BUDGET ASSUMPTIONS

PUBLIC UTILITIES
1998
OPERATING AND CAPITAL BUDGET ASSUMPTIONS

Below are general and specific budget assumptions/guidelines provided to utilities for preparation of their 1998 Operating and Capital Budgets.

REGULATION

Assume continued economic regulation by Alaska Public Utilities Commission (APUC) for AWWU and ML&P.

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

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

UTILITY OWNERSHIP

Assume continued Municipal ownership in 1998.

RATE INCREASES

No rate increases should be proposed in 1998 <u>except if</u> all possible budget reductions have been first been fully considered <u>and</u> if one or more of the following conditions have been satisfactorily demonstrated:

- Debt service coverage not adequate.
- Projected cash reserves for working capital not adequate on a sustained basis to cover operating costs during 1997/98. (NOTE: a 45-day reserve of working capital should not be a deciding factor in judging the adequacy of your reserve cash since utilities can temporarily borrow from the general fund cash pool for unforeseen events.)
- Debt/equity ratio projected to fall below criteria established by the regulatory body authorized to oversee the utility.
- Increased rate revenue is determined to be the most prudent funding source for maintaining the utility's plant in a cost-effective working condition.

MUNICIPAL UTILITY SERVICE ASSESSMENT (MUSA)

Assume mill rates for MUSA (in lieu of taxes) to be same as 1997 mill rates. MUSA (in lieu of taxes) currently does not apply to the Port or Merrill Field. 1.25% MUSA currently applies only to Solid Waste disposal (and ATU).

REVENUE DISTRIBUTIONS

The Port and Solid Waste Disposal will provide a revenue distribution to General Government. The Port's 1998 revenue distribution is proposed for $675,000. Solid Waste Disposal's 1998 revenue distribution is proposed for $200,000.

INTEREST

Assume debt service for new insured 20-year G.O. bonds to be 5.50% - 6.00%. For new insured Revenue bonds assume 5.75% - 6.25%. Interest income should be calculated assuming a rate of 5.25% - 5.50%.

INTRAGOVERNMENTAL CHARGES (IGCs)

IGCs from general government to municipal utilities will increase over the rates established first quarter 1997 due to the following reasons: (1) less applied self-insurance fund balance, (2) first year charges related to the cost of the Year 2000 project and the FIS/HRIS/Payroll System project, (3) other MISD supported projects benefiting utilities.

POPULATION

For budgetary purposes, assume (per the City's demographer) that Anchorage's population will be approximately 255,000 in 1997 and 256,000 in 1998.

INFLATION

In general, inflation (i.e., CPI - all urban consumers) is anticipated to approximate 1.5% in 1998. Each utility, however, may apply applicable inflation rates to the commodities they use.

COMPENSATION COSTS (Salaries and Benefits)

For budgetary purposes, assume a cost of living adjustment not-to-exceed 1.5% effective 3/1/98 for all labor groups except IBEW and JCC. Assume a 1.6% cost of living adjustment for IBEW effective 1/1/98. JCC may or may not receive a wage increase in 1998 depending on the outcome of labor contract renegotiations.

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1998 BUDGET IMPACTS (specific to individual utilities)--

MUNICIPAL LIGHT AND POWER

ML&P purchased a one-third working interest in the Beluga River Gas Field in 1996. The Utility also has contracts with the other two owners of the field until the year 2005. The contract price per thousand cubic feet ("MCF") on fuel purchased from the other two owners of the Beluga River Gas Field is established during the third quarter of each year. It is determined by the average price of third quarter light sweet crude oil futures. It is estimated that the price, as verified with ARCO, will decrease approximately 6.2% per MCF for 1998. The cost of gas is a flow through for ML&P Electric Division, which means that as fuel costs decrease, revenues decrease correspondingly. ML&P Electric Division income will therefore not be affected by the decrease in fuel costs. The cost of fuel being charged to the ML&P Electric Division is being held constant at $1.50 per MCF plus taxes and royalties. Any additional cost above or below this price will be offset by a deferral to the Gas Division and adjusted via a cost of service adjustment.

ANCHORAGE WATER AND WASTEWATER

The Water Utility intends to borrow $9.5 million in new debt in 1998. Of this total, $7.5 million is intended to be from the State loan program. Additionally, the Wastewater Utility intends to borrow $4.2 million in 1998 from the State loan program. AWWU's capital program will be funded with a mixture of debt and equity, which is necessary to offset the decline in State capital appropriations.

SOLID WASTE SERVICES

No major budget impacts are projected for either the Refuse Collections Utility or Solid Waste Disposal Utility for 1998. Both utilities should remain fiscally healthy and not need any user rate adjustments during the next five-year period if the assumptions prove to be correct that inflation will average 2.5% per year, the customer base in Refuse Collections will remain fairly stable and landfill revenue tons will grow annually at 1.0% per year.

PORT OF ANCHORAGE

Revenues are anticipated to be stable or increase only slightly. This is the result of the net effect of increased wharfage revenues from higher petroleum tonnage levels being offset by a decrease in Terminal Rental revenues for a full year period in 1998.

Expenses are anticipated to increase as a result of increased depreciation due to booking new plant in-service in 1998.

The Port's 1998-2003 Capital Improvement Budget anticipates major projects in following areas: Land Development, Lot 4A Upgrade Project construction in 1998-1999; Terminal Development, North Access Corridor -- Environmental Impact Study in 1998-1999; and Harbor Development, Knik Arm Shoal Dredging in 1998 and Petroleum Terminal #2 Expansion in 1998-2001.

The North Access Corridor -- The next phase, Environmental Impact Study, is dependent on a grant request of $700,000 in 1998.

MERRILL FIELD AIRPORT

Merrill Field will continue to remain debt free by actively pursuing federal and state airport grant funds for all grant-eligible capital improvement projects. Over $1.0 million is expected to be received during Federal Fiscal Year 1997. Current proposals before Congress, however, indicate a possible reduction in the Airport Improvement Program, especially in the out years. By working with the federal and state grant managers, Merrill Field should be able to secure a reasonable portion of future grant funding made available.

Merrill Field continues to develop its economic revitalization program through cooperative effort between the business owners and airport management. One result has been the completion of the airport leasing policy manual which has increased interest in leasing airport property for development. For the first time in over ten years, new lease lots have been developed which will have a positive fiscal impact on Merrill Field by providing a broader revenue base.