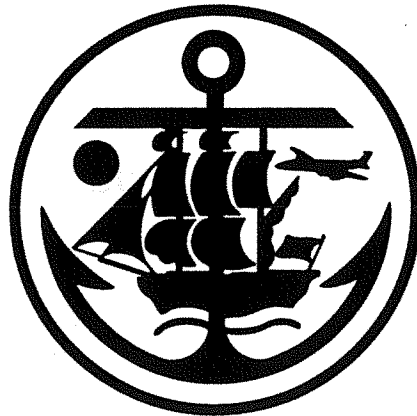


**SIX YEAR FISCAL PROGRAM
1998 - 2003**



Municipality of Anchorage

**Rick Mystrom
Mayor**

***1998 - 2003
SIX YEAR FISCAL PROGRAM
MUNICIPALITY OF ANCHORAGE***

Rick Mystrom, Mayor

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Rick Mystrom, Mayor

OFFICE OF THE MAYOR

September 30, 1997

Dear Residents of Anchorage:

I am pleased to present the Six Year Fiscal Program for years 1998-2003. This report, in effect, represents the Administration's proposed long-term business plan for the Community; it emphasizes this Administration's primary long-term objectives and it illustrates how local government can help to positively shape Anchorage's future.

Anchorage is a great city getting even better. During my first term as mayor, significant progress was made in making Anchorage a safer, cleaner, more attractive community in which citizens are proud to live and work. While we are proud of the accomplishments achieved thus far, attention must continue to be paid to five major elements which will further assist in building a strong community, improve overall quality of life and make Anchorage a more livable city:

- A safe community
- A clean, attractive community
- A community on solid financial footing
- A community with a growing economy
- A community that encourages volunteerism and citizen participation in sports, cultural and community activities

A discussion of significant accomplishments during the past three years related to these five major elements is included in the report.

During the course of my second term as mayor, even more emphasis will be placed on enhancing public safety and on maintenance and rehabilitation of municipal infrastructure (e.g., roads, parks, trails, facilities). Particular attention will also be paid over the next several years to neighborhood revitalization, commercial development, and roadway development which is functional and attractive.

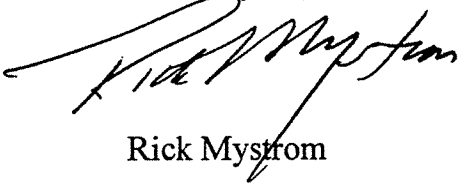
"City of Lights and Flowers"

A number of exciting economic development opportunities exist which we are actively pursuing. Specific discussion of economic development opportunities is included in the report. We will continue to work in partnership with Anchorage Economic Development Corporation, Anchorage Convention and Visitors Bureau, and the Anchorage and Eagle River Chambers of Commerce and other groups, to aggressively promote Anchorage as a great place to live, visit and do business. We will continue to foster a climate that encourages existing businesses to expand and new businesses to locate in Anchorage.

The Six Year Fiscal Program contains long-term financial projections and broadly discusses several main options for the Administration, the Assembly, and the Public to consider regarding future fiscal policy decisions — i.e., economic development opportunities, reduced expenditures, new revenue sources or any combination of these options. All projections in the Six Year Fiscal Program were developed with information that was considered the most reliable and current at the time of development.

Overall, Anchorage's future as one of America's most livable cities continues to be bright.

Sincerely,

A handwritten signature in black ink, appearing to read "Rick Mystrom". The signature is fluid and cursive, with a long horizontal stroke at the beginning and a large, sweeping flourish at the end.

Rick Mystrom

PREFACE

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

Like all responsible governments, the Municipality of Anchorage must provide its citizens with an acceptable level of important and critical services. The purpose of the Six Year Fiscal Program is to provide policy options related to services demanded by the public. The options included in the report are offered for consideration.

The Six Year Fiscal Program is intended to encourage a balanced approach toward dealing with changing fiscal conditions. Achieving that balance will likely result from a mix of expenditure reductions and revenue enhancements. Key strategic policy decisions will need to be made in order to determine exactly what that mix should be.

If the reader desires more demographic and financial information, there are a number of alternative sources available at Municipal libraries, such as:

- Anchorage Indicators
- Comprehensive Annual Financial Report (CAFR)
- General Government Operating Budget
- General Government Capital Budget/Program
- Public Utilities Operating Budget and Capital Budget/Program

Presentation of this document by the Administration and approval by the Assembly does not constitute approval of any of the policy issues discussed herein, but simply accepts this document as a working tool.

1998 - 2003
SIX YEAR FISCAL PROGRAM
TABLE OF CONTENTS

<u>Section</u>	<u>Description</u>	<u>Page</u>
	Mayor's Letter	
	Preface	i
1.	EXECUTIVE SUMMARY	1 - 1
2.	BACKGROUND	
	• Major Accomplishments -- 7/94 Through 8/97	2 - 1
	• Historical Trends	2 - 8
3.	ECONOMIC TRENDS AND OUTLOOK	
	• Major Economic Indicators (Population, Inflation, Assessed Valuations, New Construction)	3 - 1
	• Major Opportunities/Concerns	3 - 5
4.	PUBLIC SERVICES AND CAPITAL PROJECT FUNDING	
	• State Revenues (Operating and Capital)	4 - 1
	• Tax Cap Limit	4 - 4
	• Debt Service and O&M Costs	4 - 4
	• Anchorage School District	4 - 5

<u>Section</u>	<u>Description</u>	<u>Page</u>
5.	FISCAL PROJECTIONS AND POTENTIAL STRATEGIES	
	<u>Projections:</u>	
	• Six Year Projection of Revenues and Expenditures	5 - 1
	<u>Potential Strategies:</u>	
	• Broadened Tax Base Through Economic Development	5 - 4
	• Expenditure Options	5 - 4
	• Revenue Commitments and Options	5 - 5
6.	CONCLUSION	6 - 1

1. EXECUTIVE SUMMARY

The 1998-2003 Fiscal Program provides a six year fiscal profile which includes discussion of key initiatives of the Administration, economic trends and outlook, public services and capital project funding, long-term fiscal projections and fiscal policy options. The report is designed to generate public discussion so we can adequately plan for changing fiscal conditions and maintain a stable fiscal environment.

The primary goal of the Administration is to provide Anchorage residents with one of the safest and most livable cities in America. In order to achieve this goal, we must continue to stay focused on recent and future public safety initiatives and their funding requirements. As described later in this report, the Administration recently put forth a \$12.1 million Safe Communities Financial Plan which will help to assure the ability to provide continued financial support for public safety programs while reducing the impact on taxpayers. Public safety does not revolve solely around police services. The Administration also plans to continue its emphasis on meeting the priority needs (operational and capital) of both the Anchorage Fire Department and the Office of Emergency Management.

We must continue to find ways to stimulate the economy and create new job opportunities. Promising areas of economic growth include expansion at Anchorage International Airport driven by the cargo industry, development of the new Alaska Seafood Center, construction of a number of new hotels, development of smaller, marginal North Slope oil fields, Ship Creek area re-development, and Girdwood area development. Increased economic development will consequently help to stimulate population growth, increase the demand for housing, and raise commercial property values. Underlying these potential new economic developments, the oil and gas industry and the military will continue to play a key role in providing a strong economy for our City.

We must also capitalize on the unique cultural and recreational activities that Anchorage and Alaska provide. If we can help our children find rewarding outlets through sports, cultural and recreational activities, this will help to reduce juvenile crime. In the near term, the Administration will be focusing on significant new sports fields development,

as well as attempting to forge public/private partnerships to construct additional indoor ice rinks and to construct a replacement recreation center in the Mountain View area.

One of the financial challenges facing the Municipality is how to achieve our goals despite the declines in State revenues. Municipal Assistance and State Revenue Sharing have decreased steadily since the mid-1980's. These decreases have had a direct and significant impact on the amount of property taxes required to fund the general government operating budget and have, in effect, caused a *tax shifting* from the State government to local government. Unfunded federal and State mandates have also resulted in an increase in property taxes.

The six year fiscal projections are contained in Chapter 5. The projected fiscal surplus/shortfall shown on Page 5-2 is the projected fiscal result under the following three broad assumptions: (1) very modest growth in revenues, (2) negligible growth in expenditures, and (3) current level of services to the public maintained through the year 2003. There are a number of fiscal impacts affecting both revenues and expenditures, however, which could lead to budgetary shortfalls.

It is important to keep in mind that circumstances may arise which could change the assumptions and thus the projected fiscal outlook. If revenues from the State continue to decline over the next several years, for example, it will become more of a challenge to provide our residents with not only a safe city but also one that encourages cultural and recreational opportunities without requiring a significant increase in local taxes.

This document presents options for consideration by the Assembly and the public to address ways in which we can manage future fiscal requirements while continuing to expand our local economy. Options for responding to future fiscal requirements include economic development opportunities, expenditure reductions, new revenue sources or any combination of these options.

2. BACKGROUND

MAJOR ACCOMPLISHMENTS -- 7/94 THROUGH 8/97

Safer City

Crime in Anchorage for the first half of 1997 is down from one year ago in all categories. Comparisons of the 1997 crime rate per 100,000 population to the same time period in 1995 show how much crime conditions have improved in the last two years. Based on the population statistic the crime rate is down 31% with dramatic drops in homicides (67%), rape (34%), and robbery (53%). The crime statistics are a good sign that Anchorage is moving toward being the city we all want, but there is still work to be done. The 1998 budget will continue our efforts in that direction. Since the Fiscal Program was last updated in August of 1996, three more police academies have gone forward and a fourth academy is planned for December 1997. At full strength in 1998 we will have 356 sworn officers compared to 248 sworn officers actually on board in November 1994.

A number of additional initiatives undertaken to make our City safer were a direct result of recommendations by the Mayor's CAP Crime Task Force, including: expanded bike and foot patrols, additional neighborhood-based policing, new substations, increased prosecution, establishment of a misdemeanor follow-up unit and a juvenile crime unit, juvenile crime prevention programs (e.g., the Parent Network and Youth at Risk programs), continued aggressive enforcement of the DWI program, and development of a legislative package that led to the enactment of important crime laws.

In July 1997, the Administration brought forward a \$12.1 million Safe Communities Financial Plan which helps assure the ability to provide continued financial support for public safety programs while reducing the impact on property taxpayers. The Safe Communities Financial Plan is a long-term plan which makes use of one-time revenues received in 1997 from the Safe Communities Bill (i.e., SB 29) to payoff over \$12.1 million of municipal debt and thereby provide nearly \$20 million in cost savings over a 10 year period.

In addition to police protection services, a number of other public safety improvements have occurred since 1994, including implementation of an upgraded 911 system, secured funding for a replacement Girdwood Fire Station, a new 800 MHz trunked radio system for the fire department, initial design/construction funds for relocating and equipping the Emergency Operations Center.

Economic Development

The oil and gas industry will continue to play a major, positive role in Anchorage's growing economy. The air cargo industry in Anchorage will also continue with its rapid growth plans and job creation. In addition, the military is expected to maintain a significant presence in our City.

A number of economic development projects have surfaced over the past year and which, upon completion, will have a significant, positive impact on Anchorage's economy, especially in terms of jobs and increased tax base. The new Alaska Seafood Center formally broke ground this summer and is expected to provide as many as 450 new jobs. United Airlines began a new trans-Pacific air freight service which will station nearly 125 pilots in Anchorage. Federal Express and UPS both announced plans to invest tens of millions of dollars in facility expansion and to establish global logistics operations in Anchorage. In 1997 the Administration also developed a brochure titled "Livable Anchorage" which was produced to promote Anchorage as a great place to live and do business.

The Administration continues to work closely with the Anchorage Economic Development Corporation (AEDC) in encouraging new business development in our City and with Anchorage Convention and Visitors Bureau (ACVB) to attract convention business, additional tourists, and new residents.

Cleaner, More Beautiful City

A number of new programs focused on making Anchorage a cleaner, more beautiful city have evolved since 1994. "Graffiti Busters", a litter hotline, Operation "Clean Sweep" and "My Part of Town" have all proven to be effective programs which contribute to making our City cleaner and more beautiful. Streets are cleaner and air quality has improved as a result of more effective and efficient street sweepers used to collect sand and gravel on City streets. The Administration has developed an extensive 6-year program to use Recycled Asphalt Pavement (RAP) throughout the Anchorage Roads and Drainage Service Area (ARDSA) to cover gravel roads and to improve air quality and reduce street operations and maintenance costs.

In making our City more attractive, the “lights and flowers” program continues to make a positive mark on our City. This program is a prime example of how well the public and private sectors can “team up” to improve the look of the City. The Beautification Task Force, established in 1995, continues to generate new ideas and solicit more volunteers to help beautify our City. In addition, a conscious effort has been made to water parks, fields, and medians in order to keep Anchorage green and attractive in the summertime.

New or enhanced landscaping is also now an important part of major road rehabilitation and upgrade projects. For example, in 1997 the City contributed \$500,000 to be combined with Intermodal Surface Transportation Efficiency Act (ISTEA) funding and private contributions to beautify the highly visible 5th and 6th Avenues.

Renaissance zones in lower income areas of Anchorage have also been identified as potential recipients of Community Development Block Grant (CDBG) funds to continue revitalizing our neighborhoods. In 1996 the Hollywood Vista Complex was demolished to make way for a private developer to construct modern, residential housing.

Public/Private Partnership

A number of programs ranging from crime prevention to cleanup/beautification to sports activities have all demonstrated how local government and private citizens and organizations can work together to make our City a better place to live. Volunteers have played a key role in helping to improve City programs, services, and quality of life.

In 1997, an innovative Request for Proposal (RFP) approach was initiated by the Administration to facilitate the construction of new indoor ice rinks and a new recreation center in Mountain View.

Over the past year the Administration assisted in the formal creation of a Business Improvement District (BID) which will enhance the viability of downtown by focusing on funding services which make downtown cleaner and safer.

Labor Contracts

During the last round of labor contract negotiations, the Municipality successfully completed negotiating all labor contracts with the exception of the Fire contract/arbitrator's award which is being contested in court. Progress was made in changing leave programs so that they more closely model the private sector. The Administration also managed to

hold wage increases to moderate levels for all represented labor groups. Negotiated labor contracts contained improved work rule provisions which are expected to result in hard dollar savings and increase the productivity of municipal workers.

Beginning in late 1997 and throughout 1998 all five labor contracts will again be up for re-negotiation. The Administration will continue its efforts to ensure that wages, benefits and work rules are comparable to the private sector in the Anchorage community.

Retirement/Overtime Issues

Since 1994, the Administration has worked hard to address critical issues related to retirement and overtime issues affecting police officers and firefighters. With respect to retirement, two key items were successfully resolved: (1) since late 1994 all newly hired police officers and firefighters now participate in the State retirement system (i.e., PERS) which is consistent with all other public employers statewide and (2) a Retiree Medical Funding Program was established for active employees who were members of the Police and Fire Retirement System. This funding program, which resulted from months of negotiations between the Administration and the Police and Fire labor unions, replaced the retiree medical health coverage previously available to these employees at retirement. The new funding program significantly reduces the retiree medical liability and will save the taxpayer millions of dollars. The present value of the retiree medical liability was reduced by approximately \$78 million (from \$103 million to \$25 million).

With respect to overtime issues, the Administration implemented a new shift schedule for police officers in late 1994. This has resulted in more police officers on the streets and reduced overtime costs. With respect to firefighters and paramedics, the Administration and the firefighters' union completed implementation of a new integration plan whereby paramedics are cross-trained as firefighters and firefighters are trained as emergency medical technicians (EMT's); this new integration plan has resulted in a decrease in emergency medical response times and a reduction in potential future overtime liabilities.

Budgets

The Administration's 1998 proposed operating budget is \$5.0 million below the Tax Cap. With the passage of the 1998 Proposed operating budget, the accumulated Tax Cap savings to local taxpayers over the past 4 budget cycles totals nearly \$31 million.

The Administration's proposed 1998 operating budget incorporates significant cost savings in the areas of employee benefits and debt service cost — namely, for 1998 the Administration has built-in \$3.6 million of savings from the Public Employee Retirement System (PERS) and \$2.8 million of savings resulting from paying off mostly public safety debt with one-time revenues from the Safe Communities bill (i.e., SB29). Overall, the proposed 1998 operating budget represents an increase over the prior year of less than 1% (i.e., 0.9%) while enhancing key programs and services such as: (1) public safety, (2) maintenance of roads, parks, trails and facilities, and (3) building, zoning and permitting code enforcement.

In response to the passage of Proposition #3 (i.e., Anchorage Parking Authority) in April 1997 the Administration and the Assembly have taken appropriate steps to mitigate the fiscal impact caused by the passage of the proposition. A major step taken involved the use of a portion of SB 29 funds to pay off the 6th Avenue parking garage debt, thereby lifting the property tax/debt payment guarantee initially established by ordinance. Over time, the Administration will refine its budget assumptions regarding parking enforcement operations under the new scenario created by Proposition #3 (i.e., sworn police officers enforcing parking violations).

Since 1994, there has been only one utility rate increase (i.e., a 3.15% increase for ML&P in 1995) out of seven municipally owned utilities (i.e., Municipal Light and Power, Anchorage Water Utility, Anchorage Wastewater Utility, Refuse Collections, Solid Waste Disposal, Port of Anchorage and Merrill Field Airport). These seven utilities continue to exhibit a strong financial condition and no rate increases have been proposed for 1998.

The General Government Capital Program has undergone a transformation in recent years due to the sharp decrease in State grant funding. The Capital Program has been significantly reduced to reflect a much lower expectation relative to State and federal funding sources. Consequently, more focus has been given to local funding for the City's highest priority capital projects. The City has worked closely with the State in developing the 3-year Transportation Improvement Plan (TIP) which prioritizes transportation projects within Anchorage and provides Anchorage with a significant alternative funding source (i.e., federal ISTEA dollars). The ISTEA program has generated millions of dollars for major, high profile transportation projects throughout the Anchorage area.

New Construction and Enhanced Infrastructure

Anchorage experienced yet another high level of construction activity in 1996/97. New major retailers (i.e., Home Depot, Mapco, Tesoro), new hotels (Marriott, Hampton Inn, Fairfield, Microtel), new schools (Goldenview and Mirror Lake Middle Schools), new hospitals (Native hospital and Elmendorf Hospital), new eating and entertainment establishments (Outback, Pizza Hut, Act III Theatres), new cargo facilities (FEX, UPS, Penn Air, Alaska Air) and new residential home construction all indicate a strong and vibrant economy.

Major road and utility infrastructure projects also help to drive the local economy (e.g., \$6 million for 68th Ave. Upgrade, \$8.5 million for 15th Avenue Safety Improvements/Upgrade, \$30 million of annual funding for federally funded (ISTEA) transportation projects within Anchorage, \$6 million for dock expansion project at Port, \$21 million for the first 3 phases Anchorage Loop Water Main Transmission project, and future construction of the northern and southern interties).

Improved Government Processes

In order to make government more cost effective and more responsive to public needs, a number of initiatives have transpired over the last year. For example, the Municipality established an Internet web site just 1 year ago. Since its inception, the site has been very popular with the public and with interested parties (i.e., tourists and businesses) outside of Alaska. Overall, the web site offers an effective means to promoting Anchorage as a great place to live and work as well as providing useful, easy-to-access information to citizens about local government.

In 1996, the Administration completed a personal property tax discovery program which resulted in adding property to the tax rolls and spreading the overall tax burden in a more equitable manner.

The Administration is implementing recommendations received from the Phillips Group study and suggestions received from developers and builders regarding the municipal permitting process. These recommendations are intended to streamline the permitting process and make it more user-friendly, timely, and responsive to the community at large.

A management review was also initiated regarding the property assessment process. Implementation of the International Association of Assessment Officers recommendations

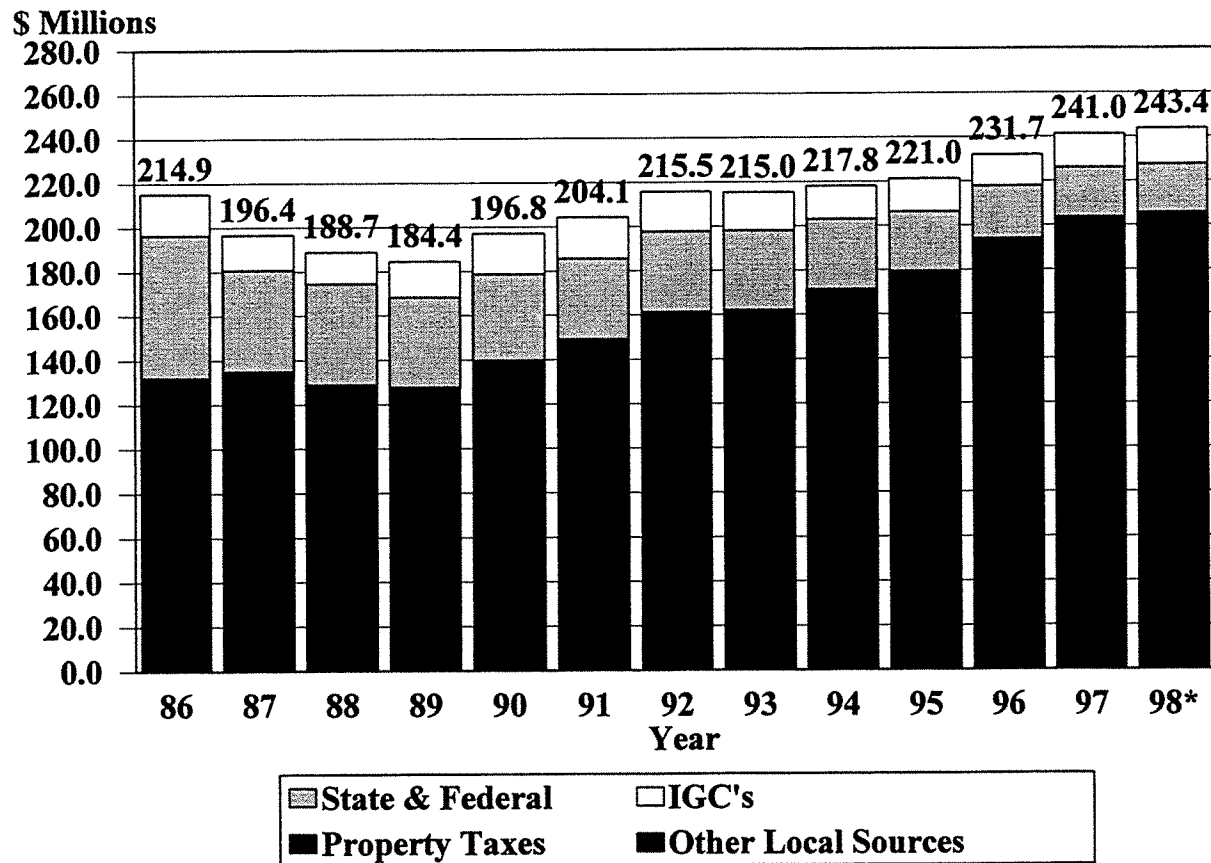
will help to streamline the assessment process and increase the reliability and validity of assessed values.

In August 1997 the Administration recommended and the Assembly approved a vendor and a funding approach for providing a new state-of-the-art Financial Information/Human Resources/Payroll System at a total estimated cost of \$9.4 million. This new system replaces the existing system which represents obsolete technology and is not Year 2000 compliant. Once implemented, the new system will provide an integrated, real-time, user-friendly system which will dramatically improve timeliness and accuracy of information as well as reduce the need for redundant shadow systems.

HISTORICAL TRENDS

Reductions have been made to the General Government Operating Budget over the last decade to absorb inflation, react to a major economic downturn and adjust for reductions in State and federal revenue sharing. State and federal mandates (e.g., ADA requirements, underground storage tank removal and National Pollution Discharge Elimination System [NPDES] requirements) have contributed to increases in expenditures in order to meet associated requirements. A major reason for the increase in property taxes over the past many years revolves around the cuts made by the State to Revenue Sharing and Municipal Assistance — this effectively is a *tax shifting* from State to local government.

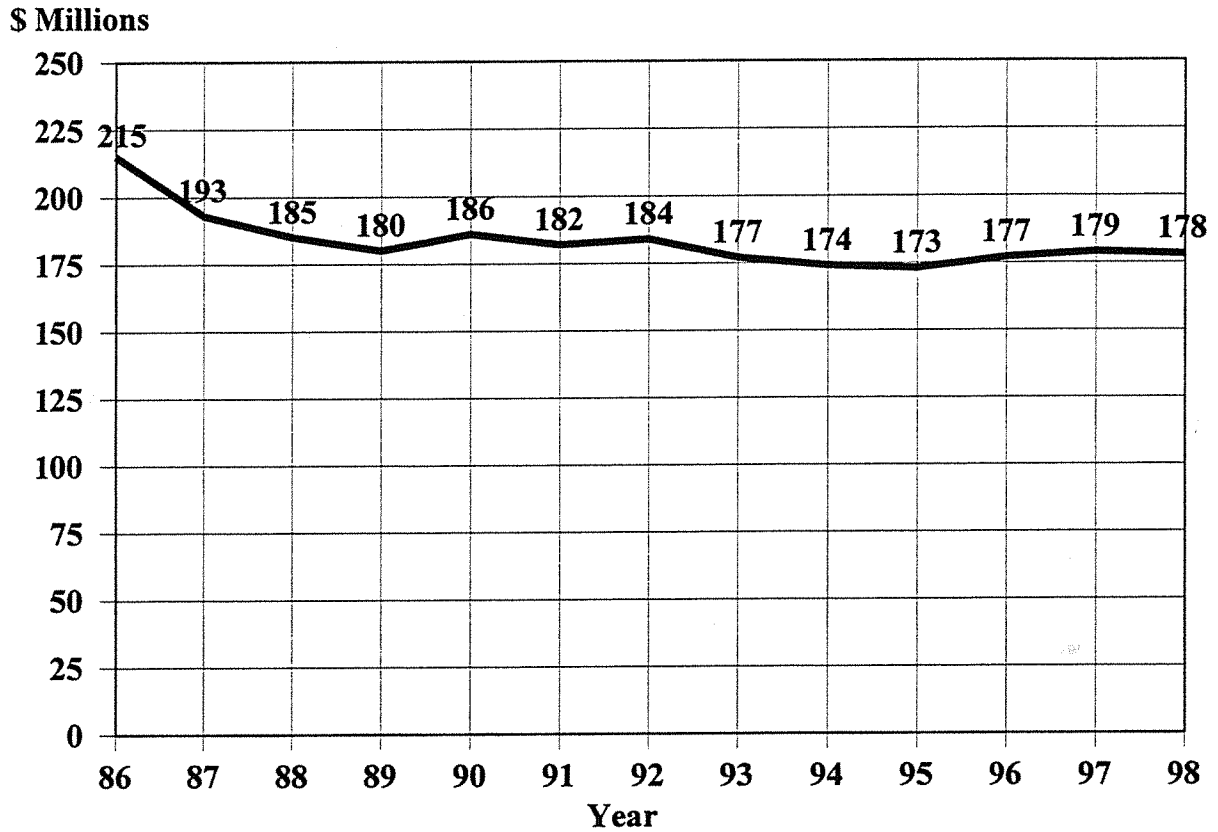
**General Government Operating Budget
Revenue Sources
1986 - 1998 ***



* 1986 - 1997 Revised Budgets; 1998 Proposed Budget.

Adjusting for inflationary effects, the General Government Operating Budget has decreased by 19% since 1986 as shown in the following graph:

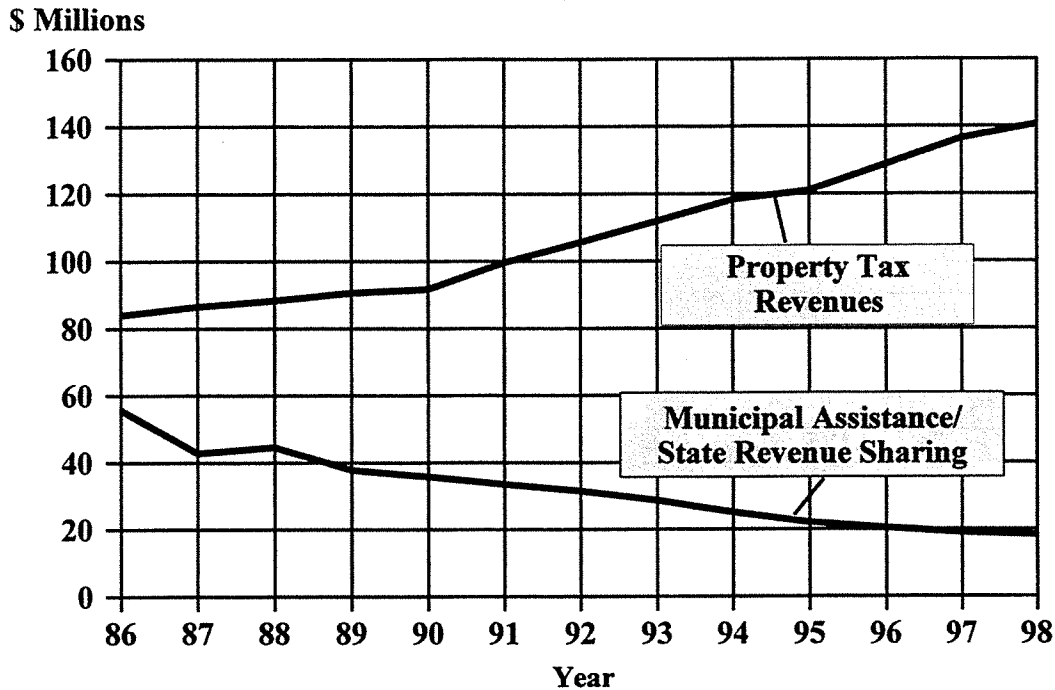
**General Government Operating Budgets
1986 - 1998 *
(in real dollars) ****



* 1986 - 1997 Revised Budgets; 1998 Proposed Budget.

** 1986 used as base.

**Municipal Assistance and State Revenue Sharing/
Property Tax Trend
1986 - 1998 ***



* 1986 - 1997 Revised Budgets; 1998 Proposed Budget.

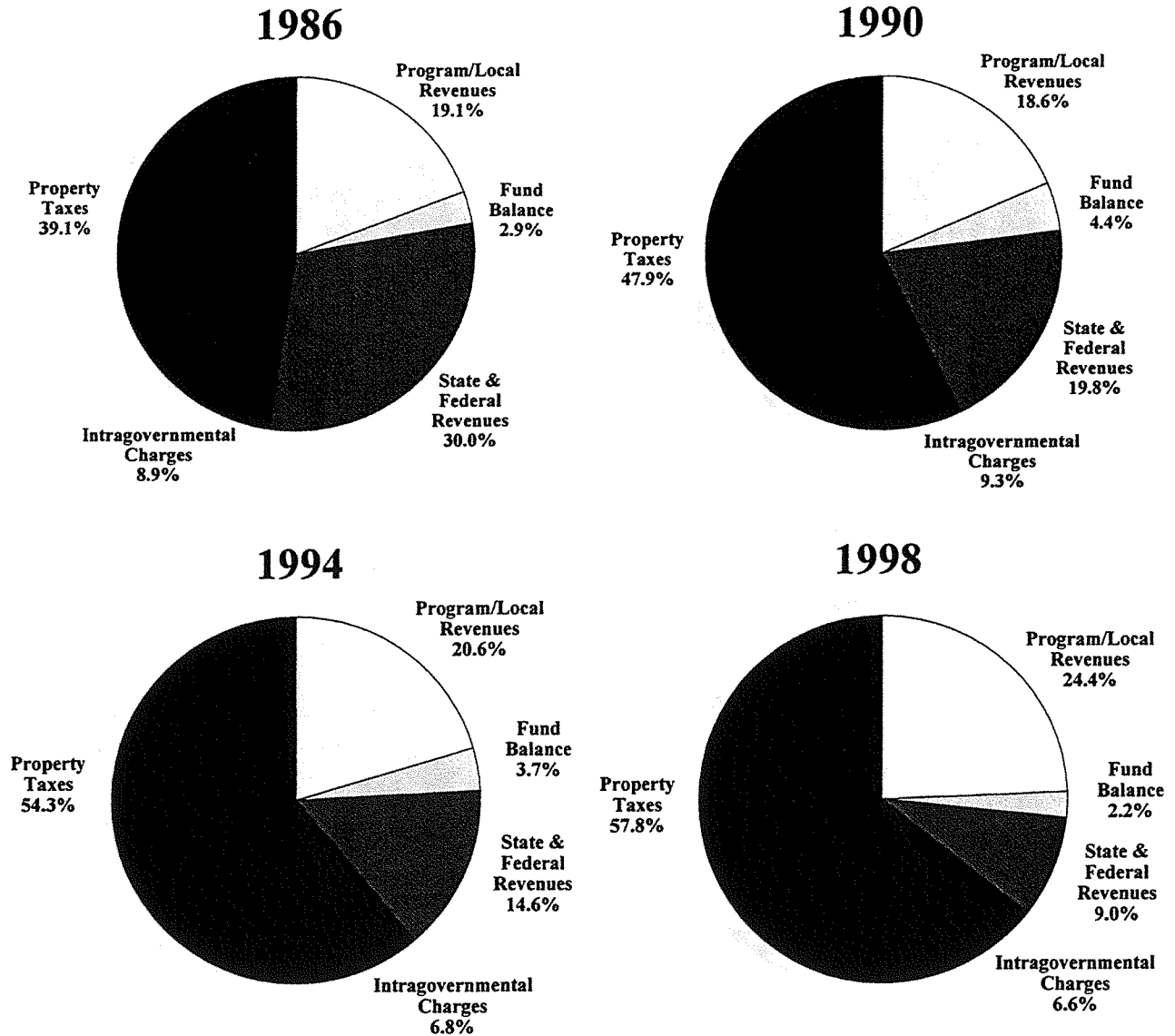
Since 1986, annual Municipal Assistance/State Revenue Sharing to the Municipality has decreased \$36.7 million. Consider the following facts about the impact of legislative actions on the owner of the typical \$180,000 Anchorage home:

- Municipal Assistance and Revenue Sharing cuts since 1986 totaled a cumulative \$272 million in 1997. This represents a cumulative tax increase of over \$3,900 to the owner of a \$180,000 home.
- The unfunded amount of the senior citizen/disabled veteran tax exemption totals \$58 million over the same period. The fact that the State originally started fully funding this program and the gradually reduced that funding to \$0 has created a cumulative tax increase of \$837 on a \$180,000 home.
- \$685 of the 1997 property tax bill on a \$180,000 home is directly attributable to legislative reductions since 1986 in Municipal Assistance and Revenue Sharing and the lack of legislative funding for the mandated senior citizen/disabled veteran tax exemptions.

NOTE: In 1997, the State legislature renamed the Municipal Assistance program "Revenue Sharing for Safe Communities." The purpose of the program was also modified to focus more on funding for public safety. With these legislative changes, it is expected that future State legislatures will avoid considering the Safe Communities Program as a target for budget cuts.

The following charts further illustrate the results of the *tax shifting* caused by the State's actions. Namely, property taxes which funded 39.1% of the budget in 1986 now fund more than half (i.e., 57.8%) of the budget in 1998.

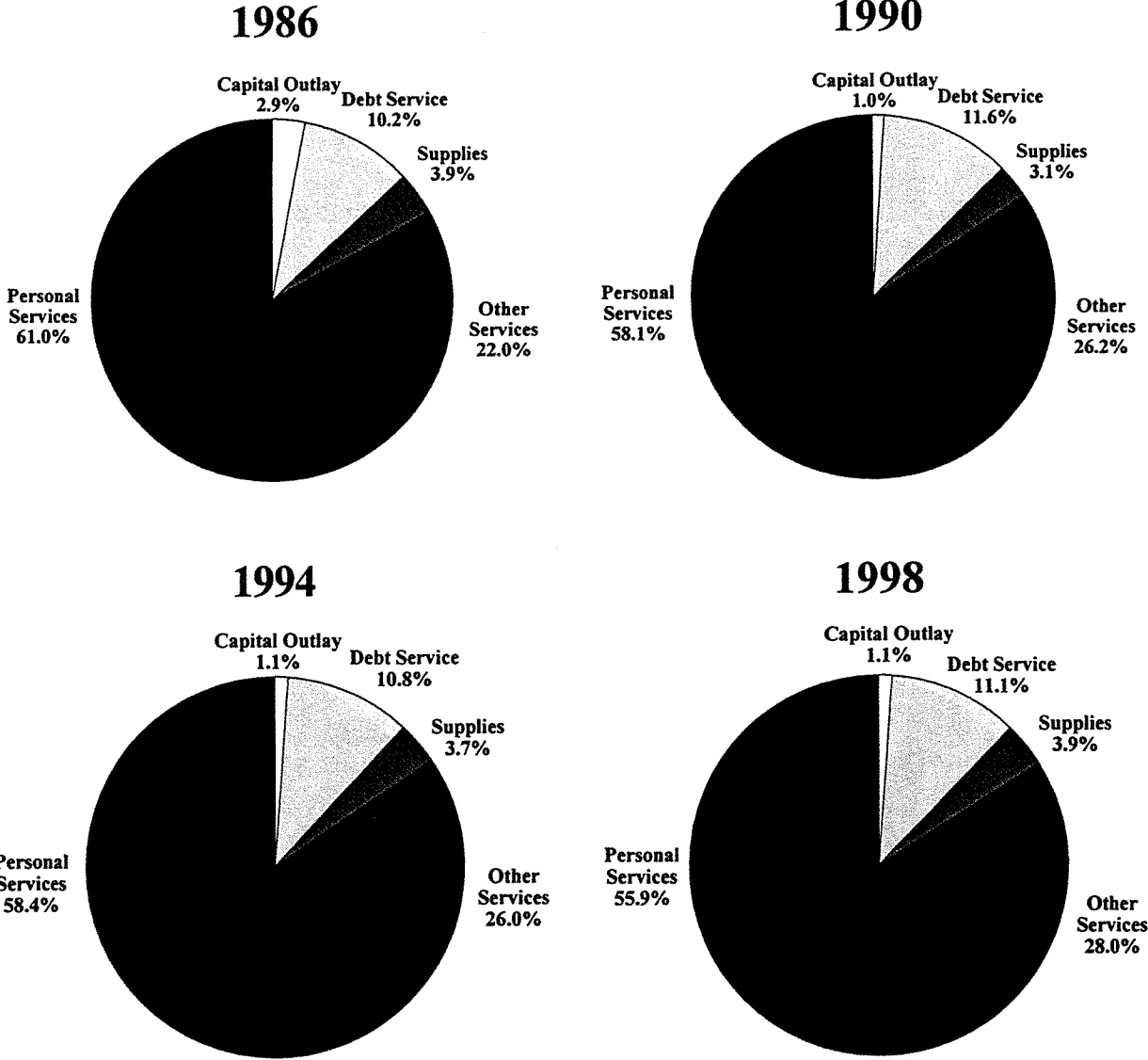
Operating Budgets by Source of Funds 1986 - 1998 *



* 1986 - 1994 Revised Budgets; 1998 Proposed Budget.

As shown in the following graph, the proposed 1998 General Government Operating Budget is comprised of 55.9% personal service costs and 11.1% debt service primarily related to general obligation bonds.

**General Government Budgeted Expenditures
Direct Cost by Type
1994 - 1998 ***



* 1986 - 1994 Revised Budgets; 1998 Proposed Budget.

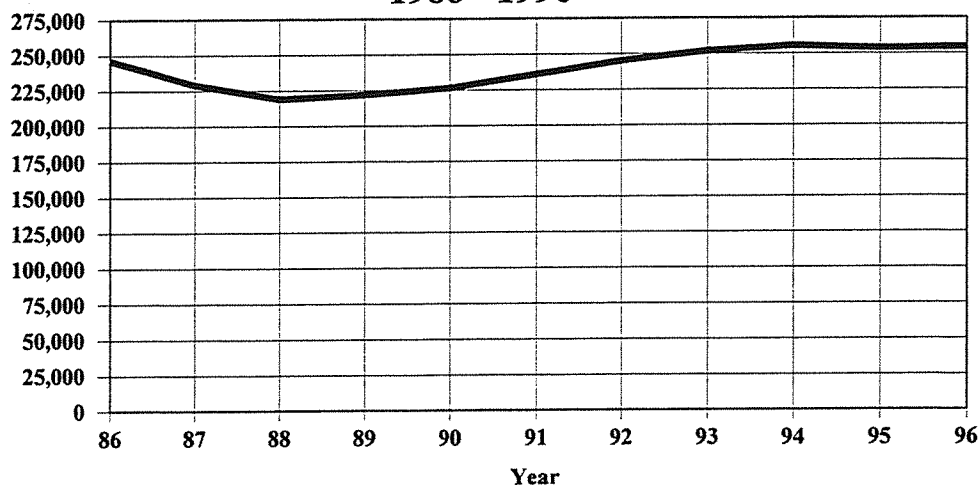
3. ECONOMIC TRENDS AND OUTLOOK

Anchorage's economy continues to grow at a steady rate. Overall, the outlook for our City assumes that our economy will remain strong and stable. New construction, particularly residential and smaller commercial construction, has been surprisingly strong in 1997. While oil patch jobs in Anchorage have decreased (i.e., recent transfer of Alyeska Pipeline employees to Fairbanks and Valdez), new jobs such as newly based United Airlines cargo pilots have helped balance out some of the effects of lost oil jobs. Unemployment in Anchorage as well as inflation remain low. Federal employment levels (i.e., particularly military) appear to have stabilized. Growth in air cargo and tourism continue to be cornerstones to a larger, broader, healthier economy in Anchorage. Real estate values are expected to climb steadily. Major construction projects, such as Home Depot, new hotels, new schools, Native Hospital, Elmendorf Hospital, and so on are all contributors to the strong employment levels in the services and construction industry.

Major Economic Indicators (Population, Inflation, Assessed Valuations, New Construction)

POPULATION — Since 1990 Anchorage's population has grown at an average rate of approximately 2.0% per year. This is substantially above the national average growth rate of 1% per year. The 1997 population in Anchorage is estimated at 255,000 which is virtually the same as in 1996. The most recent University of Alaska Anchorage's Institute of Social and Economic Research (ISER) mid-case forecast estimates that Anchorage's population growth over the next six years to be 1.35% per year.

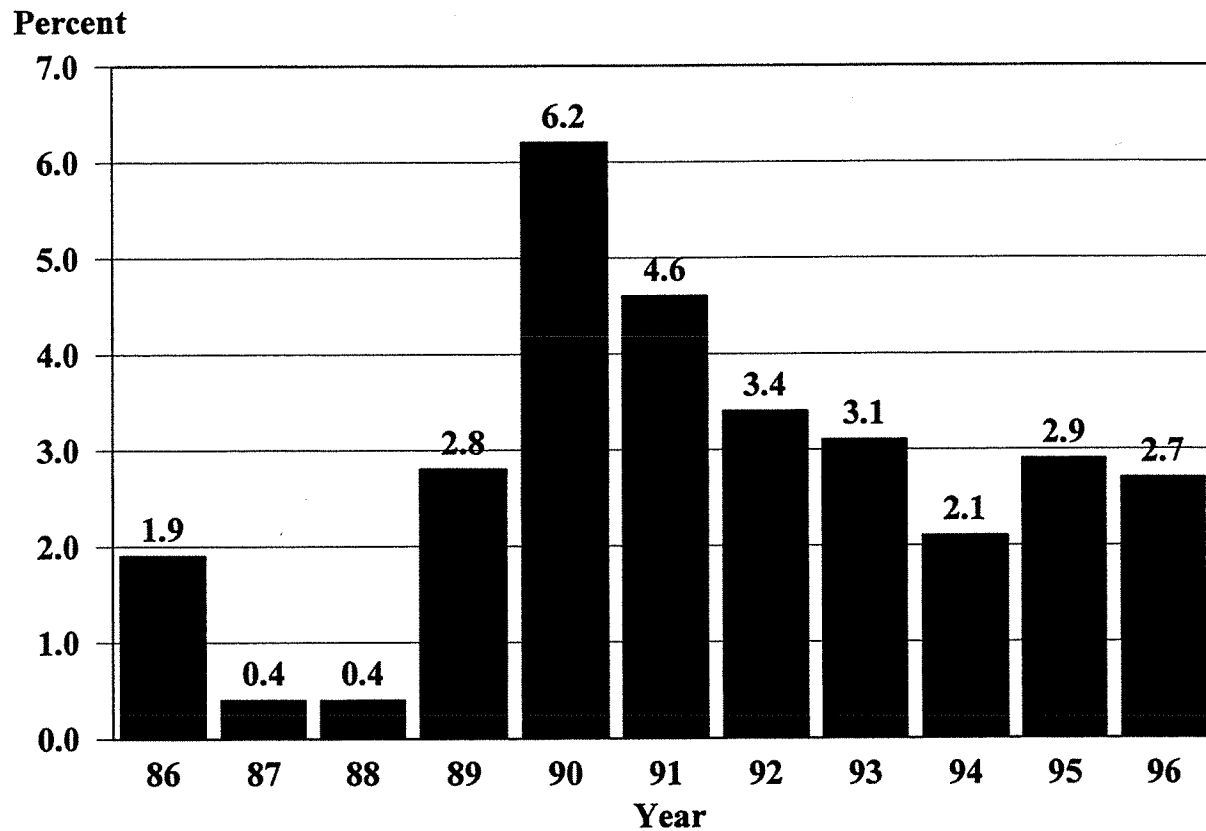
**Anchorage Population
1986 - 1996**



Source: Department of Community Planning and Development, MOA

INFLATION — Inflation for budgetary purposes is assumed by the Administration to be 1.5% for 1998. A long-term inflation rate of 3.5% was last projected by the State of Alaska Department of Revenue in October of 1996. An update to the State's projection is not expected until October of 1997.

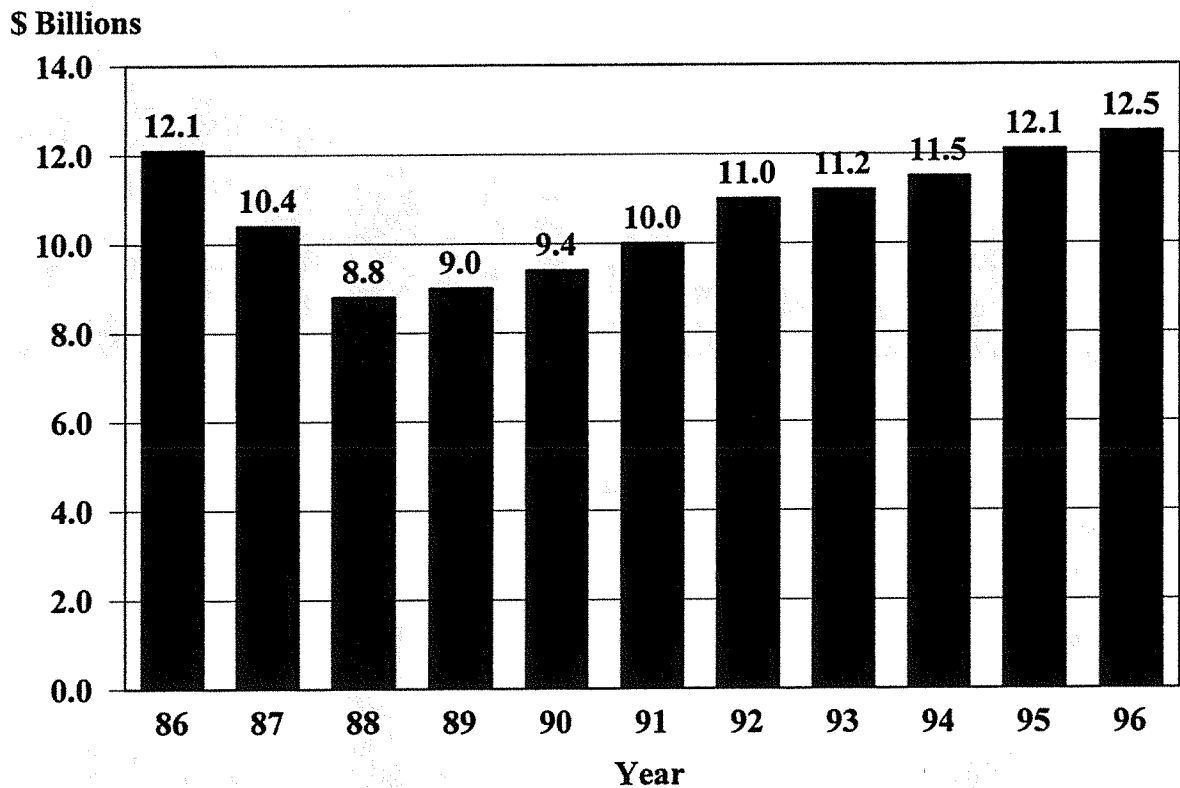
**Anchorage Consumer Price Index
Annual Change for All Items
for All Urban Consumers
1986 - 1996 Historical Trend**



Source: U.S. Department of Labor, Bureau of Labor Statistics

ASSESSED VALUATIONS— As shown below, assessed values have rebounded significantly since 1990 such that they now exceed the peak levels of the mid-1980's. In addition to market values continuing to rise, new construction (especially commercial) is on a significant upswing. Taxable property values are projected to increase at a rate of 3% per year during the period 1998-2003. Increases in value are expected to occur mostly in new construction and in residential values.

**Assessed Valuation of Real and
Personal Taxable Property
1986 - 1996 Historical Trend**

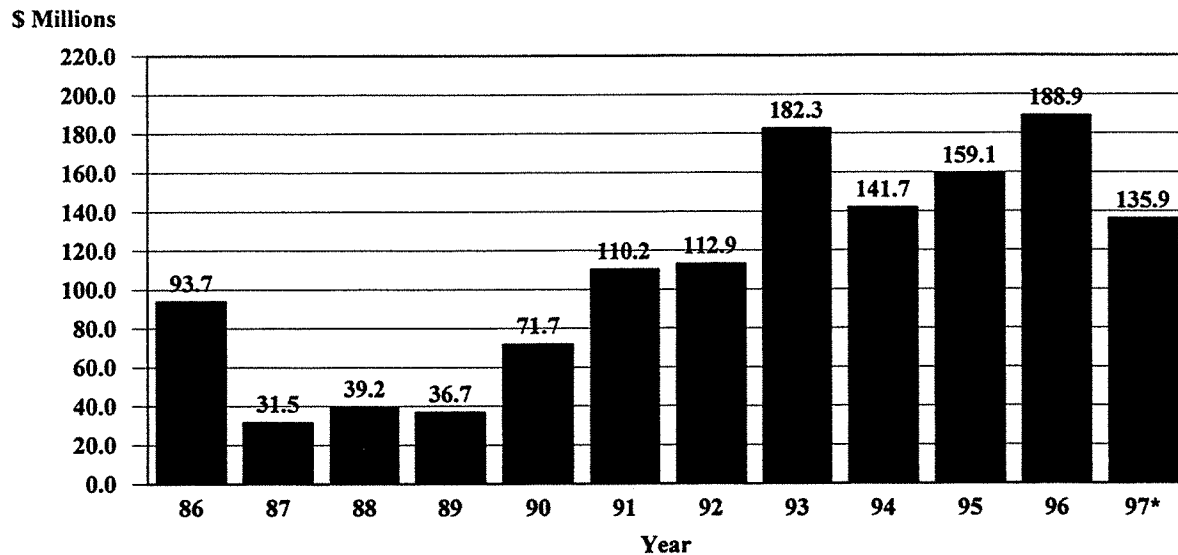


NOTE The total number of real property parcels appraised in 1997 (for the 1997 mill levies) is estimated to be 87,100. Values shown above include residential property, personal property, commercial property, and Utility Net Plant (i.e., MUSA).

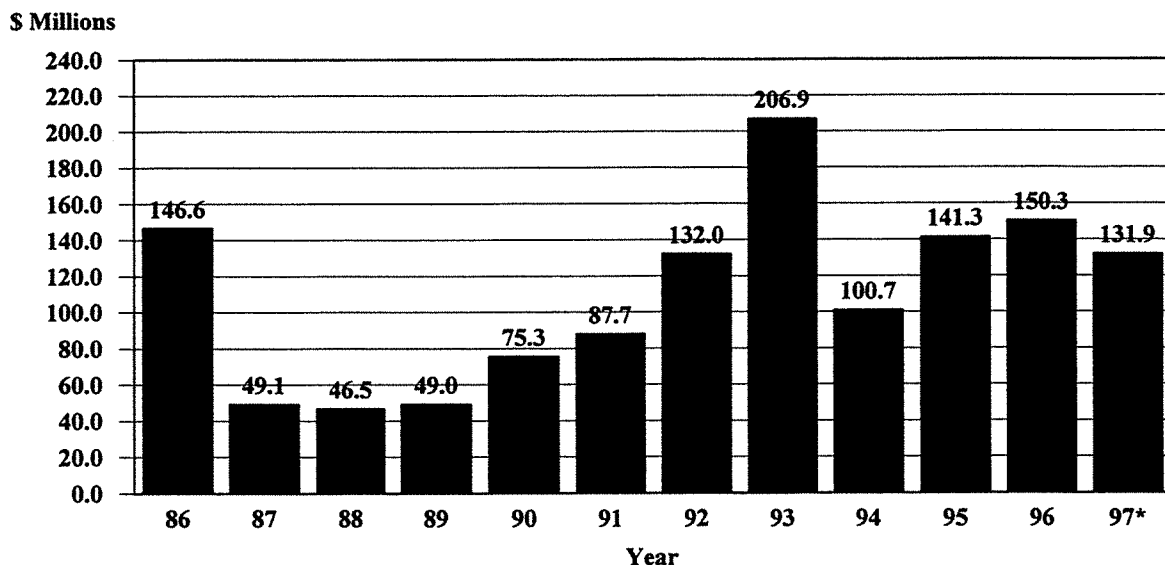
Source: Property Appraisal Division, MOA

NEW CONSTRUCTION — Residential and commercial construction is projected to continue at a strong level through 1997. While construction levels have grown significantly since 1990, past trends/cycles would indicate a more modest growth period in the near future may be expected. Permit activity in 1997, as depicted in the graphs below, is down from the previous year levels which may be an indicator that new construction may be at lower relative levels in the next couple years. The following graphs illustrate recent trends.

Construction Spending in Anchorage - Residential



Construction Spending in Anchorage - Non-Residential



* Projected as of 07/31/97.

Note: The graphs shown above are based on recorded permit activity. The dollar values shown represent estimated values prior to construction. Permits are issued for all construction regardless of whether it is taxable. There is no direct link between these figures and those included in the tax cap calculation (i.e., taxable new construction).

Source: Public Works Department, MOA

Major Opportunities/Concerns

There are many economic opportunities available in Alaska. Our primary task is to assist the private sector in pursuing opportunities. We also must be aware of the concerns facing our City so we can take appropriate steps to address their impact. Below is a list of opportunities and concerns:

Current and Future Economic Opportunities

- Creation of new jobs (construction, service and retail)
- Continuation of construction activity (hotels, new retail stores, hospitals, tourism facilities, schools, utilities and interties)
- Increased level of residential construction activity (new housing units, renovation of existing stock, subdivision platting and development)
- Continued growth in tourism
- All-Season tourism enhancement (e.g., Ship Creek area beautification/development, Alaska Native Heritage Center, trails system expansion, Girdwood development, Alaska Museum of Flight, Pacific Salmon Aquarium and Fisheries Center)
- Expansion of international warehousing and air cargo distribution (Federal Express logistics, UPS facility expansion, United Airlines Cargo Services)
- Increased use of Anchorage International Airport as a global logistics and cargo hub
- Relocation of new industries to Anchorage (e.g., seafood processing and distribution, software development, light manufacturing)
- Increased activity and infrastructure expansion at the Port of Anchorage (Knik Arm Shoal Dredging project and potential future modular construction activities related to North Star Field)
- Intermodal Surface Transportation Efficiency Act (ISTEA) funded transportation projects (roads, trails, overpasses, bridges, beautification, air quality)
- Community Development Block Grants (CDBG) to fund projects which improve quality of life and revitalize low income neighborhoods
- Increased development of smaller, marginal oil fields (e.g., North Star, Badami, Alpine, West Sak)
- Export of water/associated water bottling plant
- Transport of natural gas (i.e., white crude from North Slope) using existing oil pipeline
- Future effect of any deregulation in Electric Industry

Current and Future Economic Concerns

- Increasing trend in arbitration and judicial decisions relative to labor, compensation and benefit issues which view the Municipality as having “deep pockets” and disregard the cost impacts to the public
- Continued decline in Prudhoe Bay oil production and related declines in State revenues
- Continued trend of service/retail jobs replacing generally higher paying oil industry-related jobs
- Unfunded Federal/State mandates
- Continued decline in State Revenues to Anchorage
- Shifting of State responsibilities to local government without adequate funding
- Continued trend of health insurance costs rising at rates many times that of inflation
- Future market value of ATU

4. PUBLIC SERVICES AND CAPITAL PROJECT FUNDING

Public services and capital project funding enhance the quality of life in Anchorage by:

- maintaining a safe city
- providing cultural, recreational and educational activities and programs
- balancing responsible development with environmental concerns
- providing critical human services to people in need
- responding to fire, rescue and emergency medical situations
- maintaining a basic public transportation system

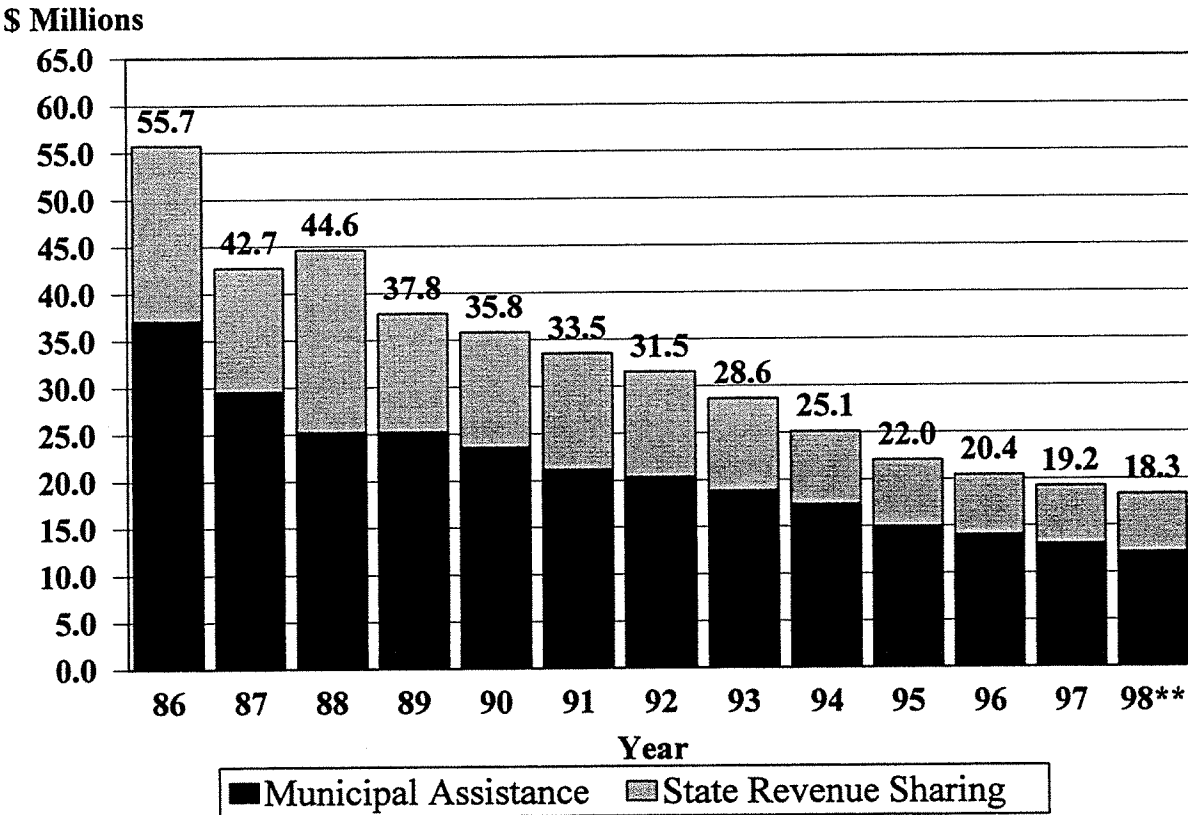
Unless significant expenditure reductions and/or alternative revenue sources occur in the future, the local property taxpayer can expect to experience an increased tax burden.

State Revenues (Operating and Capital)

Over the last 12 years, State Revenue Sharing and Municipal Assistance have decreased an average of 8.6% per year. We believe that Anchorage has taken more than its fair share of cuts to Municipal Assistance and Revenue Sharing. Local taxpayers have experienced an increase in the property tax burden in direct proportion to the cuts made by State government to Municipal Assistance and Revenue Sharing. Should the State continue with *tax shifting* to disproportionately help to reduce the State's budget, the Municipality will need to find additional ways to reduce expenditures or increase revenues through an increase in property taxes or other sources.

The following graph illustrates the dramatic decrease in State operating assistance over the last twelve years:

Municipal Assistance* and State Revenue Sharing 1986 - 1998



* In 1997, the State legislature changed the name of Municipal Assistance to "Revenue Sharing for Safe Communities."

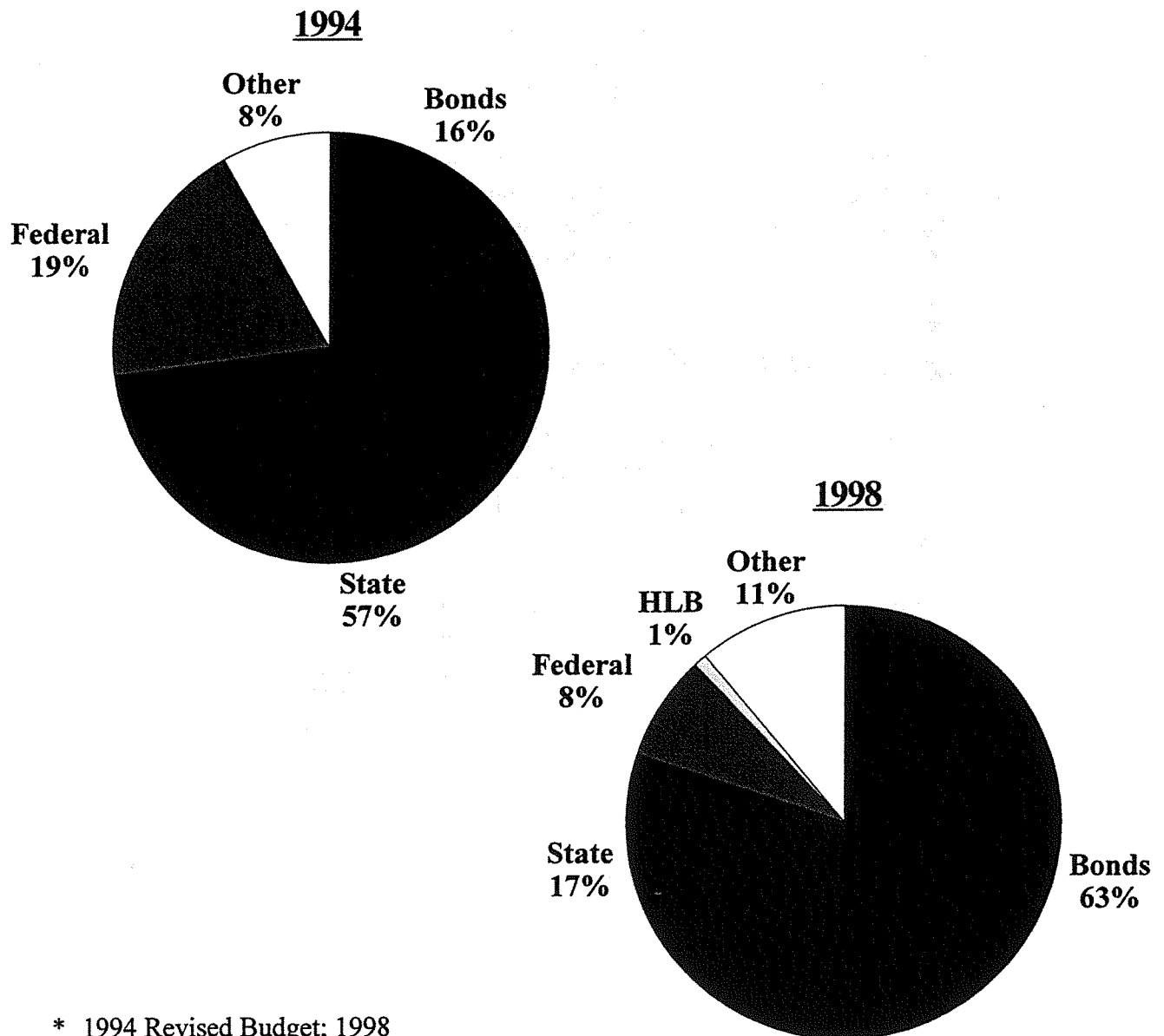
** Projected, assuming same level of funding as was appropriated during the 1997 legislative session.

Pressure has been put on the property taxpayer to help shoulder the burden of State revenue cuts. As the graph on Page 2-8 indicated, *tax shifting* from State to local government has been occurring since 1986.

NOTE: The cumulative effect since 1986 of the cuts made to Revenue Sharing/Municipal Assistance totaled a cumulative \$272 million in 1997 in nominal dollars.

Over the last several years there has been a dramatic decrease in the amount of discretionary capital funding that the State has granted to Alaskan cities. As a result, there has been a change in our capital funding approach. The Municipality's capital budget currently focuses more on obtaining State matching grants (as opposed to discretionary grants) and relies more heavily on voter-approved bonds to provide local funds for match purposes and to help offset the reduction in State capital funding. The following pie charts demonstrate the trend toward increased local funding of capital projects:

**Capital Funding Requested
Funding Sources as % of Total
1994/1998 Comparison ***



* 1994 Revised Budget; 1998 Proposed Budget

Tax Cap Limit

The tax limitation was established by Charter amendment through the initiative process in October of 1983.

The tax limit is set each year based on the amount of taxes levied in the prior year adjusted for debt service, changes in prices (Consumer Price Index for Anchorage), and changes in population (5-year average population, using certified data from the Alaska Department of Community and Regional Affairs).

The Charter allows certain exclusions as part of determining the total allowable level of taxes. Specific examples of exclusions are new construction and property improvements, taxes required to fund the costs of judgments entered against the Municipality, debt service on bonds, and items specifically approved by the voters as outside the tax cap (e.g., voter approved operation and maintenance [O&M] costs for bond-funded capital projects).

Factors such as population growth, new construction, inflation, and additional debt service are all expected to be significant components in the calculation of future tax caps. Since July 1994, and including the currently Proposed 1998 Operating Budget, the City has been consistently under the tax cap and the cumulative tax cap savings to local taxpayers totals nearly \$31 million.

Debt Service and O&M Costs

The proposed 1998-2003 General Government Capital Improvement Program (CIP) includes a variety of projects that will help to improve and maintain the City's infrastructure. Most of the capital projects programmed for funding are dependent on future voter approval of bonds and/or future State grants.

The following table estimates the approximate impact on property taxpayers due to increased debt service if 70% of all bond projects in the Proposed 1998-2003 CIP were funded. In addition,

1998 - 2003 General Government Capital Improvement Program	By Year 2003		
	Estimated Dollar Impact	Average Mill Rate Impact	Estimated Cost Per \$100,000 Valuation
Total projected net increase in annual Debt Service costs	\$5,108,840	.48 mills	\$48
Total projected net increase in annual Operation and Maintenance costs	\$1,915,970	.18 mills	\$18

the table estimates the net increase in annual operation and maintenance costs if 70% of all projects in the Proposed 1998-2003 CIP were funded. Note that over the past several years the Municipality has received funding for approximately one-half of the total CIP projects proposed.

Voter approved debt service and O&M costs are outside the tax cap, so there is no legal limitation on the source of tax funds to support the construction and maintenance of these new or improved facilities. Each individual bond proposal brought before the voters is evaluated carefully as to whether additional taxes are needed to fund future operation and maintenance of bond-funded Municipal facilities.

Anchorage School District

Although this report addresses mainly general government concerns, it is important to remember that the Anchorage School District has a significant impact on Anchorage property taxes.

The Anchorage Municipal Charter grants the Mayor and the Assembly the responsibility of determining the level of taxes that the community will pay for the support of the Anchorage School District. Where those dollars are spent is the responsibility of the Anchorage School Board.

As the School Budget Advisory Commission (SBAC) has discussed in a number of reports to the Assembly, the quality of the education system in Anchorage is not directly related to the level of spending. According to the SBAC's March 1997 report to the Assembly, the Anchorage School District's budget has increased an average of nearly 10% per year over the last 8 years. The SBAC points out that a continuation of 10% annual rate will double the School District's property tax requirement every seven years -- a growth level which cannot be sustained in the opinion of the SBAC.

The Administration will continue to closely monitor the level of the Anchorage School District budget. Over the past three years, the Mayor-appointed School Budget Advisory Commission has played an important role in challenging the School District to find ways to better contain growth in their budget.

5. FISCAL PROJECTIONS AND POTENTIAL STRATEGIES

We recognize that there are a number of significant fiscal challenges that we will need to address in the coming years. For example, starting in late 1998, much of the federal funding for police officers will have ceased and other revenue sources will be needed to continue to fund the positions. Further declines in other federal revenues and State revenues to Anchorage may also occur. Health insurance costs nationwide are projected to rise significantly in future years. Other inflationary increases and unfunded federal/state mandates are potential concerns. Due to budget tightening that has occurred over the past several years, fund balances will be less available to offset decreased revenues and increased costs.

As discussed below, the three major alternative strategies to help us work through potential future fiscal challenges involve:

- broadened tax base through economic development
- expenditure options
- revenue commitments and options

The alternative strategies presented below are for discussion purposes only. They are not intended as recommendations.

PROJECTIONS

The base model for the six year fiscal projections shown on Page 5-2 reflects very conservative growth assumptions in revenues and expenditures. In reality a number of potential fiscal impacts exist which should also be considered by policy makers. For analysis purposes, the cumulative effect of key potential fiscal impacts is shown on Page 5-3.

**SIX YEAR FISCAL PROGRAM
PROJECTIONS OF REVENUES & EXPENDITURES (in \$ millions)
1998-2003**

Six Year Budget Projection Assumes Continuation Level Budget	1998 Prop'd Oper'g Budget	PROJECTIONS				
		1999	2000	2001	2002	2003
REVENUES						
Federal Revenues (no decrease beyond '98)	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76	\$0.76
State Revenues (no decrease beyond '98)	21.12	21.12	21.12	21.12	21.12	21.12
Local Revenues (+1.0% per yr beyond '98)	59.44	60.04	60.64	61.24	61.86	62.48
Property Taxes (new constr. only -- +1.5% beyond '98)	140.66	142.77	144.91	147.08	149.29	151.53
Fund Balance Applied (-\$1.5M '99; -10% thereafter)	5.29	3.79	3.41	3.07	2.76	2.48
IGC's (+1.2% beyond 1998)	16.09	16.28	16.48	16.68	16.88	17.08
TOTAL REVENUES	\$243.37	\$244.76	\$247.32	\$249.96	\$252.67	\$255.46
EXPENDITURES						
Personal Services (step/longevity increases only -- +0.49% beyond '98)	\$135.97	\$136.64	\$137.31	\$137.98	\$138.66	\$139.34
Debt Service (projected for all 1997 and prior authorized debt)	26.92	27.97	27.02	26.07	25.12	24.17
Other (+2.7% beyond 1998)	80.47	82.64	84.87	87.16	89.52	91.93
TOTAL EXPENDITURES	\$243.37	\$247.26	\$249.21	\$251.22	\$253.30	\$255.45
FISCAL SURPLUS/SHORTFALL--REVENUES OVER/(UNDER) EXPENDITURES	\$0.00	(\$2.49)	(\$1.88)	(\$1.26)	(\$0.63)	\$0.01

Note 1: The Six Year Projections of Revenues & Expenditures shown above represent the projected result if we:

- (1) realize a very modest growth in total revenues,
- (2) assume negligible growth in total expenditures, and
- (3) maintain the current level of service to the public through the year 2003.

There are a number of fiscal impacts affecting both revenues and expenditures which could lead to budgetary shortfalls, some of which are cited in the matrix on the following page. Any fiscal shortfalls that might result would require appropriate fiscal solutions to be implemented.

Note 2: Due to rounding, amounts shown above may not total exactly.

The cumulative effect of potential fiscal impacts shown below have been provided for analytical purposes only to provide policy makers the opportunity to project the dollar impact of future fiscal policy decisions.

FOR ANALYTICAL PURPOSES ONLY
(six-year cumulative effect of potential fiscal impacts)

	1998	1999	2000	2001	2002	2003
State Revenue Decrease (5% per year)	(\$0.92)	(\$1.79)	(\$2.61)	(\$3.40)	(\$4.14)	(\$4.85)
Wage Increase (annual avg. increase of 1.5% per yr.)	\$0.00	(\$1.82)	(\$3.67)	(\$5.54)	(\$7.44)	(\$9.37)
Medical Insurance (annual avg. increase of 7% per yr.)	\$0.00	(\$0.87)	(\$1.76)	(\$2.71)	(\$3.73)	(\$4.83)
Additional Debt Service costs, net of debt retirement (assuming 70% success rate for all bonds proposed in 1998- 2003 CIB/CIP)	\$0.00	(\$1.02)	(\$2.04)	(\$3.06)	(\$4.08)	(\$5.10)
Additional O&M Costs for all projects cited in the 1998- 2003 CIB/CIP (assuming 70% of the funding requests are realized)	\$0.00	(\$1.18)	(\$1.33)	(\$1.42)	(\$1.53)	(\$1.92)
Mandated Service Increases (flat \$500K per year))	\$0.00	(\$0.50)	(\$1.00)	(\$1.50)	(\$2.00)	(\$2.50)
Discretionary Budget Increases (flat \$1M per year)	\$0.00	(\$1.00)	(\$2.00)	(\$3.00)	(\$4.00)	(\$5.00)

Note 1: Using 1998 as a base year, a 1% decrease in State Revenue equates to approximately \$180,000 in lost revenues, while a 1% increase in labor cost equates to approximately \$1.2 M in additional costs.

Note 2: Numbers shown above in brackets would result in an increased fiscal shortfall.

POTENTIAL STRATEGIES

Broadened Tax Base Through Economic Development

Economic development is important to the City in that it leads to a broadened tax base and minimizes the amount of tax support required of existing taxpayers.

If the Municipality of Anchorage is to continue to provide an adequate level of government services to its residents and Anchorage is to maintain a strong, stable, diversified economy, we must aggressively work toward encouraging economic development. We have already made good progress toward making Anchorage a better place to live. The more attractive we can make our City, the more new businesses and visitors will realize what a great place Anchorage is to live, work and visit.

In the coming years the Administration anticipates economic development to occur in a number of key areas:

- Anchorage International Airport (i.e., global logistics and cargo hub)
- Alaska Seafood Center
- Pacific Salmon Aquarium and Fisheries Center
- Alaska Museum of Flight
- Export of water (and associated bottling plant)
- Ship Creek Area Beautification/Re-development
- Port of Anchorage
- Girdwood Area Development
- ISTEA and Community Development Block Grant (CDBG) projects

Expenditure Options

The following is a list of potential ways to reduce or contain Municipal expenditures:

- **Labor Policy** — Continue to bring Municipal compensation (wages and benefits) in line with the private sector and to seek changes in our labor agreements which will enable us to deliver public services in the most productive and cost effective manner. Since wages and benefits comprise nearly two-thirds of the operating budget, not including debt service, labor costs have a significant impact on the ability to provide an acceptable level of public services.
- **Efficiency Measures / Consolidation** — Provide government services using fewer resources through improved work methods and scheduling. Eliminate duplication of efforts between State and local government.

- **Increased Automation** — Provide more complete and timely information through the prudent use of automated tools and equipment. By automating manual processes and providing better access to information, decision making will be enhanced and worker productivity will increase.
- **Service Contracting** — Contract for those services that can be delivered more cost effectively by the private sector. Possible areas include contracting to smooth seasonal and cyclical costs, construction project management, and similar activities. Contract out to nonprofits when those organizations can provide services more efficiently and cost effectively.
- **Reduced “Red Tape”** — Change cumbersome, inefficient policies, ordinances and regulations that do not provide enough benefit to be cost effective through a careful evaluation of current methods and processes (i.e., hiring private consulting firms to perform management reviews in specific areas).
- **Increased Use of Volunteers** — Continue to facilitate cooperative efforts between private citizen volunteer groups and local government in order to minimize costs of providing government services and to help clean and beautify our City.
- **Infrastructure Maintained** — Continue to emphasize maintenance and rehabilitation of Municipal infrastructure (roads, parks, trails, facilities) so as to reduce or minimize future operation and maintenance costs. Maximize use of non-Municipal funding sources such as State grants, ISTEA funds, and CDBG funds to help fund maintenance and rehab projects.

Revenue Commitments and Options

Below is a list of revenue commitments and options for new or increased revenues. Note that the revenue options are presented for discussion purposes only and are not intended as recommendations:

Revenue Commitments

- **Anchorage Telephone Utility** — The Anchorage Telephone Utility (ATU) has committed to providing at least \$38.9 million in dividends to its owners over the next 4 years. Future budgetary planning assumptions rely on ATU providing this minimum level of return.

Revenue Options

- **User Fees** — Consider new or increased user fees that may be justified by the cost causer/cost payer principle.

- **Taxes** — Consider new or increased taxes that would generate significant new revenues and reduce the burden on the local property taxpayer.
- **Utility Contributions** — Utilities, both public and private, receive government services and therefore should continue to help to support the operation of general government in Anchorage. Private utilities vary in the type and size of their contributions with some paying property taxes, some paying franchise fees, and some paying co-op fees.

Municipally-owned utilities should provide its owners (i.e., the citizens of Anchorage) with an appropriate rate of return, guided by industry standards.

Continual monitoring needs to occur as to the type and amount of contributions made by all utilities, both private and public, so that payments made by utilities to general government for services received are fair and equitable.

6. CONCLUSION

There are many opportunities to make Anchorage a safer and more livable city and a better place to do business. While making our City safer continues to be our primary focus, we also intend to encourage economic development and to continue making Anchorage cleaner and more attractive. We will also strive to emphasize quality recreational and cultural opportunities for our residents.

The enhancement of our City's quality of life does not come without a cost. At the same time we strive to improve our City, we are faced with declining State revenues. We need to ask ourselves if continuing to increase property taxes to meet these shortfalls is the right solution. Anchorage property owners are bearing an increasingly disproportionate burden of the costs of delivering our City's services. Besides increasing property taxes, there are several other alternatives — pursuing economic development opportunities, decreasing expenditures, and increasing revenues other than property taxes. This Six-Year Fiscal Program has presented these alternatives for future consideration.