

BUDGET ASSUMPTIONS

**PUBLIC UTILITIES
1994
OPERATING AND CAPITAL BUDGET ASSUMPTIONS**

Below are general and specific budget assumptions/guidelines provided to Utilities for preparation of their 1994 Operating and Capital Budgets.

REGULATION:

Assume continued economic regulation by Alaska Public Utilities Commission (APUC) for Anchorage Water and Wastewater and for Municipal Light & Power.

Assume continued economic regulation by the Federal Maritime Commission (FMC) for the Port of Anchorage.

Assume continued operational oversight by the Federal Aviation Administration (FAA) for Merrill Field Airport.

UTILITY OWNERSHIP:

Assume continued Municipal ownership in 1994.

RATE INCREASES:

No overall rate increases projected for 1994. In the case of ML&P, favorable fuel costs in 1993 have actually lead to a decrease in customers' overall rate. The only other exception to additional rate increases in 1994 would be if one of the following were to occur:

- Debt service coverage borders on technical default
- Projected cash reserves fall below that required to maintain a 45 day working capital balance
- Debt/equity ratio falls below criteria established by the regulatory body specific to that utility
- The plant in a given utility is no longer in good working condition

Any rate increases shown in the outyears (1995-1999) are for purposes of projections only and have not been approved for implementation. It is intended that they be reviewed closely each year in conjunction with establishing operating budgets. Utilities will continue to strive to find ways to avoid projected rate increases.

MUNICIPAL UTILITY SPECIAL ASSESSMENT (MUSA):

Assume mill rates for MUSA (in lieu of taxes) to be same as 1993 mill rates set prior to adjustment for taxes collected in excess of the amount levied by the Assembly. MUSA (in lieu of taxes) does not apply to the Port or Merrill Field. 1.25% MUSA applies only to Solid Waste Disposal and to the Anchorage Telephone Utility.

REVENUE DISTRIBUTIONS:

Assume that only the Port (and ATU) will be required to make a revenue distribution to General Government. The Port's revenue distribution will be \$178,500 - the same as 1993.

INTEREST:

Assume debt service for new G.O. bonds and Revenue bonds at 5.75%. Interest income is assumed at an overall rate of 3.5%.

INTRAGOVERNMENTAL CHARGES (IGC's):

In general, no significant net IGC increases over prior year are expected.

POPULATION:

Assume a 1.0% growth rate for Anchorage in 1994.

INFLATION:

Inflation, in general, is anticipated to approximate 3.8% in 1994. Each utility, however, has applied specific inflation rates to the commodities they use.

COMPENSATION COSTS (Salaries and Benefits):

Assume a pay freeze for all labor groups in 1994. Health benefit rates are expected to increase approximately 9-11%; other benefit rates are assumed relatively static.

ENVIRONMENTAL MANDATES:

Federal and state environmental mandates will continue to impact operation and capital development costs at the same or greater level experienced in prior year.

1994 BUDGET IMPACTS (specific to individual utilities)--

Anchorage Water and Wastewater (AWWU):

AWWU has budgeted \$5 million in revenue bonds to be issued by the Water Utility. Additionally, the Wastewater Utility intends to borrow \$2 million in 1994 from the State loan program. Construction of Phases I-III for the Water Loop Transmission Main is scheduled to begin in 1994.

Municipal Light and Power (ML&P):

The 1994 ML&P budget reflects a reduction in fuel cost of \$1,725,000. Each year's cost of fuel is based on the price of light sweet crude oil futures contracts during the third quarter of the prior year. For 1993, third quarter futures prices were lower than in previous years. Customers will benefit from this reduction via the Cost of Power Adjustment (COPA) shown on their bill each billing cycle. This will equate to a savings of approximately 2.6% for the average customer.

Also reflected in the 1994 ML&P budget is a base rate increase of 1.3%, which will increase revenues by approximately \$860,000. The customers' overall rate will actually decrease in 1994.

Solid Waste Services (SWS):

In the 1994 SWS Capital Improvement Budget (CIB) for the Solid Waste Disposal division, revenue bonds totalling \$10.962 million are anticipated to be sold for purposes of funding improvements to the Anchorage Regional Landfill (ARL).

PORT OF ANCHORAGE (PORT):

Rental/Lease expense for the Port is budgeted to increase due to the cost of leasing Tracts "A" & "EE" for a full year period in 1994. Also in 1994, depreciation expense is expected to increase substantially due to Port projects being completed and booked to plant.

MERRILL FIELD AIRPORT (MF):

None.