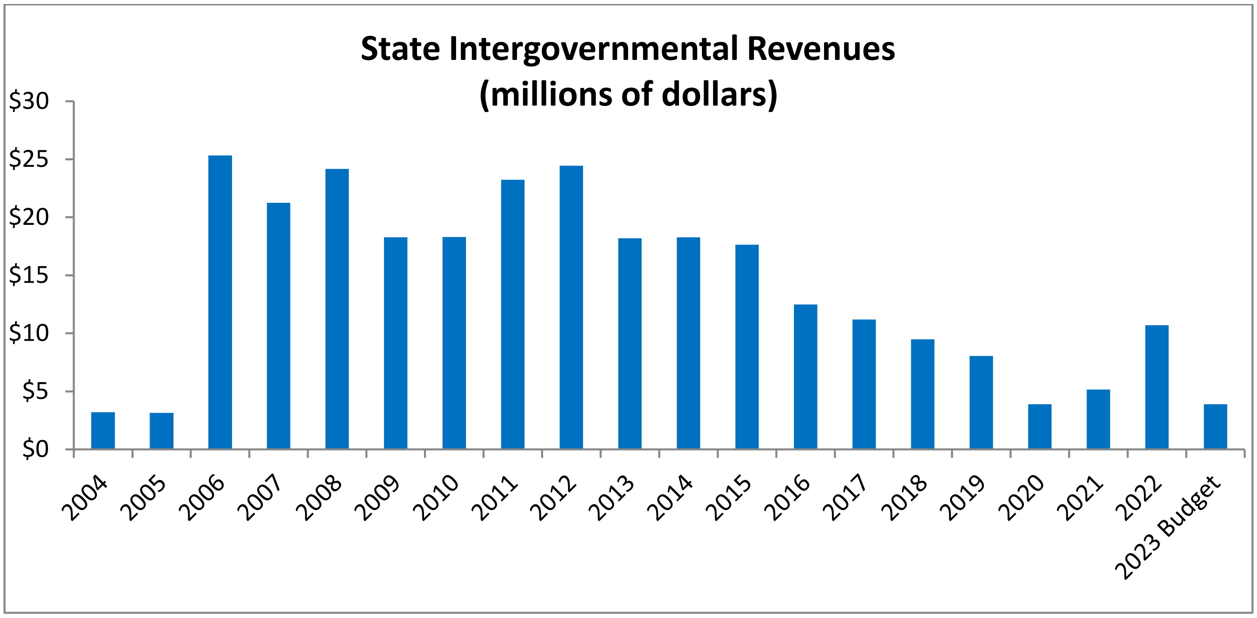
Revenues Determined by Actions of Other Governments

This category includes all State and Federal intergovernmental revenues and State and Federal Payments in Lieu of Taxes (PILT). These revenues contribute just under one half percent of total general government (101000) fund revenues.

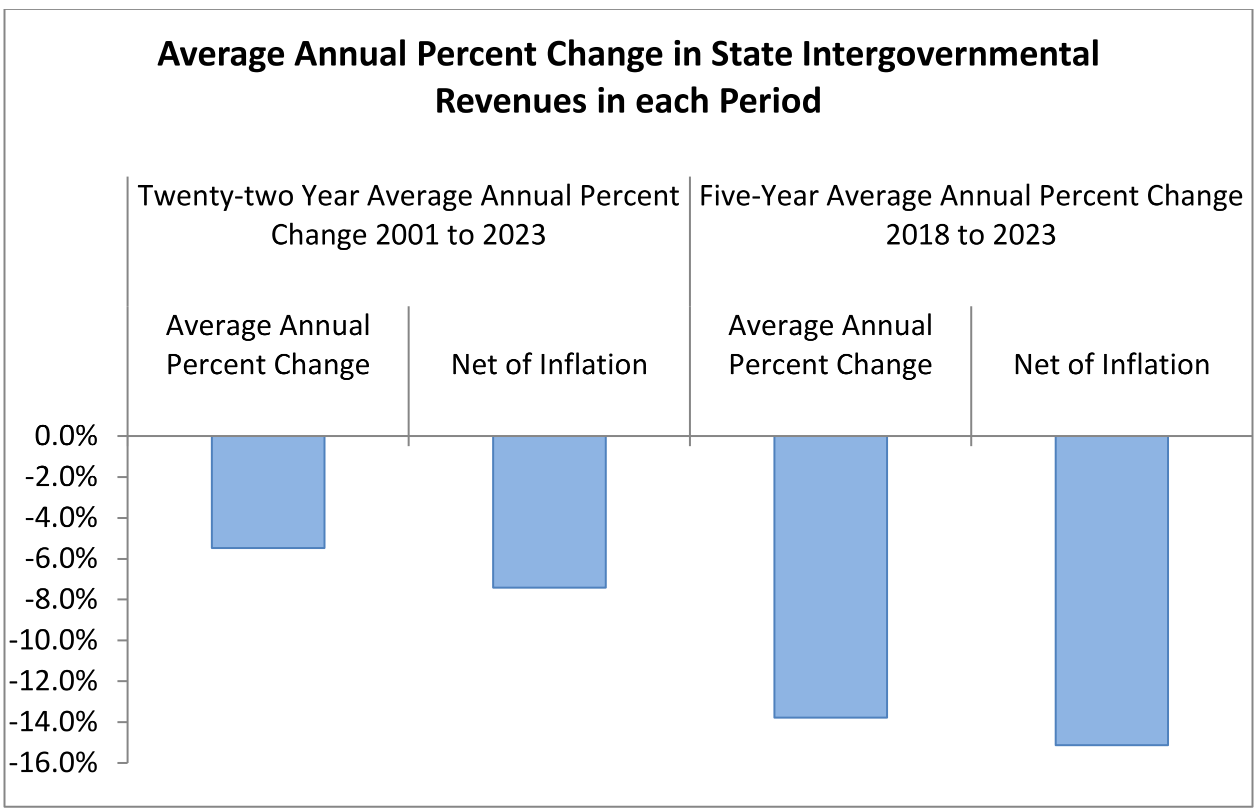
State Intergovernmental Revenues: Most of the revenues in this category have come from the State of Alaska's Revenue Sharing Program (through 2016) and Community Assistance Program (2017 to the present). The Municipality also receives revenues from the State for the

Fisheries Tax, Liquor Licenses, Traffic Signal Reimbursement, and Alaska Housing Finance Corporate PILT payments. Beginning in 2021, Chugach Electric began to pay private PILT to the Municipality per the municipal sales agreement terms with Municipal Light & Power.

Total State Intergovernmental revenues increased substantially in 2006 due to higher Municipal Revenue Sharing. Subsequent periods have experienced a decline in total State revenues received by the Municipality.

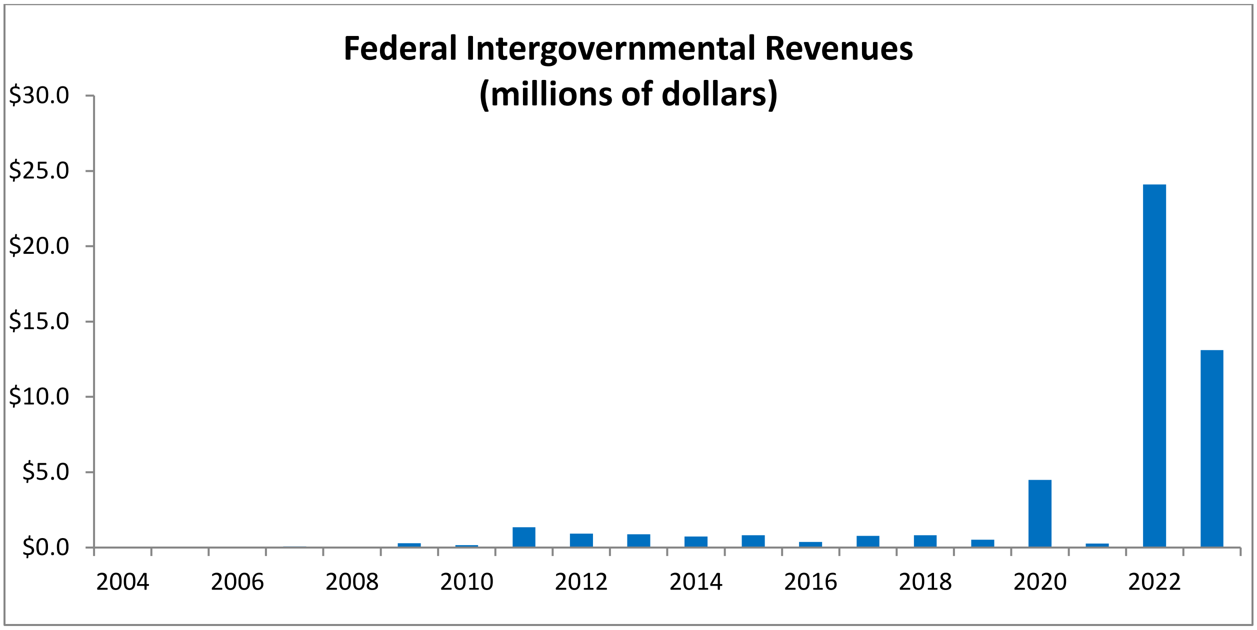


Source: MOA Treasury Division

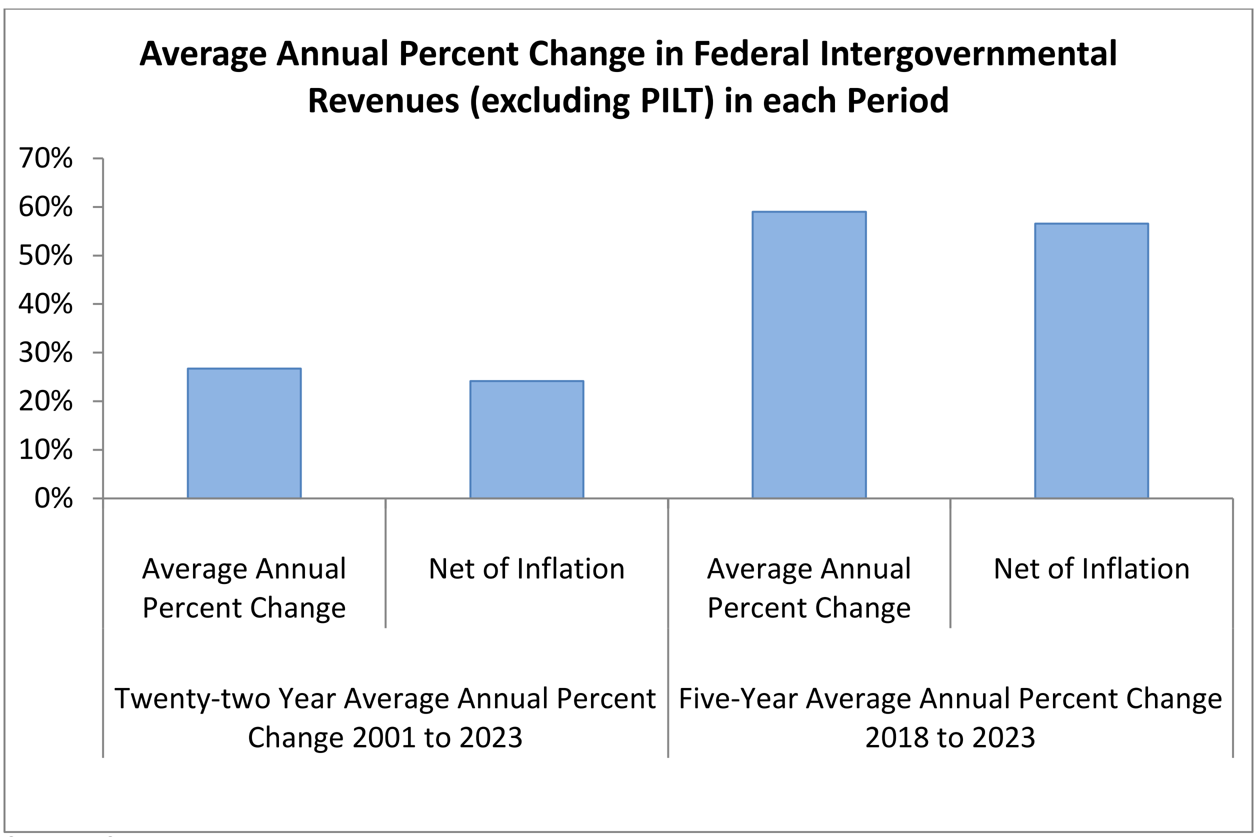


Source: MOA Treasury Division

Federal Intergovernmental Revenues: Most of the revenues in this category have come from Federal grants, fisheries tax, and national forest allocations. The Municipality also receives Federal PILT revenues. Total Federal Intergovernmental revenues were relatively modest until 2011. The large increase in 2020 was for emergency earthquake and COVID-19 relief. After 2020, the Federal revenues received by the Municipality have returned to historical levels.



Source: MOA Treasury Division



Source: MOA Treasury Division

Expenditures

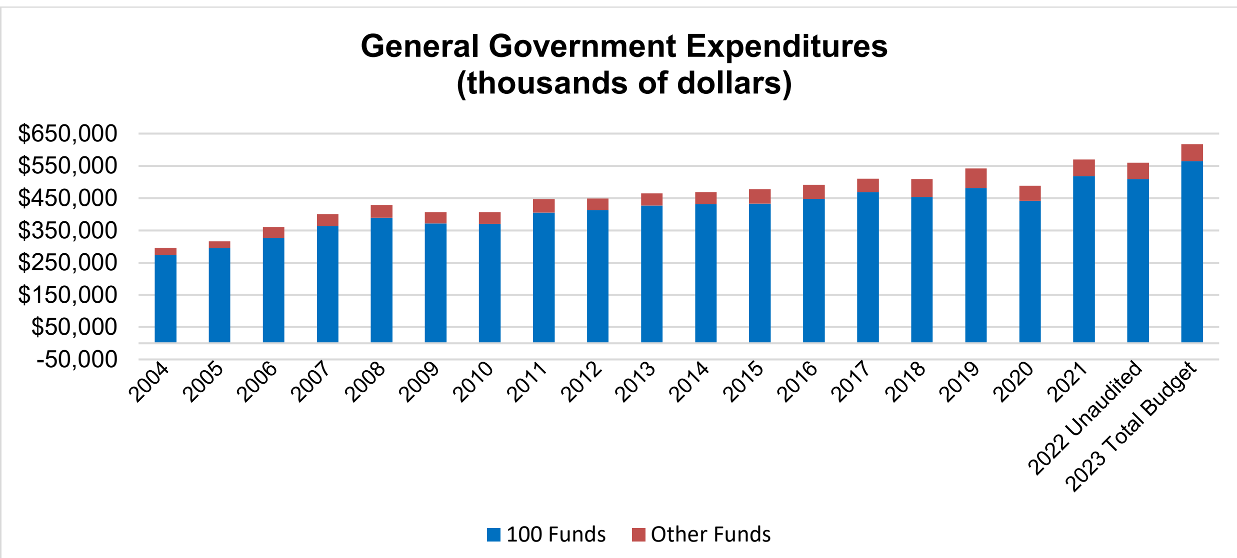
The graph below depicts the actual direct expenditure trends from 2004 to 2022 for Anchorage's general government. 2023 budget is projected, based on 2023 Revised Budget and supplemental budget changes through September 2023.

Recent increased investment in public safety, support to the SAP project, obligations and commitments, fuel and cost of goods, 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 substance misuse, underfunded law enforcement agencies, and a debilitated public mental health care system.

In 2020, $91 million of Police and Fire first responder operating payroll costs were charged to the Coronavirus Aid, Relief, and Economic Security (CARES) Act grant and thus are not featured in General Government; partially offsetting that movement was an increase of $39 million of COVID-19 programs that were funded in General Government 100 Funds.

In 2021, the COVID-19 programs continued as supplemental budget changes of $30 million funded in General Government 100 Funds.

The 2023 total budget includes supplemental budget changes for transfers to capital projects (Police headquarters at 716 West 4th Avenue purchase; Girdwood Fire engine/pumper truck; Chugiak pool improvements; and Chugiak Fire apparatus); special tax levy funds for police information technology; and additional year-round maintenance for limited service areas.



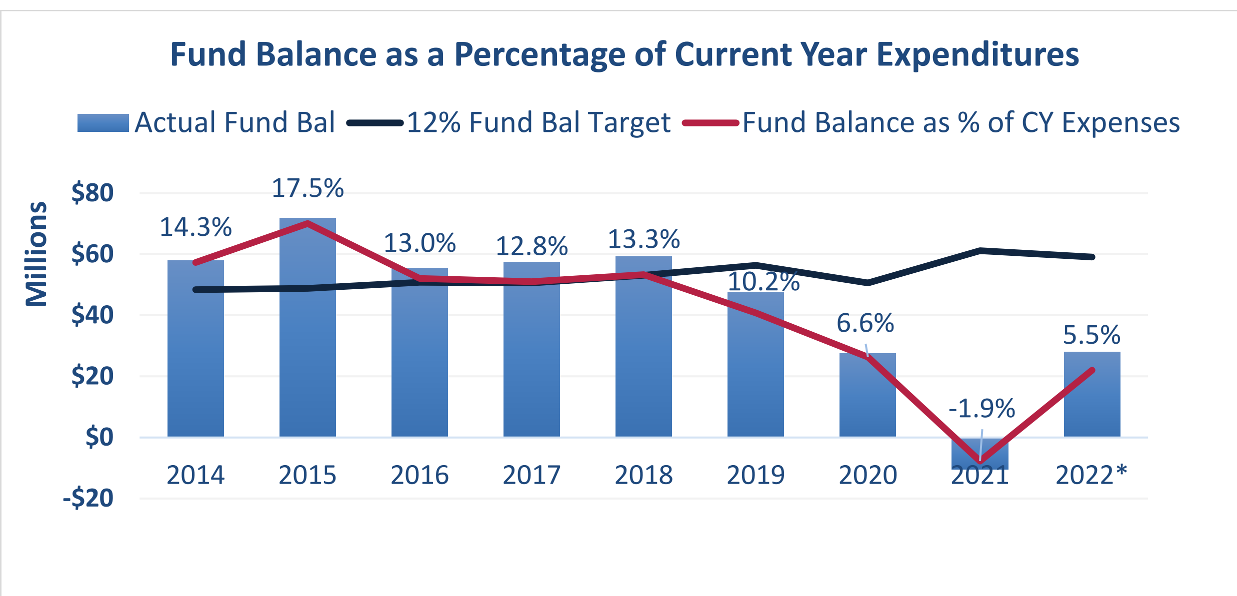
Source: MOA Office of Management & Budget

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 ACFR'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 that the Municipality was in excess of its Fund Balance Policy from 2014 through 2018. From 2019 through 2021 the Municipality did not meet its Fund Balance Policy requirements due to emergency ordinances that were enacted for the November 2018 Earthquake and the COVID-19 pandemic. As of 2022, a modest amount of fund balance was recovered due to receipt of FEMA reimbursements.



Source: MOA ACFR Required Supplementary Information and Note 15 Fund Balance: 2022 is based on the 2022 trial balance information as of September 7, 2023*

The 12% Fund Balance Target line is comprised of:

- 10% of expenditures in the five Major Funds, and 8.25% of expenditures in the Non-Major Funds for the “10% Bond Rating” requirement; and
- 2% of expenditures in the Major Funds; and 2% to 20% of expenditures in the Non-Major Funds for the “2% Working Capital Reserve”.

2021 Audited ACFR Fund Balance Summary Table

Total Nonspendable	**$ 19,046,422**
Total Restricted	**2,138,405**
Committed:	
10% Bond Rating	50,153,511
Other Committed	821,189
Total Committed	**50,974,700**
Total Assigned	**0**
Unassigned:	
2% Working Capital Reserve	11,035,495
Other Unassigned	(71,589,440)
Total Unassigned	**(60,553,945)**
Total Fund Balance (Deficit)	**$ 11,605,582**

The 2022 Draft ACFR Fund Balance information is not yet available. The above table summarizes the 2021 Audited ACFR Fund Balance information. The above chart and table both show that for 2021 the Municipality was unsuccessful at both meeting its 12% Fund Balance Target and having sufficient fund balance to meet its other fund balance restrictions such as Nonspendable, Restricted and Other Committed categories, missing its Fund Balance requirement by $71.6 million.

Municipality’s General Obligation Bond Rating
The Municipality enjoys the benefits of being a highly rated government entity by two national rating agencies. The Municipality is currently rated AA by Fitch Ratings (Fitch) with a Stable Outlook and AA by S&P Global Ratings (S&P) with a Negative Outlook. The rating agencies have a complex structured rating process for determining an issuer’s 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 issuer’s 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, which was a downgrade from its previous rating of AA+. In their November 22, 2022 rating review of the Municipality they commented on the Municipality's:

- Solid expenditure flexibility, and
- Low long-term liability burden relative to the economic resource base.
- Depletion of fund balance reserves and reliance on federal government reimbursements to restore its fiscal cushion

They also commented about their revenue framework assessment. "Fitch expects revenue growth in line with the long-term rate of inflation. Anchorage's tax structure is highly dependent on property taxes, providing revenue stability. Policymakers' independent legal ability to raise revenues is substantial relative to typical cyclical revenue declines."

Standard & Poor's (S&P) Global Ratings

S&P currently rates the Municipality AA with a Negative Outlook, which was a downgrade from its previous rating of AA+. In their most recent rating summary dated November 23, 2022, S&P's analyst noted that the main reasoning for the downgrade was due to material decline of Municipality's available reserves due to increased expenditures, revenue declines, and delayed FEMA reimbursements related to the 2018 Earthquake and COVID-19 pandemic, which posed challenges facing the Municipality's available reserves in the short term. The analyst also noted that "If the municipality is unable to balance operations and return fund balances to positive levels or show progress toward positive fund balances within the next two years, we could lower the rating". If the Municipality restores its reserves through a combination of FEMA reimbursements or reducing expenditures, the outlook could turn to Stable.
The analyst also noted the following regarding Anchorage:

- Broad and diverse economy that anchors Alaska, but with a declining population,
- Weak performance and weak reserves due to delayed FEMA reimbursements and optimistic budget projections
- Strong management with comprehensive budgets, and an awareness of the challenges facing the municipality,
- Manageable debt profile with rapid amortization.

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 an AA+/AAA rated issuer,
- Rating Agencies periodically change their rating criteria and a fund balance that is 15% of current year expenditures 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 may impact our rating,
- Higher fund balances will help mitigate that risk, and
- Higher credit ratings mean a lower cost of funds, and lower taxes for taxpayers.

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.

The Capital Improvement Program supports the maintenance and development of infrastructure that form the foundation for a strong economy and vibrant Anchorage. The proposed capital funding support that comes from local bonds as well as state and federal funds. In many cases, proposed bond funds leverage matching non-local dollars. Separate capital budgets exist for the Anchorage School District proposed improvements and the municipally-owned utilities.

As capital requests are reviewed, awareness of potential operating costs associated with projects is identified at an individual project detail level for the year(s) after the work is complete. For 2024 – 2029 Capital Improvement Program Operations & Maintenance, the identified costs are increases to the operating budget due to addition of facilities expansion (utilities, etc) and road improvements (street maintenance). Yearly costs by departments are projected as follows:

2024 - 2029 Capital Improvement Program Operations & Maintenance Estimate (In Thousands)

Department	2024	2025	2026	2027	2028	2029	Total
Information Technology	19	300	255	961	910	845	3,290
Maintenance & Operations	-	8	17	17	17	-	59
Parks & Recreation	163	145	46	98	15	15	482
Project Management & Engineering	47	47	47	47	47	47	282
Traffic Engineering	65	65	65	65	65	65	390
Total	**294**	**565**	**430**	**1,188**	**1,054**	**972**	**4,503**

Source: 2024 Proposed General Government Capital Improvement Program

6. 6-Year Projection Model Based on 2024 Proposed Budget

Six Year Fiscal Program
General Government Operating Budget
Projections of Funding Sources and Uses ($ thousands)
2024 to 2029

	Total Budget	Proposed Budget	Projections with % Change from Prior Year									
Financing Sources	**2023**	**2024**	**2025**		**2026**		**2027**		**2028**		**2029**	
Federal Revenues	13,129	13,129	13,392	2%	13,659	2%	13,933	2%	14,211	2%	14,495	2%
State Revenues	3,875	7,982	4,358	-45%	4,437	2%	4,518	2%	4,600	2%	4,684	2%
Local Revenues	231,744	206,945	212,140	3%	218,124	3%	222,033	2%	226,080	2%	230,069	2%
Property Taxes	279,080	286,277	286,537	0%	294,765	3%	304,311	3%	314,880	3%	325,112	3%
Property Taxes - GO Bond Debt	62,840	55,482	60,314	9%	53,097	-12%	53,102	0%	48,579	-9%	43,982	-9%
New Revenues			-	0%	-	0%	-	0%	-	0%	-	0%
Fund Balance Applied	80	(318)	(318)	0%	(322)	1%	(327)	1%	(332)	1%	(337)	1%
IGCs Outside General Gvt.	28,909	28,429	28,933	2%	29,354	1%	29,984	2%	30,416	1%	30,853	1%
Total Financing Sources	**619,657**	**597,927**	**605,356**		**613,113**		**627,552**		**638,435**		**648,858**	
Change from prior year	**5.1%**	**-3.5%**	**1.2%**		**1.3%**		**2.4%**		**1.7%**		**1.6%**	
Financing Uses												
Salaries and Benefits	324,551	332,528	342,236	2.9%	351,422	2.7%	362,010	3.0%	368,329	1.7%	377,147	2.4%
Debt Service	69,610	69,665	61,280	-12.0%	54,035	-11.8%	53,810	-0.4%	49,005	-8.9%	44,342	-9.5%
Depr/Amort	9,746	9,300	9,432	1.4%	9,432	0.0%	10,032	6.4%	10,032	0.0%	10,026	-0.1%
Other	222,719	186,434	192,409	3.2%	198,225	3.0%	204,973	3.4%	211,070	3.0%	217,344	3.0%
Total Financing Uses	**626,626**	**597,927**	**605,356**		**613,113**		**630,824**		**638,435**		**648,858**	
Change from prior year	**9.8%**	**-4.6%**	**1.2%**		**1.3%**		**2.9%**		**1.2%**		**1.6%**	
Revenues Over/(Under) Expenditu	**(6,969)**	**-**	**-**		**-**		**(3,272)**		**-**		**-**	

2023 Total Budget

- Includes 2023 Revised Budget and supplemental appropriations through September 2023

Projections - Overall Assumptions 2024-2029

- This projection is for General Government Operating only and does not include assumptions related to Anchorage School District (ASD) taxing needs nor does it include any assumptions for programmatic grants (i.e. AMATS, HUD, etc.)
- 2024 Proposed is the base for 2025 through 2029 projections
- Population - per Anchorage Economic & Community Development (AEDC) 2023 3-Year Outlook - 2023: 290.8K; 2024: 291.0K; 2025: 291.3K; 2026: 291.7K and then continued 0.1% increase thereafter
- CPI - 0.6% in 2023, 3% in 2024 and thereafter

Financing Sources

- Federal / State Revs - Assumes no stimulus grant impacts
- State Revs - Community Assistance at $0.4 million (amount budgeted in 2023) in 2025 and thereafter
- Property Taxes - tax under the cap each year to match funding needs: 2025: $3.0M; 2026: $2.2M; 2027: $0.0M; 2028: $0.9M; 2029: $1.8M
- Property Taxes - Assumes no new Operations & Maintenance (O&M) in 2025 and thereafter
- Property Taxes - Assumes no exemption recovery in 2025 and thereafter
- Taxes - MESA/MUSA/Dividends from Enterprise/Utilities are from respective 8-Year summaries provided in 2024 Proposed docum
- Fund Balance - Assumes no fund balance use for 100 Funds and does not include any adjustment for funding emergency ordinances that are not reimbursed by FEMA
- Most other revenues increase 2% in 2025 and thereafter

Financing Uses

- Salaries and Benefits - Work hours: 2025: 2088; 2026: 2096; 2027: 2112; 2028: 2096; 2029: 2096
- Salaries and Benefits - Current contract changes then last approved rate change thereafter, except: Assembly: flat; EXE and Non-Rep 1.5% in 2025 and thereafter; Mayor: flat; APDEA 3.3% in 2025 and thereafter.
- Salaries and Benefits - Medical at 4% increase per year
- Salaries and Benefits - Assumes non-calculated (Vacancy Factor, Overtime, etc.) flat from 2024
- Debt Service - per schedule from Public Finance - assumes no new General Obligation Bond debt
- Other (includes leases, contracts, utilities, etc.) - Increasing by CPI

Source: MOA Office of Management & Budget

7. 6-Year Projection Model Based on 2024 Approved Budget

Six Year Fiscal Program
General Government Operating Budget
Projections of Financing Sources and Uses ($ thousands)
2024 to 2029

	Total Budget	Approved Budget	Projections with % Change from Prior Year									
Financing Sources	**2023**	**2024**	**2025**		**2026**		**2027**		**2028**		**2029**	
Federal Revenues	13,129	13,129	13,392	2%	13,659	2%	13,933	2%	14,211	2%	14,495	2%
State Revenues	3,875	7,982	4,358	-45%	4,437	2%	4,518	2%	4,600	2%	4,684	2%
Local Revenues	231,744	206,945	212,140	3%	218,124	3%	222,033	2%	226,080	2%	230,069	2%
Property Taxes	279,080	296,221	292,559	-1%	303,254	4%	313,027	3%	324,735	4%	335,631	3%
Property Taxes - GO Bond Debt	62,840	55,482	60,314	9%	53,097	-12%	53,102	0%	48,579	-9%	43,982	-9%
New Revenues			-	0%	-	0%	-	0%	-	0%	-	0%
Fund Balance Applied	7,049	3,290	843	-74%	1,975	134%	5,380	172%	1,232	-77%	894	-27%
IGCs Outside General Gvt.	28,909	28,288	28,790	2%	29,209	1%	29,837	2%	30,267	1%	30,701	1%
Total Financing Sources	**626,626**	**611,337**	**612,396**		**623,755**		**641,828**		**649,705**		**660,456**	
Change from prior year	**6.2%**	**-2.4%**	**0.2%**		**1.9%**		**2.9%**		**1.2%**		**1.7%**	
Financing Uses												
Salaries and Benefits	324,551	342,621	348,313	1.7%	358,543	2.9%	369,388	3.0%	375,864	1.8%	384,899	2.4%
Debt Service	69,610	69,665	61,280	-12.0%	54,035	-11.8%	53,810	-0.4%	49,005	-8.9%	44,342	-9.5%
Depr/Amort	9,746	9,300	9,432	1.4%	9,432	0.0%	10,032	6.4%	10,032	0.0%	10,026	-0.1%
Other	222,719	189,752	195,826	3.2%	201,745	3.0%	208,598	3.4%	214,804	3.0%	221,190	3.0%
Total Financing Uses	**626,626**	**611,337**	**612,396**		**623,755**		**641,828**		**649,705**		**660,456**	
Change from prior year	**9.8%**	**-2.4%**	**0.2%**		**1.9%**		**2.9%**		**1.2%**		**1.7%**	
Revenues Over/(Under) Expenditu	**-**	**-**	**-**		**-**		**-**		**-**		**-**	

2023 Total Budget

- Includes 2023 Revised Budget and supplemental appropriations through September 2023

Projections - Overall Assumptions 2024-2029

- This projection is for General Government Operating only and does not include assumptions related to Anchorage School District (ASD) taxing needs nor does it include any assumptions for programmatic grants (i.e. AMATS, HUD, etc.)
- 2024 Approved is the base for 2025 through 2029 projections
- Population - per Anchorage Economic & Community Development (AEDC) 2023 3-Year Outlook - 2023: 290.8K; 2024: 291.0K; 2025: 291.3K; 2026: 291.7K and then continued 0.1% increase thereafter
- CPI - 0.6% in 2023, 3% in 2024 and thereafter

Financing Sources

- Federal / State Revs - Assumes no stimulus grant impacts
- State Revs - Community Assistance at $0.4 million (amount budgeted in 2023) in 2025 and thereafter
- Property Taxes - Tax under the cap each year to match funding needs: 2025: $7.3M; 2026: $0M; 2027: $0M; 2028: $0M; and 2029: $1.4M
- Property Taxes - Assumes no new Operations & Maintenance (O&M) in 2025 and thereafter
- Property Taxes - Assumes no exemption recovery in 2025 and thereafter
- Taxes - MESA/MUSA/Dividends from Enterprise/Utilities are from respective 8-Year summaries provided in 2024 Approved docum
- Fund Balance - Use for 100 Funds: 2025: $0M; 2026: $1.1M; 2027: $4.5M; 2028: $0.3M; 2029: $0M. Does not include any adjustment for funding emergency ordinances that are not reimbursed by FEMA.
- Most other revenues increase 2% in 2025 and thereafter

Financing Uses

- Salaries and Benefits - Work hours: 2025: 2088; 2026: 2096; 2027: 2112; 2028: 2096; 2029: 2096
- Salaries and Benefits - Current contract changes then last approved rate change thereafter, except: Assembly: flat; EXE and Non-Rep 1.5% in 2025 and thereafter; Mayor: flat; APDEA in line with AA 2023-01 w 3.3% in 2027 and thereafter.
- Salaries and Benefits - Medical at 4% increase per year
- Salaries and Benefits - Assumes non-calculated (Vacancy Factor, Overtime, etc.) flat from 2024
- Debt Service - per schedule from Public Finance - assumes no new General Obligation Bond debt
- Other (includes leases, contracts, utilities, etc.) - Increasing by CPI

Source: MOA Office of Management & Budget